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Under Armour, Inc. (UA)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Under Armour Q2 2025 Earnings Conference Call. All participants will be in listen only mode. [Operator Instructions] . After today's presentation, there will be an opportunity to ask question. [Operator Instructions] . Please note this event is being recorded.

I'd now like to turn the call over to Lance Allega, Senior Vice President, Investor Relations, Treasury and Corporate Development. Please go ahead.

Lance Allega

Senior Vice President-Investor Relations, Treasury & Corporate Development, Under Armour, Inc.

Good morning and welcome to Under Armour Second Quarter Fiscal 2025 Earnings Conference Call. Today's event is being recorded for replay. Joining us on today's call are Under Armour President and CEO, Kevin Plank and CFO, Dave Bergman.

Our remarks today will include certain forward looking statements that reflect Under Armour management's current view of our business as of November 7, 2024. These statements may include projections for our business in the present and future quarters and fiscal years. Forward looking statements are not guarantees of future business performance and our actual benefits may differ materially from those expressed or implied in the views provided. Statements made are subject to risks and other uncertainties detailed in this morning's press release and documents filed regularly with the SEC, including our Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q.

Today's discussion may also include non-GAAP references. Under Armour believes these measures gives investors a helpful perspective on underlying business trends. When applicable, these measures are reconciled to the most comparable US GAAP measures. Reconciliations, along with other pertinent information can be found this morning's press release and at about.underarmour.com.

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

Kevin A. Plank

President, Chief Executive Officer & Director, Under Armour, Inc.

Thank you, Lance, and to everyone for joining us on this morning's call. At the halfway point of fiscal 2025, we're pleased with another quarter of profitability ahead of our outlook, thanks to gross margin improvement from actions we've taken to reduce promotions and discounting in our DTC businesses and ongoing initiatives that improve product costing.

Although we are early in our reset, I believe this demonstrates that our strategies to strengthen this brand are beginning to gain traction. Our team is working incredibly hard and diligently to build a better business and so proud of this collective effort. Though we still have much work to do, we are on offense and are committed to reconstituting the Under Armour brand deliberately and methodically.

With a roughly \$50 million second quarter adjusted operating income beat compared to the outlook we provided in August, we are splitting the difference and allocating about half of those dollars to our revised adjusted operating income outlook for fiscal 2025. The other half will be invested in marketing and brand building efforts to deepen our connection with consumers.

Q2 also marked another quarter of planning our flag as a sports house, meaning one of only a handful of athletic brands globally who can credibly outfit athletes head to toe on field, court or pitch in virtually any sport or athletic endeavor. We will defend and build on this position to exploit our global opportunity. And to be clear, Under Armour is more than just a single category or activity of athletic excellence. And this breadth is what provides us with the sports house status to build from. And what differentiates the UA sports house from the other brands on the podium with us is our position as the brand for the little guy or little girl who has not had the size or resources to truly compete. Therefore, we're not innovating so that our athletes and teams can run up a score, but simply to give them that fighting chance to compete.

This tri-heart persona and grit that defines UA has four key attributes; athletes, sports, innovation, and passion. This is our concept muse and describes our affinity for the underdog, the athlete who puts in the work from pillar to podium, looking for every edge possible from their training, studying, and especially from their gear. The ones who have no choice but to apply the rule of 10,000 hours to achieve excellence in their sport. And who also are seeking a competitive edge from the best athletic performance apparel, footwear and accessories on the planet.

These are our Under Armour athletes. Because of this, we must use every resource and waking hour to help them improve. This mindset drives our product, storytelling and commercial strategies. Ultimately expressed by the perfectly balanced UA logo, where the top is the same as the bottom, the left is the same as the right, and an ambition, or at the least, the metaphor for the gear that we make. Performance apparel and footwear meant to prevent you from getting too hot or too cold, targeting equilibrium in every wearing occasion.

The symbol of our athletes underdog spirit was something to prove. Being clear about who we are and where we're going, front and center in all interactions, including those with retailers, athletes and teammates. A direction that is being received well as we've taken this narrative to our partners and we will build on from here.

As a podium brand with a foundation of performance products forged at the highest levels of athletic competition, we worked tirelessly to deliver head to toe outfitting with style, fit, form and function across the high school, club and professional levels. UA must give athletes an edge to perform, feel and look their best. We will honor our nearly 30 year history with that hard earned place on the podium by elevating our products, amplifying our stories, delivering best-in-class service, and empowering our team to drive consistent execution. As we've said previously, this chapter is not a repeat of the first time building the brand, there will certainly be parts that rhyme. We plan to utilize every tactic, relationship, strategy or ethos that served this brand in the past to our benefit.

One of those is certainly product, story, service and team, four powerful dimensions that when working in concert, can drive this brand to greater heights. This is what we have brought to life, what we are evangelizing internally and externally and what we are executing against.

The elevation of our product offering continues to gain momentum. This includes a critical mass of new products designed and developed by our expert product team, with an immediate focus on our men's apparel, business and footwear, as well as a significant evolution in style and innovation offerings as we work toward Fall/Winter 2025.

Based on previews in the initial selling cycle, we've received strong feedback showcasing products with brand new innovations, refreshed design direction and a holistic approach to outfitting our core revenue categories, training, running, basketball, sportswear and golf. In the meantime, we've refocused to relaunch basics like base layer compression, where we have market leadership, which gives us the ability to change our trajectory. This includes recent success in premium distribution with HeatGear, franchises like Unstoppable, particularly Fleece, as well as our Vanish training collection and an increasing but targeted selection of UA sportswear.

In addition to what we call Trojan Horse products, recently articulated in accessories with the StealthForm Uncrushable Hat, where we showcase what Under Armour's take on a category as seemingly ordinary as a ball cap that traditionally has been only the logo on the front that differentiates it from other brands and applied the performance lens of stretch, recovery and moisture management, which also allow us to charge a premium of \$45 to a category that typically sells for less than \$25.

