Siena Market Line
3rd week of November 2016

UNDER ARMOUR INC.

NASDAQ:UA

Analyst: Justin Capuano
Sector: Consumer Disc.

BUY

1yr. Price Target: $40

Key Statistics as of 11/18/2016

Market Price:	$30.95
Industry:	Athletic Apparel and Footwear
Market Cap:	$11.853B
52-Week Range:	$30.06-$47.95
Beta:	0.29

Current EV/EBITDA:	22.55x
High (2015)	51.97x
Low (2015)	37.90x
D/E:	40.10%

Catalysts:

- **Short Term (within 3 months):** Updated revenue guidance from earnings reports. Holiday spending reports.
- **Long Term (over 1 year):** Materialization of long term profitability strategies. Consumer Spending Reports (Domestic and International).

Company Description:

Incorporated in 1996 in Baltimore, Maryland, Under Armour Inc.'s principal business activities are the development, marketing, and distribution of UA name branded performance apparel, footwear, and accessories for men and women of all ages. UA sells its products worldwide and are worn on the playing fields by athletes from all levels, as well as consumers with active lifestyles. Revenues are primarily generated from both wholesale sales and direct to consumer sales channels and brand awareness is achieved through digital advertising, professional and amateur sport team sponsorships and endorsements from the following leagues: NBA, NFL, MLB, and European and Latin American soccer and rugby leagues, and from its mobile application connectivity platform.

Thesis

Under Armour is a growth oriented stock that is currently undervalued because of an overreaction to its proposed strategy of maintaining over 20% growth in revenue while sacrificing short term profits. Investors sold the stock off for a near 25% decline which provides an optimal buying opportunity as the stock is trading at 22.55x EV/EBITDA, 50.69x P/E, and 2.72x P/Sales, the lowest multiples in the past 3 years. CEO and Founder Kevin Plank and his experienced management team are determined to follow the vision of growth that will lead UA in surpassing its competitors while still promoting a healthy lifestyle for its customers. My research and analysis of UA provides reasoning for my proposition of a BUY at $31.

Industry Outlook

The athletic apparel industry is dominated by the highly competitive big 3 brands: Nike (NKE), Adidas (ADDYY), and Under Armour. Customer traffic and company success is reliant on brand awareness, brand loyalty, and product differentiation. Currently, UA is the smallest competitor based on total market capitalization and revenue:

	Market Cap	Revenue LTM
Nike	$87.09B	$33.02B
Adidas	$31.07B	$18.78B
UA	$12.46B	$4.96B

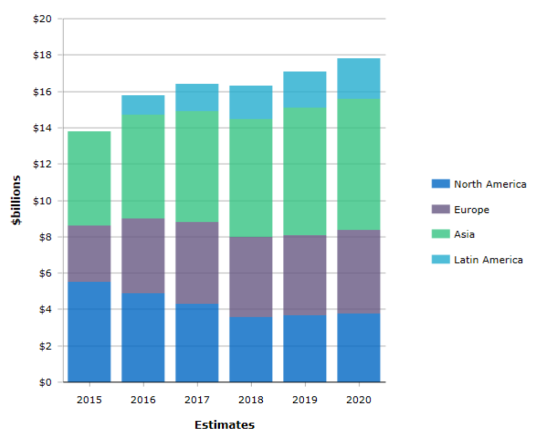
Over the past 7 years, overall sports apparel and footwear sales has grown 42% to reach a total of $270 billion. While the explosive growth may seem difficult to maintain, the industry has a variety of growth prospects due to the upward trend of healthy and active lifestyles, rise of athleisure wear, international exposure, and the emergence of the wearable technology market. Outlooks for growth are favorable but the industry has recently experienced headwinds in revenue growth because of consolidation and bankruptcy of large sporting goods retailers, The Sports Authority and Sport Chalet, accounting for a $4 billion loss in revenues for sports apparel and footwear brands.

