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Company Profile

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Operator

Thank you for standing by. My name is Joe, and I will be your conference operator today. At this time, I would like to welcome everyone to the On Holdings AG Q4 and Fiscal Year 2024 Results Call. [Operator Instructions] I would now like to turn the conference over to Jerrit Peter, Head of Investor Relations.

You may begin.

Jerrit Peter

Good afternoon, good morning to our investor community. Thank you for joining on 2024 Fourth Quarter and Full Year Earnings Conference Call and Webcast. With me today on the call are On's Executive Co-Chairman and Co-Founder, David Allemann, CFO and Co-CEO, Martin Hoffmann; and Co-CEO of 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 security 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 earlier this morning.

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 David, followed by Martin dealing through today's prepared remarks, after which, we are looking forward to opening the call for a Q&A session.

With that, I'm very happy to turn over the call to David.

David Allemann

Thank you, everyone, for joining us today, and welcome to our fourth quarter and full year 2024 results call. This is an exciting moment for us as On is celebrating its 15th anniversary this year. On January 6, 2010, my co-founders, Olivier Bernhard, Caspar Coppetti and I founded On, on a cold winter day in Switzerland. This was in the morning, in the Afternoon, I voted a plane to Asia to oversee the production of the On cloud server model, our first tool. We just got started to dream On.

Looking back, [0 to 1] was a tough race. It will not have been possible without an incredibly talented and optimistic team that together with our founders made On grown into the global sportswear brand it is today.

Our gratitude goes to this highly spirited sports team.

While every single year has been new adventure, 2024 was particularly defining as we solidified our global brand presence. This strength translates to the growth we have probably committed. 1.5 years ago, we shared our strategic direction for 3-year time frame from '24 to '26 with you. On strategic ambition to grow into the most premium global sportswear brand, and financial ambition to achieve a 26% net sales CAGR, a gross profit of north of 60% and an adjusted EBITDA margin of over 18%.

Looking at 2024, I'm thrilled to report that we are tracking very well and exceeding our expectations in both top line and profitability. With a very strong constant currency growth rate of over 33%, we have reached CHF 2.32 billion in net sales. This includes an expansion of our D2C share by more than 3 percentage points, extending our superpower to connect deeply with our fans through our own channels. This has further supported premium margins with gross profit margin reaching 60.6% and an adjusted EBITDA margin of 16.7%. Validating our path towards our midterm targets.

Zooming out in 2024, on experienced a new level of global brand from its community. On is resonating with millions of consumers across more than 80 countries on all continents.

Our collaboration with Roger Federer, Zendaya, FKA twigs and On's presence as one of the most talked about brands in Paris last summer have propelled On's global brand awareness and earned it the prestigious Brand of the Year award by Footwear News. Above all, we are truly humbled by the immense loss consumers have for on. The strong engagement and countless on brands, we all encounter everywhere running on trails, in cities and while traveling. The boost in brand strength even over indexes on Gen Z consumers, where awareness in the U.S. more than doubled in 1 year and has elevated on to one of the top most wanted sport shoe brands among teens in the U.S.

No wonder that on ranks amongst the hottest brands in our industry on social media. We manage our brand strategy in 3 areas: premium product offerings strategic partnerships and an impactful presence in global markets.

First, premium product brands. To build our parent brand on, we are supporting it with a family of product offerings and brands, each with their own personality and purpose. Take the Cloudmonster, the Cloudsurfer, the Cloudrunner and the iconic Cloud. These onces choose their brands in their own right, allow us to connect with diverse communities and tastes building lasting loyalty to a franchise even as our products, innovate and evolve.

Speaking of the cloud, we just soft launched the Cloud 6. It's a refresh of an item keeping its signature comfort versatility and functionality. The cloud has grown from a running shoe into an everyday essential and one of our most beloved franchises. It becomes enormous with strengthening our overall brand.

And with the full release just days away, we're already seeing strong momentum. Or take the emerging light spray franchise as an example of a product range brand that will support the innovation positioning of the main on brand. In other words, On is building a portfolio of strong product brands that support on as the parent brand Second, strategic partnerships. We're building the law for the own brand through lasting partnerships with exceptional talents and brands.

As you know, we started with Roger Federer turning on as a partner over 4 years ago. Zendaya is now the voice of the next generation and of On. Brand moments like the Air-Tennis match between her and Roger, a firm highlighting our brand promise to dream on and product campaigns have been incredible so far. And you're only seeing the beginning of this partnership we're in for the long haul. Then think about On's collaboration with FKA twigs around the superpower of sport combined with cultural influences, it's scaling our training vertical. The marriage between sports and culture has created a unique space for powerful collaborations like the multiyear partnership between [Lower] and On. It's clear, meaningful and lasting partnerships built blasting brands; third, high-impact presence in global markets.

Our world is more fragmented. Life moms and society transcending topics that once United at has become rare and golden. It's harder to combine this universal experiences that connect generations and cultures on a massive scale. All is navigating the noise and distraction with more than just visibility, but with creativity, relevance and the right strategy. Brands that cut through are more valuable than ever.