This is the type of consistent innovation and premiumization you should now expect from UA with the purpose of making a consumer wonder. They put this much performance thinking into a hat, I wonder what their shirts and shoes are like.

In footwear, we're making some of the greatest strides with our enhanced product team having an impact. There's much work to do as we're experiencing challenging results in the near term, particularly in our good level products. Well, it will be a couple of seasons until it hits the market. We've taken a different tack here with good level refining and eliminating redundant SKUs, assigning our best footwear designers to work on some of our lower ASP products, but that have big volumes like the UA Assert whose volume is in the millions of pairs with updated designs that focus on the price, the value perception and winning consumers to the brand with just simply better looking and performing products at great value. Just because a shoe costs less than \$100 does not mean that it does not deserve to be beautiful.

And I'm excited about our strategies for improved assortment across our better and best segmentation over the next few seasons, as more elevated products like our Infinite running collection have been tracking well for us. While our footwear business continues to reset, our objective is to emerge with a more substantial, better and best level offering and a streamlined, improved good level offering. All-in-all, more precise, well-defined

segmentation within our franchises to deliver for all tiers of distribution that will serve us in the ambition of premiumizing the UA brand. It's really about selling so much more of so much less.

Critical to our evolution is our team sports positioning, the sharp point and epicenter of our connection with young athletes. With school back in session, we saw a solid performance from cleated products in baseball and American football, as well as in basketball with Curry brand footwear. Building on that a few weeks ago, the Curry 12 launched globally following limited releases of select colorways, including the red, white and blue version Stephen wore during his iconic performance in the Paris Olympics, which helped secure gold for Team USA. The response to the Curry 12 has been solid, so we're off to a good start ahead of our next launch, which will see the first ever signature shoe for rising NBA star De'Aaron Fox under the Curry brand.

Next up is story, and continuing with Stephen is an excellent example. In September, we conducted our first tour in China with him since 2019. The response to Stephen in the market was frankly overwhelming and demonstrated the power of the Under Armour brand when we holistically integrate compelling athlete moments with elevated products and storytelling. Despite our four city tour turning into a three city tour, because the second stop in Shenyang had to be canceled due to a Taylor Swift like reaction with just one example from Shenyang, 7,000 people waiting outside of his hotel to greet him. We unfortunately had to cancel that visit, but successfully pulled off our most impactful tour ever.

With historically high brand exposure, including over 4 billion media impressions, nearly 34 million live stream views and incredible social buzz and engagement, overall basketball sales impacted in China that week along with a threefold increase in Curry sales. One thing that is certain is that the opportunity we have with Stephen to build on his celebrity for the benefit of Curry brand UA Basketball and Under Armour as a whole, we plan to be much more aggressive with Stephen's global presence as we scale our business in the upcoming years.

Taking this learning and replicating it more frequently at multiple touchpoints is the goal, holistic and synergistic moments to reach young team sport athletes more effectively, as a sports house with an ability to outfit the world's most incredible athletes at the highest level of competition, including Major League Baseball's World Series and Los Angeles' Freddie Freeman, driving in 12 runs and four homers to become the MVP as the Dodgers won their eighth title.

American Football NFL standouts Justin Jefferson, Zay Flowers and Kyle Hamilton, headline the UA roster in the sport our brand was founded in. And with that, we had Notre Dame sitting squarely in the College Football Playoffs Top 10. Also elite runner, Sharon Lokedi with her top 10 finish at last weekend's New York City Marathon, wearing the unreleased Velociti Elite 3, the most technologically advanced running shoe we've ever made truly.

And our mark on the world's most elite football stage with players like Ben White at Arsenal, Pedro Porro at Tottenham and Tony Rüdiger at Real Madrid, we have an incredibly talented global athlete roster that demonstrates our breadth and why we are a sports house, engaging young athletes more effectively while telling their compelling stories. As a work in progress, activations will look and feel more aligned over the next several months, underscored by our brand identity and ethos.

Next, shifting to service and an update on elevating our consumer experience. In these efforts, our initial strategies have primarily focused on DTC and evolving our e-commerce channel into a more premium manifestation of the Under Armour brand. The second quarter has continued to give us confidence in what is possible. One of the most visible aspects of our work has been the impact of our significant reduction in promotional activities, particularly our e-commerce business in North America.

It is still early, but this, along with our work to reduce SKUs, creates a more deliberate and premium product assortment, better curated looks and outfitting presentations for a cleaner, faster consumer experience. So despite expected declines in traffic and revenue, the quality of our business has improved, creating a better foundation from which to grow in the future. With lower promotions and markdowns, our full price sales rose again in the second quarter, representing now about 50% of e-commerce revenue versus about just 30% just a year ago.

Further, our average order value and average unit retail metrics increased by double digits for the second quarter in a row, a promising trend that gives us confidence in our ability to move our e-commerce business to a more premium position with a higher quality of revenue and better profitability over the long term, as a flagship representation of the brand.

In North American DTC, currently our largest business, is our factory house outlet stores, where we're shifting from a full store discounting approach to a targeted strategy, which excludes certain programs that will remain full price regardless of broader promotions. The goal here is driving higher profitability, store productivity and improved brand affinity. This is one area we see significant upside margin potential over the long run as our brand and therefore our business becomes stronger.

With more than 1,400 full priced brand house locations globally, we're working to create an elevated experience for athletes with a cleaner, better curated product assortment and presentation. The combination of this work will show up in our new 24,000 square foot flagship store, set to open on November 21st at our new global headquarters at the Baltimore Peninsula. As our most premium full price expression, the store will serve as a living laboratory to inform how we think about what perfect looks like for our entire fleet, by utilizing consistent freshness, dynamic brand inspiration [indiscernible] (00:14:50) two way conversation with our consumers, we're excited about the opportunities to harvest learnings from this store and roll them out to the rest of our fleet over time.

