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Presentation

Operator

Thank you for standing by, and good afternoon. Thank you for attending today's FIGS Third Quarter Fiscal 2024 Earnings Conference Call. My name is [Reagan], and I'll be your moderator today. [Operator Instructions]. I would now like to pass the conference over to our host, Tom Shaw, Senior Vice President of Investor Relations. Tom, you may now proceed.

Thomas D. Shaw

Senior Vice President of Investor Relations

Good afternoon, and thank you for joining us to discuss FIG's Third Quarter 2024 results, which we released this afternoon and can be found in our earnings press release and in the shareholder presentation posted to our Investor Relations website at ir.wearfigs.com. Presenting on today's call are Trina Spear, our Co-Founder and Chief Executive Officer and Sarah Oughtred, our Chief Financial Officer.

As a reminder, remarks on this call that do not concern past events are forward-looking statements. These may include predictions, expectations or estimates, including about future financial performance, market opportunity or business plans. Forward-looking statements involve risks and uncertainties, and actual results could differ materially. These and other risks are discussed in our SEC filings, including in the 10-Q we filed today, which we encourage you to review. Do not place undue reliance on forward-looking statements, which speak only as of today and which we undertake no obligation to update.

Finally, we will discuss certain non-GAAP metrics and key performance indicators, which we believe are useful supplemental measures for understanding our business. Definitions and reconciliations of these non-GAAP measures to the most comparable GAAP measures are included in the shareholder presentation we issued today. With that, I would now like to turn the call over to Trina.

Catherine Eva Spear

Co-Founder, CEO & Director

Thanks, Tom. I'll start today with an overview of our third quarter results, where we had a number of impactful brand and product wins balanced by a few areas of opportunity in the quarters ahead. I'll then provide an update on some of the foundational initiatives that we have been focused on implementing this year, which we believe will better support and enhance how and where we deliver our game-changing product to our health care professionals. Finally, I'll highlight how our strong balance sheet and cash flow provide the flexibility to invest in the core, return value to shareholders and continue to disrupt the industry.

Looking at the elements of the quarter, our top line performance was supported by an expansive top-of-funnel marketing campaign, strong clinical innovation and positive signs around our core scrubwear. We are the clear leader in the space and continue to be encouraged by positive trends around frequency and traffic. Additionally, we remain in the early stages of capitalizing across the emerging growth drivers of the business, including international, teams and community hubs. Areas where performance fell short of expectations largely stemmed from our overall footwear positioning and changes to our promotional timing.

In footwear, we had Q3 specific delays in stock-outs and popular styles. We also underestimated the impact of removing the category from our Q3 promotion. Regarding timing, our back-to-school promotion was shifted later in the calendar this year, partly due to the timing of our Olympic focus, and we believe we lost some of our historical brand spotlight given the crowded promotional backdrop. While the impact of these factors was slightly more than expected and are factored into our expectations for Q4, they are all areas in our control, and we are taking action.

From a margin perspective, gross margins were better than our outlook, driven by the lower footwear mix. On the [expense] side, we experienced the outsized impact from the Olympics investment and fulfillment transition costs that we outlined on the last call. We also saw some higher-than-planned ramp-up costs

at our new fulfillment center and the shipping impact from lower order values. Overall, adjusted EBITDA margin finished below plan in what we believe will be the trough margin quarter for our business.

Diving a bit further into the business, a key focus for us this year has been on how we can better combine the incredible storytelling of our Awesome Humans with product newness and innovation. The goal here was to become a little less transactional in our marketing and shift to becoming more inspirational to our customers through a top-of-funnel approach. A concept that we are passionate about is the intersection of sports, culture and health care, where we bring a distinct point of view that puts a unique spotlight on our community. We previously outlined our work to outfit and support 250-plus members of the Team USA Medical team for the Summer Olympics and Paralympics in Paris. From late July through early September, we became the first brand ever to outfit the health care professionals supporting any country's Olympic athletes with a rallying cry of building bodies that break records. While the performance of our Pinnacle product and the Team USA collection was one of the clear standouts in the quarter, we continue to believe that the true measure and impact of this investment will be delivered over time. We followed the Olympics with an activation around the U.S. Open Tennis Championships in September. With the same thoughtful attention to how health care plays a pivotal role in sport, we partnered with the U.S. Open's Chief Medical Officer and Director of Player Medical Services to share stories both on and off the court.

As these campaigns highlight, we believe the brand has an opportunity to play a bigger role around sports and culture, and we'll look to execute some of these lessons and ideas as we also eye our commitment to the 2026 and 2028 Olympic Games. We are also focused on how FIGS can uniquely own those key moments in the year that are important to the health care community. While our timing for this event was not optimal this year, the overall approach to back-to-school is indicative of how we will execute around these moments. This is more than just a promotional period on the calendar, but rather an opportunity to focus on medical school students and their needs as the next generation of health care professionals. Our campaign focused on 9 students that embody the future of the industry. With over 10% of our current customers in school, this is a great opportunity to develop powerful brand engagement that can extend over their careers.

