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BJORKLUND FUND

October 5, 2018

Under Armour, Inc. (UAA)

Kyle Agresta

Sector: Consumer Discretionary
Industry: Apparel & Textile Products
Current Price: $19.38
Target Price:13.81

Under Armour is a company that operates in the Apparel and Textile Products industry, they develop, market, and distributed products that they brand for men, women, and youth. They were founded in 1996 and by a former Maryland football player, Kevin Plank. Under Armour mainly focuses on footwear, athletic and lifestyle products.

SELL

Current Price:	$19.38
Target Price:	$13.81
Market Cap:	8.73B
Beta:	-0.55

EBITA Margin: 2.3
Average Daily Volume: 3.107M
D/E ratio: .41

Thesis: Under Armour has consistently raised their revenue over the years but at the same time have accumulated more and more debt. As revenue has grown their net income has dropped substantially. Their cost of goods sold and SG&A expenses have both increased at a rate that is quicker than overall revenue. At the same time they are increasing inventory for products that are not being sold. From the way they have been conducting business and how they look to continue with their changes it seems they may need to play a lot of catch up before any upside and their stock price looks to have more room to decrease in value.

Catalysts:

- Short Term(within the year): $190 to $210 million in restructuring costs.
- Mid Term(1-2 years):Did not get Real Madrid partnership
- Long Term(3+): decreasing demand in sector

Earnings Performance:

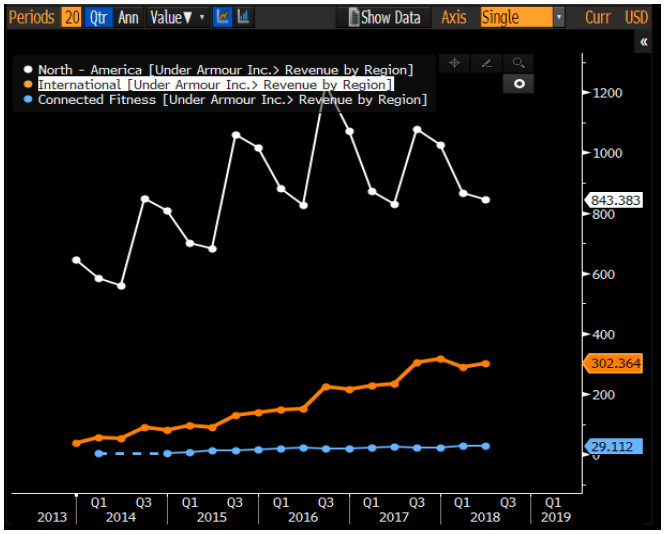
From the 3rd quarter of 2017 Under Armour has decreased in revenue from $1.4 billion to $1.36 billion in Q4 then to $1.2 billion in Q1 of 2018 and lastly to $1.17 billion in Q2. At the same time that their gross profit has decreased at the same rate.

In Millions of USD	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3 Est	2018 Q4 Est
3 Months Ending	06/30/2017	09/30/2017	12/31/2017	03/31/2018	06/30/2018	09/30/2018	12/31/2018
Market Capitalization	9,594.5	7,278.1	6,379.3	7,260.1	10,001.0		
- Cash & Equivalents	165.7	258.0	312.5	283.6	196.9		
+ Preferred & Other	0.0	0.0	0.0	0.0	0.0		
+ Total Debt	954.7	1,068.4	917.0	920.7	779.4		
Enterprise Value	10,383.5	8,088.4	6,983.8	7,897.1	10,583.5		
Revenue, Adj	1,091.2	1,405.6	1,365.4	1,185.4	1,174.9	1,417.4	1,403.3
Growth %, YoY	9.0	-4.5	4.6	5.9	7.7	0.8	2.8
Gross Profit, Adj	501.2	648.9	591.2	523.5	526.6	649.8	631.6
Margin %	45.9	46.2	43.3	44.2	44.8	45.8	45.0
EBITDA, Adj	40.8	196.7	46.4	55.1	27.4	120.1	122.6
Margin %	3.7	14.0	3.4	4.6	2.3	8.5	8.7