Turning to our loyalty program, continues to be a significant unlock for driving repeat business and attracting new consumers. In October, we celebrated the first anniversary of our US-based UA Rewards Program and are pleased with this performance. Early in the second quarter, we initiated an account upgrade that welcomed another 6 million existing ua.com members into the program, taking our total to nearly 13 million members.

Fiscal year to date active members accounts for roughly half of US DTC revenue. Members also have nearly doubled the 90 day repurchase rate compared to non-members generating approximately 50% higher revenue per consumer. Across all programs in the US and APAC, we now have more than 28 million members and growing. I'm confident that loyalty will help us gain valuable insights to inform our business and enhance consumer engagement, driving even more benefits in the long term.

Within our wholesale business, we're managing through this reset period while focusing on our relationships with strategic retailers across distribution tiers. This includes working with UA partners, delivering elevated products with compelling storytelling, and driving toward a more premium representation of our brand in all doors where athletes shop for our products. Our strategic retail partners are family and we have significantly revamped our frequency, touchpoints and communication, first and foremost, letting them know that they are strategic partners, as one of the most foundational elements of a sales relationship, and we have not been doing this well. This means a two way conversation and openness to incorporating their constructive feedback as we evolve our strategies to unlock UA's full potential as we know that it will take time to build back shelf space. Still, we believe

we will gain traction with our cadence of new product launches and improved marketing activations over the next several quarters.

Finally, none of our strategies will succeed without the hard work of an energized and inspired team with momentum is absolutely building here, ensuring we have the right people, focusing on the right parts of our business is crucial to empowering our efforts. And this is a work in process. Being clear with every teammate so that they know exactly what we expect of them each and every day. Teams knowing what they're supposed to do when they show up while incorporating continuous improvement and their knowing exactly what that definition of success is. In this respect, I feel confident about our evolution, team and the opportunity in the market we see for Under Armour's unique underdog brand positioning.

One of my focal points of leadership in the first seven months has been empowering our product, marketing and commercial teams, ensuring the coordination and absolute teamwork of these three aspects of our sports house. It's essential to our success, and it leads in every management discussion that we have today. The entire organization is in support of this aspect of Under Armour leading for the brand.

Firing on all cylinders, Yassine Saidi leads an experienced team of experts to elevate our products, innovation, design language. And with only two months on the job, the new perspectives Eric Liedtke brings to our work, especially through marketing, but also evolving our strategy, approach to category management and go to market process, we are driving tangible brand-right changes to improve our positioning in the market. The clear alignment of who we are, what we stand for, and in preparation to launch the most significant marketing effort in our history in 2025.

Our team is on the court with a playbook capable of stabilizing and driving this brand to growth over the long term, with the focus of being an incredibly loud brand and quiet company. Our organization is more aligned and focused than in past years, and we're ensuring that time and resources are effectively prioritized to strengthen our brand. At the center of this, though, is trust, which I believe is something that is built in drops and lost in buckets. For us, this means a cultural focus on positive relationships, well-informed decision making and consistency.

I believe our energy, collaboration and unity as a team will take an even more significant step next week as we begin moving into our new headquarters. So, this work to reconstitute our brand coincides with reconstituting our culture, and that's what's at the heart of it. We're not just building a company, we're building a brand. Companies can become famous because they make one thing defining for their business, while brands are famous because we've proven that we can do that over and over again.

Our job is to relentlessly fulfill our promise to inspire and surprise athletes for performance and design solutions they never knew they needed. Yet once they try them, could not imagine living without. Share this messaging and what this direction means for Under Armour. We're going to host an investor meeting on December 12th in New York City. At this meeting, we will detail our strategies to strengthen UA's premium marketplace and underdog positioning, and our ability to deliver improved long-term value creation for shareholders.

So now in closing, our reset to drive greater affinity with athletes while delivering sustainable, consistent long-term growth, is a journey that requires patience. We are progressing on critical aspects of our strategies, gaining early traction and confidence in our ability to run a better, more agile and disciplined business. Agility and being responsive to the market are critical as set forth in our new nine month speed-to-market capability to complement our historical 18-month go to market.

This product pipeline looks truly differentiated and excellent, and we are positioning ourselves to more effectively deploy our marketing dollars to connect with consumers even more deeply. We have a leadership and a team that is united and aligned on the critical dimensions of our business to unleash the full potential of the Under Armour brand. Underscoring all this, our culture, it's re-energizing and it's focused with steadfast resolve as we strengthen this sports house both one day and athlete at a time, with both the passion and care that Under Armour deserves.

And with that, I'll hand it over to Dave for more details on our results and outlook.

David Eric Bergman

Chief Financial Officer, Under Armour, Inc.

Thanks, Kevin. Digging right into our second quarter fiscal 2025 results, we outperformed the profitability outlook we provided in August. However, in line with our expectations, revenue was down 11% to \$1.4 billion, with a 13% decline in North America due to softer, full price, wholesale demand and lower sales to the off-price channel. Our North American DTC business was also down during the quarter, driven by continued decline in our e-commerce business resulting from proactive strategies to reduce promotional activity, and we also experienced lower retail store sales.

EMEA revenue was down 1% on a reported and currency neutral basis, driven by a decline in our wholesale business, partially offset by strength in DTC. Revenue in APAC was down 11%, or down 10% on a currency neutral basis, due to declines in our wholesale and DTC businesses amid a soft macro environment that continues to impact consumer traffic. In Latin America, revenue was down 13%, or down 4% on a currency neutral basis. Growth in DTC partially offset the decline in our wholesale and distributor businesses.