Long Term Growth Strategies

Diversifying Distribution Channels: UA plans to combat the closing of one of its main distributors, The Sports Authority, by signing a contract with Kohl's to enter 600 stores starting in 2017, and the option to enter more of its 1,200 stores at a future time. Kohl's will carry UA's basic men's and women's product line that targets the active lifestyle family, particularly the children. Also, UA plans to make an additional presence in the brick and mortar retail space by expanding its product offerings in higher end retailers like Neiman Marcus, Barneys, and Nordstrom. These retailers will offer UA's new high end product line UAS, Under Armour Sportswear. The new product line is a departure from the existing products because the lead designer, Tim Coppens is targeting the fashionable millennial based on his history of luxury and athleisure work at Adidas and Ralph Lauren. The UAS products will be sold at higher margins and will provide UA with the opportunity to tap in to the multi-billion dollar sportswear market. In addition to expanding its presence in retail stores, UA has plans to revamp its direct to consumer strategies to promote growth in the brand name outlet stores and online sales.

International Growth: The United States is UA's core market and will remain as so, but it is becoming apparent that the international markets, specifically Asia and Latin America, are better suited for potential growth.

Asia Could Be Biggest Contributor to Athletic-Wear Sales Growth

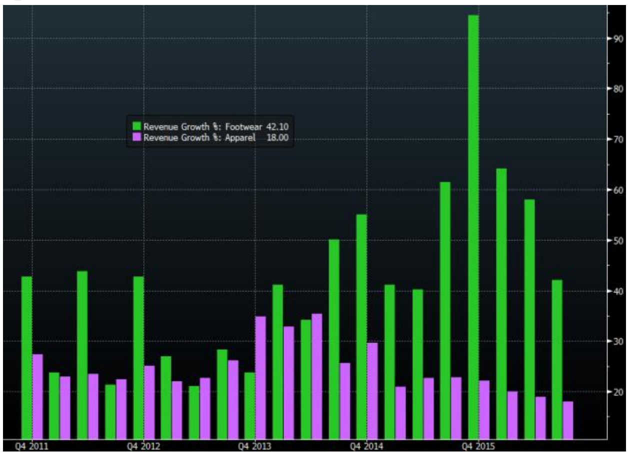


Source: Euromonitor, Morgan Stanley Research Estimates

UA is already taking advantage of the international growth opportunity as they have grown international revenues by 73.70% year over year, from 10.8% of revenue in Q3 of 2015, to 15.4% of revenue in Q3 2016. International exposure was facilitated by UA's sponsorship of countries and medal winning athletes in the 2016 Summer Olympics. Foreign customers can already purchase UA products from its web and mobile commerce platforms but management plans to expand its brand name outlet and specialty stores in strategic growth countries like China. UA is still in its beginning stages of opening new foreign locations and management is confident that in the long term, UA will generate international revenues that will converge with Nike's international revenues of 55% of total sales.

Connected Fitness: Capital investments totaling $560 million in February 2015 were used to acquire mobile applications MyFitnessPal, the world's largest exercise and health tracking platform, and Endomondo, a personal training application. UA is using these strategic investments to facilitate its Connected Fitness platform and the UA Record mobile app that tracks and records the users' workout statistics. The UA branded apps attract the athletic and fitness minded individual, UA's targeted customer. As of the end of Q3 2016, over 190 million users have connected to the Connected Fitness apps and UA has captured their data in order to turn those users in to customers. Connected Fitness revenues will continue to see rapid growth as more users use UA branded health tracking devices, like the heartbeat tracking wireless headphone, and as users switch over from the Nike + fitness tracking platform.

Focus on Footwear: Industry trends are showing that apparel sales are marginally slowing down, creating space for the footwear market to thrive.



Historically, footwear has consistently generated more quarter to quarter growth than apparel as seen in the chart, but apparel still controls 70.7% of total revenue compared to 17.1% for footwear. Management plans to increase production from 30 million pairs of shoes in 2015 to 40 million pairs in 2016 and will continue growing production year over year to increase its market share to be considered competitive. Marketing will be focused around growing the insanely popular Curry basketball shoe line and the Bandit trainer. Increasing shoes production requires a high initial investment that will eventually be offset as economies of scale are improved and revenue increases.

