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BJORKLUND FUND

March 3rd, 2017

Under Armour, Inc: UAA

THIAM Alexandre

Sector: Consumer Disc.

Industry: Sportswear

Under Armour, Inc. is American based firm that operates within the athletic and footwear industry. The company headquarter is located in Baltimore, Maryland same place where Kevin Plank (founder and current CEO) first thought of the idea of selling synthetic performance apparel in 1996. His performance product line was an instant hit, and the company has been considerably growing ever since then.

BUY

Current Price:	$20.51
Target Price:	$25.00
Market Cap:	$9.13B
Debt rating:	BAA
D/E:	40.10%
P/E:	48.77

Thesis:

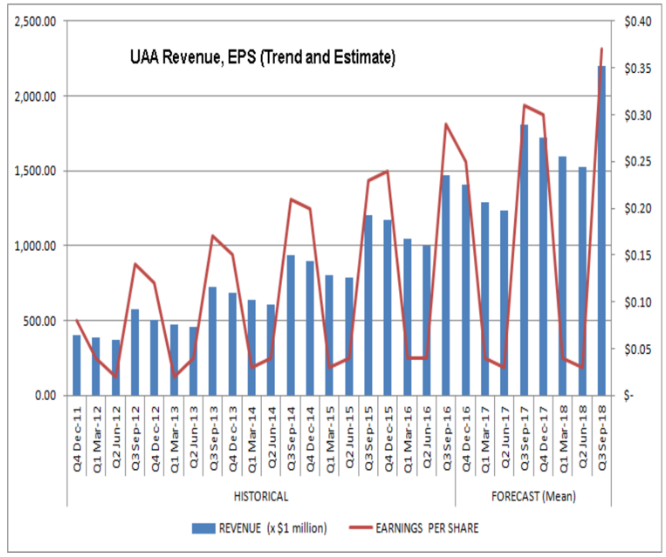
Is there any other company out there that would best define the notion of growth stock than Under Armour? The company is known to be one of the fastest growing company in the United States. Over the last 26 consecutive quarters (roughly 7 years) the company's revenue growth averaged an impressive 20% on a yearly basis. Despite having only missed last quarters estimates, the stock price has been nose diving during the last three earnings releases on the back of suspicions that the company's growth was slowing down. The questions that arises here are: Is a minor slowdown in growth and profitability justifying the massive selloff UA experienced over the last 9 months? Or is it just the market showing inefficiencies by overreacting? In which case it would imply that the current price doesn't reveal the true market value of the firm. I strongly believe that the security is currently mispriced and it is therefore the time to seize the opportunity and purchase Under Arnour at the current price.

Catalysts:

- **Short Term: Lululemon to buy UA.**
- **Mid Term: CEO announced some changes. Recent firm (20 years), room for improvement (Management, Marketing, Inventory, distribution etc.)**
- **Long Term: UA is willing to take the market outside American, and make a market in Europe and Asia.**

Earnings Performance:

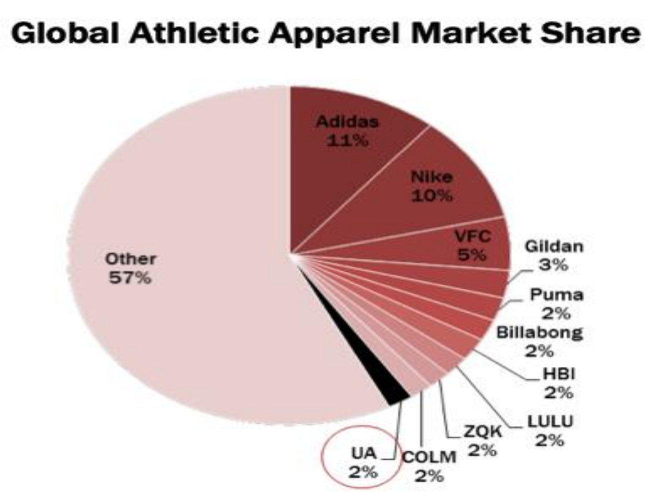
On January 31st 2017, the company released its fourth quarter results and missed both earnings and revenue estimates. The analyst consensus forecasted Earnings and Revenue growth of $0.25 per shares and $1.41 billion respectively. Under Armour missed EPS estimates by 2 cents and revenue fell short by a $100 million with $1.31 Billion in sales, which represent a 12% increase (against 20% forecasted). Growing concerns over the ability of the company to continue stealing market shares from both Nike and Adidas dragged the share price significantly lower (down by 50% in 2016). The company had to revise downwards its expectations for 2017, with a new revenue growth projected at 11% to about $5.4 billion as opposed to the $6.06 billion initially expected. The CEO Kevin Plank is fully aware of the threats and therefore decided to reinsure investors by expressing the fact that the company would do all the necessary changes in order to counterattack any major slowdown.