We have 2 key priorities for penetrating global markets, live sports moments and premium retail stores.

First, live sport moment. Sports grade, some of the last and rare life moments that inspire conversation across society. It presents generations, cultures and backgrounds. It's where families gather nations rally and the roll watches as one.

Now fashion and luxury brands are catching up. Recognizing the power of sports and diving into the arena had first. From the Paris came to sponsoring major lands like football and Formula One, they're all vying for a piece of the action. And that's where we comment only the premium sports brand perfectly positioned at the intersection of performance and cultural relevance. They're not just riding the wave. They're at the heart of it. On leverages these insights to cleverly build brand strength and achieve exceptional results.

Take, for example, our Reis Super Bowl ad featuring Elmo and Roger Federer captivating millions of Americans and bring on to the center screen. Through a playful conversation about our logo, the to literally put the name of our brand into everyobe's mouth and on America's most watched morning show. Online spikes went to new levels and the marketing done even featured in the New York Times. Elmo perfectly embodies our core value of positive spirit and bridges generations. Roger and Elmo launched a broader campaign centered around softness and our new cloud server tool. In a world obsessed with pushing limits, we encourage runners to embrace soft wins and community.

In running the On Athletics Club and its athletes put training together and winning on full display. These personalities inspire on core community. A few weeks ago, the beloved U.S. athlete [indiscernible] world record for the [Banemakermile] at the Millers case. He smiled and his win list of the live broadcast and social conversations.

Our approach to tennis involves creating brand moments around major sporting events and exceptional athletes. This strategy allows us to engage with the wide audience both young and older. At the upcoming Miami open, we are hosting the second edition of our own clubhouse nights. This event celebrates Tennis at intersection of performance and culture. Setting the vibrant heart of Miami, it plans sport, club culture and community, creating a unique and immersive experience.

You will see Ben Shelton who play against [[Fonseca] in the court, an exciting match set to the pulse of world-class feats at then Clubhouse nights. The massive awareness growth with the young community serves as proof that On is scaling the brand with live moments in sports that can reach across generations. Livesport moments build love brands.

Second, premium retail stores.

We are grateful for our online success, but we know the power of major centers. They are the heart of nations and communities. They live in our global consciousness. This is my first point is the belief in physical own stores. not just for sales, but to give on apparel a broader presence and to build a beloved brand in the minds of communities. We're going beyond the traditional sports brand, creating premium store experiences that challenge to norm.

In 2024, we launched 19 new retail stores in iconic locations. Think ChansÉlisé in Paris, Victoria Emmanuela in Milan, Rush Street in Chicago and Emporium Melbourne. These On shoe stores, brand building hubs, essential for our growth. And it's working. In this is like Paris and Milan, we've seen a significant increase in regional awareness proving that the physical presence drives digital momentum. At the same time, we're also building retail presence in newer markets with our first distributor-led retail stores opening in Santiago de Chile and Jakarta and Jakarta just a few months. A physical store acts as a flag in the ground, a linchpin for emerging markets for On. In 2025, we are looking forward to expanding our presence further in other parts of Southeast Asia as well as the Middle East. My second point is that building partnerships with premium wholesale remains a priority for us.

Our partners have been instrumental in building the own brand.

We have been very careful about growing our wholesale network. This deliberate approach has left us with plenty of room to grow our business and brand awareness with the right partners. A recent example, the street phasing of shop in shop at salvage is attracting lots of eyeballs for on par. This leads me to my third point, the connection between scaling apparel and physical retail, powered by our retail expansion 2024 marked a significant year for On's apparel business with elevated collections and brand-building campaigns sanctioned around [Cyndea] and [Fini].

Proprietary research reveals that these efforts have significantly increased consumer perception of On as a head-to-toe sports wear brand. The expansion of On stores is elevating the visibility and growth of the apparel category for On to a next level. In 2025, we will continue to drive apparel for categories such as training, our latest training collection was launched in January with the Body Art campaign featuring FKA twigs to enhance our brand presence in James. The campaign highlights our approach to training apparel by showcasing an artist to integrate high-performance movements with music, arts and culture.

So bottom line, showcasing On brand head to toe in landmark stores in major cities and in live sporting events remains a key to brand growth.

To wrap up my opening remarks today, strong brands stand the test of time, which is what we're building at all, a premium global sportswear brand with long-term value and resilience.

Our 2024 financial results exceeded our expectations, leading us with confidence and excitement for the future. We believe that the best days are ahead of us. With our exceptional team, strong innovation and globally relevant brand, we're ready to take On the next 15 years. We're incredibly grateful to our amazing community of on fans for their lost support and loyalty.

I would like to thank you all for your support, your proven questions, your insight, elevate our thinking. And with Martin On to the next 15 years and over to you.

