08-Feb-2023

Under Armour, Inc. (UA)

Q3 2023 Earnings Call
CORPORATE PARTICIPANTS

Lance Allega  
Senior Vice President, Investor Relations & Corporate Development, Under Armour, Inc.

Kevin A. Plank  
Executive Chairman and Brand Chief, Under Armour, Inc.

Colin Browne  
Interim President & Chief Executive Officer, Under Armour, Inc.

David Eric Bergman  
Chief Financial Officer, Under Armour, Inc.

OTHER PARTICIPANTS

Jay Sole  
Analyst, UBS Securities LLC

Simeon Siegel  
Analyst, BMO Capital Markets Corp.

Kate Fitzsimons  
Analyst, Wells Fargo Securities LLC

Robert Drbul  
Analyst, Guggenheim Securities LLC

Brian Nagel  
Analyst, Oppenheimer & Co., Inc.

Jim Duffy  
Analyst, Stifel, Nicolaus & Co., Inc.

Laurent Vasilescu  
Analyst, BNP Paribas Exane

Matthew R. Boss  
Analyst, JPMorgan Securities LLC

Tom Nikic  
Analyst, Wedbush Securities, Inc.

Michael Binetti  
Analyst, Credit Suisse Securities (USA) LLC
MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Under Armour Q3 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session, and instructions will be given at that time. As a reminder, this call may be recorded.

I would now like to turn the call over to Lance Allega, Senior Vice President, Investor Relations and Corporate Development. You may begin.

Lance Allega
Senior Vice President, Investor Relations & Corporate Development, Under Armour, Inc.

Good morning, and welcome to Under Armour's third quarter fiscal 2023 earnings conference call. Today's event is being recorded for replay.

Joining us on today's call will be Under Armour's Executive Chair and Brand Chief, Kevin Plank; and our President and CEO, Colin Browne; and CFO, Dave Bergman.

Our remarks today includes forward-looking statements that reflect Under Armour's management's current view and certain forecast elements of our business as of February 8, 2023. Statements made are subject to risks and uncertainties detailed in the documents regularly filed with the SEC including our annual report on Form 10-K and our quarterly reports on Form 10-Q.

Today's discussion also includes use of non-GAAP references. Under Armour believes these measures provide investors with a helpful perspective on underlying business trends. These measures are reconciled to the most comparable US GAAP measures, a reconciliation of which along with other pertinent information can be found in this morning's press release and at aboutunder armour.com.

With that, I'll turn the call over to Kevin.

Kevin A. Plank
Executive Chairman and Brand Chief, Under Armour, Inc.

Thank you, Lance, and good morning, everyone. Amid a continued dynamic environment, we're pleased to have reported solid third quarter results and are on track to deliver on our full year operational and financial goals for fiscal 2023. By continuing to learn, evolve and grow as an organization, the Under Armour brand is strong, and this is an exciting time for us. We're making progress on our strategic refinements, and as I've said before, we will not miss the opportunity to reposition and establish our sector leadership wherever we compete.

When I consider Under Armour's journey, I've never been more energized and excited about the road in front, with the organization we have in place, as well as the future we are building. We are certainly not standing still, building on our transformative operational improvements and continuing to evolve our strategy from a position of strength. We're working hard to amplify opportunities for our existing core business, while strengthening our long term ability to serve athletes beyond the gym, field and courts, and throughout the entirety of their day.

At the end of this month, our strategic evolution will gain more momentum as well welcome Stephanie Linnartz as our new President and CEO and as a member of our Board of Directors. Stephanie brings a wealth of experience...
to Under Armour after 25 years at Marriott International, the hospitality powerhouse, overseeing a portfolio of 30 iconic brands spanning 138 countries. She has a distinguished track record of executing best-in-class brand strategies and developing talent and led Marriott's multi-billion dollar digital transformation and award-winning loyalty program, expertise that will give us a critical level up in one of our most vital areas of strategic focus.

I'm looking forward to the perspective that Stephanie will bring to the brand, leveraging our deep bench of industry experts to work in concert and unlock our full potential. And as Brand Chief and Executive Chair, I'm excited to support Stephanie across the business with an emphasis on our product innovation pipeline and brand storytelling. We look forward to the complement of our diverse skill sets and strengths to prioritize top and bottom line growth for UA with Stephanie's leadership as CEO.

Further strengthening our brand, we recently announced two new Board members, Carolyn Everson and Patrick Whitesell. Each brings a wealth of experience from successful careers across media, technology, sports and entertainment management, so fantastic new competencies to support the chapter ahead for Under Armour.

And as we look to this next chapter, we continue to build on our momentum as a brand, delivering industry leading innovation and premium consumer experiences, always obsessed with empowering those who strive for more in a uniquely Under Armour way.

To support this, we're making progress on the strategic refinements that we introduced on our last call including broadening our product aperture to address the nonactive moments of an athlete's day, maintaining UA performance and delivered with culturally relevant style; activating with greater precision to reach our target audience and inspirational muse of the 16 to 20-year-old varsity athlete; and advancing our segmentation strategy across the spectrum of good, better and best with a heightened focus on better and best-level product offerings.

Under Armour will build amazing product that delivers on our promise of solutions you never knew you needed and, once you've tried them, could not imagine living without.

As we finish out fiscal 2023 and round the corner into fiscal 2024, there's much to do. But let me be clear when I say that Under Armour is in a good place. We're strong and tested. We've got the right people and processes working together, and we're strengthening our leadership. We know what great looks like and we expect to make significant strategic and operational progress this year as we set up to reinvigorate growth.

And we're in this position thanks partly to the man sitting next to me. Colin, we owe a lot to you. Thank you for your steadfast leadership of Under Armour during this interim period. As Stephanie joins, I know you'll continue to be a vital partner for her and all of us as we move forward. We're fortunate. So on behalf of our Board and Executive Leadership team, thank you and cheers.

In closing, as we continue to push our evolution and scale towards a more significant global presence and realize our potential, we must never lose sight of our identity in the heart of who we are. As I said, our brand is strong, and we will continue to protect this house.

2023 marks the 20th anniversary of this iconic phrase, which helped establish and underscore our unique identity. As a core component of our brand, this concept is as raw now as it was then and, in today's dynamic world, arguably even more relevant to sport, to identity, to community. This year, we'll call this code back into action, inviting a new generation of athletes to protect this house.

This constant has been there all along, and it's time to wake a giant. Time to invoke a new future. Colin?
Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

Thank you, Kevin, and good morning, everyone. It's been a great privilege to lead Under Armour during this transition and work more closely with our amazing teammates across the globe. I look forward to partnering with Stephanie when she joins on February 27, continuing to advance our strategy as I resume my role as Chief Operating Officer. Having had the opportunity to spend some time with her, I know she is an incredible leader who will bring a breath of fresh air to our business with a keen focus on consumer centricity and digitalization as we continue driving our strategy forward.

In the meantime, as Kevin mentioned, we are not standing still. Our purpose of empowering those who strive for more is eternal. Our strategic evolution in creating the space necessary to broaden our product aperture, refining our target consumer to the 16 to 20-year-old varsity athlete, and more effectively segmenting our product remains our immediate priorities.