Industry Outlook:

Under Armour operates within the Athletic Apparel industry and serves as one of the leader among its peers. The industry has been dominated by Nike (NYSE: NKE) and Adidas (ADR: ADDY) for the most part of the century but UA has been constantly stealing market shares from these two four-hundred pounds' gorillas over the course of the last 15 years (see the 2015 market shares for the athletic apparel industry shown on the graph).

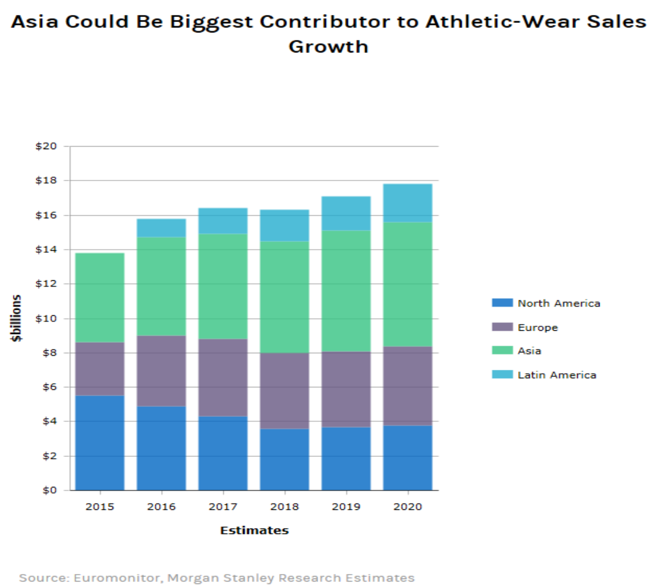
This consistency oriented UA's stock under the spotlights over the past decade as the growth prospect looked promising to investors and markets. According to Morgan Stanley, the Sports sector headed north on a constant basis, and increased by 42% in 7 seven years to $270 billion. The investment Bank views the "Global



Athletic Wear (with a) Very Bullish Five Year Outlook". In the coming years, the market is expected to be driven

by the increasing participation and involvement of people in sporting activities. This growing participation is due to a multitude of cumulated factors but mainly to the growing concerns of people to have a healthy lifestyle. The current segmentation by geography for the Athletic Apparel industry is showing that the market is still mainly in America but the trend is expected to change to the strong increase in demand in Asia (See five-year forecast below).

The industry connoisseurs are positive that investors do not yet grasp how big the Asia market prospect growth is. 2016 outlook report for the Athletic and Leisure Apparel industry expect the industry to grow by $83 billion by 2020 (30% growth).



Distribution Channel:

