On Holding (ONON) / 12 Nov 24 / 2024 Q3 Earnings call transcript

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Operator

Ladies and gentlemen, thank you for standing by. My name is Krista, and I will be your conference operator today. At this time, I would like to welcome everyone to On Holdings AG Third Quarter 2024 Results Conference Call. I would now like to turn the conference over to Jerrit Peter, Head of Investor Relations. Jerrit, you may begin.

Jerrit Peter

Good afternoon, good morning to our investor community. Thank you for joining on 2024 Third Quarter Earnings Conference Call and Webcast. With me today on the call are On's Executive Co-Chairman and Co-Founder, Caspar Coppetti; CFO and Co-CEO, Martin Hoffmann; and Co-CEO, Marc Maurer.

Before we begin, I will briefly remind everyone that today's call will contain forward-looking statements within the meaning of the federal securities laws. These forward-looking statements reflect our current expectations and beliefs only and are subject to certain risks and uncertainties that could cause actual results to differ materially. Please refer to our 20-F filed with the SEC on March 12 for a detailed discussion of such risks and uncertainties.

We will further reference certain non-IFRS financial measures such as adjusted EBITDA and adjusted EBITDA margin. These measures are not intended to be considered in isolation or as a substitute for the financial information presented in accordance with IFRS. Please refer to today's release for a reconciliation to the most comparable IFRS measures.

We will begin with Caspar, followed by Martin leading through today's prepared remarks, after which we're looking forward to opening the call for a Q&A session. With that, I'm very happy to turn over the call to Caspar.

Caspar Coppetti

A warm welcome from my side, and thank you for joining us today. I'm very excited to speak about this record quarter for ON we have reached CHF 636 million in net sales in Q3, growing by 33% on a constant currency basis. Very importantly, we also continue to deliver on our ambition to combine significant growth with ongoing profitability expansion. These strong results are supported by the incredible work that our team has done over the past months. Their efforts and dedication have first and foremost, allowed us to make significant progress on the strategic building blocks that we outlined a little more than a year ago as part of our dream on vision, ultimately, to position on as the most premium global sportswear brand with a long runway of profitable and durable growth in the years to come.

One of these core building blocks is centered around boosting global brand awareness amongst our core communities.

Of course, this included our presence at the Olympics and the inspiring stories our athletes have shared with the world through their achievements or heartbreaking journeys. Stories that have been amplified through traditional and social media surrounding this great event, reaching fans both locally and globally.

With these upper funnel investments, we're also reaching new communities.

Our authentic long-term partnerships like the ones with Zendaya or FKA Twigs are reaching younger demographics, bringing in a new group and who are connecting to arm through movement in a broader sense. We see this reflected in our quarterly proprietary brand survey. In the U.S., the awareness of the ARM brand has doubled since last year, now reaching close to 20%. In the city of Paris, the home of the Olympics, our ad brand awareness almost tripled year-over-year.

All of this confirms our efforts are paying off, but also that we have a lot more room to grow.

At the same time, our running community remains by far our largest, marking another big pillar in our strategic growth plan.

We are thrilled to see how our presence at the Olympics and innovations like LightSpray continued to increase our visibility and engagement with runners. Recently recognized as one of Times 200 best inventors of 2024 and groundbreaking LightSpray technology continues to turn heads.

During [indiscernible] in New York, thousands of people stop by our pop-up in [SoHo] to see the spring process in action. Only a few lucky members were able to secure a pair of the Hellen Oberi-approved Cloudboom Strike LightSpray. Available for the first time in an ultra limited production drop. After [indiscernible] in Boston and the [indiscernible] in Paris earlier this year, Helen topped off her one-of-a-kind season, the second place in the New York City Marathon.

We are delighted to see how our core running franchises continue to develop and grow. In particular, our strategic focus on building the Cloudmonster, Cloudsurfer and Cloudrunner families, through clear product segmentation is paying off with the all-new Cloudsurfer next and the Cloudrunner 2 proving to have immediate blockbuster potential.

As you remember from On's Investor Day, our growth plan includes three additional sizable building blocks: Apparel, On retail and Asia. In recent quarters, you have heard a lot about our strategic vision for apparel and retail. Today, I would like to spend some more time on the third area with the incredible growth and momentum we are experiencing in our fastest-growing region, APAC, led by both Japan and China. Both for Q3 and year-to-date, we have massively increased our APAC business and are ahead of our plan, growing over 85% on a constant currency basis in the first 9 months. The consistency of execution and exceptional momentum in the region are making it an increasingly meaningful part of our business.

In fact, for the third quarter in a row, APAC has contributed over 10% to our global net sales number. And still, with a very small base of close to CHF 75 million in Q3, the opportunities for growth are palatable.

In China, this strong expansion is driven by own retail stores and e-com. The vast majority of our new store openings this year have been in China. And we continue to accelerate the rollout given the broad-based success of our store formats, allowing us to dream bigger, so much so that we have decided to bring our proven and larger global flagship format to at least two premium locations in China next year. In China, we are further reaching a notably young mobile first consumer, visible in the meaningful e-com share from livestream channel.