To touch on these, I'd start by underscoring that as one of only a handful of authentic performance brands worn by athletes at all levels of competition, we've earned our reputation as a trusted brand for sport. The go-to apparel, footwear and equipment that athletes never knew they needed and once they have them, can't imagine living without.

In this respect, we're doing a great job of fulfilling the train, compete and recover moments of an athlete's day. That leaves the nonactive or what we call live moments of their journey, which is a significant long-term growth opportunity that triples the total addressable market for Under Armour.

So how does this translate to a broader sports-style offering? Where the train, compete and recover stages of an athlete's journey are performance with style product, the live stage will be style with performance products, science wrapped in art or arts wrapped in science. Consumers will ultimately decide. It's our job to give them more choices and, therefore, more versatility to suit whatever path, their day, their outfit.

Soft launched in October, this type of versatility is embodied in SlipSpeed, our unique training footwear engineered with a convertible heel to switch between active and recovery modes. From early reads, SlipSpeed's strong DNA also sees it slotted into the space in between moments of style and self-expression. As SlipSpeed launches globally on February 14, we're excited to bring this innovation to a much broader audience and learn even more about the possibilities of this hybrid platform. To support this, we're opening a physical manifestation of our brand positioning with a pop-up store in the Flatiron District in Manhattan, which will showcase SlipSpeed and our newest apparel offering in a new format with less product density and enhanced storytelling.

Of course, none of this happens overnight. Still, you will see immediate progress and points on the board as we're reimagining some of our spring summer 2023 floor sets with enhanced merchandising and storytelling to showcase how Under Armour can be worn away from training and competition. In Apparel, we've got the new structured wovens coming and introducing more variation of our Unstoppable men's and women's bottoms to hit broader wearing occasions. We're also leveraging our leadership in performance tees and in the latest sports bra. And with programs like our new women Meridian bottoms, which have significantly improved anti-pilling component, it's the only legging you'll ever need for style, performance and comfort.

In Footwear, the near-term pipeline includes putting a younger spin on Phantom 1, Gemini and Forge. And this fall, you will see even more sport style launches including dynamic outfitting, new silhouettes and new colorways and maybe even a footwear collaboration or two.
Transitioning to our second strategic refinement, we're also evolving our marketing and omni-channel strategies to better connect with the 16 to 20-year-old varsity athletes with an always on social media activation approach including a greater focus on unique content to amplify brand identity and drive cultural relevance. We're seeing early improvements in brand metrics with this demographic in the US and key international markets like Mexico and China. All this feeds into our ability to drive excellence into our omni-channel presence, particularly in e-commerce where we also started to see the early benefits of recent investments. So overall encouraging and we look forward to leaning in and applying even more in the coming seasons.

The third is the ongoing evolution of our segmentation strategy and better balancing of the topmost parts of our product pyramid. Consumers tell us that varsity athletes tend to buy more frequently at fuller and higher price points than other groups throughout the year. In this work, we're going category-by-category, addressing what premium looks like at every price point, determining opportunities to drive additional, better and best level product assortments on what the marriage of innovation and style should look like as if we're designing unencumbered. As we continue to sharpen and hone this strategy, we'll also heighten our storytelling to drive a more pronounced premium element to young athletes.

And speaking of driving greater influence, our incredible roster of athletes continue to inspire us all from Sharon Lokedi winning her debut at the New York City Marathon to Julio Rodriguez winning the MLB American League Rookie of the Year award, to Justin Jefferson breaking the Minnesota Vikings franchise single season receiving record, and Jordan Spieth winning The Match alongside Justin Thomas, Under Armour continues to stand out, delivering performance and helping to empower athletes at the highest level of sports.

And with 2023 in its early days, there's more in store for UA as we look forward to the second half of the NBA season. For Stephen Curry and Joel Embiid and in partnership with Danny Garcia and Dwayne “The Rock” Johnson, we launch as the official uniform supplier of the XFL’s inaugural season on February the 18th. So UA's brand momentum remains strong.

But back to our third quarter performance, we delivered a solid quarter with revenue up 3% to $1.6 billion, or up 7% on a currency neutral basis. Clicking down into the results by region, North America declined by 2%, coming in at just over $1 billion for the quarter with wholesale down 6% and 1% growth in DTC driven by strength in our e-commerce business, partially offset by our retail stores. Though we continue to see solid demand in our largest region, we were more promotional during the quarter to manage inventory against this challenging retail backdrop. Despite the dynamic retail environment, we continued to focus on elevating the consumer experience across channels while driving operational excellence.

EMEA was a standout again for us this quarter with revenue up 32%, $265 million, or 46% on a currency-neutral basis. This growth was driven by solid sell-through across wholesale and DTC, along with earlier-than-planned shipments. We are encouraged by our momentum in EMEA and intend to remain nimble, given the continued marketplace uncertainty in building inventories.

APAC revenue was down 9% to $198 million, or up 1% on a currency-neutral basis. Despite ongoing COVID challenges, impacting retail traffic and store labor availability, particularly in China, we grew our wholesale business during the quarter. In addition, outside of China, we saw positive momentum in our e-commerce business. And finally, our Latin American business was up 45% to $64 million in the quarter, or up 41% on a currency-neutral basis.

Turning to operations, we continue to see improvements across our supply chain with our factory partners making progress in returning to pre-pandemic production efficiency. And ocean and delivery times continued to improve,
which contributed to significant tailwinds from less air and ocean freight during the third quarter, a trend we expect to continue into our fourth quarter.

From an inventory perspective, levels continued to be elevated across our sector. At the end of the third quarter, our inventory was up 50% to $1.2 billion. As a reminder though, our inventory was quite lean in fiscal 2021 due to our constrained strategy and supply chain disruptions. So a large part of this increase and increase over the next few quarters is simply normalizing to levels to us being a close to a $6 billion brand. At the end of fiscal 2023, we expect a similar growth rate, about 50%. But again, to contextualize this, this growth rate is off an $800 million base from the prior year, which was similar to 2015, when we were a $4 billion business.

We do expect our year-end inventory growth rate to be the peak, followed by elevated yet appropriate step-downs in the following quarters. That said, we continue to feel confident about where we are relative to our plans and managing this aspect of our business. To this point, we expect inventory to stay around three turns as we work through these challenging environments.

In closing, as I transition back to the chief operating role, I want to say how proud I am to be part of Under Armour. It’s been an honor and a privilege to lead this iconic brand. Over the last nine months, I have worked with our amazing global teammates and now have a much broader understanding of our business, which will help me support Stephanie as she steps into her role.

I’ll now hand it over to Dave.

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

Thanks, Colin, and good morning, everyone. With three-quarters of our fiscal 2023 behind us, we delivered a solid quarter and are on track to deliver our full year financial and operational goals. As a reminder, due to our fiscal year change, our third quarter of fiscal 2023, ending December 31, is comparable to the fourth quarter of fiscal 2021. As mentioned earlier, our third quarter revenue was up 3% to $1.6 billion, or up 7% on a currency-neutral basis.