In early 2016, Sports Authority, one of the biggest distributors of Under Armour's products, filed for Bankruptcy. In 2015, 70% of UA's total revenues were generated through sporting goods retailers. Before the collapse of this giant of the Sporting Goods, Dick's and Sports Authority represented 22% of the company's total sales. Dick's, bought Sports Authority franchise after they closed down and decided to reopen some of their stores and rebrand them. In order to counter-affect the loss of a major distributor, UA entered an agreement in late 2016 with Kohl's. The initial contract authorized UA to sell their product in all of 1,200 Kohl's locations in the US. Kohl's had a decent fourth quarter in 2016, yet the chief executive business to the new trends and officer, Kevin Mansell, said that he expected Under Armour's sales to considerably increase revenues of his firm "We see a massive opportunity with Under Armour with children, women and footwear". The company is also using many other retailers in the US such as high-end stores like Barneys where it sells button down shirts, bomber jackets and parkas. Eventually, UA, is planning on moving to higher end products and more fashion, lifestyle inspired products. The fact is that Under Armour has been the leader for athletic performance gear in the US for the last couple of years but the company is only starting to feel the backlash of their existing strategy. Once concern is that the company has not been able to adapt its core customers growing demands of leisure, casual sportswear. For instance, Adidas managed to climb back the hill when they were all the way down of a trough. The company completely renewed and redesigned its line of products, in order to meet customer's needs. Kevin Plank and its management team said that the company needed a change and that major initiatives were ahead. "We need to become more fashion" is the answer he gave answering an analyst question during the last earning call. I strongly believe that it isn't too late for Under Armour to enter the casual markets, as the brand image as well as recognition is reasonably strong in the US. By entering this market, we can expect UA's margin to increase as these product line would most likely be sold at a higher price. In addition, UA wants to open more self-owned stores in order to realize higher margins on sales by not subcontracting other company to distribute its merchandise. Furthermore, the website sales are increasing on constant bases, and this would also increase the margin and ultimately have an impact on the current inventory level (that are said to be too high.) When the company realize a sale without having to display in a store is saves the company so money (carrying costs, shipping and inventory costs).

Effective Strategy:

Sponsorships and Athletic endorsement represents a considerable portion of the company implementation and growth strategy. The company has been sponsoring numerous Educational Institution ranging from middle school to colleges. The company also sponsors the major leagues in the US such as the MLS, MLB. NFL and NBA, even if It's not as the major sponsor. The company sponsor some franchise and provide them with adequate performance training gears (Cool and dry shirts, performance socks, gloves, catchers/runners gear etc.). Under Armour secured major deals recently with notable Universities, for instance, the company signed three deals with Notre Dame, UCLA, UoW worth a total of $466 million over a period of 10 years. All in all, UA sees a real growth potential through college sponsorships and is, therefore, not afraid to spend and invest in it. This is considerably enhancing the company's image as well as visibility. 2020-2021 season. This would be the company's first major professional league partnership. "This is a major signal from Under Armour that they're ready to play with the big boys," said T.J. Brightman, president of Bel Air-based A. Bright, and the company even competed with Nike over the NBA sponsorship for the next season and eventually winded up losing. In addition to the sponsorship Under Armor also has an aggressive endorsement strategy towards professional players.

Under Armour also signed a contract with the Major Baseball League to serve as the major sponsor for the

International Growth Potential:

One of the biggest challenges that the company is facing is to be able to exports itself into the global market. As expressed in the industry outlook, the Asian market is expected to overtake the American one by 2020. In order to benefit from this shift in geographical demand, UA is going to start to lean on the issue more seriously. Indeed, the brand is barely implemented in Asia but also in Europe. In order to drastically increase its brand awareness in these regions of the world Under Armour started to sponsor and endorse teams and players in major professional sporting leagues outside the US. In order to realize the same operation in Europe than it did in the US by signing the MLB, Under Armour has reportedly entered talks with the most famous soccer team in the world, Real Madrid. If the deal goes through, Under Armour would succeed to Adidas and this would therefore be a major hit to the hegemony of the two worldwide leaders. According the Forbes, the current

how well it will take advantage of this opportunity. “We have innovation centers in China, Taiwan and other places in Asia,” said Yvonne Tei, Under Armour’s marketing director. deal runs through 2020 and Adidas and Real Madrid still haven’t reached an agreement come the future. This would not only be the biggest catch of UA, but also the biggest transaction deal in the history of the sport. The company also wants to endorse European professional players in order to massively increase the brand awareness in the rest of the world.

Kevin Plank said that “someday more than half of our revenues will come from outside of our home country."