From a channel perspective, our wholesale revenue was down 12% in the second quarter, driven by softer demand in our full price and distributor businesses and lower sales to the off-price channel. Direct consumer revenue declined 8%, with a 21% decrease in e-commerce, as we expected, given strategies to drive a more premium online presence through reduced promotions and discounts. Sales from our owned and operated retail stores were flat in the quarter. Licensing was down 13%, primarily due to a decline in our North American business.

By product type, apparel revenue was down 12% with declines across most categories in the quarter, while we had good performance in outdoor. Footwear was down 11% with declines in most categories. However, relative strength in golf and team sports, particularly cleated products, partially offset the decline. And our accessories business was up 2% in the quarter.

Our second quarter gross margin increased by 200 basis points to 49.8%. This increase compared to the prior year was driven by 120 basis points of supply chain benefits due mainly to lower product costs, 50 basis points from a favorable channel mix driven principally by a reduction in off-price sales and 40 basis points of pricing benefits due to lower discounting and promotions mainly in our direct-to-consumer business as we work to drive a more premium position for our brand. And lastly, we also had lower markdowns in the wholesale channel. These benefits were partially offset by 10 basis points of headwinds from unfavorable foreign currency impacts and regional mix.

The significant gross margin outperformance in the quarter relative to the outlook we provided in August was due to three main factors. First, we saw increased supply chain benefits from additional product cost savings compared to our plan, along with lower-than-expected freight costs. Second, wholesale markdowns and allowances were less than initially anticipated. And third, our channel mix was more favorable due to lower than planned sales to the off price channel.

Next, SG&A expenses were down 15% to \$520 million in the second quarter. As mentioned on our last call, our second quarter benefited from a shift in the timing of marketing expenses, in this case about \$15 million, which is in our third quarter outlook. Excluding roughly \$13 million in benefits from a litigation related insurance recovery and approximately \$3 million in net transformation expenses related to our fiscal 2025 restructuring plan, second quarter adjusted SG&A expenses were down 13% to \$530 million. This decrease was primarily driven by lower marketing expenses, as some of our brand investments are concentrated in the second half of the year. As anticipated, we also recognized a \$27 million SG&A benefit due to an insurance recovery for legal fees incurred in previous years. Lastly, ongoing cost management actions, including head count reductions, also influenced the decrease.

Moving down the P&L, we recognized \$3 million in restructuring charges, which together with the \$3 million in transformation expenses booked in SG&A, resulted in \$6 million in restructuring charges and related expenses for the quarter. Through the first half of the year, we have recognized \$40 million in charges and expenses under our fiscal 2025 restructuring plan, of which roughly \$36 million were cash related and \$4 million were non-cash expenses.

In September, we announced an expansion of our restructuring plan with additional initiatives to optimize our logistics and transportation network and overall business performance. This expansion included approximately \$70 million in new opportunities, primarily related to the exit of one of our distribution facilities in Rialto, California. This change will allow us to utilize capacity better and gain efficiencies in our remaining facilities as we invest in automation over the next several years. These efforts are expected to be completed by the end of fiscal 2026.

Incorporating this decision, we now expect between \$140 million and \$160 million in total restructuring charges and expenses, of which roughly two-thirds will be realized in fiscal 2025 and the remainder in fiscal 2026. Given the time required to wind down and close the Rialto distribution facility, this expansion to the plan is not expected to result in additional restructuring related savings in fiscal 2025, above and beyond the approximate \$40 million annual savings previously disclosed.

Finally, moving to profitability. Our second quarter operating income was \$173 million. Excluding the litigation related insurance recovery, transformation expenses and restructuring charges, our adjusted operating income was \$166 million. Taking this to the bottom line, we realized diluted earnings per share of \$0.39, while adjusted diluted earnings per share was \$0.30 in the quarter. The profitability overdrive versus our second quarter outlook was mainly due to our gross margin outperformance, with additional benefits from better SG&A expense control and shifting some marketing spending into the back half of the year.

From a balance sheet perspective, our inventory was down 3% compared to last year, which aligned with our plan. We continue to expect our fiscal year end inventory to be roughly flat compared to our fiscal 2024 ending balance. Our cash position was \$531 million, which is after the payment of our legal settlement during the second quarter. And we had no borrowings under our \$1.1 billion revolving credit facility.

Next, let's turn to our fiscal 2025 outlook. Our expectation that full year revenue will decline at a low double digit rate has not changed. We also reiterate our outlook for a 14% to 16% revenue decline in North America, flat revenue in EMEA and a high single digit decrease in APAC. Given our outperformance in the second quarter, we have increased our outlook for gross margin and now expect an improvement of 125 to 150 basis points for the full year, which is better than our prior outlook improvement range of 75 to 100 basis points.

This anticipated increase in our gross margin is driven by reduced promotional and discounting activities in our DTC business, which continue to benefit our average selling price along with the actions to improve product costs. This implies that second half gross margin is expected to expand at a lower rate than in the first half, which is driven by tougher comparisons with the prior year, as well as the impact of some inventory cleanup actions later in the year, as we prepare the market for product introductions in the Fall/Winter 2025 season.

Concerning SG&A, excluding the litigation settlement expense and related insurance recoveries and the midpoint of estimated transformation expenses related to our restructuring plan, adjusted SG&A is expected to decline at a low- to- mid-single digit rate, which is unchanged relative to our prior outlook, despite larger-than-anticipated declines over the first two quarters of the year.

This also incorporates our recent decision to reinvest some of our first half gross margin upside into brand building investments ahead of upcoming pivotal seasons and the timing shift of marketing into the second half. As a result, roughly half of our second quarter adjusted operating income outperformance will be invested in incremental marketing later this year, while the remaining half is reflected in the increase in our adjusted operating income outlook, which we have raised by \$25 million versus our prior call.