Martin Hoffmann

Thank you, David. I can't wait to celebrate our 15th birthday with our team in a few weeks.

Before I talk about our plans and the outlook for 2025, let me expand a bit more on 2024. 2024 has been the first year of our 3-year strategic road map that we had presented at our Investor Day in October 2023.

During this first year, we have made tremendous progress along each of our strategic building blocks. And we have proven that each building block will elevate the on-trend over the next years and towards our mission to be the most premium global sportswear brand.

Our financial results are clearly validating our financial aspirations for 2026.

And at the same time, 2024 already allow us to start streaming on beyond 2026. At the core of our strategy is to win in the running community.

During the last 18 months, we have introduced an explosion of new highly innovative products.

We have built new levels of credibility through the wind of our athletes and our presence at the largest running events.

We have reached millions of new and existing fans.

Our top 3 running franchises, Cloudmonster, Cloudsurfer and Cloudrunner have grown between 60% and 140% during 2024. We reached more younger customers than ever before. The share of products sold to customers 35 and younger has increased between 6 and 8 percentage points for the 3 franchises. Other tenants running has seen the strongest growth of all communities. 2024 has been a breakout year for our new verticals, tennis and training. Establishing On as a brand of choice for consumers seeking the combination of performance, design and sustainability beyond our running core.

Our ambition to be a true head-to-toe sportswear brand is solidified in the fact that we have reached more than CHF 100 million in net sales from apparel.

During 2024, we renewed the vast majority of our products, expanded our product offerings across running tennis and training. We introduced different fits and elevate the consistency of our sites. And we significantly invested into our capabilities to drive sales growth in elected key accounts and our D2C channels.

While overall apparel net sales on a constant currency basis grew 51% in 2024. Apparel in our D2C channels grew by 6%. And resulting in a significantly higher D2C mix compared to our footwear category.

With that, a parallel setup to drive strong growth, combined with a strong margin profile going forward.

Our success in apparel directly correlates to our successes in all retail that David already spoke about.

We are now operating in more than 10,000 square meter retail space and during 2024, we validated that own retail will not only allow us to drive growth around the world, but also drive an even higher share of more premium products. Alongside retail, we also continue significant investments into our multichannel distribution, including but not limited to customer data insights AI-driven automation, Online marketplace management and omnichannel experiences. In 2024, we became an even more global print. Executing towards our aspiration to grow China to 10% of our sales beyond 2026. We expanded our brand and distribution network throughout the country. Elevated a team and started to develop more China-centric products. And last but not least, we took steps forward on our mission to be an industry leader in sustainability.

We will share more in our impact progress report will be published in a few weeks.

All of the incredible work our team has done across brand, product and execution is reflected in the outstanding full year financial performance. lending ahead of our latest outlook provided in November across all measures. With a constant currency growth rate of 33.2%, we closed the year at CHF 2.32 billion.

Our gross profit margin reached 60.6%. Reflecting our premium brand positioning and dedication to full price growth. And we've reached an adjusted EBITDA margin of 16.7%, showcasing our commitment to durable growth.

While investing for success in the long term. With this, we have also proven the ability to drive significant positive cash flow. Increasing our competition to close to CHF 1 billion at the end of 2024.

Looking at Q4 in isolation, we see the foundations we have built coming into effect. Allowing us to achieve the strongest quarterly growth rate of the all year. We convert on the incredible brand momentum benefiting from the increased brand awareness and continued acceleration coming out of the summer and the third quarter.

Importantly, we were in a position to execute operationally across the entire supply chain to fulfill the strong demand by remaining disciplined to protect the high share of full price sales. Net sales grew by 35.7% on a reported basis in the fourth quarter and even 40.6% on a constant currency basis, reaching CHF 606.6 million. We had entered the holiday season with the ambition to drive significant growth through our own channels. Both our online and retail formats drove record traffic and highest ever quarterly transaction volumes. Resulting in an overall record D2C share of 48.8% and CHF 296.2 million, significantly higher than any previous quarter in our history. Growth in our D2C channel versus the prior year was 43.4% on a reported and 48.2% on a constant currency basis. Wholesale grew by 29.1% on a reported basis and 34.2% on a constant currency basis in Q4, reaching CHF 310.4 million. This growth continues to be driven by our selective expansion with key accounts like Dick's, JD and Foot Locker as well as the expansion of shelf space and market share with many of our existing partners.

While our own channels were able to capture a record share of demand in the overall marketplace, we are thrilled that our partners similarly saw exceptional sellout growth through a holiday season. a further validation for the momentum we are seeing.

Let me now move on to the development by region. Net sales in the Americas grew by 28.1% in Q4 and 33.9% on a constant currency basis, reaching CHF 385.1 million. The front building efforts outlined by David have led to visibly increasing traffic and very strong performance in both channels. And we continue to be incredibly happy with how our controlled wholesale expansion supports On's reach and accessibility in the region. At the same time, we observed a meaningful acceleration and contribution for high-growth markets in Latin America.