During the recent Double 11 shopping festival, we have continued to see incredibly strong online results, including our all-time China single day sales record during the first peak of the event. We achieved this despite remaining committed to a full price strategy in this very promotional environment, a testament to On exceptional brand strength.

However, no engagement on our various e-com channels can get anywhere close to the level of engagement with the On brands that bring our partner Roger Federer can.

During his visit to the Shanghai tenant mass in early October, we invited a group of kids from the Wild Elephant tennis club to meet their idle in Shanghai. The club is based in a rural mountain region and allows children from ethnic minority groups with limited resources to chase their tennis dreams. Roger coach played and even got challenged by the kids on the court, truly creating a moment they will never forget. The event captured unprecedented attention for the On brand in some of the largest domestic media and spread across the globe from there.

Our key markets, Japan and China, will continue to lead our growth journey in the region.

We are rapidly increasing our scale in South Korea.

Next year will be the first complete year that our own distribution will be fully up and running in the country, and we are incredibly excited about the opportunities that this brings.

Finally, we are also planting seeds for the future in emerging growth markets like Indonesia and the Philippines.

Looking forward, we are excited to continue to co-create and pioneer On culture in the region.

As the sunset of this Olympic year, we are setting our sights towards Tokyo, home of the World of Athletic championships in 2025.

You can expect this to be a big global priority for our next year. Including the opening of our second Tokyo store. And you can also expect the On [indiscernible] to be ready once again when the fastest runners hit the track in our fastest-growing market.

We hope you can feel it as well.

We are incredibly excited about the momentum in the region and the huge opportunity that it presents. On's journey of significantly scaling our presence and brand awareness has just begun. Overall, 1 year after announcing on strategic 3-year plan through 2026, we are happy to report that we are well on track on all core strategic building blocks, which in turn will be the key drivers for On's sustained growth in the coming years. With that, I'm happy to hand over to Martin, who will share more about the incredible energy that we have experienced in [New York] and of course, provide a detailed review of the quarter. Congrats on your New York Marathon finish, Martin.

Martin Hoffmann

Thank you, Caspar, and welcome from my side as well. I wish I would have been able to accelerate my speed in the second half the rates in the same way we're able to accelerate our net sales growth in the third quarter of the year.

Over the past weeks, our team has done an amazing job improving our operational execution, which allowed us to capture the very strong brand momentum that we have built through so many incredible highlights during the summer.

As a result, we have achieved all-time quarterly records across top line and profitability.

As you know, our culture and our team are at the core. We invest into a culture of innovation and excellence with the goal to provide our customers with the best products rooted in performance, design and sustainability and with the best premium experience. We view innovation in excellence as the two foundational pillars that fundamentally guide the way we work. Innovation is at the heart of what we do. It uses our dreams and allows us to explore different paths and find new solutions. From braking technologies like LightSpray are a great example of what the culture of innovation can achieve.

Excellence is about how we bring our vision to life today and in the future, it's the consistent attention we put into every detail and the way we approach our work to ensure we reach the goals we set out to achieve.

The third quarter offers a great case study of how we strive for excellence in all aspects of our execution. It's no secret that we were not entirely happy with our level of operational excellence during Q2. But in a very short time frame, the dedicated work of our team has allowed us to do a much better job at fulfilling the incredible demand for own products and to deliver our by far biggest quarter in history in Q3.

We are convinced that we have the right team and culture in place to succeed in the areas that will define our long-term success with a disruptive manufacturing processes, new product innovations, premium brand executions or supply chain and warehouse efficiency. It will all require the right mix between innovation and excellence, and we are excited for the growth journey ahead of us.

On this journey, we are focused on our mission to ignite the human spirit movement.

Our efforts are centered around the goal to live, educate and enable movement. American in New York always offers a particularly powerful reminder of the transformative impact of movement. But it also highlights the fact that access to sports and physical activity is not a given. To right to run our social [indiscernible] partnership program. I had the chance to meet with a number of partners in New York to understand how we can amplify the transformative inspiring work they are doing to break down barriers to movement. Ensemble is our partner equity design. Equity designing closely works with schools in the Bronx programs that encourage physical activity for both kids and the [indiscernible]. Their work focuses on reducing health disparities and closing the gap between health and wealth in underserved communities. Elsewhere, our senior leadership team recently spent the day getting to know another one of our right to run partners. [indiscernible], whose mission is to enable access to sport and movement in long-term refugee camps. The efforts and dedication of our partners were a huge inspiration for myself and our entire team.

While it's a huge privilege for us to partner with them it comes with an obligation to think about how we can further elevate the impact that right run can have in the future and how we can promote the importance of movement and the access to it.