Therefore, we anticipate that adjusted operating income will reach \$165 million to \$185 million for the year. Incorporating all this into the bottom line, we expect adjusted diluted earnings per share to be \$0.24 to \$0.27, up about \$0.05 at the midpoint from our prior outlook.

Next, I'd like to provide context for our third quarter of fiscal 2025, where we expect revenue to be down approximately 10%, which assumes continued pressure in North America and ongoing proactive strategies to reduce promotional activities in our DTC businesses. This points to Q4 revenue being more pressured than Q3, which is primarily related to some timing differences in Q3, Q4 flow this year versus last year within our North America and APAC wholesale businesses, along with a more difficult prior year Q4 comp in our North America factory house business and some developing FX headwinds driven by the recent strengthening of the US dollar.

Third quarter gross margin is expected to be up 150 to 175 basis points due to supply chain benefits resulting from lower product costs, favorable FX and pricing benefits related to reduced discounting and promotions in our direct-to-consumer business. As mentioned earlier, a significant shift in the timing of marketing investments will cause our adjusted SG&A expenses to increase in the second half compared to last year, particularly in the third quarter when expenses should be up at a mid-single digit percentage rate. This brings us to an expected third quarter adjusted operating income of \$20 million to \$30 million, and \$0.02 to \$0.04 of adjusted diluted earnings per share.

In closing out today's prepared remarks, our work to reconstitute the Under Armour brand continues to gain traction after another quarter of outperformance. Our teams are executing our strategies, focusing on the dimensions of our business that will make a difference in our brand strength and premium positioning. Though we still have much work to do, we're encouraged by our early progress in this journey, and we're confident that with our strengthened leadership team, improved execution, clear alignment and prioritization, and renewed energy as an organization, we will continue to build momentum toward long term, sustainable and profitable growth.

With that, we'll open it up for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: We will now begin the question and answer session. [Operator Instructions] . Our first question will come from Simeon Siegel with BMO Capital Markets. You may now go ahead.

Simeon Siegel

Analyst, BMO Capital Markets Corp.

Q

Thanks. Hey, everyone. Good morning. Congrats on the ongoing progress. Really great to see.

Kevin A. Plank

President, Chief Executive Officer & Director, Under Armour, Inc.

A

Thank you.

Simeon Siegel

Analyst, BMO Capital Markets Corp.

Q

Kevin, I know it's only been a few months, anything further you'd share on what Eric is bringing to the team so far? And then Kevin or Dave, just congrats on the gross margin improvement. I mean, that's been great and obviously a nice validation of your strategy. How are you thinking about future gross margin opportunity? And then, maybe putting that in context of that back half guide you gave for 3Q, after the healthier profits it does look like the total outlook – I think that total profit looks to be very light in the back half of the year. So any further context you could give on that if it's anything beyond timing? Thank you.

Kevin A. Plank

President, Chief Executive Officer & Director, Under Armour, Inc.

A

Yeah, I'll take the first and let Dave pile on gross margin. But yeah, it's pleasant to see and I think one of the indicators when we had so many things going a couple of different directions, a good way to judge how we're doing with the business and the progress in the reset.

But Eric has been terrific. Number one, he's experienced global executive. He's been a great addition to the team and really fit in. He's someone that coming from the industry, he not only speaks our language, he speaks our dialect. So the learning curve has been very small. And also you deal with a good, confident executive. It's great to see. And so I think that's been really seamless. And coming in the mandate for Eric was really in three parts. His title was brand strategy. And first of all, within that was the strategy and for us to coordinate the strategic business plan for the organization and just lock us up between brand, financial, commercial objectives because while we've had these things in place, I think a refined lens on them has been important.

The second thing I ask Eric to help with is really the operating model, which is, again I'll use the word refining our category management structure and enhancing our go-to-market where we can just be more coordinated. And whether that's just here in the US across channels, be it wholesale or retail or on what we're doing in our factory house or online, as well as what we're doing in other regions and coordinating. So we feel like one large brand versus a lot of small pieces. And so there'll be more to come on that.

And then in marketing. It's one thing about this business where really the primary focus was, Eric, to help us in the marketing component. We've got a \$0.5 billion plus budget for marketing, but it sure doesn't feel that way. And so that's priority number one. I mentioned in my prepared remarks our ambition or plan is to build and to bring on a

major campaign that we'll have in 2025. And that's just looking and saying, it's not that we don't have enough money, we just don't like how we've been spending it. And so, us really getting surgical in the way that we're looking at that is important. In all of this to contextualize this underdog persona as we head towards with sort of circling Fall/Winter 2025 and this isn't a wait and see isn't – there's going to be some line that we cross in Fall/Winter 2025.

There's several proofs of life efficacy along the way from product and from brand story, but it gives us a really good target and we're pleased of where we are right now. So taking a room in our marketing to build a comprehensive campaign.

David Eric Bergman

Chief Financial Officer, Under Armour, Inc.

A

Relative to gross margin, longer term, there's nothing structurally prohibiting us from driving more towards 50% over time. When you think about some of those longer term tailwinds for next year and beyond, continued lower promotions as we continue this this reset play, higher mix of DTC percentage including higher ASPs and better segmentation, et cetera, there will be a continued headwind we believe, with footwear growth outpacing apparel growth longer term. But we're okay with that.

And relative to the front half, back half, relative to gross margin and there's really a couple of different things, there's gross margin, there's SG&A. But gross margin, Q2 is generally our highest gross margin quarter to start just as our brand. And then when you think about the back half, we normally have more seasonal promotions in Q3. So that's something that's obviously coming into play here. And then also there are some supply chain headwinds in the back half with a little bit more ocean freight pressure and some tougher prior year comps.