Our largest market in the region, Brazil, more than doubled net sales compared to the prior year.

Some might say this is a result of the [Janega] effect, the latest Brazilian Superstar and member of the on Tennis roster with particularly strong growth visible in the apparel business.

In EMEA, Q4 marked the final quarter of lingering year-over-year impacts from the strategic store closures at the end of 2023.

We are therefore thrilled to see the significant acceleration in EMEA in the quarter, showing the potential of the region to contribute even more strongly to our growth path going forward. Net sales reached CHF 147.4 million in Q4, growing by 31% year-over-year and 33.1% on a constant currency basis. The growth is strongly supported by exceptional growth in some of our more nascent markets in Southern Europe, particularly in France and Italy, where the retail stores in Paris and Milan have created a noticeable halo effect. APAC reached net sales of CHF 74.1 million in the fourth quarter, representing a reported growth rate of 117.5%. On a constant currency basis, growth was even stronger at [124.6%]. The incredible growth is visible across the entire region, with Japan and China continuing to be the key drivers in the region.

From a smaller base, South Korea, Australia, Hong Kong, as well as markets in Southeast Asia are accelerating significantly and further contributing to the broad-based momentum and success. The standard moment for Q4 was the opening of our second Hong Kong store in November, quickly growing to be on par with our first location and ranking among the top performing stores in our global portfolio. In December, we also kicked off a brand campaign in connection to Lunar New Year in China, introducing a limited edition collection celebrating the year of the snake. The lineup featured fresh color ways and designs and apparel alongside regional favorites like the Cloud X4 and Cloudtilt and has shown strong sell-through well into 2025.

Turning to performance by product. In Q4, net sales from shoes grew by 33.6%, up to [CHF 568.8 million]. Growth continues to be driven by our performance running products.

As touched earlier, 2024 has been a year of deepening our focus on key franchises. Is clearly paid off in Q4 with the Cloudmonster and Cloudsurfer contributing significantly to the growth. Running is in our DNA, and we are extremely excited to continue to drive our market share with the great product lineup in 2025, kicked off by the Cloudsurfer 2 launched a couple of weeks ago.

As you heard from David, we're also extremely excited to further elevate our most iconic all-day silhouette with the launch of the new cloud. After a period of successfully focusing on the diversification of our product portfolio and expanding our performance running share. The latest iteration of this classic all-day franchise will return to being a significant contributor to growth in 2025 and beyond.

While the full scale launch will happen in a few days, demand from our partners over the past months has been amongst the highest we have seen yet. Adoption is definitely not just about shoes anymore. Apparel grew by a very strong 77.5% in the fourth quarter, reaching CHF 32.6 million. In a DC heavy quarter, this resulted in an apparel share of over 5% of net sales.

Moving down the P&L. Reflecting the record high D2C share, the premium position of the brand and our disciplined full price approach and favorable FX developments, we reached the highest gross profit margin in our history. 62.1% for marked a 170 basis point increase year-over-year. bringing us to an exceptional 60.6% for the full year and well ahead of our midterm ambition. G&A expenses, excluding share-based compensation, were 50.5% of net sales, up from 48.9% in the same period last year.

In order to drive even more print momentum into 2025, we invested a higher share of net sales into upper funnel marketing campaign, which is the primary driver for this increase.

In addition, we continue to invest into light spray as well as our IT and tech capabilities.

We also saw a structural shift from selling expenses into G&A as a result of the consolidation of some of our technology teams and resources into a centralized cross-channel setup. The result in Q4 adjusted EBITDA margin was 16.4%, for the full year, we were able to drive a strong adjusted EBITDA margin of 16.7%, up from 15.5% for the full year 2023 and well ahead of our latest guidance in November.

We are very happy with our strong operational profitability, also visible in a very strong net income levels. This is supported by the strengthening of the U.S. dollar versus Swiss franc throughout the fourth quarter and the resulting favorable foreign exchange gain of CHF 38 million in our net financial results. Net income in the quarter reached CHF 89.5 million.

Moving on to our balance sheet. We slightly increased the level of capital expenditure to 2.8% of net sales in 2024 compared to 2.6% in 2023.

This was largely a result of our ongoing retail extension. One position, I'm particularly proud about is net working capital.

As a percent of net sales, net working capital improved from [27.7%] in the prior year to 21.5% in 2024. This is the reflection of our culture of innovation excellence and the ability of our team to drive financial strength across the P&L and balance sheet. We achieved an operating cash flow of CHF 510.6 million, more than doubling year-over-year. And as a result, our total cash balance stood at CHF 924.3 million at the end of the year. Significantly up from [CHF 494.6 million] at the end of 2023.

In summary, 2024 marked a truly exceptional year for On and one that we will not get any time soon. Most importantly, it offered numerous proof points that our core strategic building blocks are paying off, validating the ongoing path towards our vision to be the most premium global sportswear brand built on innovation, design and sustainability.

All of the achievements and unique moments in 2024 give us an incredible amount of energy for 2025.