Foreign Distribution: In 2013, Under Armour opened new high concept store in Shanghai, China, called the “Experience Store”. In China, Under Armour has been selling its products directly to customers through their 200 "brand house" stores. Knowing that both Adidas and Nike have above 60% of their revenues generated solely from international operations, this shows promising prospects for Under Armour. The extent to which the company will actually manage to inflate its revenues over the long run will be highly influenced by

Currency Exposure/Arbitrage:

The company profit margin decreased during the last quarter going to 44.8 from 48%. Nevertheless, the margins posted remain higher than the sportswear industry and its peers (35%). The decrease in margins is mainly due to inventory management lag, and also exchange rate losses with foreign currencies. This gives us two vital information, the first being that the company's foreign sales considerably increased (to the point where margin are impacted by currency losses) and secondly that due to the recent implementation in those countries, UA simply hadn't had the chance to find proper arbitrage deals and opportunities with domestic companies. Moreover, the price at which the company needs to sell its product must be considerably lower due to the strong US dollar relative to other currencies (Yuan, Yen, Bat etc.)

Conclusion:

All in all, the company is still highly profitable as shown with the profit margin and still has a fair amount of growth potential. These ratios are probably showing a mispricing of the security. The quarterly results may be disappointing but the plunge of the share price may be due to an overreaction of the markets caused by the human factor (Market inefficiency). The company has not given up at all and has launched interesting initiatives to prove investors wrong such investing in a lifestyle inspired line of product. The challenge to overcome is to figure out a way to break through worldwide markets just like its two main competitors, which would most likely reinsure the market and send Under Armour's shares back higher.

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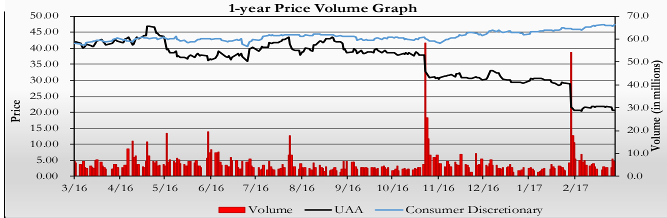
Under Armour, Inc. (UAA)	CENTER FOR GLOBAL FINANCIAL STUDIES		BULLISH
Analysis by Alexandre Thiam 3/3/2017	Current Price: $20.59 Divident Yield: 0.4%	Intrinsic Value $22.09 Target Price $25.31	Target 1 year Return: 23.39% Probability of Price Increase: 96.6%

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	NM
Estimated Country Risk Premium	7.08%
Effective Tax rate	37%
Effective Operating Tax rate	44%

Market Data

Market Capitalization	$8,599.92
Daily volume (mil)	5.20
Shares outstanding (mil)	438.53
Diluted shares outstanding (mil)	444.85
% shares held by institutions	62%
% shares held by investments Managers	52%
% shares held by hedge funds	2%
% shares held by insiders	15.31%
Short interest	10.53%
Days to cover short interest	8.38
52 week high	$47.95
52-week low	$20.30
Levered Beta	0.19
Volatility	38.35%

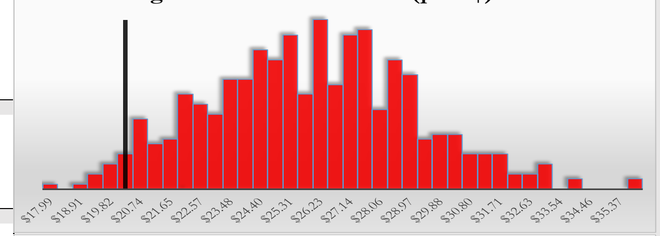
Past Earning Surprises

Quarter ending	Revenue	EBITDA
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%
12/31/2016	-9.42%	-15.58%
Mean	-2.65%	-15.32%
Standard error	1.9%	5.2%

Peers

- Hanesbrands Inc.
- Coach, Inc.
- Michael Kors Holdings Limited
- Ralph Lauren Corporation
- V.F. Corporation
- Lululemon Athletica Inc.
- PVH Corp.
- Fossil Group, Inc.