With that, let's move on to the detailed financial review of the third quarter. Q3 has been with quite some distance, the strongest quarter in our history. We reached record net sales of CHF 635.8 million in Q3, growing by 32.3% on a reported basis and 33.2% on a constant currency basis. In the early years of the rent, we had the big stream to reach the magic number of 1 million pairs of shoes sold on an annual basis. We finally reached that aspiration in 2016. In Q3, we had the first single week in our history with more than 1 million pairs sold. This illustrates the strong demand for the brand and even more the operational ability to continue our strong growth into the future. Q3 is another strong validation of the power of our premium position.

Our multichannel distribution and our commitment to [indiscernible] the growth, both in terms of net sales and adjusted EBITDA. 60.6% gross profit margin and 18.9% adjusted EBITDA margin are the highest since going public. 38.8% of the record net sales came from our D2C channel, clearly exceeding our expectations. D2C net sales in Q3 grew by 49.8% and even 50.7% on a constant currency basis, reaching CHF 246.7 million in the quarter.

Our continued investments into our D2C channel, online and line, together with our operational improvements allowed us to capture a higher air of the strong consumer demand and deliver our biggest e-com quarter in history.

Besides the success we already pointed out in China, EMEA, this also includes continued success of our marketplace in Zalando bringing a younger community to the on brand.

Additional growth within D2C is driven by our own retail formats. We made significant progress in our retail footprint with the opening of several great and strategically important new stores in Q3. In the Americas, we celebrated the opening of our third New York City location and the first ones in Austin and Chicago.

New York city Flat Iron and Chicago marked our two largest stores in the region so far. In EMEA, we open Milan.

Following the two stores in Paris, France, we continue our expansion of our own retail as an important channel for growth in Western and Southern Europe. In APAC, we opened our first store in Australia in Melbourne and five new locations in China. With three of these locations have a significantly larger square footage than our historical fleet on average. With three new stores expected in Q4, we will have opened 20 new stores in the full year 2024. This number is in line with our ambition to open 20 to 25 new stores annually outlined at our Investor Day.

We are extremely proud of our team, establishing own retail as a new channel that is elevating our brand experience across the world, delivering strong top line growth and profitability by driving a high share of apparel sales.

By the end of '24, we expect nearly 1,000 team members working in our retail stores compared to just 380 at the end of 2023.

Our increase in brand awareness is not only reflected in our D2C channel growth, but also in the continued momentum at our wholesale partners. In Q3, our wholesale channel grew by 23.2% in or 24% on a constant currency basis, reaching CHF 389.1 million. In line with our strategy, we have expanded our hotel footprint in a very controlled way. The vast majority of growth is driven by the strength of our existing and new product franchises and our ability to convert more shelf space opportunities with our expanded offerings in running and in our new categories. In sum, we are very pleased to see our multichannel strategy in full effect. In line with our strategic ambition, our D2C channel has significantly outpaced our wholesale channel this year. The result is an over 300 basis point D2C share increase versus last year when looking at the year-to-date period or even 450 basis points increase for the third quarter specifically.

With that, let me move on to the developments by region. Net sales in the Americas grew by 34.1% in Q3 or 34.5% on a constant currency basis, reaching CHF 395.5 million. Whilst this great performance is certainly a reflection of the operational improvements, it is first and foremost, a reflection of the strength of the brand in the region.

As Caspar shared, our brand building moments over the summer converted to higher brand awareness and resulting transactions in the key U.S. market, in particular. At the same time, we're also very encouraged to see additional upside coming from markets like Canada and Brazil. Net sales in the EMEA region reached CHF 165.8 million in Q3, growing by 15.1% year-over-year or 15.2% on a constant currency basis. In line with the rapid rights and brand awareness, brands climbed up to be our fastest-growing market in the region in Q3. This, of course, co-insights with the Paris Olympics and the resulting great start of our [indiscernible] store.

So we are encouraged by the ongoing momentum in the fall. APAC reached net sales of CHF 74.6 million in the third quarter, corresponding to a growth rate of 79.3% or 85.7% on a constant currency basis. With that, the APAC region made up 11.7% of our total business in Q3, driven by the continued momentum in China, Japan, but also in South Korea.

Turning to performance by product. In Q3, net [sales] from shoes grew by 32.1%, up to CHF 63.7 million.

Our running vertical continues to be the key driver of volumes. With franchises like the Cloudmonster and Cloudrunner continuing to lead the way.

As fall begins, many of us few [indiscernible] has an opportunity for fresh starts and praising new behaviors, habits and activities. This is for us to launch our new Back to Run campaign and with that, to further double down on our running core. The campaign showcased the all new Cloudsurfer Next. Which supported a 3x increase of our Cloudsurfer franchise versus the prior year period.

Apparel grew by 33.4% in the quarter, reaching CHF 26.8 million.

While we put most of our initial focus on improving the product flow on the footwear side, the constraints on the apparel side tracked well into Q3, resulting in a growth rate tracking slightly behind our ambition.

We are confident that we will see a re-acceleration here in the fourth quarter. And based on the preorders for Spring Summer '25, expect a strong momentum in this focus area to continue into the new year. Earlier this year, our team spent a full day in the Swiss Mountain [Switzandea]. The result was a beautiful campaign with [indiscernible] from our fall winter season at the center. With millions of impressions across our different channels, we're excited to continue building long-term brand awareness and momentum for our parallel category.

