

March 31, 2017

Columbia Sportswear: COLM
Analyst: Joseph Nastasi

Sector: Consumer Discretionary
Industry: Textiles, Apparel, and Luxury Goods

Company Description:

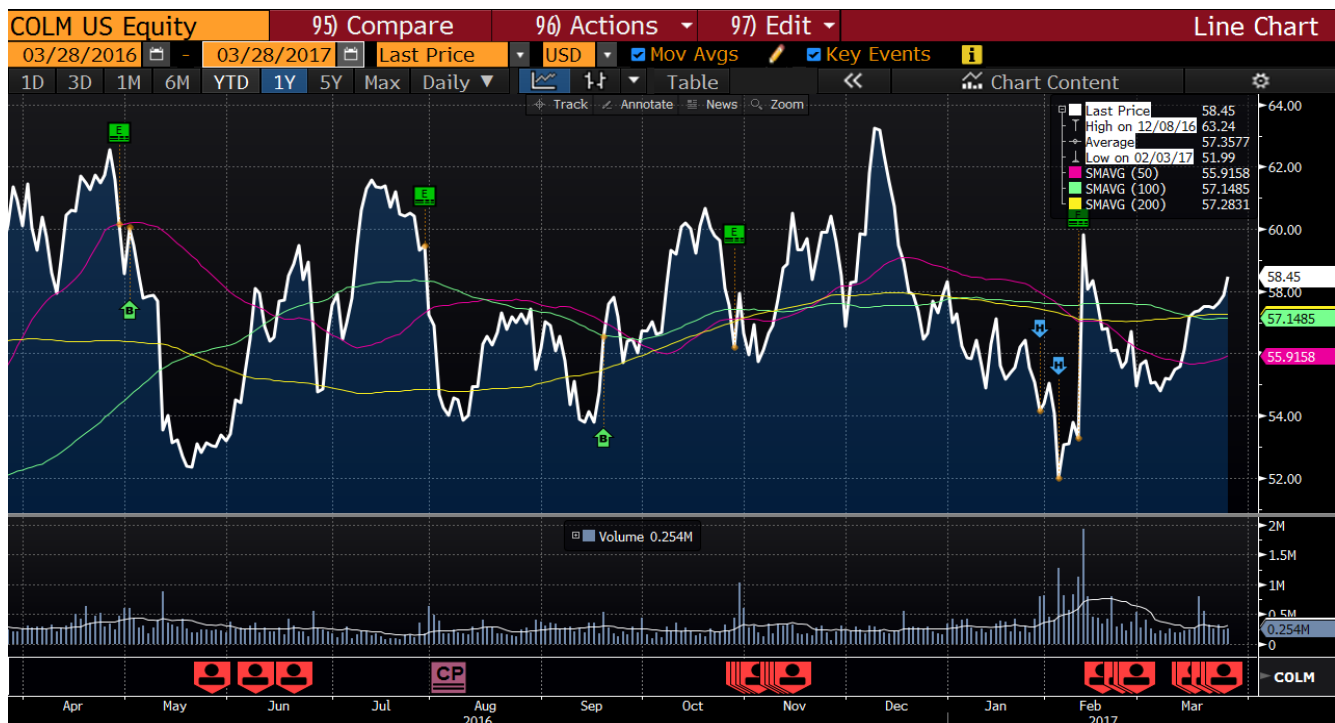
Columbia Sportswear Company engages in designing, sourcing, marketing, and distributing outdoor and active lifestyle apparel, footwear, accessories, and equipment. The Columbia family of brands include the flagship Columbia brand, Sorel, Mountain Hardwear, and prAna. The durability and functionality of the company's products make them ideal for a range of outdoor and active lifestyle activities. Columbia sells its products through wholesale distribution channels, direct-to-consumer channels, independent distributors and licenses, as well as directly to consumers through its network of branded and outlet retail stores in approximately 90 countries. The Company was founded in 1938 and incorporated in 1961.