As we enter into the second year of our 3-month 2026 strategy, we're excited to pick up from the foundations built in 2024 and to build on the broad-based momentum our team has generated.

You can expect another year with big and bold ambitions to tell our story and continuously expand our reach across new and existing communities worldwide.

This will include a strong lineup of new product launches.

As we take running to Max in the second half of 2025, Fence will be wowed by the launch of the Cloudboom Max.

The first super shoe for the everyday runner. The year, we see continued collaborations with talent to inspire across generations, include the launch of [Cendea's] first co-created footwear and apparel.

As build our presence in new markets, as we build our physical spaces to deepen brand connection and expand globally with elevated capabilities we are driving an even more premium experience at every touch point. [indiscernible] will be at the core of our innovation efforts in 2025.

Our focus will be on building the foundation for rapid scale-up and long-term profitable growth of the light spray innovation. In Spring, we will ramp up our production capabilities in Zurich, building a more scaled production facility in South Korea. An additional focus for 2025 will be on operational excellence, investing into our infrastructure to set ourselves up for long-term growth and success. We experienced some challenges in 2024, in particular, in the first half of the year, which does not allow us to reach our full potential.

We are progressing well on the fully automated warehouse solution at our Atlanta facility and continue to expect the solution to go live towards the end of the first half 2025.

While we expect the transition period and potential for incremental cost during that ramp-up phase, this continues to be a key cornerstone of our ability to operate at much higher volumes in the future. generating economies of scale over time. With that in mind, I'm happy to move to our financial outlook for fiscal year 2025.

As David point out, in 2024, we have tracked ahead of our planned 26% 3-year net sales CAGR, achieving a 33% constant currency growth rate for the year. Driven by the significant momentum we have seen in the business, including a particularly strong second half of the year 2024 and a strong start into 2025.

We expect to continue to outgrow our 3-year plan and to grow ahead of the 26% growth algorithm for 2025, while compounding at a higher base.

For the full year 2025, we expect to achieve a constant currency growth rate of at least 27%. At current spot rates, across all currencies, we do not expect a sizable FX impact. And therefore, this translates to an outlook of at least CHF 2.94 billion for the year. On a quarterly basis, assuming current rates we expect some top line FX tailwinds in Q1 and Q4 and some headwinds in Q2 and Q3.

While we do not provide quarterly guidance, I will point out that we expect a slightly higher half year 1 growth rate versus the second half of the year 2025. This outlook is based on the impact of the operational disruptions that we had in half year 2024 as well as the initial sell-in of our largest franchise, Cloud 6 in Q1. We currently anticipate a gross profit margin of around 60.5%, ahead of our midterm ambition of 60% plus. This already implies an anticipated headwind to our reported gross profit margin from the current U.S. dollar to Swiss franc FX levels, which is expected to offset a further margin improvement driven by the continued expansion of our DTC channel as well as the ongoing premiumization of our brands.

Throughout 2025, we will continue to invest to drive long-term global growth.

While we expect to further increase our adjusted EBITDA margin to 17% to 17.5%. And with that, to validate our 2026 target of 18% plus. A huge thank you and congratulations goes to our team for another incredible year, 15 years and counting and for the opportunity to think bigger than ever before.

Thank you all for being a part of our journey, and we look forward to further partnering with you during 2025 and beyond.

Let's dream On. With it, David, Marc and I would like to open up the session to your questions.

Operator, we are ready to begin the Q&A session.

Operator

[Operator Instructions] Your first question comes from the line of Aubrey Tianello of BNB Paribas.

Aubrey Tianello

Congrats on the results. I wanted to touch on Cloud 6. Martin, you mentioned it returning to being a significant contributor to growth in 2025. Could you maybe elaborate on that point in terms of some of the segmentation work you've been doing there and the difference between the launch this year compared to the cloud 5 launch in 2022?

David Allemann

Aubrey, this is David. I'm happy to take this question.

So the Cloud has become an iconic staple that resonates across generations. And -- we've also seen that the cloud is increasingly resonating with a young consumer as a new teleperent part of their uniform.

So it's back to that basic staple. And we're actually going to celebrate it in the classic campaign that starts in the next weeks.

So if you look back in shoe history, comfortable, easy sleeping shoes have a history of becoming internal plastics. And that's what we're really focusing on.

So we see an incredible mine right now, as Martin mentioned before, from our retailers and also kind of early signs before actually the launch in the next 2 days.

Operator

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

Jay Sole

Martin, my question is on the guidance, the full year guidance for sales. Can you give us an idea of how you're thinking about growth by region? And then just secondly, you mentioned you expect the first half of the year to be stronger than the second half. There's a lot of talk that the overall consumer environment in the U.S. has been a little bit weaker since the end of 2024, so see the holiday season, maybe because of weather or whatnot. But have you seen that? And can you just talk about generally what you've seen in the U.S. so far here in Q1?

Martin Hoffmann

Thanks, Jay.