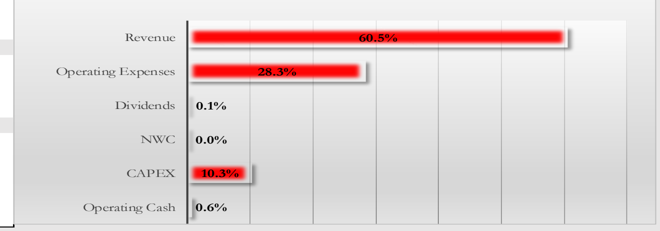
Target Price Distribution--P(price↑)=96.6%



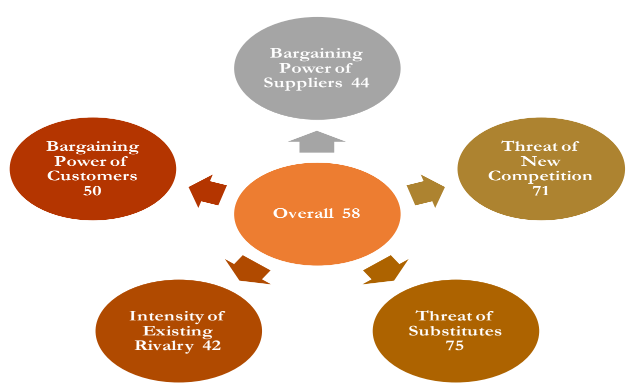
Management	Position	Total compensations growth	Total return to shareholders
Plank, Kevin	Founder, Chairman, Chief Exe	13.04% per annum over 5y	8.75% per annum over 5y
Chandler, Kerry	Chief Human Resources Office	N/M	0% per annum over 0y
Maurath, Karl-Heinz	Chief Revenue Officer	-11.29% per annum over 3y	34.71% per annum over 3y
Bergman, David	Chief Financial Officer	N/M	N/M
Fipps, Paul	Chief Information Officer an	N/M	N/M
Allega, Lance	Vice President of Investor R	N/M	N/M

Profitability	UAA (LTM)	UAA (5 years historical average)	Industry (LTM)
ROIC	11.0%	18.25%	13.55%
NOPAT Margin	7%	12.82%	8.2%
Revenue/Invested Capital	1.66	1.42	1.64
ROE	16.0%	21.94%	15.40%
Adjusted net margin	6%	12.55%	7.6%
Revenue/Adjusted Book Value	2.68	1.75	2.01
Invested Funds	**UAA (LTM)**	**UAA (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	5.8%	11.7%	21%
Estimated Operating Cash/Total Capital	5.8%	9.0%	N/A
Non-cash working Capital/Total Capital	24.3%	23.3%	23%
Invested Capital/Total Capital	85.3%	85.8%	78%
Capital Structure	**UAA (LTM)**	**UAA (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.12	0.05	0.17
Cost of Existing Debt	4.51%	2.94%	3.82%
Estimated Cost of new Borrowing	4.23%	4.74%	3.82%
CGFS Risk Rating	CCC	CC	CC
Unlevered Beta (LTM)	0.19	1.16	0.47
WACC	5.21%	12.32%	6.94%

Sensitivity Attribution Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	21.8%	6.6%	2.10
12/31/2017	8.9%	5.3%	0.71
12/31/2018	8.0%	5.8%	0.71
12/31/2019	16.3%	6.3%	0.82
12/31/2020	12.9%	6.6%	0.88
12/31/2021	9.8%	6.8%	0.91
12/31/2022	8.9%	8.6%	1.18
12/31/2023	7.9%	10.3%	1.45
12/31/2024	6.9%	12.0%	1.72
12/31/2025	5.9%	13.7%	2.02
12/31/2026	5.0%	15.3%	2.31
Continuing Period	4.0%	17.0%	2.63

Period	Invested Capital	Net Claims	Price per share
Base Year	$1,195.06	$1,473.29	$21.97
12/31/2017	$1,432.68	$1,684.27	$24.88
12/31/2018	$1,861.57	$1,731.27	$28.09
12/31/2019	$2,329.29	$1,742.72	$31.68
12/31/2020	$2,905.04	$1,727.95	$35.48
12/31/2021	$3,708.59	$1,621.31	$39.53
12/31/2022	$4,295.01	$1,393.13	$43.69
12/31/2023	$4,736.94	$962.80	$48.03
12/31/2024	$5,242.79	$359.16	$52.45
12/31/2025	$5,719.52	-$405.75	$56.91
12/31/2026	$6,104.10	-$1,403.66	$61.36
Continuing Period			