BUY

Current Price:	\$58.88
Target Price:	\$63.50
Market Cap:	4.06B
Volume:	428,711
Ke:	9.6%
ROE:	13.0%
Net Income Margin:	8.2%
Total Asset Turnover:	1.20
Equity Multiplier	1.27
Cash/Total Assets:	27.4%

Catalysts:

- **Short Term (within the year):** Q1 2017 Earnings on April 27th
- **Mid Term (1-2 years):** Marketing campaign with numerous strategic partnerships and potential of global ecommerce business to expand brand recognition and market share
- **Long Term (3+):** Innovative new products that will lead to improving margins and differentiation from its competitors

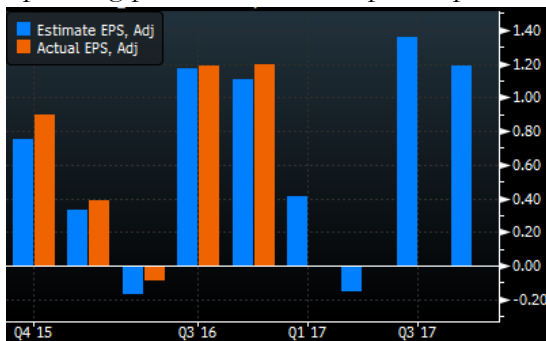


Thesis:

Columbia Sportswear has an international reputation for innovation, quality, and performance. Columbia has seen growth in a challenging retail environment with significant headwinds from customer bankruptcies, changing consumer shopping behavior, and unreasonably warm weather. Columbia's 4th quarter earnings increased net sales, operating income, net income, gross margin, and a record operating cash flow of \$275.2 million. The global ecommerce business grew more than 20% to representing 9% of global sales and has potential for further growth to counteract the loss of square feet of sporting goods leaving the retail landscape. The Sorel and prAna brands have potential for rapid continual growth, while the realignment of the Mountain Hardwear through innovative marketing strategies has great potential as well. Columbia is able to distinguish itself from its competitors due to its technologically advanced products like the OutDry Extreme Eco and Omni-Heat Reflective Garments. Marketing strategies like the partnership with Macklemore, Manchester United, Disney, and the Tested Tough Platform will expand brand recognition and market share. Columbia has an unleveraged capitalization and high profitability margins that will continue to grow. Columbia Sportswear has succeeded in a difficult operating environment and is underpriced right now.

4th Quarter Earnings Performance:

Columbia's CEO Tim Boyle stated, "We are very proud of our fourth quarter results and full year 2016 performance despite significant headwinds from customer bankruptcies, changing consumer shopping behavior, unseasonably warm weather, and cautious wholesale customers. Record net sales, record gross margins, expanded operating margin, and record net income reflect our powerful brand portfolio, robust operating platforms and disciplined prioritization of investments."



For the 4th quarter, net sales increased 3% to \$717.4M. Operating income increased 22% to \$100.4M. Net income increased 34% to \$84.7M. SG&A expenses increased 2% to \$241.2M. Gross margin expanded 175 basis points to 47.1%. This was due to a favorable mix of full price versus closeout discount price and selective price increases. The board of directors approved a regular quarterly dividend of \$0.18 per share. For the fiscal year of 2016, net sales increased 2% to \$2.38B. Operating income increased 3% to \$256.5M. Record

operating cash flow of \$275.2M was reported. Net income increased 10% to 191.9M. In total, \$48.1M in dividends were paid. Guidance for fiscal year 2017, net sales growth of approximately 4%. Operating income growth of up to 5% to between \$260M and \$270M. This guidance is based on Spring and Fall season advance wholesale orders. There is a planned addition of 13 outlet stores. Also, mid-single digit sales growth from the Columbia brand, low-double digit sales growth from the Sorel brand, and low-double digit sales growth for the prAna brand.