In addition to the regional comments Colin provided, from a channel perspective, wholesale revenue was up 7% to $820 million, with increases in our full-price and off-price businesses. Direct-to-consumer revenue declined 1% to $715 million due to declines in our factory and Brand House stores, partially offset by a 7% increase in our e-commerce business. And licensing revenue decreased 19% in the quarter to $30 million, driven primarily by the timing of minimum royalty guarantees associated with our Japanese licensee.

From a product perspective, in a challenging retail environment, our Apparel business was down 2% with strength in golf and team sports offset by softness in training. We also saw strength in men's and women's bottoms during the quarter, particularly the Unstoppable franchise, as well as a solid performance in outerwear. In Footwear, revenue was up 25% with positive results in all categories, benefiting from better product availability during the quarter. Footwear growth was driven by strength in run, with the HOVR Machina 3 resonating well, especially in APAC and EMEA. Team sports, particularly basketball with the Curry 10 and American football with cleated products, also performed well during the quarter. And our core run product continues to achieve solid results with Rogue, Assert and Pursuit demonstrating strength in the period.

And finally, our Accessories business was down 2% in the quarter due to softer sales of cold weather accessories which more than offset strength in our Bags business.
Gross margin was down 650 basis points during the third quarter driven by 400 basis points of negative impacts from higher promotions and discounting, 130 basis points of unfavorable channel impacts primarily related to higher distributor sales, 60 basis points of adverse effects from changes in foreign currency, 50 basis points of unfavorable region mix related to higher EMEA and Latin American sales, and finally, about 50 basis points of unfavorable product mix due to the strength of our Footwear business. These negative drivers were partially offset by 40 basis points of favorable supply chain impact driven by lower freight costs which more than offset product cost headwinds during the quarter.

Our larger than expected Q3 gross margin decline was primarily due to higher than planned markdowns within our Wholesale business and increased promotional activities within our DTC business as we managed through inventory.

Third quarter SG&A expenses were down 11% to $604 million. Several factors drove this decrease including lower marketing, incentive compensation and consulting expenses.

Bringing it to the bottom line, operating income was $95 million, coming in above our outlook of $75 million to $85 million. After tax, we realized a net income of $122 million or $0.27 of diluted earnings per share. Excluding a $45 million earn-out benefit in connection with the sale of the MyFitnessPal platform and a $2 million benefit from a tax valuation allowance release related to prior-period restructuring, adjusted net income was $76 million.

In addition to the operating income overdrive, more favorable FX hedging impacts within the other income and expense line, and a better than anticipated tax rate helped us to realize $0.16 of adjusted diluted earnings per share, coming in above our outlook of $0.07 to $0.09 for the quarter.

Moving to the balance sheet, since Colin already took us through inventory, I'll highlight our cash and cash equivalents which was $850 million at quarter-end with no borrowings under our $1.1 billion revolving credit facility.

And finally, we've repurchased an additional $75 million of Class C common stock, allowing us to retire 8.8 million previously outstanding shares. In total, under our two-year $500 million program, we have repurchased $425 million of Class C stock and retired 35 million shares to date.

Next, let's turn to our fiscal 2023 outlook. As a reminder, the comparable period is the trailing 12-month period from April 1 of 2021 through March 31 of 2022.

To start, we continue to expect revenue to be up at a low-single digit rate on a reported basis and a mid-single digit rate on a currency-neutral basis, so there is no change there.

Next, due to the higher than anticipated Q3 promotional headwinds, we now expect the full year fiscal 2023 gross margin decline to be at the high end of the previously provided 375 basis point to 425 basis point range. This compares with our prior-year baseline rate of 49.6%.

Within this decline, we expect approximately one-third of the total to be from the negative impacts of higher promotions and discounting; one-third from elevated product costs, freight expenses, and changes in foreign currency; and the remaining third is from mix impacts including channel, product and region.
Moving down the P&L, full year SG&A should be down at a low-single digit rate versus our previous expectation of down slightly. In this respect, we remain committed to ensuring our investment dollars are optimized to areas with the highest returns while proactively identifying areas to manage expenses appropriately.

Dropping this through, and in line with our previous outlook, operating income is expected to reach $270 million to $290 million. Excluding the company’s litigation reserve, adjusted operating income is expected to reach $290 million to $310 million.

Regarding items below operating income, recall that we have been planning for a material benefit from a valuation allowance release that we expect to realize primarily in our fourth quarter. That said, we anticipate a significantly negative adjusted tax rate or tax benefit in the fourth quarter resulting in an adjusted full year tax rate in the mid single digits.

Putting it all together, diluted earnings per share is expected to be $0.71 to $0.75, which includes a $0.27 benefit related to the tax valuation allowance released. Of this $0.27 benefit, $0.15 is related to prior restructuring.

Additionally, there is an $0.08 benefit from our second year earnout on the sale of the MyFitnessPal platform and a $0.04 negative impact from our litigation reserve. Excluding these net positive impacts of $0.19, we now expect adjusted diluted earnings per share to be between $0.52 and $0.56. This is higher than our previously provided range of $0.44 to $0.48 primarily due to favorable FX developments on the other income and expense line and a slightly lower tax rate.

Before I closeout, even though we aren’t providing a fiscal 24 outlook until our Q4 call in May, we are anticipating the macroeconomic backdrop to stay uneven in calendar 2023 with elevated sector-wide inventories that could result in ongoing promotions lasting longer than previously expected. In this respect, we are employing proactive measures to protect and ensure the health of our brand to mitigate these potential pressures as best as possible as we lay the groundwork for next year’s operating plan.

So to close, I’d underscore that we are pleased with our continued momentum and remain encouraged by our evolving long-term strategy including broadening our product aperture, refined consumer focus and efforts to create a more premium consideration through improved better and best-level product.

Moreover, from an operational perspective, we are confident that our refined playbook and financial discipline position us well to navigate near-term uncertainty and drive Under Armour to our next chapter of pronounced growth as we continue to protect this house.

And with that, we’ve finished our prepared remarks, so I’ll turn it back to the operator for Q&A. Operator?
QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] One moment while we compile the Q&A roster. Our first question comes from Matthew Boss with JPMorgan. Your line is open.

Lance Allega  
Senior Vice President, Investor Relations & Corporate Development, Under Armour, Inc.
Matt, are you there? Matt, are you there?

Operator: Matthew, if your telephone is muted, please unmute.

Lance Allega  
Senior Vice President, Investor Relations & Corporate Development, Under Armour, Inc.
Let's go to the next one. And we'll try to pop him back in if he can re-queue.

Operator: Our next question comes from Jay Sole with UBS. Your line is open.

Jay Sole  
Analyst, UBS Securities LLC
Great. Thank you so much. My question is on the comments you just made about looking into the next fiscal year. It sounds like you're seeing a little bit of a change in the environment versus what you saw three months ago. Is that more of a change in the consumer and the consumer's willingness to spend? Or is that more on the industry dynamic with still inventory pretty heavy out there and maybe some of the supply chain costs taking a little bit longer to get better than you thought? Just a little bit of -- little bit more color there would be helpful. Thank you.

David Eric Bergman  
Chief Financial Officer, Under Armour, Inc.
Sure, Jay. This is Dave. I would say it's actually a little bit of both. We definitely have seen that the promotional environment went a little bit deeper and, we believe, it's going to go a little bit longer, and a lot of that has to do with some of the building inventories that are out there with all the brands. And that is something that all of the retailers are going to need to work through in the coming quarters, and we are seeing that that's probably going to take a little bit longer than what we would have expected maybe 90 days back.