More recently, we continued our ongoing work around breast cancer awareness. Here, we highlighted inspiring stories from the 3 Awesome Humans and breast cancer survivors as we strive to fight together against this disease. This is our most integrated BCA approach ever, clear messaging, authentic partnership, highly relevant timing and impactful product, all of which is indicative to how we drive impact across our community.

On the product side, this year has been foundational as we strive to better serve our customers by focusing on reducing friction points from product to distribution. As we have discussed, part of this foundation includes the important work we're doing to standardize our [fit]. While fit is a hallmark of FIGS, there have been opportunities to elevate it even further through consistency and inclusivity. Ultimately, fit is about trust, and this is an area where we are committed to exceeding expectations going forward. Over the past 2 quarters, we have standardized our core fit blocks for all new product and optimized assortments for all women's and men's sizes, serving every body type globally.

While some minor transitions of legacy products are ongoing, we are excited to begin actively communicating our fit positioning in January. This will include our work to ensure our customers' shopping experience is streamlined with improved tools to find the right fit and have confidence in their selection. Importantly, great fit becomes even more important as we look at 2025. We plan to introduce new fabric innovation to serve a broader range of use cases for our community, an effort that couldn't have been done without locking down fit blocks this year.

Serving our customers also means the consistent delivery of our goods as we scale. We successfully completed the transition of our fulfillment center in August and now have 100% of our goods flowing from Arizona. This state-of-the-art, highly automated center is designed to increase our flexibility, reliability and efficiency as we drive to a \$1 billion-plus business. Sarah will discuss the near-term financial implications as we ramp this facility, but we expect to have the ability to leverage expenses here over time as we focus on building an efficient global framework, we plan to add a Canadian distribution center in the second half of 2025.

Canada is our largest international market and we expect this facility will drive quicker localized service and meaningful cost savings from duties and freight. Importantly, this facility will differ from our work in Arizona and will require an immaterial investment.

Looking at product execution, we continue to thoughtfully design and partner to drive a greater range of products that will positively impact our customers' lives. This year, we took a closer look at some of the areas of medicine that our brand has not touched historically, providing opportunities to drive inspirational stories with Pinnacle products. Each quarter, we've had a distinct focus across some of the most extreme conditions, starting with Formula One racing in Q1, wildlife conservation in Q2 and most recently, the Team USA Medical team. Capping off the year, we are highlighting the world of high-altitude paramedic rescue with Dr. Renata and extending our extreme line of products to service those needs away from the more predictable confines of the indoors. These highly engaging go-to-market expressions are designed to pay tribute to the industry, peak brand interest and ultimately drive engagement across our core business. And as alluded to earlier, we are on a journey to broaden the impact of the storytelling as we provide a greater range of product solutions in 2025.

While footwear results had some specific Q3 impacts, we were incredibly excited to evolve our partnership with New Balance during the period. We have been working with the brand since 2018, though largely focused on making updates to existing styles. The 3447 model, however, is the first time we have created a unique silhouette with the brand, designed and developed for the needs of health care professionals. To address the unique environments and physical demands experienced on a shift, the 3447 provides a midsole to handle 12-hour-plus shifts on their feet, extra grip in the outsole that prevents slipping on hospital floors and water-resistant materials to protect from contact with a variety of liquids in these environments. The details even extend down to the model number, which represents FIGS on a [beeper].

Overall, we see this as a great example of how FIGS can use collaboration as a tool, leveraging existing ideas to bring great solutions to our customers. As mentioned at the outset, we are early in our journey to find new ways to better serve our global customers. This starts with our international opportunity, where over 80% of our global health care professionals reside, yet make up only about 15% of our total business today. Our reported 3Q growth of 17% was lower than our recent trend, but reflects an 11-point negative impact from the reclassification of duty subsidies, which will normalize after the current quarter.

Additionally, we are up against an incredibly strong 81% growth rate last year, where we benefited from the full market entries of Mexico and the Philippines, both of which are already 2 of our largest global markets. Nonetheless, international dollars and mix both reached a new high for our business, and we continue to see positive signs across a number of measures, including customer acquisition, the performance of men and the traction of our newer markets.

Overall, we are now in 33 countries with 10 of those entered just this year. As we look ahead, we have developed an internal framework to support and prioritize how we approach future markets. Asia remains one of our most untapped opportunities with current distribution in just the Philippines and Singapore. The Japan market remains a priority, highlighted by over 5 million health care professionals in the country, a highly concentrated population and a consumer who gravitates towards technical products. Our ongoing groundwork here will support our efforts as we look to open new Asian markets in 2025 and beyond.

Our teams business is another opportunity to widen the aperture of the brand, providing tailored solutions to a range of large organization, concierge clinics and international institutions. While we continue to see good traction here, this has been strictly an inbound effort to date where these customers reach out to us and we set up a solution. Importantly, our top-of-funnel actions are planting seeds of growth here as well.