Industry Outlook:




The markets for outdoor and active lifestyle apparel, footwear, accessories, and equipment are highly competitive. The primary competitive factors are brand strength, product innovation, product design, functionality, durability, effectiveness of marketing efforts and price. This industry is highly dependent on consumer discretionary spending and retail traffic pattern. Weakness in this industry has resulted in numerous

retailers, customers of Columbia, filing for protection under bankruptcy laws. Columbia extends credit to its customers (retailers), which can lead to an increase of exposure of uncollectable receivables. The outdoor and active lifestyle industry is dependent on weather conditions, which have led to order cancellations due to winter arriving late this year. From the Q4 earnings call, investors were concerned about the loss of square footage of retailers. Timothy Boyle stated, “I’ve heard the quote that 20 million square feet of sporting goods has left the retail landscape in the U.S.” The retail landscape is shifting to channels that are direct-to-consumers. This trend is shown with Amazon now representing 3.11% of Columbia’s total revenue. An area of growth for Columbia is its direct-to-consumer channels, which grew more than 10% and represented 37% of global sales in FY 2016. The global ecommerce business grew more than 20% to approximately \$220 million which represented more than 9% of global sales. Columbia Sportswear is able to distinguish itself from its competitors due to its international reputation for innovation, quality, and performance. Columbia research and development efforts for higher quality products include strong relationships with specialist in the field of chemistry, biochemistry, engineering, industrial design, material research, and graphical design.

Business Model:



Columbia Sportswear develops and manages merchandise in two principle categories: (1) apparel, accessories, and equipment and (2) footwear. Apparel, accessories, and equipment represent 78.5% of revenue and grew in revenue by 2.5% from FY 2015 to FY2016. Footwear represents 21.5% of revenue and remained constant in growth. Columbia operates under four primary brands that complement each other to address the diverse need of consumers. The Columbia brand represents 80.4% of total revenue, offering performance and casual products for a wide variety of activities and consumers. The Columbia grew by 2.5% from FY 2015 to FY 2016. The Sorel brand was acquired in 2000 and represents 9% of total revenue, offering cold weather footwear and accessories with an emphasis on young fashion-forward female consumers. The Sorel brand grew at only 1.8% due to the late arrival of winter. The Mountain Hardwear brand was acquired in 2003 and represents 4.4% of total revenue, offering premium outdoor apparel and equipment for the worst weather conditions. This brand fell 10%. The prAna brand acquired in 2014 represents 5.9% of revenue, offering mindfully-designed and stylish clothing that prioritizes sustainable practices. This brand grew at 12% from FY 2015 to FY 2016.

In Millions of USD except Per Share	FY 2013		FY 2014		FY 2015		FY 2016	
12 Months Ending	12/31/2013		12/31/2014		12/31/2015		12/31/2016	
 Revenue	1,685.0	100.0%	2,100.6	100.0%	2,326.2	100.0%	2,377.0	100.0%
 Apparel, Accessories & Equipment	1,374.6	81.6%	1,676.2	79.8%	1,821.2	78.3%	1,865.4	78.5%
 Footwear	310.4	18.4%	424.4	20.2%	505.0	21.7%	511.6	21.5%

Revenue - Supplementary Breakd...	1,685.0	100.0%	2,100.6	100.0%	2,326.2	100.0%	2,377.0	100.0%
Columbia	1,412.9	83.9%	1,750.3	83.3%	1,864.7	80.2%	1,910.1	80.4%
Sorel	128.7	7.6%	166.2	7.9%	209.2	9.0%	213.0	9.0%
prAna	—	—	53.7	2.6%	125.3	5.4%	139.9	5.9%
Mountain Hardwear	132.5	7.9%	119.8	5.7%	116.3	5.0%	104.0	4.4%
Other	10.9	0.6%	10.6	0.5%	10.7	0.5%	10.0	0.4%

The 2016 net sales by geography are 63.3% in the U.S, 19.1% in LAAP (Latin America & Asia Pacific), 10.7% in EMEA (Europe, Middle East, and Africa), and 6.9% in Canada. Columbia’s greatest wholesale distributors as a percent of revenue are Dick’s Sporting Goods at 5.36%, Cabela’s at 3.83%, Kohl’s at 3.36%, Amazon at 3.11%, Macy’s at 2.7%, and JC Penny at 1.72%. Columbia’s strategy is to invest in its brands, which include

the continual flow of new, innovative products and demand creative initiatives intended to strengthen consumers' emotional connection with the brands.