Moving down the P&L. Largely driven the exceptional B2C performance and resulted in high B2C share of 38.8% in the quarter. We reached a very strong gross profit margin of 60.6%. A increasing by 70 basis points year-over-year. SG&A expenses exclude share-based compensation were CHF 292.8 million, occurred to 46% of net sales and reduced from 46.4% in the prior year period. The main benefit resulted from more efficient distribution expenses in this year's period. reflecting our continued focus on achieving operational efficiency gains. This included a temporary strategic shift of volumes to our L.A. warehouse during the quarter, which were able to secure at a favorable rate. The resulting adjusted EBITDA margin for Q3 is 18.9%, significantly up from 16.9% in the prior year. This very strong profitability reflects the flow-through of the top line exceeding our expectations.

Together with a slightly more conservative cost plan in place, considering the operational challenges we had faced in Q2.

While we continue to take measures to reduce the sensitivity of our results to FX fluctuations, the significant drop in Swiss francs per U.S. dollar between the end of Q2 and the low point at the end of Q3 led to considerable unrealized FX loss during the period of CHF 37.2 million.

We are pleased to have delivered a strong net income of CHF 30.5 million, even despite this impact, demonstrating the resilience of our business, which brings me to our balance sheet. Capital expenditures were CHF 19.1 million in Q3, equivalent to 3% of net sales.

Our net working capital balance at the end of Q3 stands at CHF 540.1 million. This includes our lowest inventory portion in the last 12 months, a further testament to the continued operational optimizations we have been focused on.

This has, of course, contributed to continued strong cash flow with a positive cash flow of over CHF 125 million in Q3 alone. And the year-to-date positive cash flow of over CHF 250 million.

We have significantly increased our cash balance to close to CHF 750 million at the end of the third quarter.

As I mentioned in our Q2 call, we do expect a higher inventory position at year-end as we increase our on-hand levels on key styles during the first quarter. This will include the inbounds for our Spring/Summer '25 launches, including the all new Cloud 6 that we are very excited about.

Now let me move on to our last outlook for the full year of 2024.

We are extremely pleased with where we are today. We see our mission to ignite the human spirit from movement coming to life around the globe.

We are successfully executing every dimension of our strategic plan. We grew our brand awareness and broaden our reach to new communities. We already had a strong start this quarter, and we are heading into the holiday season with a lot of confidence and excitement and expect to see limited operational constraints to deliver against the continued exceptional brand momentum we are seeing globally.

For Q4, we expect a higher constant currency growth rate than Q3, even exceeding our expectations in the third quarter.

For the full year 2024, we are increasing our constant currency net sales growth ambition from at least 30% to at least 32%. On a reported basis, at current spot rates, our increased outlook reflects the expectation to reach at least CHF 2.29 billion in net sales for the full year '24. This embeds the sizable FX headwind that we expect in Q4 across all regions.

With the Americas region due to see the biggest impact given the meaningful U.S. dollar move versus the Swiss franc in recent months.

As a result of the D2C strength in Q3, we achieved a 60.1% gross profit margin for the first 9 months year-to-date.

Driven by the historical strength of D2C, our disciplined full price strategy, the strong momentum and our balanced inventory position.

We expect an even stronger gross profit and are confident in our ability to significantly overachieve our previous gross profit margin outlook for 2024. We now expect to reach a full year gross profit margin of around 60.5%. And an increase of 50 basis points versus our previous outlook.

As communicated in the past, we execute in line with our philosophy of building long-term global growth. which extends to both top line and profitability expansion. We always seek opportunities to drive additional meaningful long-term-oriented investments for our brand and businesses when overachieving our net sales and gross profit expectations during the financial year.

Given the proximity to year-end, we expect a higher flow-through of the strong gross profit of our adjusted EBITDA.

We expect our adjusted EBITDA margin for the full year at the upper end of our previous guidance of 16% to 16.5%, potentially even slightly above.

While we are incredibly thrilled with our Q3 results, and this increased outlook for 2024.

We are even more proud to see the progress we have made against our long-term vision announced a little more than a year ago. We're excited to continue to build on for long term and look forward to finishing the year 2024 on a high note. We look forward to being back with this audience in '25. Thank you once again for your continued support and your trust.

Operator

Thank you.

We will now begin the question-and-answer session. [Operator Instructions].

Your first question comes from Cristina Fernandez with Telsey Advisory Group.

Cristina Fernandez

Congratulations on the results. I wanted to ask about the increases brand awareness that you're seeing Caspar, you gave some detail from the U.S. Can you share where the increases are coming from? Do you have any details you can share by demographic? Is it like the younger cohort gender? Anything else there would be helpful.

Marc Maurer

Yes. Christina, thank you for this question. And it's been a big focus for us to increase the brand awareness and to see that now come to life and flow through into Q3 results has been very, very positive.

So one thing that happened was that Zendaya, FKA Twigs and some of the investment into the younger community clearly helped.