Over the last four quarters Under Armour's EBIDTA margin has significantly decreased and is showing that they are projecting it to explode back up in the next quarter which seems unlikely. They had a margin of 2.3% the last quarter and from how operations are going they are likely to stay around that low area. Under Armour estimates earning for the next four quarters with the estimates of revenue to still go lower overtime. Also with net income it is projected to after a couple quarters of positive net income to again fall into the negatives. They get 76.5% of their net revenues from North America, 9.4% from EMEA, 8.7% from Asia-Pacific, 3.6% front Latin America and 1.8% from their new program connected fitness. This is significant because as of now they are trying to get more business internationally but they also realize that North America is a big part of their business. Their revenue increase in the US was only 1.6% in the last year and even though it was 30.8% in EMEA, 34.3% Asia-Pacific, and 7.3% in Latin America. These places do not help the case that they are not creating value in the place where they get more than 75% of their revenue.

Industry Outlook

There are many threats to the apparel and textile industry as of now, the strengthening of the dollar is one of the main threats. Apparel and footwear brands have the biggest exposure to weakening when it comes to a strong US dollar, especially companies like Under Armour where 90% of their total stores are outlets. They are more likely to face pressure from tourism unlike mall based stores. Even though the ratio of tourists to domestic shoppers is usually small it still can have an effect on the overall performance of their revenues. A decrease in the value of foreign currencies to the dollar can eliminate the potential benefit. With an overall number of department stores tightening and even tighter inventory management in the ones that are surviving it adds pressure to companies' wholesales. Sales to date from department stores are at about 12% which are down about 20% from a decade ago because of consumer's preference to shop on off-price stores or to go to the stores website directly. This is also where Amazon comes into play. Amazon is expanding into the apparel and footwear business and with their unorthodox business model they could start to take away from business like Under Armour and others in the industry. The charts below show Under Armour's sales in the US, and internationally. The chart on the left shows that UAA is performing under the Russell Textiles, Apparel & Shoes index and the S&P 500 Consumer Discretionary.



Strategy/Competition

Under Armour(UAA) sales are from three main categories; footwear, accessories and apparel with the addition of their newer line, connected fitness. These lines include products from basketball, running, football, and baseball products. They generate more than 60% of their sales through the wholesale business. Places like Cabela's the Army and Air Force Exchange, and Dick's Sporting Goods. UAA promotes their products by selling to high performing athletes and teams. They have sponsored players like Stephen Curry (NBA), Tom Brady (NFL), Andy Murray (Tennis), and George St-Pierre (MMA), and have just started a deal with Dwayne Johnson. As these may be considerable feats it still does not get rid of the fact that they are racking up more debt than the revenue they continue to bring in. Internationally they have sponsored and sold products to several European and Latin American soccer and rugby teams to "drive" brand awareness. UAA states that their main quarters that they produce the most revenue is in the last two quarters because of

their high priced cold weather products. But, at the same time they also expect their inventory, accounts payable, and certain accrued expenses to be higher in preparation for these quarters. After five years of growth Under Armour has got too comfortable. They slowed in sales because of reliance on basketball footwear, struggling retail stores, and not adapting to the changes in fashions. They now have responded with restructurings in mid-2017- early 2018 that sum to $200-$220 million... This is indicating that they may be depleting their inventory to cover their debt because the inventory is not selling. Their competitors including Columbia, Guess? Inc., G-III apparel, and bigger companies like Nike and Adidas all have been outperforming them.

	Name (BICS Best Fit)	Sales Growth (%)	EBITDA Growth (%)	EBITDA Margin	Operating Income Margin	Net Income Growth	Net Profit Margin	ROIC/WACC Ratio	Capex/Sales (%)	Return on Invested	Return on Assets	Return on Equity
	Median	8.53%	9.44%	12.75%	9.50%	28.07%	7.05%	1.02	2.49%	12.53%	8.86%	14.17%
100)	UNDER ARMOU	2.87%	-38.72%	6.35%	2.81%	-70.58%	1.26%	-0.61	5.69%	2.95%	1.59%	3.28%
101)	COLUMBIA SPO	8.58%	19.46%	14.73%	12.47%	26.54%	9.55%	1.60	2.16%	16.39%	11.72%	15.66%
102)	NIKE INC -CL B	8.49%	-4.82%	14.26%	12.54%	3.65%	10.96%	2.43	2.82%	29.29%	17.71%	38.93%
103)	SKECHERS USA	16.95%	19.34%	11.18%	9.11%	29.61%	6.57%	1.61	3.27%	17.23%	10.42%	15.60%
104)	PVH CORP	13.00%	14.53%	13.40%	9.89%	33.77%	7.53%	0.74	4.02%	8.86%	6.18%	13.42%
105)	G-III APPAREL	16.54%	74.19%	8.74%	7.53%	140.60%	4.00%	0.84	1.23%	9.24%	5.57%	11.30%
106)	OXFORD INDUS	6.15%	4.35%	12.09%	8.16%	29.84%	5.92%	1.65	3.57%	13.88%	9.68%	14.91%
107)	FOSSIL GROUP	-4.19%	-11.00%	5.65%	3.11%	-86.96%	0.11%	-1.43	0.92%	-0.07%	0.20%	0.54%