In conjunction with our Olympics campaign, teams business leads surged during the month of August. But we see bigger opportunities ahead in teams. I recently had the privilege to be a keynote speaker at the Ortho Summit in Las Vegas with over 1,500 orthopedic health care professionals in attendance. Not only was it humbling to see how our brand has been elevated within this community, but also how eager these large institutions are to partner with us. This is an area where we need to be more proactive, and we're building an outbound sales team that will be charged with building out new relationships. And as we have indicated, we see an outsized international teams opportunity ahead given some of the traditional buying habits in some of these markets.

Looking at our nascent push into retail, we officially opened our second community hub in Philadelphia with an official grand opening in September. As we previously outlined, this location quadruples the size of our initial Century City location and provides fresh opportunities to engage with customers. With one in every 6 U.S. doctors trained in the city and 5 health care institutions located near the store, we are excited to continue our learnings here and look forward to seeing some of you at the store tour next week.

We will continue our test, learn, apply and win approach in 2025 and expect to open a few additional locations during the year. Our plan is to explore a range of formats and location types that optimally allow us to serve the local communities. A key role for FIGS is to always find ways to better serve and connect with the health care community. To achieve this, we believe it is paramount to be agile in our thinking, embracing ideas and change that align with the speed of the industry. As such, today, we are announcing a \$25 million minority investment in [AUG], an innovative new company founded and led by FIGS's Co-Founder, Heather Hasson.

Expected to launch within the next 6 months, AUG offers a multidisciplinary education platform for health care professionals. Much like the original inspiration for FIGS, AUG looks to transform a large, fragmented and outdated industry through AI technology and a revolutionary platform. While more details will be announced about AUG when its platform launches, we also expect to work with AUG in ways that will enable us to receive a range of benefits across marketing, community engagement, data and AI. We believe this investment gives us a stronger foothold in today's rapidly evolving tech environment, which will significantly expand the ways that we can serve our customers and most importantly, improve their experience of being a health care professional.

With our strong balance sheet and cash flow generation, we are excited to have this flexibility to drive the core FIGS business, return value to FIGS shareholders through our recently announced share repurchase program and invest in innovative and mission-aligned ventures like AUG.

As we think about the fourth quarter and our positioning for 2025, we will continue to prioritize our efforts through the lens of our customers and how to best serve this incredible health care community. Our expectations in the near term are tempered as we look to make disciplined decisions across what will likely be a dynamic holiday backdrop. Looking ahead, the foundation of our business is strong across product, storytelling and experience, and we are excited with how these initiatives will fuel our growth ambitions.

Before handing the call over, I would like to officially welcome both Sarah and Tom to the FIGS team. Both have incredible backgrounds in the branded consumer space, and I'm excited to partner with them as we set and execute against our growth agenda and continue our work with the investment community. I'll now pass it over to Sarah to discuss the quarter and updated outlook.

Sarah Oughtred

Thanks, Trina, and appreciate the kind words. Before discussing the results and our updated outlook, I want to start with a few observations from my first 3 months in the role. It has already been an incredible experience being part of the team and brand that rallies relentlessly behind health care workers. I recently had the opportunity to connect with members of our Healthcare Advisory Board, who collectively provide a powerful voice of what it takes to be a health care professional, the challenges they face in their professions and the unique role that we can play as a brand. I left touched and inspired by these amazing stories, and I'm humbled to play this part in our journey to celebrate and empower these awesome humans.

As I look at the business side, several items are clear. We must continue to lead with premium product and innovation that both delivers on the high bar we have set and strives to address unmet needs. Trina laid out some of the foundational efforts here this year like fit and service. And I am excited to add additional rigor and process around areas like inventory management to refine how and when we invest in breadth and depth of product and color. We need to grow our brand awareness and bring more new health care professionals into our community. This requires a disciplined approach to how, when and where we engage and optimizing the assortment for our customer. And we must evolve to meet the customer across a diverse range of channels, which is why we will remain laser-focused building on our work internationally in teams and our community hubs. Together, these are the ingredients to both stabilizing our performance,

returning to top line growth and methodically rebuilding margins. And I look forward to working with all of you on this call as we strive to show progress across these objectives.

Now on to our third quarter performance. Net revenues decreased 2% to \$140.2 million, below our expectations for 1% growth, primarily given the footwear dynamics and promotional timing that Trina outlined. AOVs decreased 5% to \$108, driven by a combination of factors, including lower units per transaction, higher discounts and returns and the accounting reclass related to duty subsidies for international customers. On the positive side, we experienced higher year-over-year purchase frequency for the second straight quarter. Compared to the same period last year, active customers for the trailing 12-month period increased 4% to \$2.7 million, while net revenues per active customer decreased 3% to \$205.

Looking at revenues by category, scrubwear increased 2%, representing 84% of net revenues for the period. We saw positive trends in both our core styles and colors as well strong ongoing receptivity of new limited edition styles. This performance also reflected the impact of a tighter overall assortment from our inventory initiatives, including a reduction in year-over-year color launches and stock-outs of some of our successful first half launches.

Non-scrubwear declined 16%, representing 16% of net revenues. Our footwear business was a key driver in this decline and missed expectations given the following factors: our decision to exclude the category from promos versus prior year events, a delay in the expected timing of our new 3447 launch and out of stocks in one of our strongest performing retro styles. While some of these factors will extend to Q4, we remain very confident in our product assortment and brand partnership. Outside of footwear, we are also in the process of reinventing and upgrading select non-scrubwear lines like our FIGS Pro, which are impacting our results as we phase down our assortment.