So let me elaborate a little bit on the full year journey, and then Marc will dive a bit into the region, including what we're currently seeing in in -- on the demand side.

So as I pointed out in the remarks earlier, we come out of an incredible 2024. There's a lot of momentum and we have already seen 2 very strong months across both channels.

So we also said that we expect a slightly stronger growth rate in half year 1 compared to half year 2.

So based on the first 2 months and the strength that we have seen there, we expect our Q1 growth rate somewhere in the low to mid-30s. And we really expect that our D2C share remained at a similar level than in Q1 last year, which implies that our wholesale channel will grow very strong, which is driven by the launch volume of the Cloud 6, but also many other models, and we are seeing a significant sell-in volumes there.

And at the same time, we continue to see very strong demand in our D2C trials.

And so we also expect that D2C continues to grow strongly.

If you look at the rest of the year, we imply a certain level of prudency in our guidance, given the macroeconomic environment, the discussions that we are seeing there and the uncertainties that comes from it. At the same time, if we look at our preorders that we have already for spring, summer and for fall winter, they point out 2 strong growth rates. And currently, that growth is above what is implied in our guidance. But as I said, given what we are seeing -- on the macro side, we want to stay prudent here.

Marc Maurer

Well, let me dive a bit into the regions and probably very much come from our long-term strategy that we already elaborated on a lot.

So I think what's very important for us is that we're staying true to our strategy to be the most premium global sports wear brand. Suited in performance, design and sustainability. And this is truly resonating with our consumers.

I think we are less exposed to the normal competitive set that some of the other brands are and were able to capture basically the potential that comes from our very unique position that we've created over the last years.

So that has been reinforced by a doubling of brand awareness in almost all regions.

So we spoke about it in the last earnings call. We're seeing it in Asia Pacific. We're seeing it in Europe, not exactly double, but at a higher level already, and we're seeing it in the U.S. And then it's reinforced by the product launches and innovation stories that we're able to tell, and it's reinforced by the retail expansion that we're very much focusing on.

And so discusses a lot of positivity now already coming from Q1, but then also looking into Q3 and Q2, Q3 and Q4. When you look into the region specifically, Asia Pacific is very, very strong.

You saw our Q4 growth rate of over 100%. Very positive outlook on the preorders, super strong demand going into our own retail stores also outside of China. We're looking forward to opening, for example, Tokyo [ginsa], which is very important for us in Q2, Q3 this year. In Europe and the Middle East, we are specifically proud of the growth that we're seeing in countries like Paris in Italy, where we focused a lot.

So countries that have historically been relatively small start to gain traction and start to contribute significantly. And then in the U.S., I think it's very much a continuation of the brand of Earnest journey that we're on, and we're looking forward to bring many more stores to the U.S. consumer own retail stores over the next 12 months. and to continue to focus on a very strong full price sell-through, which you also saw as part of our Tier 4 numbers and results in the gross margin that you're seeing right now.

Operator

Your next question comes from the line of James Duffy of Stifel.

Jim Duffy

Hello, David. Marc, Martin complement to the team on the inventory and working capital management. We're very interested in the investments in consumer insights and some of the data you shared on with younger consumers, the metric on increased uptake of running franchises from consumers under 35 is really encouraging. Can you speak to where you stand with respect to more useful penetration distribution and marketing strategies in '25 and '26 to continue that development?

David Allemann

Very happy to do that, James.

So we are -- as you mentioned, we have seen a very, very strong acceleration of brand of for all on a low level across 80 countries. And that has been especially true among cancer awareness actually doubled in the U.S. and an increase by more than 50% on a global level.

So very strong momentum. And followership in us. And of course, then as a result, we had on social media as well. We credit that to our strength of blockbuster partnerships with Zendaya, FKA twigs, Roger Federer and a whole roster of young tennis players, [indiscernible] for example, [indiscernible] -- but then also, we feel that life force moments now, now you have seen at the Super Bowl Elle and Roger talk about only the name of all the cross generations the upcoming [indiscernible] track nights that are very much tiered at the young community a young athlete team of the Atlantic Club.

So all these life moments, which are also heavily discussed then on social media, play into that awareness.

So these are lasting partnerships. It's not speed dating.

So we're really creating control relevance for a young demographic for years to come. .

And I probably also have to mention the on store expansion that Mark touched on just kind of the consciousness of city centers, New York, L.A., Miami, Long Milan, Paris, Berlin, Tokya, Hong Kong, Shanghai, this is something that really taps into the minds of young consumers as well and creates a lot of brand visibility.

So all of this is contributing to all the global loss brand across more than 80 countries. And as you know, brand last not only drives loyalty within our existing consumers but of course, also have a lot to referral, which happens, especially within young consumers.

Marc Maurer

James, let me probably very quickly also elaborate on your '26 question.

I think -- what we're doing is we're trying to be very intentional with how we bring product, brand and channel together. To reach communities that we want to reach and eventually drive a younger consumer insurance products.