And the consumers are out there. The traffic is reasonable, but conversion is a little bit challenged, and I think that folks are being a little bit more cautious here for a while. And so we expect that pressure to continue as we move through this calendar year for a while.

Jay Sole  
Analyst, UBS Securities LLC
Okay. And maybe a question for Kevin just on hiring Stephanie. Can you just maybe elaborate a little more on what it was about her that made her the right person to come in and lead Under Armour from here? And do you have a Super Bowl prediction for us.
Colin Browne  
*Interim President & Chief Executive Officer, Under Armour, Inc.*

Well, this is Colin jumping in here because Kevin’s not in the room at the moment, but Stephanie, obviously, as Kevin alluded to in the script, Stephanie obviously has — is an amazing executive. We’ve — I’ve had the opportunity to spend some time with her. She obviously has had an incredibly successful career and the level of kind of insight that she will bring with regards to how we are thinking about our consumer and building relationships as a brand is something that we can undoubtedly — we can already feel in some of the early conversations with her. So, we’re excited to welcome her on board and looking forward to working with her.

Jay Sole  
*Analyst, UBS Securities LLC*

Okay. Thank you so much.

Colin Browne  
*Interim President & Chief Executive Officer, Under Armour, Inc.*

Thank you.

David Eric Bergman  
*Chief Financial Officer, Under Armour, Inc.*

Thank you, Jay.

Lance Allega  
*Senior Vice President, Investor Relations & Corporate Development, Under Armour, Inc.*

Thank you, Jay.

**Operator:** Thank you. And our next question comes from Simeon Siegel with BMO. Your line is open.

Simeon Siegel  
*Analyst, BMO Capital Markets Corp.*


Colin Browne  
*Interim President & Chief Executive Officer, Under Armour, Inc.*

Thank you. Appreciate it.

Simeon Siegel  
*Analyst, BMO Capital Markets Corp.*

I was hoping we could talk just a little — you bet. So I wanted you to just maybe elaborate a little bit on your expectations for stores, e-com, wholesale. I’m going to throw it all at you, sorry, but like channel, product and region basically just given the improvements and the progress you’re making. So as I think about DTC versus wholesale, as you look at maybe diverging trends with footwear and apparel, and then just a little of any more color if you could on what you’re thinking for China and Asia, if that’s possible. I know that was a lot, sorry.

Colin Browne  
*Interim President & Chief Executive Officer, Under Armour, Inc.*
Yeah. I was going to say, there’s a lot there, Simeon. I think, let me kind of see if I can kind of pick it apiece a little bit and David can kind of jump in. As you’ve seen in our results, we’re showing up incredibly well in Europe, and that’s something which we’re really pleased with, the progress we’re seeing there. And part of that is the fact that the way the brand has been able to manifest itself in Europe allows us to really demonstrate the good, better, best kind of way in which we think about the brand. And when we get that right, it’s very clear that it resonates well. And so we’re seeing that in Europe in spite of what is a difficult time in Europe at a macroeconomic level. Under Armour is resonating pretty well.

At the same time, if you go up to China obviously we – we obviously as did everyone else were challenged in the third quarter because of the number of lockdowns we had. We had 35%, 40% of our stores closed for much of Q3. We’re obviously now starting to see that open up a little bit more, and we are optimistic that we may see business continue to improve as kind of consumers come back. Obviously, that’s changing the dynamic of how people are shopping a little bit. People are going to stores as opposed to more of online, so we’re seeing that kind of play out.

And in North America, we talked about that – we talked about this a little bit already, but we are seeing a softer retail environment. But we continue to invest in building out our own DTC, and that’s really a key focus for us, thinking through how do we actually talk directly to consumers. Opening the store in New York is a great example of us really starting to step into that and really think through how we can build on that. And the investments we continue to make in unlocking the power of omni-channel are all things that we feel we’re well positioned to lean into over the next 12 months.

And, Dave, I’m not sure if you wanted to lean into it.

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

Yeah. And maybe I’ll just add a little bit from like an apparel, footwear, accessories perspective. Apparel I think is down 2% in Q3. But if you think about it, our first three-quarters of fiscal 2023, we had year-over-year comparisons on a very favorable 2021 for a lot of folks that were in our industry in terms of demand. And I think across the industry, Apparel was impacted with higher inventories. So as a product category, it’s been more promotional activity there which definitely challenges the revenue growth a little bit. However, as we work through that, we expect that to normalize more and get back into the right growth place as we go into next year.

Footwear has been an excellent opportunity for us, and as you can see growing 25% in Q3, definitely a strong area for us and one that we’ve always talked about as being a big opportunity. Now some of that is due to better product availability. If you recall with the impacts last year from production, a lot of that impacted Footwear even more than Apparel so comping that is a little bit helpful this quarter. But again, super exciting area for us to keep driving on as we go into next year.

Simeon Siegel
Analyst, BMO Capital Markets Corp.

Great. Thanks, guys. And then just one quick one. Recognizing it’s relatively new for you guys seeing the ASR, any guardrails or how we should think about your approach to buybacks going forward?

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.
Yeah. I mean, it's something obviously that we continually look at. There's a lot of different ways that we want to be able to utilize our cash, and a lot of it is going to be navigating the current environment and staying nimble. We still have the full revolver availability so we're very liquid as well. But we want to make sure that we can reinvest the right level in long-term growth whether it be within our systems, processes, DTC, a lot of what Colin had mentioned as well. So we will continue to assess that. No decisions are made at this point in time, but we're going to continue to look at it as we go forward.

Simeon Siegel  
Analyst, BMO Capital Markets Corp.

Great. Thanks a lot. Nice job and best of luck for the rest of the year.

David Eric Bergman  
Chief Financial Officer, Under Armour, Inc.

Thank you.

Operator: Thank you. Our next question comes from Kate Fitzsimons with Wells Fargo. Your line is open.

Kate Fitzsimons  
Analyst, Wells Fargo Securities LLC

Yes, hi. I guess, looking ahead to fiscal 2024, certainly understanding that you are unwilling to guide here, but I'm curious just as you're looking at the gross margin opportunities and puts and takes as we look to the first half and the back half, just given the depressed levels that we're seeing certainly on the markdown front here.

Colin Browne  
Interim President & Chief Executive Officer, Under Armour, Inc.

Well, as Dave already alluded to, it's a little early. It's only February, so we're not really giving too much. We're not calling out anything, providing any color with regards to full year 2024 at this moment in time. But we are, obviously – and we talked already about the continuing promotional environment. But at the same time, we are starting to see some of these kind of supply chain issues that were previously were driving up costs, they're starting to kind of back out again. So things like shipping and container costs and this type of stuff. So we think there is an opportunity there, but it's going to be a challenging year just because of the amount of product that's out in the market from a promotional activity point of view. So it's going to take us some time to kind of work through that. Dave, do you want to add any more color?

David Eric Bergman  
Chief Financial Officer, Under Armour, Inc.