Sponsorships: UA has announced the largest college sponsorship deal ever, a $280 million athletic sponsorship with UCLA that will last 15 years. Other notable deals are a $96 million agreements with the University of Wisconsin and a $90 million agreement with Notre Dame, both lasting 10 years. Under these contracts, the colleges must exclusively use UA products while UA receives a percentage of each sale and the benefit of brand exposure on national television as the athletic teams display the UA logo on their jerseys. Also, UA signed a contract with the MLB to be its sole uniform provider starting in 2020, and has partnerships with other professional leagues like the NBA and NFL, and with all star players like Stephen Curry and Cam Newton. Management is confident that locking in the 10-15 year deals will provide long term brand exposure and revenue growth.

Financials vs. Competitors

ROIC /WACC	History	LFY
UA	1.70	1.73
Nike	2.53	1.98
Adidas	1.61	2.17

WACC	History	LFY
UA	11.7%	9.7%
Nike	9.8%	11.9%
Adidas	8.6%	7.5%

ROIC W/O GW	History	LFY
UA	19.9%	16.7%
Nike	24.9%	23.4%
Adidas	13.9%	16.3%

EBITA Margin	History	LFY
UA	11.5%	9.6%
Nike	13.5%	13.1%
Adidas	6.9%	7.9%

SGA/Revenue	History	LFY
UA	37.3%	37.7%
Nike	31.5%	32.7%
Adidas	39.2%	35.6%

COR/Revenue	History	LFY
UA	51.6%	52.7%
Nike	55.2%	54.3%
Adidas	52.3%	51.8%

UA places in the middle of the pack in terms of both ROIC without goodwill and its weighted average cost of capital with values of 16.7% and 9.7% respectively in the last fiscal year. However, UA ranks last in the industry in terms of value creation during the same time period. Historically, Nike has been the industry leader for creating value with a trailing 5 year average

ROIC/WACC value of 2.53, but Adidas surpassed them in the last fiscal year with a value of 2.17. It is important to understand the size and states of maturation when comparing and analyzing the financials of the each company. Both Nike and Adidas are mature, well established companies that generate revenues nearly 7 and 3 times, respectively, more than UA. They have achieved economies of scale are able to focus on streamlining production costs and operational efficiencies. On the other hand, UA is still in the growth stage while they continue to spread their brand name internationally to grow revenues. They are also willing to sacrifice operating margins by making large investments on the growth strategies above in order to generate returns as they materialize in the years to come. This strategy is evident in the table above as UA increased S, G, &A spending to pay for the additional employees needed to implement the projects and an increased costs of revenue as they add product lines that require high initial fixed costs that will not reach economies of scale until the company reaches annual revenues near $10 billion, according to the Q3 2016 conference call. The growth strategy and margin sacrifice is also evident in the table below with capital expenditures increasing far beyond the industry average while UA's year over year revenue growth remains steadily above its competitors.

	UA FY2013	UA FY2014	UA LFY	Competitors Average (LFY)
YoY Revenue Growth	27.1%	32.3%	28.5%	11.1%
Gross Margin	48.7%	49.0%	48.1%	47.3%
Operating Margin	11.4%	11.5%	10.5%	10.1%
Net Margin	7.0%	6.8%	6.0%	7.7%
Capex Margin	3.8%	4.6%	7.5%	3.1%

Wall Street had a negative response to UA's plans as there was a large sell off after management released guidance during the Q3 2016 earnings report on November 2nd. The price declined nearly 25% because the analysts overlooked the plans for long term margin appreciation.

Management

Under Armour has a loyal and goal driven CEO/Founder in Kevin Plank. He grew the company from having a few employees selling t shirts out of the back of his truck in 1996 to a $12+ billion multinational company. He has a contagious vision for growing the company that his team and employees can support. The rest of the executive team is new as of the past 2 years, but have a long history of success and experience with other companies. Andy Donkin, the new Chief Marketing Officer, has marketing experience at executive levels in Amazon.com and Travelocity.com. Karl-Heinz Maurath, the new Chief Revenue Officer, has executive level experience in international affairs with competitor Adidas. The strong staff continues with Colin Browne, the new President of Global Sourcing, that was the VP of the same position at apparel retailer VF Corp. The strong executive team is supported by a diverse Board of Directors. The Lead Director was the former executive director of the CIA and the rest of the board is populated by retail, apparel, and international sourcing professionals.