And so one example is if you take a launch of a lower profile silhouette like the Cloud zone. Then the question is who is the perfect partner we want to launch this product with and what are the right channels to launch this product with them.

So I think what you can expect over the next 2 to 3 years years is beyond just brand to really with the products that we create to bring that together with the right authenticator with the young community and then use the channels that have the credibility to cater to that in our community.

Martin Hoffmann

And one comment from my on the number side. If we look into 2024, the power of the business model that we are building really it comes to shine.

So we have achieved very strong growth.

We have achieved profitability ahead of our expectations. And at the same time, we have invested into brand building and marketing at the highest level of the last 3 years.

And so this clearly shows that the premium position and the margin that we are driving allows us to continuously invest into building the brand forward.

So there is a higher share than last year that went into upper funnel investments along the strategies that David and Marc were talking about.

So this was not sports volume, but it was really upper funnel investment into the future. And I think this is the direction that we are going and where we also commit ourselves towards for the future and which will drive growth beyond '26.

Operator

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

Alexandra Straton

Congrats on another great quarter and year. I wanted to focus on full year apparel hope, great momentum in '24 out of that category. And I think that the assortment will be fully repositioned here in -- so how should we think about that growth in '25? Is it distorted any geography? And then bigger picture, how do you think about apparel and what it can be as a percentage of total revenue over time and also on kind of point of differentiation in that category?

Marc Maurer

Thank you, Alex.

I think we're very proud that for the first time, we've broken $100 million in apparel sales. At the same time, the growth potentially so big.

So that number should be much, much bigger in the future. We communicated that in the long term, we want to -- or in the midterm, we want to bring a apparel to 10% of our revenues.

So I think this is the journey that we're on. What you can expect to see on how to get there is -- basically regions that have strong own retail presence will in percentage of overall revenue will potentially overperform on apparel. Because we see a very strong correlation between apparel success and own retail doors.

So we often spoke about an apparel share of above 20% in our own retail doors. What you can also expect to see is a lot of investment that goes into our e-com engine so that we're able to communicate our apparel collections in the best possible way.

We still feel we have a lot of potential to bring the offering in the most commercial way to our consumers.

So there's a lot of focus going on elevating our apparel share on e-comm. And then I think the last thing that you can also -- what you will also see is that through a more focused and streamlined approach on the collections we should see a higher basically sell-through share on specific items, which leads to an overall acceleration.

So we feel right now, that the offering is a little bit too broad. And we want to streamline that when I continue to work on the consumer promise and that should overall result in an even stronger sell-through on the overall. On some of the items. And with that, you'll see an overall acceleration of the apparent .

David Allemann

I'll let probably also to connect that back to our marketing approach.

You will also see that we connect our apparel and push much more to some of our most important partnerships the first co-created added in apparel within [indiscernible] .

You've seen the body art campaign that we built around at Katewick.

So we really use these amazing ambassadors for pushing our apparel growth.

And so I think that's going to be important asset for the future of apparel that really has a voice at all.

Operator

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

Jonathan Komp

Martin, can I follow up on the outlook. I know you're building in planned efficiencies. Could you talk about how you're planning the business and where you expect to see efficiencies that are helping to fuel the marketing plus margin expansion? And then maybe just a bigger picture question tied on with the payroll, but some of your other initiatives.

As you think about the long-term objectives, to reach 10% of revenue or more apparel, D2C, retail, China. How are you tracking overall to those longer-term objectives?

Martin Hoffmann

Good. Jon.

Let me start with the first part, Marc takes the second part.

So in '25, we expect leverage in our G&A line, which we currently see as the -- that's the key driver to reach that range of 17% to 17.5% adjusted EBITDA margin. We spoke about our warehouse automation project in Atlanta. And we spoke about the headwind that we expect during the first months of operation -- operating that warehouse from the fact that we simply have a high fixed cost base and over time, move volume into that warehouse.

So depending on the scale up of that solution, we will see benefits on the distribution side as well already in '25 compared to the full year '24 picture or that maybe comes in a little bit later into early '26.

So that will that will be a key driver of where do we end up in the range of our profitability targets. And at the same time, we want to keep the marketing spendings on a high level, so in the range of 11% to 12%. And in order to continue to invest into the business going forward, continue into -- the younger areas that you just spoke about, to apparel retail, but also in our key markets and continue to drive brand awareness there.

Marc Maurer

On the more long-term 10% target, I think the reason also why we stated this together is because they are strongly interlinked, right? So I think how retail have a parallel, how China evolves is all connected. When we look at the peril, we're probably slightly behind than where we would have wished to stand today. But at the same time, we really very much know what are the key elements to accelerate.

I think we spoke about the acceleration that we expect.

So really linking back to the answer we already gave the Alex question. And what's very important there is that with the retail space that we're now creating we're really, really expecting for that number to continue to grow over proportionally.