So all of that is kind of built into our back half gross margin profit. And you can understand then why front half versus back half gross margin is a little bit different. But maybe taking that a step further and how it translates all the way down to operating income, there's even a bigger differential within SG&A spending. Here, adjusted SG&A, we're thinking that we're going to be up year-over-year compared to a 10% decline in the first half, and you kind of ask, why is that? But the second half obviously does not include a \$27 million insurance recovery that we saw in Q2.

And then the marketing is a really big piece. We're actually planning roughly \$40 million more of marketing investments in the back half of this year versus the front half as we kind of ramp up around key commercial moments and also, as Kevin mentioned, reinvesting some of the profitability upside. So when you kind of add that gross margin timing difference and you add the SG&A differences, it kind of points to the front half of our year for this fiscal year anyway. We're earning about 90% of our operating income for the full year. So it is a little bit interesting and there's a lot of pieces there, but I just wanted to try and help make sure everybody got across that.

Simeon Siegel

Analyst, BMO Capital Markets Corp.

Q

Great. Thanks a lot, guys. Best of luck to holiday.

Kevin A. Plank

President, Chief Executive Officer & Director, Under Armour, Inc.

A

Thank you.

David Eric Bergman

Chief Financial Officer, Under Armour, Inc.

A

Thank you.

Operator: Our next question will come from Jay Sole with UBS. You may now go ahead.

Jay Sole

Analyst, UBS Securities LLC

Q

Great. Thank you so much. A lot of exciting things to talk about. But Kevin, I want to ask you about a comment you made that you're getting strong feedback on new products. Can you just elaborate on that a little bit? Tell us a little bit more about these new products. Tell us more about the feedback you're getting, and if give us a sense of like how retailers are really responding in terms of their orders, that would be super interesting. Thank you.

Kevin A. Plank

President, Chief Executive Officer & Director, Under Armour, Inc.

A

Yeah, thank you, Jay. Look, we've got work to do. And so, I think right now we're running a bit of a better business, but what's difficult in our industry with an 18-month go-to-market typically is, we still have time before we'll start seeing a lot of these things hit the market, be it the product especially and the marketing, of course. And as I mentioned, there's plenty of proofs of life. We've got, I think our pipeline right now with what you've seen, our product team, John Varvatos, Yuron, our entire group plus this incredible group of experts that we've had here in place at UA.

I think our product pipeline is really as healthy as I've seen it. We've got a lot of things that are exciting. We've got some drops that are coming for Q1 of calendar 2025. But then as I said, it's really going to be an anchor around Fall/Winter 2025. And so, we're going to give you a lot more color at our Investor Day coming up December 12th as well. So we want to make sure that people make a point to come see and visit us there. It'll be somewhat qualitative in what we're doing of going through the topics of talking about the business.

But we've got an update to our SlipSpeed product that's coming in first quarter, which should be really exciting. And then again, I think that we're doing a good job, in some of the places we're winning. It's the basics, it's UA compression and baselayer that's working for us right now. Unstoppable is a franchise that you've heard us talk about consistently, the Vanish Men's I mentioned in the prepared remarks, as well as outerwear is doing pretty well for us too.

So, what we found is, I feel like you've got this organization where the pipes are laid not only to the product, but making sure that we're getting the shelf space and the relationships that we have with retailers as well. Making sure that we're sequencing also, is doing a good job with the way that we can tell the stories of those products on e-com, but making sure we're spending, making \$1 spend like \$3 as we say here at UA and really getting the bang for the buck when it comes to making it a compelling story. And that's why we've – just going through product and making sure that product and story have this function.

I mentioned product, marketing and commercial working together, but something as simplistic as I've said before on the calls is, what it is, what it does and how it makes you better. Going to retail at times, we've become a bit of a brand that's being sold on price and there's just so much more to the incredible products that we make. And so, without story there, you're just selling shirts and shoes and the world doesn't need another capable apparel or footwear brand. The world needs hope, and that's what we think Under Armour can be. And so that's really – I'm not sure sort of where this inflects for the business. But one thing I can tell you is that we don't know exactly what

it is, but it's not too distant of when this brand inflects. And that'll be the real metric that we're looking to build forward on.

Jay Sole

Analyst, UBS Securities LLC

Q

Yeah, understand. It sounds great. Thank you so much.

Operator: Our next question will come from Bob Drbul with Guggenheim. You may now go ahead.

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

Hi. Good morning. Just on North America, Kevin, when you look at where North America is in the reset, how is it working and do you expect North America to grow in FY 2026?

Kevin A. Plank

President, Chief Executive Officer & Director, Under Armour, Inc.

A

Yeah. Thank you, Bob. We're not looking at 2026 just yet, but let me tell you a few things that we're thinking and we do know about North America. We've got work to do in this market, but we also have a brand that has great affinity. And I don't believe the consumer is mad at us. We just have to give them a reason to want to engage with us again. Probably one of the things I'm most proud of in the first seven months of being back in the CEO chair is identifying and defining for our own team well as beginning to for our consumers, of who we are and who we stand for, which is this underdog semantic that you'll begin to see come through. And that's not meant to be a little translation, but more the directionally of what and who we are, because it's just frankly authentic and we think we're the only ones who could hold that position. But we think it's going to mean something here in the US, especially. And then we'll see that it gives you the ability to set the tone for both EMEA and APAC as well.

This revenue step down that we've done, it's allowed us to test some things. We've reset our e-commerce business. And as a part of that, you saw the significant benefit it's had to gross margin. This underscores for us that there was a test, the world wants Under Armour. We're a brand that's earned the right to exist and that we're a premium brand. And so, as long as we sort of clear out some of the noise that we've had around some of the lower ASP products and get ourselves to a more full price front foot tenor, I think you'll see the strength from us, but that's not going to happen from wishful thinking either. It just a fancy ad campaign. It means better products.