Additionally, we were comping a particularly high proportion of non-scrubwear sales during our Q3 promotions last year. Gross margin for Q3 contracted 130 basis points to 67.1%, coming in ahead of expectations for the period. The decline in the year-over-year gross margin rate was driven by higher discounted sales and to a lesser extent, product mix shift related to limited edition scrubwear. While we continue to see and expect some adverse mix impacts, we did experience some offset this quarter from the performance dynamics within footwear. Our selling expense for Q3 was \$38.6 million, representing 27.5% of net revenues compared to 22.6% in Q3 of 2023. The increase in the selling expense rate primarily reflects higher fulfillment expenses associated with the transition to our new center in Arizona. As a reminder, we expected approximately \$13 million of total transition costs this year across our P&L with the majority recorded in the selling line. These costs materialized relatively in line with the plan, which we expect to be recoverable in 2025.

While we remain pleased with our team's execution of this transition and are excited to leverage the facility's capabilities over time, we did incur higher-than-anticipated post-transition expenses as we ramped the operationalization of this facility. Additionally, we experienced higher shipping expenses driven by lower AOVs during the period. Partially offsetting these pressures, results continue to include the accounting reclassification related to duty subsidies for international customers from selling expense to net revenues. Marketing expense for Q3 was \$28.5 million, representing 20.3% of net revenues compared to 13.4% in the year ago period. The increase in marketing expense as a percentage of net revenues was primarily due to our strategic investment in outfitting the Team USA medical team at the Olympic Games during the quarter.

G&A for Q3 was \$35.5 million, representing 25.3% of net revenues compared to 25.5% last year. The decrease in G&A expense rate was primarily related to lower stock-based compensation expense, partially offset by a write-down of assets at our prior distribution center. Combining these items, our adjusted EBITDA for Q3 was \$4.8 million with an adjusted EBITDA margin of 3.4% compared to 17.2% in Q3 of 2023. Again, the majority of this year-over-year margin decline was planned given the outsized impact of the marketing and fulfillment investments. Net loss for the third quarter was \$1.7 million or a diluted EPS loss of \$0.01 compared to third quarter 2023 net income of \$6.1 million or \$0.03 in diluted EPS.

Touching on our balance sheet. We finished the third quarter with a record amount of cash, cash equivalents and short-term investments of \$281.7 million, along with no debt. Inventory declined 14%

year-over-year to \$123.4 million and is down 27% on a 2-year basis. We have made significant progress reducing year-over-year inventory over the past 5 quarters through disciplined buys and a narrower color assortment. This includes work to date on methodically working down the remaining inventory not aligned with our go-forward fit parameters. We expect this process will continue into 2025 with negligible impact to the P&L.

At the same time, we see opportunities to be more surgical in our buys as we deliver future innovation and optimize breadth and depth across our range of items and colors. On our last call, we announced the authorization of a \$50 million share repurchase program. During Q3, we repurchased approximately \$7 million worth of shares at an average price of \$4.89, ending the period with approximately \$43 million remaining under our authorization. Capital expenditures for the third quarter totaled \$4.2 million, with the majority related to the build-out of our new fulfillment center. And finally, we delivered strong free cash flow of \$18.4 million in the third quarter and \$37.1 million year-to-date.

Now turning to our outlook. We are adjusting our full year 2024 net revenue outlook to negative 1% to flat growth compared to 2023 and versus prior guidance of flat to positive 2% growth. The lower range reflects both the performance of Q3 and a more cautious stance on the holiday period, including a more conservative expectation for our important Black Friday, Cyber Monday event. From a technical standpoint in Q4, we wanted to call out 2 items as you consider the year-over-year comparison. We expect a favorable net impact following last year's duty reclassification, including the ongoing baseline impact this year to be offset as we lap a gift card breakage benefit in the year ago period.

On the margin side, we expect full year gross margins to be 150 to 170 basis points lower than the prior year, narrowing our prior range of down 150 to 200 basis points. We expect the largest drag for the year will continue to be mix, primarily given the impact of newness and limited edition styles within scrubwear. Given the recent underperformance of non-scrubwear, in particular with lower-margin footwear, we do expect a somewhat more muted impact from mix relative to our prior outlook. Similar to Q3, we also expect higher discounts for the year. As we look at the fourth quarter, we continue to expect a relative gross margin improvement from the year-to-date trend. Embedded in this assumption, we are planning for an outsized benefit from duty drawback claims filed for the past 2 years given our international demand is first shipped to the U.S. and then to the international customer. We expect this benefit will help offset the ongoing headwinds of sales mix during the period. We are also updating our full year adjusted EBITDA margin to approximately 8% compared to the prior range of 9.5% to 10%. A portion of this reduction reflects our updated top line view, which will impact the expense rates in each of our SG&A buckets relative to our prior outlook. To help offset, we plan to prudently manage our near-term expenses while ensuring we remain on offense from a strategic investment standpoint. The greatest incremental expense pressure is expected in selling expenses as we continue to absorb higher fulfillment center costs as we ramp operations and plan for lower AOVs again this quarter.