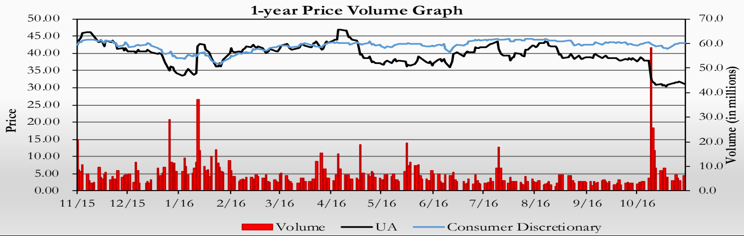
Conclusion

Under Armour is a powerful brand that spreads its vision of growth and active living to its customers through its product offerings. The company has set itself apart from its competitors in terms of growth and has strategic long term plans to generate substantial returns on its lofty current investments. With its position in the athletic apparel and footwear industry, I proposing long term buy and hold at $31 with a 1 year price target at $40, a 29% return.

Under Armour, Inc. (UA) — CENTER FOR GLOBAL FINANCIAL STUDIES — NEUTRAL

Analysis by Justin Capuano	Current Price:	$32.31	Intrinsic Value	$34.74	Target 1 year Return: 21.09%
11/18/2016	Divident Yield:	0.0%	Target Price	$39.12	Probability of Price Increase: 85.2%

1-year Price Volume Graph



Description

Under Armour, Inc. together with its subsidiaries, develops, markets, and distributes branded performance apparel, footwear, and accessories for men, women, and youth primarily in North America, Europe, the Middle East, Africa, the Asia-Pacific, and Latin America.

General Information

Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	January 31, 2017
Estimated Country Risk Premium	6.97%
Effective Tax rate	36%
Effective Operating Tax rate	45%

Market Data

Market Capitalization	$12,608.19
Daily volume (mil)	3.34
Shares outstanding (mil)	438.15
Diluted shares outstanding (mil)	443.68
% shares held by institutions	66%
% shares held by investments Managers	54%
% shares held by hedge funds	5%
% shares held by insiders	16.19%
Short interest	10.98%
Days to cover short interest	8.67
52 week high	$47.95
52-week low	$30.06
Levered Beta	0.54
Volatility	35.55%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
9/30/2015	-0.73%	-14.19%
12/31/2015	1.89%	-28.10%
3/31/2016	-2.80%	-5.90%
6/30/2016	-1.57%	-25.35%
9/30/2016	-1.38%	-1.68%
Mean	-0.92%	-15.04%
Standard error	0.8%	5.2%

Peers

Adidas AG

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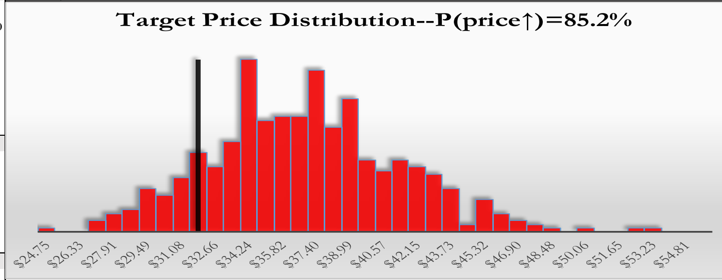
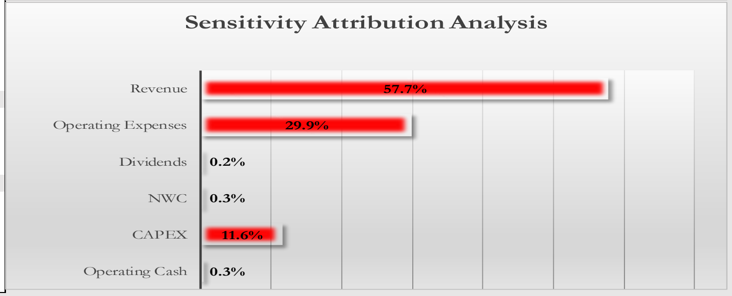
Target Price Distribution--P(price↑)=85.2%