Innovative Products:

Columbia Sportswear takes the lifestyle approach of measuring, managing, and improving its products based on social, environmental, ethical, and chemical impacts. Vigorous materials and product testing ensure the longevity of the products. The preferred environmentally material used by Columbia in its products are recycled polyesters (nearly 80% of material used), insulation materials, and leather. Some of Columbia's innovative products are described below.

- OutDry Extreme Eco Jacket:** CEO Timothy Boyle stated, "OutDry Extreme Eco represents the most functionally raingear with the least impact on the environment." This sandwiched the membrane (microporous fabric that is about 70% air and whose pores are small enough to keep drops of water out) with an outer fabric that protects it from abrasion, and a lighter inner liner that provides next-to-skin comfort. This product does not use PFCs, which Columbia's competitors use, which is a durable water-repellent that is harmful to the environment. Also non-dyed materials are used, which saves 13 gallons of water per garment. The product is made of byproducts of recycled water bottles. Men's Health and Digital Trends recognized the jacket for its eco-conscious design and high performance.
- Omni-Heat Reflective Garments:** This patented lining is comprised of a pattern of tiny silver dots with aluminum that reflects a percentage of your radiant, infrared body heat back into you to keep you warm. The dots only cover about 33 percent of the fabric, which makes the technology breathable and keeps you from overheating. The Omi-Heat Reflective garments reduce your need for bulky layers. Columbia has used the lining for many of its products, including base layers, gloves, hats, and jackets. This product displays Columbia's message of keeping you warm, but not sweaty.



Marketing Strategy:

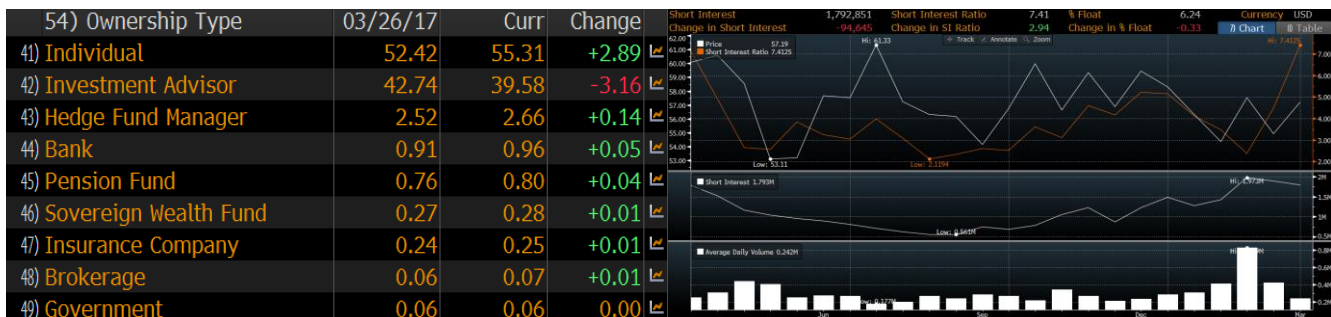
Columbia's slogan is "Helping consumers everywhere stay outdoors longer." Marketing supports and enables Columbia's competitive position in the marketplace by stimulating consumer demand for its products worldwide. During 2016, Columbia invested approximately 5% of net sales in marketing programs. Columbia's target audience varies by brand. Columbia's OutDry Extreme Eco Jacket marketing campaign features a partnership with hip-hop artist Macklemore, which drove over 40 million impressions and

numerous placements in major publications. Columbia initiated the Global Tested Tough brand campaign with a global penetration across approximately 100 countries, where Columbia shows how its products allow people to enjoy the outdoors longer. Columbia has expanded its reach in European markets with its partnership with Manchester United as its official global outerwear. Also, Columbia sealed a multi-year agreement to be the presenting sponsor of the Ultra-Trail du Mont Blanc, which is a ultra-trail running event held annually in Chamonix, France. Columbia, under the Directors of Toughness, hires adventurous individuals to travel the world testing Columbia gear in some of the most challenging conditions on the planet and documenting their experiences for social media. The Directors of Toughness Campaign has driven more than 200 million editorial impressions and millions of views on YouTube, Facebook, and Instagram. Columbia's Sorel brand has launched a successful pilot of a spring line in partnership with Nordstrom, which is a step to de-winterize the brand. Lastly, Columbia has an exclusive partnership with Disney's Star Wars franchise, as the exclusive designer and distributor of Rogue One inspired apparel.