Yeah. I mean, obviously, there's a lot of different areas that we're pushing on and we want to keep moving the ball forward. But to Colin's point, it is early. And so at this point, we're going to kind of take advantage of the next 90 days to really dig in and continue to drive forward and be ready to speak more about it at our next call.

Lance Allega  
Senior Vice President, Investor Relations & Corporate Development, Under Armour, Inc.

Yeah, Kate. I would say, too, it's not that we're not willing. Like, you used the word unwilling. I just want to kind of correct that. We didn't do this last year as well. It's one of the reasons we changed our fiscal year, primary due to visibility, because in February we're still barely into the order book for the fall, winter seasons. So a lot of moving
parts but we’ll definitely, obviously, get to it in our May call, but certainly a lot of considerations as we move forward.

Kate Fitzsimons  
Analyst, Wells Fargo Securities LLC

Can I just ask? It's a fair point. Can I just ask one follow-up on the inventory levels? Certainly, understand that you guys are kind of shifting towards a prioritization of growth here. But with guiding the year-end inventories up 50%, you're noting greater caution just overall in the environment, maybe the consumer. I guess I'm just trying to balance opportunities on growth as well as maybe a potential return to positive gross margins next year. Again, understand kind of unwilling to talk about trajectories on gross margins next year. But I'm just trying to understand the balance there between growth and profitability as we're looking ahead, especially with some of these inventory investments.

Colin Browne  
Interim President & Chief Executive Officer, Under Armour, Inc.

As we already spoke a little bit about, I think we're in a somewhat of a different place than much of the industry. We're actually reasonably happy with where we now sit from an inventory perspective because, as we called out in the script, we were running the constrained model last year. We also walked away from some demand because we just couldn't see we'd be able to service it. So, our inventory levels were incredibly slim last year. We're now getting our inventory back to what I would call a steady state number, which is, okay, that 50% increase is a big number. But when you look at the amount of inventory we're now holding, we're holding the right level of inventory for a $6 billion business. We're comfortable where we are from an inventory perspective. And our inventory is rightsized for the way in which we expect our business to evolve next year.

David Eric Bergman  
Chief Financial Officer, Under Armour, Inc.

Kate, this is Dave. I think maybe what I would add a little bit there too is we have done a deep dive to see what product we have that is more seasonless that we can pack and hold over to next year as opposed to liquidating it at very low prices now. And that's part of what's assumed in our outlook as well. And so that is something that is in our inventory growth numbers now that we'll be able to draft off of a little bit next year, at least from a cash perspective.

And then I think just thinking about where we are right now as kind of around a three turn, to Colin's point, is a pretty healthy spot for us. And as we move through next year and deal with any of the excess, we still will be managing our third-party liquidation in a reasonable spot.

Colin Browne  
Interim President & Chief Executive Officer, Under Armour, Inc.

Correct.

David Eric Bergman  
Chief Financial Officer, Under Armour, Inc.

We would expect to stay kind of in that 3% to 5% range, hopefully at the lower end of that, which is what we have been doing and continue to do to make sure that that we're keeping the brand healthy out there and leveraging our outlet stores as best as we can. So we feel really good about that. And to Colin's point, the growth rate looks high. But if you look at the actual health of the inventory and you look at our actual turns, we're actually in a reasonable spot, and we're ready to drive into next year.
Kate Fitzsimons
Analyst, Wells Fargo Securities LLC

Great. Best of luck with spring season. Thanks so much.

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

Thanks, Kate.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

Thank you.

Operator: Thank you. Our next question comes from Bob Drbul with Guggenheim. Your line is open.

Robert Drbul
Analyst, Guggenheim Securities LLC

Hi. Good morning. Just a question on the marketing and the focus on the 16 to 20-year-old varsity athletes. You talk about just some of the early improvements in the metrics for this demographic. I was wondering if you could share a few of those with us.

And then I think the other question is just, on this year, where are you going to end up the marketing levels or the rate of marketing spend this year? And just trying to understand that as it relates to more of a longer term perspective on how much you're going to invest. Thanks.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

Yeah. And thanks for the question, Bob. Yeah. As you mentioned, we have shifted our target audience to this 16 to 20-year-old varsity athlete. And I want to stress that that's the target audience. That's not the target market. This is the inspirational muse that we're looking to work with and build relationships with, which would allow us to amplify the brand as part of our broader strategic evolution.

Early days yet. We really only made that shift in the back end of last year. So we're starting to look at the marketing metrics around that, and it looks as if the work we're doing and we're starting to see the results certainly from the point of view of how we've been selling in things like our cleated footwear landing incredibly well. Some of our team sports work is landing incredibly well. So a lot of the work we're now starting to do and the way we started to think about focusing our marketing to ensure that we're meeting that athlete is really starting to resonate. And we're seeing that show through in some of our results as well.

From the point of view of our marketing, it's still – it's focused on middle to top funnel activations. And again, continue to be focused on increasing awareness, engagement, and consideration as we would do. And SlipSpeed is a great example of how we're looking to lean into that when it comes to that other part of our strategic evolution with what we call our live, our sports style stuff.

So overall we feel as if we've got a great story to tell, and this 16 to 20-year-old athlete is the individual we want to tell it to.
But, Dave, do you want to give some clarity around numbers?

David Eric Bergman  
*Chief Financial Officer, Under Armour, Inc.*

Yeah. Bob, this is Dave. Just from a dollars perspective, we finished Q3 a little below 11% of marketing dollars to revenue, and we're still managing through that operating objective of keeping marketing kind of in that 10% to 11% of revenue. And that's how we're going to keep driving forward. And then we'll talk more about next year as we get to the May call.

Robert Drbul  
*Analyst, Guggenheim Securities LLC*

Great. Thank you very much.

David Eric Bergman  
*Chief Financial Officer, Under Armour, Inc.*

Thanks, Bob.

Colin Browne  
*Interim President & Chief Executive Officer, Under Armour, Inc.*

Thanks, Bob.

**Operator:** Thank you. Our next question comes from Brian Nagel with Oppenheimer & Co. Your line is open.

Brian Nagel  
*Analyst, Oppenheimer & Co., Inc.*

Hi. Good morning. Thanks for taking my questions. So the first question I guess is a bit philosophical, just to understand better what you're seeing out there as far as just the overall backdrop. So it sounds – the comments you made today sounds like – sound – suggest, at least to me, that maybe in your view the backdrop has gotten a bit worse from a demand perspective.

So the question I have there is, as you think about how the consumer is behaving, how the consumer is reacting to the Under Armour brand, but at the same time you and others are in this clearance activity to sort of, say, rationalize excess inventories, are those still two distinct events? Is the consumer potentially weakening here at the same time you're strategically clearing inventory? Or is that clearance activity now either leading to consumer weakness or fueling consumer weakness?

David Eric Bergman  
*Chief Financial Officer, Under Armour, Inc.*

Yeah. I think that from our perspective we're not necessarily seeing it as a developing consumer weakness. I think, it's more a little bit of a math situation. A lot of the brands had produced a lot more inventory for 2022 thinking it was going to be as strong as 2021, not realizing how big of a bounce-back banner year 2021 was for most of the brands. And so with all of the heavy inventory out there, it's really a math equation of being able to move through it.