Pertaining to the fourth quarter, we would note the abnormally low selling expense rate comparison from the prior year as we plan this year's rate to be more in range of our recent quarters as well as the Q4 2022 comparison. While we plan to provide our Fiscal 2025 outlook on our Q4 call in February, I wanted to outline a few high-level considerations. The current year has 2 well-documented expense headwinds that will become tailwinds. This includes the approximate \$13 million transition from our fulfillment center and the outsized level of marketing investments. Supported by these factors, we have conviction in improving our adjusted EBITDA margin, though the extent will be dictated by our work to stabilize our top line and as we more fully assess a range of investment opportunities.

Additionally, our strong balance sheet provides a range of opportunities to support our core business, return value to shareholders and find disruptive opportunities in the industry. Overall, we are optimistic that our investments and positioning enable us to extend our leadership position in the years ahead and fortify our mission to better serve our customers that serve others.

With that, I will turn it back over to the operator for Q&A. Operator?

Question and Answer

Operator

(Operator Instructions.) Our first question comes from Dana Telsey of Telsey Group.

Dana Lauren Telsey

Telsey Advisory Group LLC

As you think about the issues that happened this quarter and basically for 2024, given the transition year, what is steady that continues into 2025, whether it's on product or operations? And what enhancements and improvements do you see where the initiatives of 2024 become tailwinds in 2025? And then I just have a follow-up.

Catherine Eva Spear

Co-Founder, CEO & Director

Thanks, Dana. Great to hear from you. So, I think as it relates to the things that are working, and where we're focused first on product, right? We're exceeding our customer expectations by delivering consistent innovation. We talked about how we've refined our fit in the second quarter. We're going to continue to have that roll out through the rest of the year going into 2025. This year, we had a full standardization of our fit, improving our fit tools, and we're launching that campaign next year. As it relates to marketing side and campaigns, we're coupling this innovation with top-of-funnel marketing and really bringing together storytelling, product and timing to optimally align for our health care professionals and continuing to celebrate our Awesome Humans.

And finally, we're investing in our future and investing in our growth levers. International continues to grow and scale. Our teams business is a huge area of focus as we build out our outbound sales strategy there and community hubs. Now we have 2. We're going to be opening a number of community hubs next year as well. And so, I do think a number of things that we've been building will pay off in 2025 and beyond.

Dana Lauren Telsey

Telsey Advisory Group LLC

Got it. And then when you think about the potential for tariffs going forward, how much of your merchandise is imported -- directly imported from overseas? How much from China? And how do you think of potential offsets there?

Catherine Eva Spear

Co-Founder, CEO & Director

Yes. So, from a tariff perspective, our finished goods are not coming from China. Given the political environment, we've operated in different environments over the last now 12 years and also have operated under Trump's Administration in the past. And so, we're going to continue to be nimble across our supply chain, be aware of what's happening and continue to optimize across all of our suppliers to bring in the highest quality goods to meet the needs of our health care professionals.

Operator

Our next question comes from Rick Patel of Raymond James. This is Josh Reiss filling in for Rick.

Joshua David Reiss

Raymond James & Associates, Inc., Research Division

This is Josh Reiss filling in for Rick. I was hoping to dig in a bit on the U.S. numbers. So, I was wondering if you could provide more color on like any net -- the net customer adds in the U.S. and try to give us a bigger picture on how the U.S. customer is transacting, like if you're seeing any pullback in spend. I know

you attributed the decline to that footwear component. So. I was wondering if that footwear component was largely in the U.S. or it also impacted international as well?

Catherine Eva Spear

Co-Founder, CEO & Director

Sure. Yes. So, the decline in our U.S. business in Q3 was due to those specific issues that are fully within our control, but -- and we talked about. So, footwear inventory and positioning -- sorry, footwear inventory and pricing and the timing of our back-to-school promotion. I just want to give some context here. We're also 1 quarter removed from growth in our U.S. business. So, I think that's important to note. And we're very focused on looking at the U.S. business and really focusing on what's in our control. And the inputs are what's in our control. And if we do -- if we continue to execute as we know we will, the outputs will fall over time. And so, that's really the reason for the Q3 decline as it relates to the U.S.

Operator

Our next question comes from Bob Drbul of Guggenheim.

Robert Scott Drbul

Guggenheim Securities, LLC, Research Division

Two questions. I think the first one is just the branding -- the brand awareness levels from the marketing campaign. Do you have any data around sort of some of the progress that you've made with that campaign in terms of either implied brand awareness unaided, et cetera? And then I think the second question is just on the AOV pressure, can you just detail a bit more around what's driving it? And how can you start to grow AOV again looking forward?