Ownership:

The ownership chart is shown below. Individuals own 55.31% of outstanding shares, investment advisors own 39.58%, and hedge fund managers own 2.66%. There has been an increasing position in shares outstanding by individuals and a decreasing position by investment advisors. The individual holders are the CEO Timothy Boyle who owns 37.44% of outstanding shares and board member Gertrude Boyle who owns 14.20% of outstanding shares. Upper management objectives are closely aligned with Columbia's shareholders since both are highly dependent on the share price. Columbia has a total short interest of 1,792,851. The short interest ratio is 7.41, which has rapidly increased in recent months. These shorts will have to cover and will bring upward pressure on the stock price.



Holder Name	Portfolio Name	Source	Opt	Position ↑	% Out	Latest Chg	File Dt
1. BOYLE TIMOTHY P		13G	All	26,014,521	37.44	0	12/31/16
2. BOYLE GERTRUDE		Form 5		9,863,783	14.20	-373,345	12/31/16
3. EATON VANCE CORP		13G		4,171,263	6.00	0	12/31/16
4. BANY SARAH A		Form 4		2,383,554	3.43	-5,290	11/14/16
5. VANGUARD GROUP		ULT-AGG		2,106,492	3.03	69,831	12/31/16

Capital Allocation Comparison:

Columbia Sportswear uses a small amount of debt and has high liquidity. For FY 2016, Columbia has \$14.1 million in total debt compared to \$551.9 million in cash & equivalents. Total debt has decreased by 17% and cash & equivalents have increased by 49% from FY 2015 to FY 2016. Columbia's cash to total assets ratio is 27.4%. This low amount of debt is due to that most of Columbia's capital is invested in short-term working capital assets and does not own or operate manufacturing facilities. Columbia's WACC is 12.6% and cost of debt is 6.7%, which are both higher than its competitors. Columbia's capitalization is lower compared to its competitors due to its minimal amount of debt usage. Columbia's return on capital to WACC is at 1.03, which is lower than its competitors. The minimal usage of debt and high amount of cash gives Columbia maximum flexibility compared to its competitors.

In Millions of USD	FY 2013	FY 2014	FY 2015	FY 2016	Current/LTM
12 Months Ending	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2016
Market Capitalization	2,724.4	3,110.1	3,377.9	4,073.6	4,047.5
- Cash & Equivalents	529.2	440.8	370.4	551.9	551.9
+ Preferred & Other	7.4	11.6	16.0	20.7	20.7
+ Total Debt	0.0	15.7	17.0	14.1	14.1
Enterprise Value	2,202.6	2,696.7	3,040.5	3,556.5	3,530.4

	WACC	
	History	LFY
COLM	10.7%	12.6%
Competitors	10.6%	10.7%

	Kd	
	History	LFY
COLM	3.0%	6.7%
Competitors	4.7%	5.2%

	Capitalization (Debt/Equity)	
	History	LFY
COLM	0.00	0.00
Competitors	0.06	0.08

	ROC /WACC	
	History	LFY
COLM	1.02	1.03
Competitors	1.77	1.43

Profitability and Activity Comparison:

Columbia's revenue, gross profit, EBITDA, net income, and EPS are shown below. Revenue grew 2.2% from FY 2015 to FY 2016. Gross profit increased 3.5% and gross profit margin increased to 46.7%. EBITDA increased 3.8% and EBITDA margin increased to 13.5%. Net income increased 14.7% and net income margin increased to 8.2%. Despite significant headwinds in the retail industry, Columbia was able to improve its revenue, gross profit, EBITDA, net income, and EPS along with its margins. Columbia's revenue to total employees is \$0.39, which is almost double its competitors average. Columbia's profitability ratios are close to the industry median, but a higher profit margin than its competitors. Compared directly to Under Armour, Columbia has a higher return on equity, return on assets, gross margin, profit margin, and EBITDA to net sales. Columbia with its activity ratios has a lower inventory turnover, lower accounts receivable turnover, lower accounts payable turnover, thus having a higher cash conversion cycle than its competitors.