And so you see a lot of the brands have been heavily discounting, and we've had to play in that a little bit more than we wanted to in Q3. And now we're starting to protect a little bit more in Q4 here as we drive through. But I
I don’t necessarily see it as a demand issue. I see it more as a situation with the numbers that are out there. And as we go further through this calendar year, that will – we believe that, that will start to subside, but it is going to take longer than what we expected probably 90 days back.

And then the other pressure that we saw more in Q3 was relative to China as well with COVID. Now, a very resilient consumer in China, so we’re starting to see that bounce back a little bit which is great, and we hopefully will continue to see that.

But that’s kind of what we’re seeing out there, and we’re going to keep driving forward. But I think the first half of our coming fiscal year will be a little bit more pressured than we expected 90 days back.

**Colin Browne**  
*Interim President & Chief Executive Officer, Under Armour, Inc.*

Yeah. And let me just jump in there. The way I’ve been kind of explaining it, the inventories are bloated, and it’s pretty stagnant out there at this moment in time. So it’s just going to take time for it to kind of work through. I think the consumer is still there, and we’re confident that certainly the categories we’re in and our business can certainly continue to win within this environment, but we do think, in some respects actually, this actually gives us the right time to actually lean into the strategic work that we’ve already got in flight.

We’ve already talked about the 16 to 20-year-old varsity athlete. How do we build that product? How do we start building that relationship? So this actually give us a great time to do that. How do we start to bring live and sports styles to the market? Again, great time for us to do that as the industry works through the inventories.

And third thing, our strategic segmentation thinking about how we are continuing to build good, better and best product, and how do we actually really start to bring that better and best product to the consumer.

So, yes. I understand it's bloated and it's stagnant out there. But actually, from the point of view of how we can start to play in this market, we can position ourselves incredibly well. So, as this starts to play out, we can power out of it.

**Brian Nagel**  
*Analyst, Oppenheimer & Co., Inc.*

That’s very helpful. And the second question, a follow-up. And recognizing you haven't given guidance beyond the current fiscal year, but lots of moving parts right now with respect to top line across geographies, across product categories, distribution channels, et cetera. Longer-term, as we're watching this business and watching this business continue to recover, how should we think about what should be kind of a healthy top line growth rates for Under Armour?

**David Eric Bergman**  
*Chief Financial Officer, Under Armour, Inc.*

Brian, this is Dave. Great question, and we're excited – as excited or if not more to talk about the future. I think when you step back, we probably would go back to what continued to be some of the biggest opportunities for us. When you think about the Footwear growth and the continued potential there and how small our Footwear business is in total to our mix, when you step back and look at where we are from an international perspective and being able to return to healthier growth in Asia-Pacific as we get past COVID more, EMEA is a very healthy market for us, and we're driving forward there as well. So, still a lot of great opportunities for us as we think about internationally.
And then from a DTC perspective, it is an area that we've been over indexing on relative to investment there, whether it be within the platform itself, whether it be within our loyalty, CRM, et cetera. So, and you see that coming through in the e-com growth. So, there's a lot of things to be excited about.

Also, we continue to make progress relative to how we want to attack full price Brand House stores. And then, on top of all of that, we have a new opportunity as far as expanding the aperture and going into that fourth quadrant for us or the live quadrant, our sportstyle product, which we're super excited about. And that has a little bit of a longer lead time. You'll see some of that product coming into the market, but as far as bigger dollars and bigger volume, that's going to be a little bit more of a fiscal 2025 and beyond. So when you think long term, to your question, there's a lot of great opportunities out there. But as far as giving color on growth rates and things like that, we're going to hold back for now until we can get more further down the road.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Got it. Very helpful. Thank you.

Operator: Thank you. Our next question comes from Jim Duffy with Stifel. Your line is open.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Thanks. Good morning. Thank you for taking my questions. So, I'm interested in really more about go-to-market strategies behind efforts to expand the wearable occasion for the brand. First, can you speak about the allocation of marketing dollars to that effort versus the more sport or activity-oriented dimensions of the brand?

And secondly, can you speak about how you leverage partner athletes to raise awareness for the new product dimension? And then finally, and I'm particularly curious here, can you speak to the buy-in of wholesale channel partners? Are there examples of commitment to point-of-sale representation for that product?

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

Hi, Jim. Yeah. Let me kind of lean on – let me kind of kick that off. Obviously, just thinking through how we think about this new segment, the Live, which is, again, just to remind you, this is kind of the fourth quartile of train, compete, recover, live. And building a little bit off the previous question, this changes our total addressable market enormously. So, it's a huge opportunity for us to lean into that.

We're currently building this into our go-to-market model at this moment in time and understanding how we can optimize what we currently have in addition to how do we then think about bringing it to market differently. And all of that's working in flight at this moment in time. But the store that we're opening in New York is perhaps a great manifestation of how the brand wants to show up differently and intends to show up differently, and the teams are working through that, and you'll see more of that come to life over the next few quarters.

With regards to how we're thinking about the utilization of athletes, obviously we've got such an incredible roster of athletes, and many of them are really keen to have access to this kind of product. One of the expressions we use around here was tunnel walk because we do an amazing job of providing athletes with product they can wear on and off the field when they're training. But how do we allow them to have that swagger, how do we give them this tunnel walk kind of swagger that they deserve if you're operating at that level within the sports world. So
again, many of the athletes are really up for this. They're really keen for this. They're really engaged and want to be part of this journey. And again, we've been talking with many of our key athletes with regards to how that comes to life. And you'll continue to see that in the way in which we're showing up from a marketing perspective as well.

And again, we're just starting to build this relationship with our wholesale partners. We've had this conversation with them to build on your third question. They're excited about it as well and the opportunity for us to – again, the opportunity for us to increase our TAM, our total addressable market is something they can clearly see, and they can see that we have an opportunity to play there.

Dave, do you want to supplement that?

David Eric Bergman  
Chief Financial Officer, Under Armour, Inc.

No. I think that not surprisingly, one of the bigger opportunities is being able to more aggressively expand into the mall channel and some of the great partners that are in the mall business. So that's going to be a big opportunity for us. But there could be other distribution opportunities as well. It is early days at this point but definitely a lot of potential. And within the walls and outside the walls of Under Armour, we're really excited about what that could mean.

Jim Duffy  
Analyst, Stifel, Nicolaus & Co., Inc.

And then just following up on that, Dave, this builds on some of your earlier comments, should we think about fiscal 2024 as kind of a foundational year for this and you build on it in fiscal 2025? Or, will we begin to see meaningful revenue contribution from these product categories in fiscal 2024?

David Eric Bergman  
Chief Financial Officer, Under Armour, Inc.

I think that that's a fair assumption. Fiscal 2024 is going to be a little bit more foundational if you think about our product lifecycle and developing into more of the sportstyle and building out that aperture a little bit more. So you might see a little bit of that coming in, back half of fiscal 2024. But from a material perspective, it's really going to be fiscal 2025 and beyond where that big opportunity is.

Jim Duffy  
Analyst, Stifel, Nicolaus & Co., Inc.

Understood. Thank you.

David Eric Bergman  
Chief Financial Officer, Under Armour, Inc.

Thank you.