And so that takes a little bit of time as we want to allocate the right retail locations over time and want to make sure that we have enough space to bring the apparel collection in the right way to our consumers.

On retail, I think we're super happy where we stand. It's really a question of how fast do we get access to which locations. Overall, we want to have bigger spaces than we have today.

So you can expect an over proportional parameter growth versus store growth over the next years to come, but we're super happy where we stand and how profitable the channel is for us. And on China, we're currently standing at 58 stores to give you an example, by the end of '24.

So that's 30 own retail and 28 franchise stores. We're growing that to roughly 40 own retail and roughly 40 franchise stores, so to 80. And these stores will be bigger than what we have today. We're opening 2 flagship locations in Chengdu and Shenzhen this year.

And so I think what you can expect to see is that in China, the consumer demand and the awareness that we're creating will be able to be captured in a better way through more point of sales that speak to the consumer in a more authentic way.

So very much -- very, very happy with where we're there.

So I think overall, -- and this is always important for us when we speak to the team as well. It's not just about the number that we reach. It's about are we doing the right things?

And are we really tracking on the initiatives that we've set out as part of our LLP. And very happy to note that on retail and on China, we're definitely on track on apparel, we're slightly behind, but we're very hopeful and positive on the future outlook.

Operator

Your next question comes from the line of Nisha Sherman of Bernstein.

Unknown Analyst

So I appreciate you're not giving quarterly guidance, but I wonder if you could give some more specific color on the cadence through the year of some of the headwinds you faced last year.

So there was a European store closures. There were some marketplace allocation shifts, there were supply chain disruptions in North America. Could you give a little color on the relative size of these headwinds and also the cadence were they all H1 weighted, which should help us model out the relative growth this year? And then I have a quick follow-up on door growth.

You mentioned retail door growth, but -- for wholesale, last quarter, you talked about 5% to 6% door growth over the coming year. Is that still your view into FY '25? And is that true across regions?

Marc Maurer

I'm very quickly going to take the wholesale question, and then Martin is going to take the other one.

So yes, it's still true.

So we ended last year at 10,700 wholesale doors. And we are looking into expanding that to roughly 11,300 wholesale doors.

So we're very much in line with what we've communicated. Very importantly, so you can expect to see additions with some of the key accounts that we're already working with.

So you look at Foot Locker, you look at exporting goods, you look at JD, we're very much looking forward to really and start the partnership with Snipes as well, especially in Europe.

So it will be a test of the partners that we're already working with, but just slightly some additional doors if these existing partners and Martin will take your other question.

Martin Hoffmann

Yes.

So really for us, the focus is executing on our 3-year plan. And we -- with the numbers that we have given, we are clearly tracking ahead of that 3-year plan. And we see that all the elements are really working and that we can fully focus on the execution of those growth drivers. And we pointed out last year that especially in the second quarter, we have seen impact from the disruptions of our operations, especially out of the Atlanta warehouse. But we also pointed out that this was less so on the overall supply of products for our customers also on the channel mix.

So probably B2C was impacted in the second quarter.

And so we expect, therefore, positive effect there on the growth rate. But really for us, it's about the execution for the rest of the year and focusing on that and less on the quarters. And at the same time, as said, our preorders indicate strong growth across the whole year. And at the same time, we want to stay prudent in the light of the uncertainties that are there.

Operator

Your next question comes from the line of Cristina Fernández of Telsey Advisory Group.

Cristina Fernandez

I would love to get your thoughts in general on the competitive landscape for 2025, how it compares to recent years and in particular, some of the bigger brands are looking to reinvigorate the running franchises and penetrate further or go back to the specialty learnings channel.

So your thoughts there would be appreciated?

Marc Maurer

Thank you, Cristina, for the question.

I think we're very aware of the competitive landscape, and we observe how our fellow kind of competitors or looking at your innovation pipeline and how they're working with the wholesale partners. And what's important for us is that -- and I think we are already try to highlight that at the beginning of this Q&A. We feel that On is in a very different position than many of our competitors because we are more premium, which allows us to capture different price points. and allows also within the channel partners that we're in to capture a very specific consumer segment in this channel with these channel partners. We feel we're bringing innovation to the market that's very much rooted in performance, design and sustainability. And if you look at the product like Light spray, we feel it's very differentiated to what some of the other brands had. And with that, it allows us to tell a very differentiated story together with our athletes and influencers that we're working with.

And so as a result of that, we can capture a lot of our consumers through our own channels as well.

So you saw that reflected in our Q4 numbers. And these channels in return, again, allow us to basically focus very much on a full price sell-through, which then results in a higher margin profile.

And so we're very happy with where we stand as a brand with the strategy that we have. And -- what we currently see also looking at '25 is that, that strategy is being appreciated, and it allows us to not play in the field of where all the others are playing, but capture a different consumer with a higher margin profile.

Operator

Thank you.

We have run out of time to take any further questions.

So that concludes our Q&A session. We thank you for your participation. This now concludes today's conference call.

You may now disconnect.