In Millions of USD	FY 2013	FY 2014	FY 2015	FY 2016
12 Months Ending	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Revenue, Adj	1,685.0	2,100.6	2,326.2	2,377.0
Growth %, YoY	0.9	24.7	10.7	2.2
Gross Profit, Adj	743.7	955.0	1,073.5	1,110.3
Margin %	44.1	45.5	46.1	46.7
EBITDA, Adj	186.3	256.3	309.5	321.3
Margin %	11.1	12.2	13.3	13.5
Net Income, Adj	103.6	133.8	170.8	195.0
Margin %	6.2	6.4	7.3	8.2
EPS, Adj	1.49	1.89	2.40	2.76
Growth %, YoY	-1.8	26.7	26.8	15.1

	Revenue/Total Employees	
	History	LFY
COLM	\$ 0.39	\$ 0.39
Competitors	\$ 0.21	\$ 0.21

Name (BI Peers)	ROE:Y	ROA:Y	GM:Y	PM:Y	EBITDA to Net Sales:Y	Ast TO:Y	A/R Trnovr:Y	Inv Turnover:Y	A/P Turnover:Y	Cash Conversion Cycle:Y
Median	14.66%	10.14%	46.57%	7.49%	13.43%	1.28	11.94	3.16	6.24	97.99
COLUMBIA SPORTSWEAR CO	13.17%	10.10%	46.71%	8.20%	13.32%	1.23	6.74	2.63	5.93	131.50
UNDER ARMOUR INC-CLA...	11.48%	8.34%	46.43%	5.62%	11.65%	1.48	9.14	3.04	8.91	119.40
PVH CORP	11.04%	4.75%	53.37%	6.30%	13.54%	0.75	12.89	2.90	5.81	90.93
HANESBRANDS INC	56.93%	11.38%	38.41%	11.80%	14.58%	0.96	8.07	2.05	5.27	153.31
CARTER'S INC	31.12%	13.21%	43.11%	8.15%	15.63%	1.62	15.60	3.80	11.63	87.77
PERRY ELLIS INTERNATI...	10.27%	5.12%	37.18%	3.61%	4.30%	1.42	6.51	3.25	5.20	97.99
KATE SPADE & CO	46.67%	15.11%	59.86%	11.40%	16.86%	1.32	15.85	3.09	5.24	71.39
OXFORD INDUSTRIES INC	15.57%	8.73%	56.99%	5.41%	12.92%	1.61	17.43	3.24	6.24	74.83

Summary:

In conclusion, Columbia Sportswear is a buy at its current price due to its upward growth potential. The durability and functionality of Columbia's products make them ideal for a range of outdoor and active lifestyle activities, which help consumers stay outdoors longer. Columbia has a competitive advantage due to combining technological innovations with its products. Columbia's innovative marketing campaigns and partnerships will help develop the Columbia brand, Sorel brand, Mountain Hardwear brand, and prAna brand. The goal for future growth is to de-winterize the Sorel brand, re-align the Mountain Hardwear brand with marketing strategies like being the official sponsor of the Ultra-Trail du Mont Blanc, and gain market share with the prAna brand with its partnership with Nordstrom. The global ecommerce business is also an area of value creation. Columbia Sportswear's one-year target price of \$63.50 is reasonable due to their upward growth potential.