Catherine Eva Spear

Co-Founder, CEO & Director

Sure. Thanks, Bob. I can speak to the Olympics campaign and our brand awareness, and then I'll pass it over to Sarah to talk about AOV. So, as it relates to the Olympics, this was the biggest boldest campaign we've ever done in our history, and it exceeded our expectations. This was a win for the brand. And I want to just say this wasn't a short-term play. We've talked about this in the past. The goal behind the campaign is to drive long-term brand awareness and brand love that will pay dividends over the long run. We saw incredible data points that point to that. Over a billion earned media impressions. We had really strong increases in brand search and site traffic. Our teams leads surged during the period. And so, I really feel good about the Olympics campaign. The product that we launched during the Olympics campaign sold out really quickly. It was actually one of the big lessons there was that we should have bought more because there was a lot more demand than we planned on.

As it relates to looking at some of the work that we did pre and post the campaign, for those who saw our commercial, it takes hard to build bodies that break records. the purchase intent increased notably. And so, I really do feel like big win, definitely lessons in terms of buying behind big moments and really ensuring that we gain those benefits and capitalize on the benefit of top-of-funnel marketing over time.

Sarah Oughtred

I'll take the piece on AOV. So, AOV was down. There's a few dynamics at play there. One of them is the reclassification of the duty subsidies, and we will annualize that in Q4, and that shouldn't be an impact into 2025. Another portion of it is the higher discounts and the dynamic within that is the higher discounts are driven partially by our teams business. So, that has a higher discount rate, but that's more than made up for an expense for it to be an accretive business. So, as that portion of our business increases, we will continue to have that impact. And then the other piece is really just on keeping our inventory clean. So, when need to work down certain pockets of inventory like discontinued items, we'll use the section of our website for -- awesome today, gone tomorrow, and that's just a normal part of our business. So, I think those are the main dynamics on AOV.

Operator

Our next question comes from Brooke Roach of Goldman Sachs.

Brooke Siler Roach

Goldman Sachs Group, Inc., Research Division

Trina, you mentioned the different engagement with the back-to-school promotion versus your initial expectation. And Sarah, you mentioned some higher discounts as well. Can you talk a little bit about the customer price elasticity of demand that you're currently seeing and your promotional plans for holiday 2024 and how you think about that into 2025?

Catherine Eva Spear

Co-Founder, CEO & Director

Sure. As it relates to the -- thanks, Brooke, for the question. As it relates to the price elasticity, we are seeing some inconsistency that we saw in the third quarter. We're being cautious as we go into the fourth quarter as we look at the promotional calendar. I do think we're actually seeing a lot of positives as it relates to nonpromotional days. We're seeing engagement there that people are willing to come in and buy FIGS full price. And we saw that during the Olympics, and we saw that post Olympics. And so that's really great to see. I think we are just being cautious as we look at the rest of the year.

And the other key thing here that we talked about in the past, Brooke, is repeat frequency. Our customers are coming back to us more -- we're starting to see more wins on repeat, and we saw that in the third quarter, and we continue to see that going into the fourth. So, I do feel like that's a great indication of things to come, but are being cautious just given the environment and given what we saw in the third quarter.

Brooke Siler Roach

Goldman Sachs Group, Inc., Research Division

Great. And then if I could just ask a follow-up for Sarah. Thank you so much for providing some of those initial 2025 guardrails -- you mentioned that the extent of improvement of adjusted EBITDA margin will be dictated by investment opportunities and stabilizing the top line. Can you provide a little bit more commentary around how you're thinking about the range of outcomes there and what the key investment priorities might be as you look into next year that could offset some of those recapture wins?

Sarah Oughtred

Yes, definitely. So, I think we've outlined in some of our remarks where our opportunity is, and that's really around continuing to have premium product and innovation. I think there's opportunities to elevate our go-to-market strategy, and we're going to continue to invest into reaching our customer in new and diverse ways of connecting with them. So, I think those would be the areas that we continue to invest into to stabilize the business and return to growth. And we're not giving out 2025 guidance at this point. We'll give that out closer in February. But yes, I think that the key components that we've talked about is that the marketing expense should normalize as well as the \$13 million in transitory costs should go away. And then we're going to continue to work on setting up for 2025. And what's great is we have a large number of opportunities ahead of us and the rate at which we invest in those will impact how we set up for 2025.

Operator

Our next question comes from Brian Nagel of Oppenheimer.

Brian William Nagel

Oppenheimer & Co. Inc., Research Division

So, I have a couple of questions just to understand better the third quarter results. So, first off, with respect to footwear. So, I guess, A, could you size the specific -- the footwear impact upon sales growth in the third quarter? And then should we interpret that, was there, to some extent, an out-of-stock issue? Or was it something else? And then my second question on expenses. So, it sounds like once the new facility is now up and running, but it's running at a higher expense than you initially thought. So, I guess is that

what's happening? And how should we think about that expense going forward? And are there any type of like onetime events in there?

Sarah Oughtred

Yes. Great. So, in terms of footwear, there were several dynamics that were happening. We did exclude footwear from our promotional event this year, and we were up against quite a bit of footwear in our sample sale last year. We were also -- we delayed the launch of our 3447 so that impacted performance. And then we were out of stock in a key style that we're looking to get back into stock in quickly. So, those are some of the dynamics that impacted footwear in Q3. And then your next question, what was the last -- what was the next question?