So we very significantly increased brand awareness in the younger community. But it's not limited to that. We were also able to increase brand awareness across the globe.

So if you look, for example, at very penetrated countries like Switzerland, we increased brand awareness by 30 percentage points in already relatively strongly penetrated country. And when we look at the U.S., it was from coast to coast, so to say.

So what we were able to do, we were focusing on certain geographies very clearly from how we spend our marketing money. But we saw some overflow from that into other regions and into other CDs as well. And then lastly, the besides Zendaya and FKA Twigs and that tapping into the younger community, performance was a very, very important focus for us.

So we really use the Olympics to continue to penetrate on as an innovation brand, but also the performance community.

So when you look at our run counts, we were also able to increase share across all running routes across the globe.

And so we're very, very confident in how this is uplifting on as a brand overall.

Operator

Your next question comes from the line of Aubrey Tianello with BNP Paribas.

Aubrey Tianello

Wanted to hear more, if you could just kind of dive into some of the drivers of the 50% B2C growth in the quarter, maybe from a product perspective? And then what's giving you the confidence that constant currency revenue growth should accelerate in 4Q. What are your early reads so far as we approach holiday season?

Marc Maurer

Yes.

Let me quickly take the D2C question, and Martin will elaborate on the second one.

So I think when you look at our recent quarters, then I think we -- in most of the quarters, we were able to execute on our growth plan and our strategy, which is basically to increase the D2C share over time.

I think the last quarter was almost a bit the outlier in the negative direction, due to the operational constraints that we saw. And now we're really back to seeing the brand kind of tapping into the strength and being able to convert it.

So I think this is a reconfirmation for our long-term strategy of just a positive outlier as a quarter.

Now when we look into this quarter specifically, elaborated on a little bit before.

So brand awareness was a very big driver.

So the Olympics, Zendaya really, really helped. And it helped in all regions.

So if we compare D2C growth Europe versus the U.S., for example, we are in a very, very similar growth level.

And then APAC as a positive outlier due to the strength in Japan and China. Then I think we saw very successful product launches that has been the second draft that.

So they were really, really resonating. And it was not limited to one. It was the full kind of portfolio of launches that we brought to life and obviously, light spray and sharing the innovation story and also converting that then into our performance product like the Cloudboom Strike that really, really resonated with our consumers. And then lastly, we've invested a lot into the D2C environment over the last couple of months.

So this is really allowing us to not only capture new traffic in a very efficient way, but also to further continue to penetrate our existing consumer base in an even more efficient way.

Unknown Executive

Sorry, those are also the drivers that give us the confidence into the holiday season.

So we do think they are exhausted yet and they continue to drive our outlook. We leave Q3 with a lot of momentum, and we also continue seeing that momentum in the first weeks of the quarter.

So take Asia Pacific, for example, we just had our record months there in October.

So the momentum click continues.

For China, October is a super important months leading into the double 11 season. And that positivity is reflected in the increase of the guidance that we have given. It will allow us to focus on our full price premium business during the holiday season, which is important for us. And at the same time, it will allow us to focus on preparing our important Spring/Summer '25 launches, which includes the new Cloud 6, our key franchise, which we'll update in early next year. The Holy season clearly is go time for retail.

So for the first time in history, we ended the season with 50 owned retail stores, and we are ready to deliver a premium experience to all the customers across all those stores. And at the same time, having that positive momentum also allows us to invest into the future of the business.

So it will allow us to invest into our team, into a product, into innovation, sustainability, technology.

So many important pillars for future growth. And I think this is reflected in the positive outlook that we have.

Operator

Your next question comes from the line of Alex Stratton with Morgan Stanley.

Alexandra Straton

Congrats on another great quarter here. I just wanted to focus on the inventory and supply chain constraints.

Just on the constraints, when should those be mostly behind you? And then how will your channel prioritization change in 2025 and then just on inventory, is that where you want it from a level perspective and then how your plan next year would be helpful.

Martin Hoffmann

Yes, very happy to take the question.

So I think looking back, we had multiple impacts that limited our ability to capture the full demand inventory was wonder, the warehouse situation was another one. We're incredibly proud of how our team has basically taken multiple measures to improve the product flow to our customers.

So we have shifted volumes and inventory to our West Coast warehouse.

We have used airfreight in meaningful but balanced way. We very actively managed our order book also in close collaboration with our wholesale partners. And this really has resulted in a significantly improved delivery quality and also in a strong increase in the Net Promoter Score that we are seeing both in D2C and B2B.

At the same time, those measures are effective in the short term. But the goal that we have is to build a supply chain and the warehouse infrastructure and an inventory level that will allow us to grow to our aspirations outlined at the Investor Day.

So what we need to achieve is to have two highly automated and reliable warehouses on the U.S. East Coast and the West Coast. And this is what the team is focused on with the automation project in Atlanta and with the expected go-live in spring '25 and then also ramping up the volumes.

So I think it's all playing together that we need to ensure that we have the right inventory in the right warehouse at the right time and we have made huge steps there.