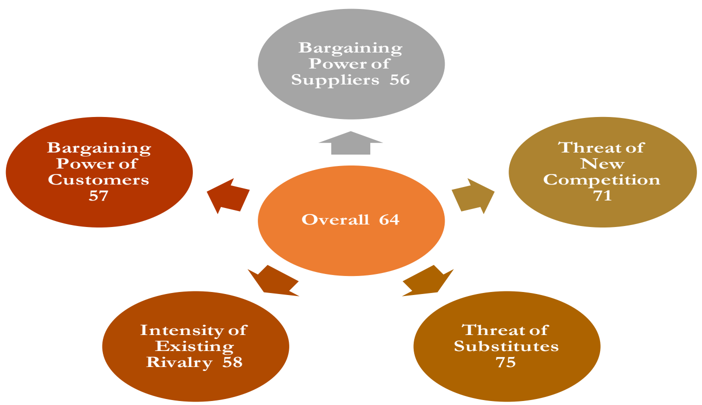
Management	Position	Total compensations growth	Total return to shareholders
Plank, Kevin	Founder, Chairman, Chief Exe	13.04% per annum over 5y	8.75% per annum over 5y
Chandler, Kerry	Chief Human Resources Office	N/M	0% per annum over 0y
Maurath, Karl-Heinz	Chief Revenue Officer	-11.29% per annum over 3y	34.71% per annum over 3y
Molloy, Lawrence	Chief Financial Officer	N/M	N/M
Fipps, Paul	Chief Information Officer an	N/M	N/M
Shaw, Thomas	Director of Investor Relatio	N/M	N/M

Profitability	UA (LTM)	UA (5 years historical average)	Industry (LTM)
ROIC	10.0%	19.26%	13.95%
NOPAT Margin	6%	13.07%	8.6%
Revenue/Invested Capital	1.65	1.47	1.61
ROE	8.4%	18.76%	15.66%
Adjusted net margin	6%	12.69%	7.8%
Revenue/Adjusted Book Value	1.53	1.48	2.01
Invested Funds	**UA (LTM)**	**UA (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	4.0%	11.3%	16%
Estimated Operating Cash/Total Capital	4.0%	8.6%	N/A
Non-cash working Capital/Total Capital	28.3%	25.1%	28%
Invested Capital/Total Capital	85.5%	85.6%	83%
Capital Structure	**UA (LTM)**	**UA (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.10	0.05	0.15
Cost of Existing Debt	3.83%	5.16%	3.92%
Estimated Cost of new Borrowing	4.77%	5.68%	3.92%
CGFS Risk Rating	CC	C	CC
Unlevered Beta (LTM)	0.52	1.16	0.65
WACC	7.49%	12.40%	8.28%

Sensitivity Attribution Analysis



Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	27.2%	6.1%	1.34
9/30/2017	21.9%	8.4%	1.74
9/30/2018	20.4%	7.1%	1.50
9/30/2019	22.0%	8.5%	1.89
9/30/2020	19.2%	8.9%	2.06
9/30/2021	20.4%	10.5%	2.68
9/30/2022	36.2%	11.2%	3.59
9/30/2023	24.0%	10.6%	3.47
9/30/2024	18.4%	10.6%	3.65
9/30/2025	15.7%	10.7%	4.00
9/30/2026	-73.9%	-17.3%	-1.62
Continuing Period	4.0%	20.3%	3.27

Period	Invested Capital	Net Claims	Price per share
Base Year	$1,152.25	$1,884.63	$35.44
9/30/2017	$1,390.10	$1,909.74	$38.83
9/30/2018	$1,782.30	$1,984.17	$42.51
9/30/2019	$2,236.08	$1,851.39	$46.51
9/30/2020	$2,848.60	$1,360.93	$50.74
9/30/2021	$3,827.34	$284.32	$55.78
9/30/2022	$4,559.00	-$438.84	$61.18
9/30/2023	$5,393.35	-$1,876.87	$66.65
9/30/2024	$6,297.78	-$4,084.72	$72.14
9/30/2025	$7,035.21	-$7,065.30	$77.61
9/30/2026	$7,861.29	-$11,363.19	$75.00
Continuing Period			