And so what the team has done from taking us from competing on price to competing on science and design. But this is going to take some time. As I mentioned, there's probably several proofs of life that you'll be able to see, some of them maybe a lottery ticket, but you never know. It's why I like to say that success and mediocrity are typically next door neighbors. So, how far away are you? But we have some product we really like that's coming in. As I mentioned, that SlipSpeed in the first quarters is really powerful. This [ph] neo-last (00:45:06) expression that we have coming is going to be really exciting. And then sportswear for UA is also a huge opportunity where you'll continue to see our [ph] bent (00:45:15) there really begin to grow.

But the shift to more premium. One thing I want to be clear on is, I don't think that we don't have to stop selling good level in order to premiumize this brand. We just need to focus more on some of our better and best level product. And so I think, a lot of the things from the product and the story side and then, of course, the relationships at the accounts, what we're doing with our own e-com and our own store base as well matters. But some of these bigger structural things, as I mentioned, what Eric's doing and adding to an incredibly talented executive team, I feel that we've assembled category management that's going to make difference to SKU

rationalization. Eliminating 25% of our SKUs over the next 12 to 18 months, just gives us just clearer focus and makes it easier for the consumer. All of that with a healthy tension on cost management, of course.

And so we want to elevate the brand experience. We want to do that in our factory houses where I think there's some pretty significant margin opportunity for us. There are brand houses, of course, and then just these relationships with wholesalers. I said in my prepared remarks, this idea of ensuring that our strategic partners know their strategic partners. And that extends beyond just our customers, it goes to our factories, it goes through our vendors. It goes really across the board for this brand.

So, I think that North America is that as we stabilizing this ship, we think that there's great upside for Under Armour. But we're incredibly optimistic. And we like where we are. We like our team. We like the position we have. We think we've got a pretty good shot.

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

Great. And if I could just jump in with one more. I think Dave mentioned additional marketing dollars in the second half, like what will those dollars be spent on?

Kevin A. Plank

President, Chief Executive Officer & Director, Under Armour, Inc.

A

Thanks, Bob. Let me take that. We're thrilled with the overdrive of \$50 million, it's big money, but we're going to split that and give \$25 million of it to the bottom line. And then we're also going to be putting that across the different regions with EMEA, APAC and the Americas. I mean, this is going to be a lot of top of funnel brand building in Europe, where I think all three regions are pretty much in different places as well. Europe's probably our strongest region right now. We've already got a campaign that's in place and in flight, and so we're going to be bolstering that.

We're going to be a little more defensive in APAC, which is an area that we think that we're really going to dig in. And I'm going to spend more time on China and our business there as well, beginning in the first quarter as we turn into the new year. And then here in the US, we're going to put a portion of that towards some of our top of funnel and again with the fiscal year, going through March as we roll into fiscal year 2026, this underdog positioning that we have. But there's a lot of great things that happen in the first quarter of 2025, specifically the 2025 NBA All-Star Game, which is going to be held in San Francisco, which should be like a homecoming for Stephen who will be hosting that effectively, Super Bowl, March Madness. And so, there's a lot of places where, again, we can just start getting this perspective of the brand, which is maybe a bit of a new Under Armour, but something which feels incredibly natural and just who and what we are.

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

Thank you.

Kevin A. Plank

President, Chief Executive Officer & Director, Under Armour, Inc.

A

Thank you.

David Eric Bergman

Chief Financial Officer, Under Armour, Inc.

A

Thanks, Bob.

Operator: Our next question will come from Paul Lejuez with Citi. You may now go ahead.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Q

Hey, thanks, guys. Two questions. First, as you guys further embrace the underdog persona, is I think what you called it Kevin, what does it mean for how you're going to use professional athletes as brand ambassadors going forward? Should we expect any change there? And then second, just curious if you can just give an update on where you think inventory levels and promotional levels are in each of your major markets right now, and as you look at the holiday?

Kevin A. Plank

President, Chief Executive Officer & Director, Under Armour, Inc.

A

Yeah. Thanks, Paul. I think that this persona is something which, this isn't lost on – that pros don't apply to it. And of course, the changing landscape, what NIL means and what's happening with sports marketing, sports marketing assets. The unique aspect of UA when we talk about being a sports house, it means that we sort of run the spectrum from American football to football in Europe to basketball. And there's probably no better example of what I describe as that underdog athlete is those that weren't given all of God's gifts, but somehow have to work a little harder and train a little more and apply that rule of 10,000. And probably Stephen Curry is the one who's changed the game of basketball by doing exactly that.

He didn't come out and he wasn't the tallest, the biggest or the fastest. But he took a focus on something that allowed him to compete there. So, we think we can do this both high and low with Elite levels like a Stephen, all the way down to the more personal stories that you'll see at the NIL collegiate level as well. And so, I'm not sure if you asked me to line up all those that feel like they're going through a hard time right now, had to overcome something pretty difficult and try to get to where they are. That's a pretty consistent feeling, is that just about everybody feels that way. And so, we think we're going to tap into that. And we think it's incredibly true and authentic to who and what this brand is as well. So we think there's a bit of an unlock for us there.

David Eric Bergman

Chief Financial Officer, Under Armour, Inc.

A

And this is Dave. Relative to the inventory question, I think what we're seeing is the industry inventory levels are definitely a little better positioned today, though I think there's still some retailer conservatism out there that's kind of leaning towards a little softer demand. And it's also still a very intense competitive environment. So, we're still seeing a little bit of retailer conservatism remaining and therefore kind of reluctance to kind of go after big increases in orders, et cetera.