As I said on the call, towards the end, we expect that our inventory level will rise a bit because of the inflow of the new cloud which is important to be ready for that major launch.

I think we still have many opportunities to improve our work around inventory in the long term, but we are extremely happy with where we are at the moment.

Marc Maurer

And then you asked around channel strategy for '25.

So we're basically really continuing the journey that we've laid out in the Investor Day and has already elaborated on before.

So we want to continue to grow our D2C share.

You can expect on to again open 20 to 25 additional own retail doors which will allow us to meet our consumers even in a more premium way across the globe.

So they will enter in all major geographies, very much continuing to pass that already on. Store growth on wholesale will probably continue to come down slightly.

So if you look at Q3 '22 versus Q3 '23, we grew by 8.7%.

Now we grew by 6.6% to Q3 '24.

So that number will continue to go slightly down as we're basically trying to penetrate existing doors even better with our products. And then a really big focus is -- will continue to be on apparel.

So we have a very, very positive outlook in our preorder for 2025 on apparel. Which has had our biggest month in apparel ever this October.

So we're really, really working closely with our partner to be able to capture on the promised apparel growth. .

Operator

Your next question comes from the line of Jay Sole with UBS.

Jay Sole

Great. We talked a lot about innovation in the prepared remarks, a lot of the new styles also mentioned the Cloud 6 that's coming up. But I remember at the Investor Day about a year ago, you talked about how I think you had at least seven franchises that were released 5% of total sales. Can you talk about how much product assortment has helped create more diversification within the projects. Can you give us any stats to tell us like how much -- how wide of a set of SKUs you have now that are really driving the business rather than just being focused on one, which maybe was 10 years ago.

Caspar Coppetti

Thanks to the excellent question. Happy -- very happy to report that we actually achieved the goal that we laid it out.

I think it's important to not just be a one-trick pony. I'm so happy to be a seven or eight trick pony. Joking aside, these SKUs are, of course, distributed against different sports, different verticals, as we call them, right? So as we're no longer just a running brand, but we also have significant business, for example, in training, in tennis and of course, on the lifestyle side, it's important that we have strong franchises. And the efforts that we've taken to within each vertical, really consolidate several models into what we call franchise.

So for example, the surfer we're just coming off a really, really strong launch of Surfer Next in Q3 and we that with launching the Surfer 2 in Q1 in '25. If we move over to the lifestyle side, our goal is to be the most premium brand in sports.

With the Cloud 6, we're actually delivering a much better product than Cloud 5, and we're all surprising it at USD 10 higher, allowing us to capture more of that willingness to pay a premium price for a premium product that we see in the market. But then we're also not just resting on the laurels in terms of existing franchises. We're very excited that next Spring will see the launch of Cloud Zone on March 20, where Zendaya will launch with us a lower silhouette that we believe is going to be very much on trend, but not from a retro perspective, like some of our competitors do it, but with a future futuristic take and performance inspired.

Operator

Your next question comes from the line of Jim Duffy with Stifel. This is.

Unknown Analyst

This is [Peter McGoldrick] on for Jim.

Just diving into the marketing strategy.

You just had a huge brand moment for the Paris Olympics and have expanded your association with some culture eons. How should we be thinking about the level and mix of brand marketing versus performance margin going forward?

Marc Maurer

Yes. Thank you for the question. I don't think we would call it a brand marketing versus performance marketing, you see like already mixing up the words -- because actually, for us, it's -- I think it's one topic. The question is, how are we able to authenticate the products that we create with our consumers through the personalities that we're working with, right? And I think -- what you see and what is happening with, for example, Zendaya, when we paired her with Roger is a perfect example of that. And this is kind of how we're continuing to think about it.

So basically bringing that experience to the different communities and really always using the strongest assets to reach those communities.

So you can very much expect the next year to continue in a similar way.

We will stick to the brand priorities that we already had in 2024.

So continuing to build on as a performance running brand is going to be very, very important for us. then we're very excited to continue to build on in training, but also even or even -- or accelerating how we're building it in and continue to build in training and very much looking forward to also bring on to the trail much more and communicate on as an outdoor brand. And then lastly, the focus as a head-to-toe brand, which is also what we combine with a lot of our athletes and our influencers.

So that's really how we're executing in 2025.

And so please think of it as very much a continuation of what we've done this year. And I think the Q3 shows you that this is really paying out in the right way how consumers perceive our brand.

Operator

Your next question comes from the line of Jonathan Komp with Baird.

Jonathan Komp

Caspar, I want to follow up.

Your team has done an impressive job gaining publicity for light spray. And I'm curious how you're viewing innovation like-like spray as an opportunity to raise the consumer awareness for innovation versus really opportunity to commercialize these types of innovations over time. And then Martin, if I could just ask a follow-up on the Q4 implied adjusted EBITDA.

You've grown adjusted EBITDA margin throughout the year.

So could you just talk a little bit more about the assumptions you're baking into Q4?