Colin Browne  
Interim President & Chief Executive Officer, Under Armour, Inc.

Thanks, Jim.

Operator: Thank you. Our next question comes from Laurent Vasilescu with BNP Paribas. Your line is open.
Laurent Vasilescu
Analyst, BNP Paribas Exane

Good morning. Thank you very much for taking my question. I wanted to ask about EMEA. Last December, it was up 23%. This time it was up 46%. Is the growth driven by a balance of Footwear and Apparel? If you could give a little bit of color of what you’re seeing by regional performance within EMEA. And, Dave, how do we think about 4Q performance for EMEA?

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

Yeah. I mean a couple things. EMEA has been a very healthy region for us, and we’ve made a lot of progress there which has been great. The team’s doing an incredible job there, and we saw increases in Q3 in wholesale, but also on the DTC front. I will say that a little bit of that was some earlier than planned shipments that were originally planned for early Q4 that ended up coming in and making it out in late Q3. So that did help a little bit.

And we remain agile in the region despite uncertainty including inflationary pressures and rising energy costs and things that that region is dealing with. But we’re in a very good spot relative to our key account relationships. We’re starting to open more full-price Brand House stores which we’re excited about, so definitely a DTC emphasis there. And we continue to see it as a very high growth region for us, and we would continue to expect that in Q4 as well. I wouldn’t expect the Q4 growth to be as high as the Q3 growth because there is some timing in there that I mentioned, but we still believe it’s going to be a healthy growth area for us as we continue forward.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

Yeah. I’m building off that, and you asked about the countries. I mean the UK has been a huge focus to us and somewhere we decided a couple years ago we really needed to win, and that's working incredibly well. We have, again, to Dave’s point, we have great relationships with our wholesale partners there, and we are in the process of opening a number of stores in the first half of calendar 2023, which will all be opened up between London, and up in Liverpool, and Manchester, and Birmingham, so opening up across the UK as we really start to lean into it.

Again, it's important to understand Europe is really where the brand manifests itself in the way that we want it to show up. And when we show up the right way, we clearly resonate with that core consumer. So the UK is incredibly important. We also have major focus on Germany as well, thinking about how we’re kind of continuing to grow in that market. We’re a little bit further behind in Germany, but we’ve got other places in Europe we are now starting to lean into more aggressively from Spain and Portugal through to France. So, we’re working our way through the region, but we really wanted to make sure we win in a couple of those core markets before we kind of roll out too aggressively in the region. But it's working and it's a model that we’re looking to kind of replicate back here in the US as we build those relationships further.

Laurent Vasilescu
Analyst, BNP Paribas Exane

Very helpful. And then, Dave, I'd love to ask about Kate's question around gross margin, just following up around those three buckets. It sounded like the third one, mix, is more structural in nature. Is that the right way to think about it relative to the other two buckets?

And then you alluded to inventory turnover of three times over the foreseeable few quarters. How do we think about inventory growth year-over-year over the coming quarters? When does it kind of match revenues?
David Eric Bergman  
Chief Financial Officer, Under Armour, Inc.

Yeah, Laurent, I would say a couple things. Relative to gross margin, as we think about that, I mentioned a third is the higher promotions and discounting. That's probably the biggest kind of individual piece for this year. The second bucket around elevated product cost, freight expenses, changes in FX, the two bigger pieces in there would be the product cost headwinds and then also the FX headwinds. Freight was a big headwind in the front half of the year but has now kind of flipped the other way a little bit.

And then the last one, which was more to your question, it is a little bit more structural. So, the mix impact, which is the other third remaining, probably the biggest piece of that is just having a higher mix of distributor revenue, which is a little bit lower gross margin business for us but still very profitable on the bottom line. And then there's a little bit of product mix in there with the higher percentage of Footwear revenue, which is a little bit of a gross – little bit lower gross margin for us. And then a little bit, or even a smaller amount impact with the region mix. But the biggest one in there is the channel mix with the higher distributor sales. And we'll provide fiscal 2024 inventory color when we get to our fiscal 2024 outlook in May.

Laurent Vasilescu  
Analyst, BNP Paribas Exane

Very helpful. Thank you very much.

David Eric Bergman  
Chief Financial Officer, Under Armour, Inc.

Thank you.

Colin Browne  
Interim President & Chief Executive Officer, Under Armour, Inc.

Thanks, Laurent.

Operator: Thank you. Our next question comes from Matthew Boss with JPMorgan. Your line is open.

Matthew R. Boss  
Analyst, JPMorgan Securities LLC

Great. Thanks. So, Colin, maybe as we enter 2023, you mentioned an uneven macro backdrop. But how are you seeing the progression of trends in the North America athletic channel, maybe post-holiday?

And then, Dave, maybe just as a follow-up, could you speak to the composition maybe below the surface within inventory? What's durable versus what's at risk for markdown? And then to your point on the continued promotions, is there any parameters for us best to think about gross margin next year?

Colin Browne  
Interim President & Chief Executive Officer, Under Armour, Inc.

Well, Matthew, thanks for the question. I think the word I used earlier is bloated. I think the industry, certainly the sports industry, is pretty bloated at this moment just because of the amount of inventory that has hit the stores over the past six months. The overhang, and I call it the hangover from COVID a little bit where we had so much product that was late, that was all kind of coming in at the same time, is where we saw perhaps a slowdown in demand somewhat, but we saw a correction in demand. So you've got all of those things happening at the
same time. So you've just got a lot of inventory out there. And I think, as we talked about already, and I won't belabor the point, but I think it's going to take some while for that to kind of work its way through.

I think, again, I think we're in a better position than most to manage through it. But when the industry sneezes, we catch a cold somewhat, as does everyone else, so we're having to play within that environment. But I think we're in a better position because of the way we've managed inventories to power out this quicker and hopefully protect our bottom line as we go forward. Dave?

David Eric Bergman  
Chief Financial Officer, Under Armour, Inc.

Yeah. I think, Matt, when you think about our inventory, we are in a fairly healthy place. We do not have a lot of aged inventory. So if you look at what's in that 50% growth, it's not like there's a whole bunch of stuff that is two, three, four seasons old. It is all much more current, and therefore, we feel more comfortable being able to move through that in a reasonable way. And we did, as I mentioned before, take a lot of the Seasonless product and we're going to pack and hold that and sell that next year as opposed to kind of moving that through liquidation or something at a lower margin or less brand accretive way. So, we're in a position to be able to do that. We're comfortable doing that.

And when you think about gross margin next year, we are going to wait until the May call to give color on that because there's just a lot of puts and takes. You would think that back half of next fiscal year, you would probably have some less promotions. You would think that next year we would have lower freight cost than what we dealt with, at least the front half of this year. But then on the flip side, Footwear is probably still going to grow faster than Apparel, and that's a little bit of a headwind, which we're comfortable with.

And relative to foreign currency, who knows, right? I mean, it's difficult. So there's a lot of puts and takes out there. Obviously, we're going to continue to drive forward, and we've got a lot of initiatives to do so, but we're going to wait until the May call to be able to give more color there.

Operator: Thank you. Our next question comes from Tom Nikic with Wedbush. Your line is open.

Tom Nikic  
Analyst, Wedbush Securities, Inc.