But as far as where we see ourselves, we think the overall size of our inventory is good right now in the market and what we have in our DHS. We expect that to fall a little bit more as we close out the year. And on the composition of our inventory, the majority is current season with active demand. So the aging of our inventory is in good shape and there are significant differences by region and product type, but they're not really much to call out as far as where we stand on far as aging or anything like that. So we continue to manage well. We think we're in a good spot. We're going to start working further on inventory turns in the future years. But we're pretty comfortable where we are right now.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Thank you. Good luck, guys.

Q

David Eric Bergman

Chief Financial Officer, Under Armour, Inc.

Thanks, Paul.

A

Kevin A. Plank

President, Chief Executive Officer & Director, Under Armour, Inc.

Thanks, Paul.

A

Operator: Our next question will come from Brian Nagel with Oppenheimer. You may now go ahead.

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

Hey, guys. Good morning. Thanks for taking my question.

Q

Kevin A. Plank

President, Chief Executive Officer & Director, Under Armour, Inc.

Hi, Brian.

A

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

So, a couple of questions. First off, this is I guess within the investment community, tariffs are now another hot topic. So, any thoughts there from Under Armour from a sourcing perspective, to what extent how you would be able to manage any increase in tariffs. And then second, I guess, bigger picture, Kevin, you talked about in your comments just the push back to wholesale and your reengage with your wholesale partners, kind of I know it's early, but where are we in those conversations and how some of those initial conversations going? I mean, I guess the question I'm asking is, you're talking to these wholesale partners, what is it they're really looking for and what timetable from Under Armour?

Q

David Eric Bergman

Chief Financial Officer, Under Armour, Inc.

Hey, Brian, this is Dave. I'll jump in on the tariffs. As we're sitting here today, obviously, we've got the election results and we're going to keep an eye on how that kind of unfolds. It'll be interesting to see how things develop with whether we still have a split Congress or not. I think that's really going to impact some things if it goes one way or if it stays split. And we're going to continue to monitor it. Obviously, there could be some higher tariffs. There could be some US duty implications that could impact our cost of goods sold and gross margin, and a little bit with income tax expense.

A

But it's something that we were prepared to manage pretty well before. We'll continue to manage it as best we can going forward. So right now, we're not anticipating any real sizable impacts, but it's something we're going to keep monitoring. Kevin, do you want to jump on the wholesale partners?

Kevin A. Plank

President, Chief Executive Officer & Director, Under Armour, Inc.

A

Yeah. Thanks, Brian. I think that it's interesting when you talk to our accounts is they're generally so happy and looking for partners that can break through. I mean, you got to remember a lot of the people we do business with, they've had – the majority, they are open to buy like greater than 40%, 50%, 60%. It's typically been dominated by one brand. When they say they're rooting for you, they really mean it. But I imagine they say that to lots of partners.

So what we have to do is, we have to find product that that cuts through. And I've got to say, my first seven months, I've had the benefit of being everywhere from across Europe, from Manchester to Amsterdam to London, across Latin America, across Asia, as well, as taken in some football games, as well as going to see our key partners and customers that we have here. So there has been no molds has been growing underneath of our feet. We are certainly moving and making sure that we're sitting down and talking to customers.

We're also with our new headquarters. We're also then inviting a lot of people here to show them to be able to replay a great home game and to let people feel what's happening with this brand, because it's hard to say is that, as I said, the brand will inflect sooner than the business will inflect. And you can start to feel that. I think that between Yassine and the product teams and now with Eric coming on board, to be able to unlock that product and story aspect as well as what Kara has been doing here in North America with our partners, we just want to let them know that Under Armour is open for business, again that we are ready to listen to their feedback and input.

But let's be clear, we have a point of view. We bring a point of view as a brand that's incredibly unique. Everything performs everything. Everything does something. Every product is meant to help you get better. And so whether that's the performance products we put on field or whether it's us entering a category like sportswear, there's a differentiator that makes it UA. And we think that that with the technical components of the product, along with the benefits that we're able to story-tell of making sure, because I don't think our story has been told either A) who this brand is or B) what the products do. We are going to do a much better job of that.

And so these retailers are rooting for us and we feel an obligation do a good job for them. We've got a longstanding history, but we've don't have as much shelf space as we once had. And so it's our job to earn that season by season. And we feel really good about what the future looks like and fortune it's not going to happen all at once. But we are certainly in this fight.

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

Q

I appreciate all the color. Thank you.

Kevin A. Plank

President, Chief Executive Officer & Director, Under Armour, Inc.

A

Thank you.

David Eric Bergman

Chief Financial Officer, Under Armour, Inc.

A

Thanks, Brian.

Operator: Our final question will come from John Kernan with Cowen. You may now go ahead. Pardon me, John, your line may be muted. Pardon me, John, your line may be muted.

Kevin A. Plank

President, Chief Executive Officer & Director, Under Armour, Inc.

A

We lost [indiscernible] (00:56:29) call.

David Eric Bergman

Chief Financial Officer, Under Armour, Inc.

A

There were two on there, operator. Maybe try the second one there were two in the queue under John. Not sure what happened.

Operator: One moment. John, if you would like to join the queue, please press star then one.

Kevin A. Plank

President, Chief Executive Officer & Director, Under Armour, Inc.

Yes, we lost him to [indiscernible] (00:56:52). Yeah. We'll go ahead and conclude our call on that then. And John, if you're listening and can't get in, we'll give you a follow up call on that. Appreciate it, buddy. So thank you everyone for joining us today on our second quarter fiscal 2025 call. Much appreciated.

David Eric Bergman

Chief Financial Officer, Under Armour, Inc.

Terrific. Thanks, everyone. Bye-bye.

Kevin A. Plank

President, Chief Executive Officer & Director, Under Armour, Inc.

Thank you.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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