Columbia Sportswear Company (COLM)

CENTER FOR GLOBAL FINANCIAL STUDIES

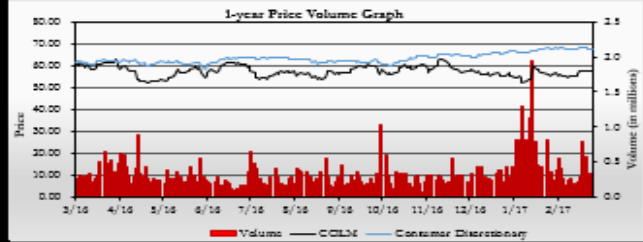
NEUTRAL

Analysis by Joseph Nastasi
3/29/2017

Current Price: **\$59.37**
Dividend Yield: **1.2%**

Intrinsic Value: **\$62.43**
Target Price: **\$63.50**

Target 1 year Return: **8.15%**
Probability of Price Increase: **77%**

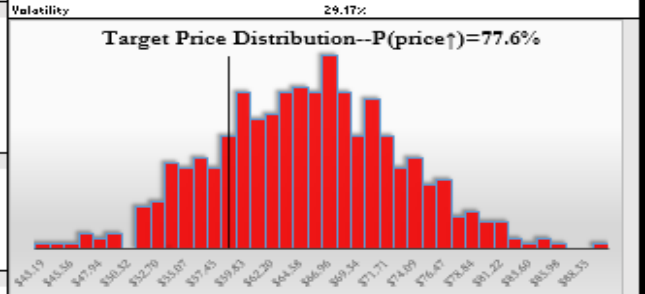


Description	
Columbia Sportswear Company designs, sources, markets, and distributes outdoor and active lifestyle apparel, footwear, accessories, and equipment in the United States, Latin America, the Asia Pacific, Europe, the Middle East, Africa, and Canada.	
General Information	
Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	April 27, 2017
Estimated Country Risk Premium	5.93%
Effective Tax rate	30%
Effective Operating Tax rate	35%

Market Data	
Market Capitalization	\$4,047.50
Daily volume (mil)	0.18
Shares outstanding (mil)	69.49
Diluted shares outstanding (mil)	70.63
% Shares held by institutions	41%
% Shares held by investment Managers	37%
% Shares held by hedge funds	1%
% Shares held by insiders	58.66%
Short Interest	2.58%
Days to cover short interest	4.15
52-week high	\$63.55
52-week low	\$51.70
Levered Beta	0.79
Volatility	29.17%

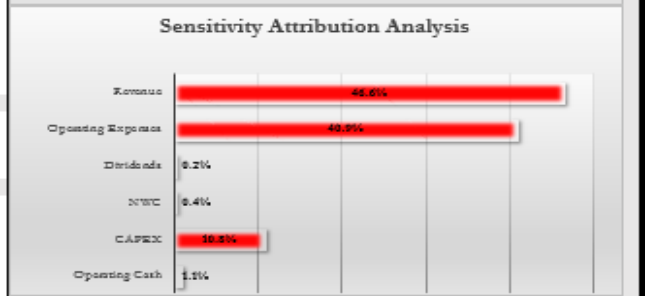
Quarter ending	Revenue	EBITDA
12/31/2015	-1.77%	6.97%
3/31/2016	5.07%	8.49%
6/30/2016	-3.24%	210.48%
9/30/2016	-5.96%	1.17%
12/31/2016	-6.82%	-2.51%
Mean	-2.54%	44.92%
Standard error	2.1%	41.4%

Part Earnings Surprise		Peers	
Revenue	EBITDA	Lululemon Athletica Inc.	-3.12% per annum over 5y
		Wolverine World Wide, Inc.	-3.12% per annum over 5y
		Under Armour, Inc.	-3.12% per annum over 5y
		G-III Apparel Group, Ltd.	-3.12% per annum over 5y
		DSW Inc.	19.02% per annum over 3y
		Carters, Inc.	NM
		Esprit, Inc.	NM
		The Finish Line, Inc.	NM



Management	
Bayle, Timothy	Chief Executive Officer and President and Chief Operating Officer
Timm, Bryan	Chief Financial Officer, Executive Vice President
Curick, Thamar	Chief Administrative Officer
Brogdan, Peter	Chief Accounting Officer and Chief Information Officer
Rauch, Peter	Chief Information Officer
Hirt, Michael	Chief Information Officer