Caspar Coppetti

Thanks, Jon. Look, LightSpray is not just a marketing story, right? This has the potential to really disrupt the way footwear is manufactured, right? So let's just remind everybody what it is.

So it's -- first, it's a material. It's basically a new way of making an upper, but it's also manufacturing technology because we're bonding the upper and the bottom in together in one automated step. And then thirdly, it's a sustainability and over -- not only is it very sustainable to make, but we can also nearshore it and make it a comparable cost anywhere in the world.

So we could -- as we have right now, put the machine into New York City or we're going to have a small production here in Zurich.

I think we've used the time now since Olympics to really drill down on how we are going to scale this. Don't expect this to hit the market in a meaningful scale next year or the year after. But we're really now exploring beyond just the performance product that you've seen like the shoe that Hellen won bronze in the Olympics. But how can this be more relevant for everyday runners, but also for lifestyle consumers. And then how do we combine several of these spray units into a full production line that can be run fully automated.

So you can imagine the team here On Labs is quite busy figuring these things out. but we want to bring it to market at scale, and that's definitely the commitment that we have given ourselves.

Martin Hoffmann

And then to your second question, so last year at our Investor Day, we communicated our midterm aspirations when it comes to gross profit and adjusted EBITDA margin of being 60% plus gross profit margin and towards 18% plus adjusted EBITDA margin. And we're extremely happy and proud that our Q3 results are a validation of the aspirations that we have. And at the same time, we said this in the past, we are fully committed to our philosophy of durable growth, which means growing top line and profitability over time while driving additional investments.

So this is how we approach Q4 and then also go into the next year.

For Q4, specifically on the marketing side, we have two big brand campaigns going on. We already spoke about Zendaya and the Back to Run campaign.

If you look at our distribution costs, we had a very low number in percent of net sales in Q3, driven by the shift that we were able to do into our West Coast warehouse.

Now Q4 is a heavy month on D2C, and therefore, we expect a higher number in percent of net sales there.

And so overall, as outlined, we see ourselves at the high end of the communicated range of 16%, 16.5% or even slightly above.

So we clearly will not do anything that is just short-term focused, but only investments that are meaningful in the long term. And for us, looking at the adjusted EBITDA, it's really about this journey from today towards the 18% over this of the next 2 years.

Operator

Your next question comes from the line of Anna Andreeva with Piper Sandler. .

Anna Andreeva

Great. And let us add our congrats for the quarter as well I wanted to follow up on wholesale.

So was the slight moderation there entirely the function of not having enough inventory and still supply some strength? And did you guys quantify what the amount of those volumes lost was for the quarter? And then secondly, just with the Atlanta DC automation projects. Curious if there are any initial thoughts on how we should think about the time line and the magnitude for FX benefits from that automation?

Marc Maurer

Let me quickly elaborate on wholesale and Martin will take the second question.

So -- and wholesale, the -- this is -- there's one impact, which is basically what you still see happening is the door closures in Europe that are impacted this year versus Q3 last year.

So that has an impact, a negative impact. And I think what's important for us there is that really looking at the brand demand out there, and that's also why we elaborated on a very much a solar D2C growth rate that we're seeing. And what's also important is that part of kind of the door closures also were able to capture a lot of that traffic than in our own channels. Then when we look at wholesale globally, we very closely track sellout.

And so for us, for what -- for the brand to see how sellout is behaving and really being able to observe that all the brand awareness that we've created is not only reflecting in our own channel, but it's also reflecting our wholesale channels is very, very positive. The number that you [indiscernible] reported is basically the sell-in number and how we're supplying the wholesale doors. And this is very much in line with our expectations. It's a sign of the long-term strategy that we have. We want to work with the right partners. We want to carefully and the doors in the range between 5% and 6% in this next.

And so we're really, really positive about what we're seeing on the wholesale side.

Unknown Executive

With your question to Atlanta, as I mentioned, the team is well on track to bring the automated solution life in the first half of next year.

So working very, very closely on that one. And once we have confidence into the reliability of the solution, we are able to scale up volumes and bring volumes back from our West Coast warehouse into our East Coast warehouse plus the underlying business growth that we expect on top.

So we will give a better outlook on our distribution expenses in our Q4 call as we have more insights there. But the way to think about it is that we have a higher fixed cost base with the automated solution.

So costs will depend more on the volume that we drive through the warehouse. And in the next call, we will be able to give you a better indication also on timing on when we expect that positive impact short term and then also for the long term.

Operator

Your next question comes from the line of Michael Binetti with Evercore ISI.

Michael Binetti

I guess on the multiyear margin outlook, as we look at the framework you gave for 2028, the plan was to drive about 100 basis points of EBITDA per year from the 15% baseline in 2023 up to that 18%. After this year, you will only have 150 basis points less of about 75 per year. Is it best to think of it like you pulled forward that expansion this year? Or can you still drive 100 basis points per year and maybe the endpoint could be higher? Maybe some thoughts if not on what what's running ahead of plan as you approach the 15.5% this year.