Hey. Good morning, guys. Thanks for taking my question. The last couple of years, you've done a lot of work around retraining the consumer to look for you at full price and pulling back on discounts and pulling back on the off-price channel. And I think, unfortunately because of this inventory bloat that you talk about, I think obviously you've been more promotional than you've wanted to be. How do you avoid, I guess, having the customer be trained to look for your brand at a discount? And how do you eventually rein in the discounts and the promos that are occurring right now without facing pushback from the consumer, who has been able to buy your brand and your competitors at a discount?

Colin Browne  
Interim President & Chief Executive Officer, Under Armour, Inc.

This is Colin jumping in here. And thank you for that question, Tom. I think there is a couple of areas that I think are relevant to this. Number one, as you've talked about already, we've walked away from quite a bit of undifferentiated retail at this moment in time, and we have no intention of going back. So from the point of view of kind of ensuring that we protect that core product that we have, we don't see that kind of sliding again. We've also managed, to Dave's earlier point, we're also making sure we control our liquidation at an appropriate level as well.
So, from the point of view of not allowing us to slide further into that kind of – that trap, we're working aggressively to make sure that that doesn't happen.

At the same time, much of the work that we've done recently is working through how do we bring more better and best product to the top of the house. We've got a really good level brand here in the US, but the opportunity for us to build into that better and best is kind of what we're working on and where Kevin's spending a lot of his time, because his history and his context for the brand really helps us understand that at the same time.

We're also working through building out our wholesale distribution strategy to kind of try and increase the opportunity of landing this stuff at a wholesale level and working through how that segmentation works and how we show up. Moving through to live clearly gives us an opportunity to think about that a little bit, from the point of view of where we show up. And Dave talked about a little bit about how do we make sure we're showing up in the right places at the mall because that gives us, again, a huge opportunity to lean into that as well.

And finally, we've been continuing to make oversized investments in our own omni-channel and DTC kind of parts of our business, and certainly thinking about how we show up at retail, the Flatiron store in Manhattan is a great example and a first step on that journey, but at the same time continuing to invest in our loyalty programs, which, again, we've rolled that out last year; we're looking to roll that out more broadly here in the US later this year. And we're seeing great results from that. So now, it's a question of offense and defense. We're defending by making sure we don't slide back into that lower channel kind of network of retail, but at the same time, putting in place really strong plans and strategies to ensure that we're driving – continuing to drive the brand up to that next level.

Tom Nikic
Analyst, Wedbush Securities, Inc.

That's helpful. Thanks, Colin. And best of luck this year.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

Thank you, Tom.

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

Thanks, Tom.

Operator: And we'll take our last question from Michael Binetti with Credit Suisse. Your line is open.

Michael Binetti
Analyst, Credit Suisse Securities (USA) LLC

Hey. Thanks for all the detail here and for taking our question. So, if I could just follow that last one very quickly. As you look at the distribution map in North America for 2024, are there also parts of the US distribution map that you need to mix away from to get to that targeted better/best mix on product as you kind of rethink distribution more broadly? And then, I guess, one on SG&A. You talked a little bit about gross margin and how to think about some of the themes for next year. But the same way: marketing you commented on the near term, to Bob's question earlier, it sounds like 10%, 11% is where you plan to live next long term, I guess. As we think about the other buckets, I'm guessing incentive comp, everybody would hope it would come back next year, but are there any other buckets to just be mindful of? Maybe some front-loaded investment as you build the teams for live? Any other buckets that we should be thinking about as we look out to next year into the May call?
Colin Browne  
Interim President & Chief Executive Officer, Under Armour, Inc.

Thank you, Michael. I'll take the first part of that, and then I'll pass it over to my partner in crime, Dave, to take the SG&A part.

But if I had my – our plans here, Michael, is to not shrink the bottom of the market but grow the top of the market. We want to get bigger as an overall brand. We believe, when we look at the way we resonate with consumers, when we look at the data we see from a consideration point of view, we have a huge opportunity out there.

And part of that is not necessarily about shrinking the bottom end of the market. I think we've already done that to a large degree by walking away from much of those kind of undifferentiated doors, which didn’t make sense. But it's really about, how do we grow at the top end of the market.

So our focus is more about trying to elevate the brand, and again, protect the core and elevate for more, for once a better way of putting it, is kind of how we're spending our time and thinking through the product we're developing, the stories we're telling, the consumer we're engaging with, and the entire strategic evolution that we've got in place and we're working through will hopefully help us deliver against that.

And, Dave, do you want to jump into the SG&A?

David Eric Bergman  
Chief Financial Officer, Under Armour, Inc.

Yeah. I mean, from an SG&A perspective, through a lot of difficult work over the years, we are now more nimble, and so we're able to proactively manage much better than we were years back.

And so, if you think about this year with some of the pressures that have developed in the market, we've slowed down and prioritized hiring. We prioritized marketing investments differently and better, continuing to manage things like consulting and T&E and things like that, and doing that has been not as difficult as it used to be in the past.

And I think some of that also goes to the enterprise mindset within the company, whether it be the alignment of our leadership team and being able to make tough calls and drive through and prioritize further to be able to protect the bottom line or even if we just think about all the teammates that we have across the world and how much they're looking out for the brand and trying to spend as if it's their own money and kind of make $1 spend like $3.

And that enterprise mindset goes a long way for us, and it's just been, I don't want to say the word easier because these are tough decisions. But we've been able to act more quickly and more proactively on the cost structure, and we're going to continue to do that as we drive into next year and beyond. So I think we're set up well for that, and it's time to drive.

Colin Browne  
Interim President & Chief Executive Officer, Under Armour, Inc.

Yeah. And I'll just close out. I think we've done – I think over the past few years we've built an operating model that clearly works. We've had a solid quarter I think that demonstrates the fact that we've got it. We have a strategic refinement that we're putting in place at this moment in time and that's starting to build out and starting to
flow through the markets and starting to work with our teammates to kind of bring it to its full manifestation around. And I’m excited for how that's all going to come together. I think we're well teed up for future success.

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

Totally agree.

Michael Binetti
Analyst, Credit Suisse Securities (USA) LLC

And can I follow that with just one more? I think you used the word stagnant twice in regards to the inventory clearing you’re seeing in the marketplace today. Obviously we have your revenue outlook for the fourth quarter, but would you mind elaborating a little bit on where you see pockets of stagnation in POS out there? Perhaps were you surprised to see that inventories are turning slower than you expected coming out of holiday?

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

I think there's just a lot out there. I think I'll use bloated again, because I think I've used that a couple of times as well. So that may be the keyword with regards to inventory. I think it's just bloated. And I think different channels obviously have different issues that they're dealing with, and different brands are obviously handling it in different ways. But you only have to go and look on websites to see how many people are running discounts out there to see how challenging it is. So, yeah. Again, I think it's just going to take some time for it to work through.

Michael Binetti
Analyst, Credit Suisse Securities (USA) LLC

All right. Thanks, guys. Great detail. Appreciate the help.

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

Thanks, Michael.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

Thank you, Michael. Take care.

Operator: Thank you. This concludes the question-and-answer session. Thank you for your participation. You may now disconnect. Everyone, have a great day.