Brian William Nagel

Oppenheimer & Co. Inc., Research Division

Expense question.

Sarah Oughtred

Yes, I got it. Great. And so, outside of the transition costs, we did see some higher post-transition costs -- and some of that is really around learnings that we have on labor allocation as well as some inefficiencies in our returns processing. So, we think that those are things that we -- that are within our control that we can continue to go after. Another piece of the higher expense is also due to lower AOVs that's putting pressure on our cost per unit on shipping. So, those are the 2 dynamics there.

Brian William Nagel

Oppenheimer & Co. Inc., Research Division

And Sarah, just a follow-up on that first one. And again, not to get too annoying here, but if you look at that footwear, could you say if you exclude the impact of footwear sales for the company would have been here? Is there a way to kind of break out that footwear piece?

Sarah Oughtred

Yes. So we don't give footwear specific guidance. We were down year-over-year in footwear, and that is causing a lot of the decline in year-over-year for non-scrubwear. We do believe that with the -- if we didn't have the misses in footwear and the promo, we would have met our expectations for the quarter.

Operator

Our next question comes from Lorraine Hutchinson of Bank of America.

Lorraine Corrine Maikis Hutchinson

BofA Securities, Research Division

You called out higher marketing as an outsized pressure on 2024. As we look to 2025 and beyond, is there a dollar level or percentage of sales that we should think about as a more normalized marketing spend?

Sarah Oughtred

Yes. I think we'll be able to come back with more details on specific levels of marketing for 2025 when we share our outlook in our next call. I think you can think of it that we've had pretty outsized and that we will return likely to normalized levels with some refinement based on where we see opportunity to invest in the business and continue to stabilize top line.

Operator

Our next question comes from Matt Koranda of ROTH Capital.

Matthew Butler Koranda

ROTH MKM Partners, LLC, Research Division

Just curious about the AOV headwind that you said is built into the fourth quarter sales outlook. Is that related to footwear still being out of stock? Is that mix and promotions in terms of the down assumption? And then what do we need to see to kind of get AOV back to positive territory?

Sarah Oughtred

Yes. So, as we think about the Q4 guidance, unfortunately, Q3 did perform below our expectations. So we are taking a cautious stance on the holiday period. Our guidance does reflect the footwear trends that we will expect to see into Q4, and it is also reflecting the inconsistent promotion from Q3. Connected to that, Black Friday is a really big portion of our business in the quarter. So, we do think it's prudent to be cautious. And all of those footwear trends are incorporated into our outlook for Q4.

Matthew Butler Koranda

ROTH MKM Partners, LLC, Research Division

Okay. And then just on the brand campaign that you ran around the Olympics. I'm curious, Trina, maybe to get your take on how long that takes to translate into demand? Like what's the length of time as a rule of thumb that we should think about between sort of awareness that brand building the exercise that you've done that turns into engagement and then conversion? Any thoughts there?

Catherine Eva Spear

Co-Founder, CEO & Director

Yes. So, I think we've seen a lot of what -- I think we've seen a lot of that play out. We see that in our search is up. There's a similar number of searches for FIGS that they are for scrubs really showing that we own the category. Our traffic is up. I talked about our Teams leads being up. Our e-mail subscriber list is up. All of those dynamics and what I would call leading indicators are up year-over-year. And we look to see the outputs of those -- of all of that work play out over time. And some people say top-of-funnel campaigns return results over 6 months. In many cases, they return results over years, right? The credibility of having this partnership being the first company ever to outfit Team USA's medical team, it's a really big deal. And many organizations have come to us now saying, we want to work with you, we want to partner with you. So, I think this is an incredible formalization of really who we are as a brand, how we show up in the world, who we're going to work with in the future. And I think it will accrue benefit and value over the very, very long term. Plus, we also are outfitting Team USA's Medical team for 2026, Winter Olympics in Milan, 2028 in L.A. in our backyard, which we're super excited about. So, I think top-of-funnel marketing, combined with product innovation is our strategy, and it's the right strategy, and it will help us win over the long run.

Operator

Our next question comes from Nathan Feather of Morgan Stanley.

Nathaniel Jay Feather

Morgan Stanley, Research Division

First off, given the performance of the Olympics marketing campaign, how are you thinking about balancing between some of these bigger brand-building events going forward and more kind of your traditional bread and butter marketing? And then as we think about the marketing cadence over the next few years, does that mean things could be a little bit lumpier as you move through some of these larger campaigns and then more of a normalized level?

Catherine Eva Spear

Co-Founder, CEO & Director

I think over -- we're going to continue to be opportunistic, right? I think having this type of campaign is an anomaly. We don't look to -- there is nothing -- well, that being said, 2026, 2028, we're going to be looking to also -- those partnerships are intact with the contract we have with Team USA. But marketing is about the full funnel, right, bringing customers to learn about the brand and have awareness of FIGS at the top of funnel to consider the brand mid-funnel to bottom of the funnel where they're converting. And so, the full funnel marketing has always been our approach. It is why we've been successful over the last

12 years and why we've been profitable. We've always been disciplined in our spend and how we acquire customers. We're going to continue to be disciplined and strategic in our spend, but also be opportunistic when we see exciting opportunities in front of us.