And then I think you previously said on B2C that fourth quarter will be the strongest growth quarter. Obviously, you just put up a really big quarter with the 50% growth this quarter. Is fourth quarter still the focus B2C growth quarter?

Unknown Executive

So the second question first, we said that we expect the overall net sales growth in the fourth quarter to be stronger than in the third quarter. but didn't give indication on the channel mix, but I think you have heard it from the outlook that we gave on the holiday season. that we expect strong sellout numbers across all the different channels. With regards to EBITDA, as I said, I feel -- we're in a very fortunate situation here that we can really invest into the [indiscernible] that will drive the brand in the long term. And be it is in innovation, be it in sustainability within technology. And we will do this with a little bit the cadence that you mentioned.

So having in mind that the gradual increase of our EBITDA over the course of the 3 years that we communicated at the Investor Day. But the strength of the business just shows the capability of the business model and the underlying performance of a premium brand that we have built.

And so as I said, we will invest into meaningful things. And if we can't react to higher top line sales in the short term, we may see an additional flow-through into EBITDA, but our philosophy has not changed over the course of the next 2 years.

Operator

Your next questions comes from the line of Janine Stichter with BTIG, please.

Janine Hoffman Stichter

Congratulations.

Just a follow-up on margins. Gross margins, you're tracking ahead of where we thought you would be. It seems like there's more momentum with the DTC business. It sounds like you'll have maybe some airfreight tailwinds going into next year.

Just help us think about how we should be modeling medium-term gross margins. Is there anything else that would offset some of the tailwinds that we would see from channel mix, less air freight, it sounds like you have some price increases. Anything else you should be thinking of there just as we forecast out the gross margin?

Unknown Executive

Yes. Very, very happy to take this one.

So I feel, overall, we're in a very undisrupted environment when it comes to global supply chain at the moment.

So clearly, Q3 show the strength of the brand. as we always said, I think we always need to factor in some distortion in the supply chain.

And so we feel that this 60% plus gross profit margin outlook is still valid. But Q3 shows what can -- what the brand can deliver if basically there's very little disruption around the world. Caspar mentioned with a $10 higher price point for the Cloud, and adjustments on other prices for next year, we clearly put us in a strong position to protect that brand, may also in the light of current discussions around tariffs.

So overall, we feel very good about the business that we have set up. We still have economies of scale on our manufacturing side that we can drive and the underlying overproportionate growth of the D2C channel, of course, is also very important to deliver sustainably the high gross profit margins that we are having.

Operator

Your next question comes from the line of Rick Patel with Raymond James.

Rakesh Patel

I'm hoping to double click on apparel.

You touched on the growth rate being somewhat constrained. Is there anything besides the DC that could have been a drag. And then just bigger picture, do you feel the assortment is in a good place in terms of the fit and style that you can hit the accelerator in terms of the growth? And if so, how do we think about the channel strategy going forward?

Caspar Coppetti

Look, we made quite clear in the recorded notes. It was supply constrained in Q3, where we're seeing the constraints ease. Marc mentioned, we're very optimistic in terms of what we have on order and the interest we see for spring '25.

You touched upon a very good point.

Some of you may have purchased [indiscernible] ago yourselves in the past.

We have done a complete resizing exercise.

Now across the line starting in spring '24 and then now in the second half of '24.

So On apparel now fits consistently with your favorite apparel pieces, whether your European U.S. or Asian customer. And we're already seeing very good results from that in terms of like lower return rates, and it will make it easier to repurchase [indiscernible].

In terms of channel strategy, we're very, very encouraged by the success of apparel that we see in our own retail and at premium wholesale partners.

Our own retail doors can reach 25%, 30% apparel share. And that's, for us, reaffirming that own retail is a key building block for a premium apparel brand.

Operator

We have time for one more question, and that question comes from Dylan Carden with William Blair. .

Dylan Carden

Curious about the running category.

You've made some efforts here to streamline SKUs in that channel to be more sort of compatible, I guess, with competitors.

Just sort of how that static category fitting with the growth that you saw in the quarter? And sort of what -- if the boost was helpful for uniform there as well?

Marc Maurer

Yes. Thank you for the question.

You know how important running is for us.

So this is also why kind of the runners count is a key metric for the whole company, and we're really closely measuring that we're continuing to grow. And what we see more and more when we count the product. is that the portfolio is more distributed and we're really able to bring different franchises to different running styles.

And so very happy how the Monster franchise has become one of our top-up franchise.

So the Monster that went to the Monster 2, Hyper Monster is really capturing that elevate the consumer. Caspar mentioned that the cloud server next has been an unbelievably successful launch also tapping in a younger community. Then the cloud runner is resonating extremely well. It's one of the strongest styles that we have in run specialty as well.

And so running is really as a category overall, growing super strongly. It's the strong category that we have is Tennis actually from a growth perspective, but it's much, much smaller. And running is the second growth but on a way, way bigger scale.

So we're very satisfied with what we see as on being perceived as a core running brand.

Operator

Ladies and gentlemen, with that, that does conclude today's conference call. Thank you for your participation, and you may now disconnect. And we're clear from the call.