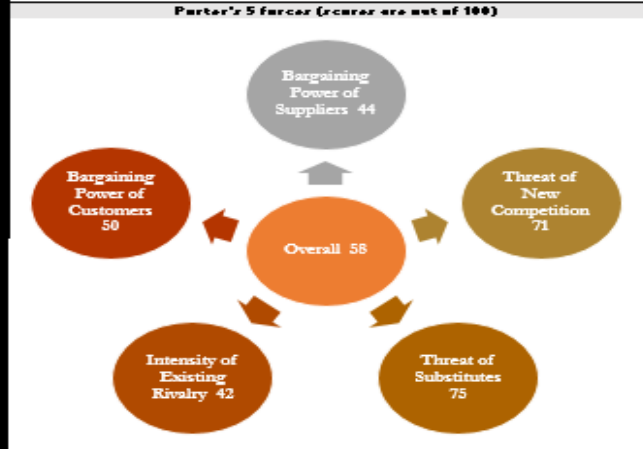
Profitability	
ROIC	10.4%
HOPAT Margin	8%
Revenue/Invested Capital	1.24
ROE	11.9%
Adjusted net margin	8%
Revenue/Adjusted Book Value	1.58



COLM (LTM)		COLM (5 year historical avg industry (LTM))	
Total Cash/Total Capital	24.1%	22.1%	22%
Estimated Operating Cash/Total Capital	19.2%	17.9%	N/A
Non-cash working Capital/Total Capital	21.7%	24.0%	23%
Invested Capital/Total Capital	87.4%	89.2%	78%

COLM (LTM)		COLM (5 year historical avg industry (LTM))	
Total Debt/Common Equity (LTM)	0.10	0.14	0.16
Cost of Existing Debt	7.49%	5.35%	3.81%
Estimated Cost of new Borrowing	5.03%	4.86%	3.81%
CGFS Risk Rating	C	C	CC
Unlevered Beta (LTM)	0.73	1.13	0.46
WACC	8.33%	10.09%	6.48%

Capital Structure	
Total Debt/Common Equity (LTM)	0.10
Cost of Existing Debt	7.49%
Estimated Cost of new Borrowing	5.03%
CGFS Risk Rating	C
Unlevered Beta (LTM)	0.73
WACC	8.33%



Period	Revenue growth	Selection	HOPAT margin	ROIC/WACC
Base Year	2.2%	9.4%	1.25	
12/31/2017	3.6%	10.6%	1.60	
12/31/2018	4.2%	10.5%	1.56	
12/31/2019	4.7%	10.2%	1.55	
12/31/2020	4.9%	11.1%	1.74	
12/31/2021	4.6%	11.0%	1.77	
12/31/2022	4.5%	11.2%	1.87	
12/31/2023	4.4%	11.4%	1.97	
12/31/2024	4.3%	11.7%	2.11	
12/31/2025	4.2%	11.9%	2.24	
12/31/2026	4.1%	12.1%	2.37	
Continuing Period	4.0%	12.4%	1.79	

Period	Invested Capital	Net Claims	Price per share
Base Year	\$1,569.60	\$382.47	\$62.85
12/31/2017	\$1,629.65	\$517.38	\$64.87
12/31/2018	\$1,607.50	\$950.03	\$62.08
12/31/2019	\$1,318.21	\$1,620.94	\$55.61
12/31/2020	\$1,819.56	\$2,457.21	\$46.71
12/31/2021	\$2,003.85	\$3,407.99	\$35.86
12/31/2022	\$2,146.66	\$4,388.54	\$24.21
12/31/2023	\$2,244.82	\$5,268.64	\$13.48
12/31/2024	\$2,312.21	\$6,066.52	\$3.86
12/31/2025	\$2,401.22	\$6,609.30	-\$2.54
12/31/2026	\$2,472.49	\$6,774.60	-\$4.04
Continuing Period			