Nathaniel Jay Feather

Morgan Stanley, Research Division

Okay. Great. That's helpful. And then I want to talk a bit about the sample sale you ran in the quarter. I know you had originally only planned for one in the year. So, interested to hear what you were seeing in the business that drove that. And then connected to the sale, how should we think about the magnitude of excess inventory you're carrying, if any, especially given the fit changes?

Sarah Oughtred

Yes. So in terms of the sample sale, we led off last quarter identifying that our promo cadence in Q3 would be similar. And so, that did include a sample sale similar to what we did last year. And given the -- this is in our back-to-school promo, we did have the sample sale and extended that to try and offset some of that. We did end up still falling short. And so, those are some of the dynamics on the sample sales piece there.

Operator

Our next question comes from John Kernan of JD Cowen.

John David Kernan

TD Cowen, Research Division

Sarah, you've had more time to look through the numbers. I know there's been a lot of investments in the last several years on selling and fulfillment expenses. How does that carry over into Fiscal 2025? What type of returns can you expect to see on some of these investments?

Sarah Oughtred

Yes. So, we would have been investing into our new fulfillment center this year, and that's absolutely what was needed in order to be able to give ourselves the flexibility to scale in the future to continue to provide our customers with great reliability. And so, we are set up from that perspective into next year. I think we'll continue to look at expanding out those logistics network to better serve our customers. So, we will be looking for a Canadian distribution center next year that will provide great value to our Canadian customers. That won't have the same level of investment that we've done this year because we won't -- we'll be using a third-party provider. So, you won't be seeing a high degree of transition costs like you did with the facility that we operate in Arizona.

John David Kernan

TD Cowen, Research Division

Got it. Follow-up is just on marketing. I think the dollars were up 50% year-over-year. How does that -- how do we think about the fourth quarter holiday season and then the right long-term rate of marketing as a percent of sales?

Sarah Oughtred

Yes. So, we will give more detail specifically around marketing for 2025 as we share our results in our expectations on our February call for 2025. But the outsized investment on the year was really all in Q3. So, we are expecting a more normalized level of marketing in the quarter for Q4 and then going into 2025 as well. And keeping in mind that we're going to continue to look at what opportunities are available for us to continue to drive top line. We can share more about that in our next call when we share more details in 2025.

Operator

Our last question comes from Ashley Owens of KeyBanc Capital Markets.

Ashley Anne Owens

KeyBanc Capital Markets Inc., Research Division

So, first, I just want to zoom out and focus a little more broadly. International is probably one of the bigger long-term drivers going forward. So, just how are you thinking about the markets that you're most focused on, how brand building and awareness is going there? And just curious to hear about the nuances in some of those, maybe ones that could be focused around [D2C] or B2B.

Catherine Eva Spear

Co-Founder, CEO & Director

Sure. Thanks so much for the question. So, international continues to grow and scale. We're now in 33 markets. Canada was our first and by far and away, our largest international market. Australia and U.K. were 2 of our other early entries, and they remain relatively large. As we mentioned, Mexico and the Philippines, they've emerged quickly and continue to do great. And then we're really focused on building out Asia. Right now, we're only in the Philippines and Singapore. Japan is a clear focus for us, given some of the things we outlined, 5 million-plus health care professionals, highly concentrated and aging population and a high focus on technical product and function. And so, really, that -- we think is a really will help us springboard into other Asian markets going forward. We believe we can leverage our work as we look at opportunities in South Korea and in Hong Kong and in other countries over time. So, we're really excited to share more, but much more to do as we continue to localize market by market from a product standpoint, from a storytelling standpoint, language, currency, et cetera, but really excited to continue to bring FIGS to health care professionals around the world.

Ashley Anne Owens

KeyBanc Capital Markets Inc., Research Division

Okay. Got it. And then just quickly, I wanted to circle just back a little bit on marketing, not so much on the cadence of rate, but just curious following the success of the Olympics campaign, I would love to hear thoughts on how that's shaping go-forward marketing campaigns and the strategy around that. I think you mentioned being more inspiring and less transactional.

Catherine Eva Spear

Co-Founder, CEO & Director

Yes. I mean I think it's about telling stories. It's about telling stories about our Awesome Humans. It's about telling stories about our product, and we're going to continue to do that. There's so many more stories to tell. And so, I really do think we have the right strategy in place, telling top-of-funnel big brand campaigns at the same time as our day-to-day business, coupling launches and what are we launching as it relates to product and telling those stories, partnering with the most incredible health care professionals in our community and telling their stories. And so, all of that is really exciting and seeing the Olympics and the success of the Olympics campaign is shaping how we think about broadening the aperture around our marketing and how we connect and communicate with our community.

Operator

That will conclude our Q&A session. So, I will pass it back over to Trina for any further remarks.

Catherine Eva Spear

Co-Founder, CEO & Director

Thank you all for joining our third quarter call. We'll see you hopefully in Philly next week. Thank you.

Operator

That concludes today's call. Thank you for your participation. You may now disconnect your lines.

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