Profitability

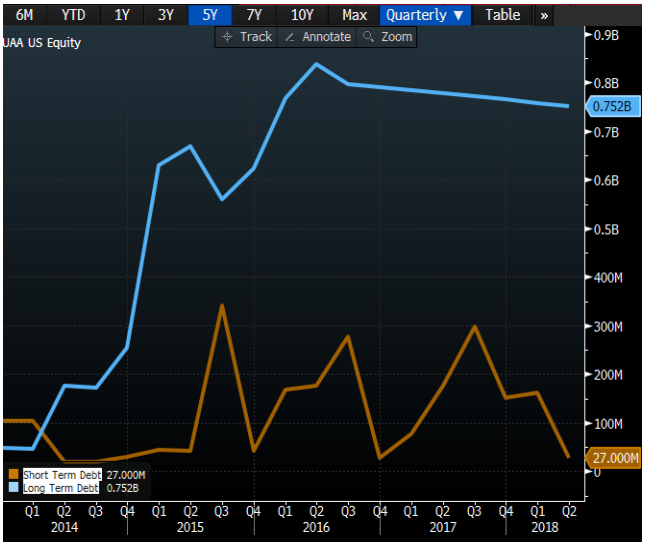
Under Armour went from a revenue growth percentage of 28% in 2015 to 21% in 2016, then all the way down to only 3.1% in 2017 and as of 6/30/2018 they are at 2.9%. As they continue their operations it's weird to see that their capital expenditures are decreasing but UAA says they are improving their stores and have also opened more store locations. They went from being a profitable company with an operating margin of 10.3 in 2015 to .60 as of 12/21/2017. From their current operations UAA has seen revenue coming in but their cost of goods sold and SG&A have been increasing right with their revenue. Over the last three quarters UAA has have EBIDTA margins of 3.4, 4.6, and 2.3 showing that as a company they are not producing earnings. As of now UAA has a return on assets of 1.59% and a return on equity of 3.28%.

In Millions of USD except Per Share	2015 Y	2016 Y	2017 Y	Last 12M	2018 Y Est	2019 Y Est
12 Months Ending	12/31/2015	12/31/2016	12/31/2017	06/30/2018	12/31/2018	12/31/2019
Revenue	3,963.3	4,825.3	4,976.6	5,131.2	5,177.3	5,470.0
+ Sales & Services Revenue	3,963.3	4,825.3	4,976.6	5,131.2		
- Cost of Revenue	2,057.8	2,584.7	2,732.8	2,841.0		
+ Cost of Goods & Services	2,057.8	2,584.7	2,732.8	2,841.0		
Gross Profit	1,905.5	2,240.6	2,243.8	2,290.2	2,340.8	2,510.7
+ Other Operating Income	0.0	0.0	0.0	0.0		
- Operating Expenses	1,490.2	1,798.6	2,084.5	2,146.2		
+ Selling, General & Admin	1,490.7	1,823.1	2,086.8	2,156.3		

From the picture above you can also see that their ROIC/WACC is -0.61 which shows that this company is currently destroying value as they invest more capital. As a whole they are paying out more than they are earning on their investments but yet UAA still talks about investing more. If they want to become a more profitable company they need to start by fixing their ROIC before they invest more capital. This shows that the revenue increase that UAA had is inefficient because at the same time they have cost of revenue increasing at almost the same rate, also SG&A is increasing every year. All of this tied together at the same time as inventory continues to increase shows that UAA is not selling their products. As of 12/31/2017 UAA had a net income of -$48 million and LTM -$159 million.

Debt

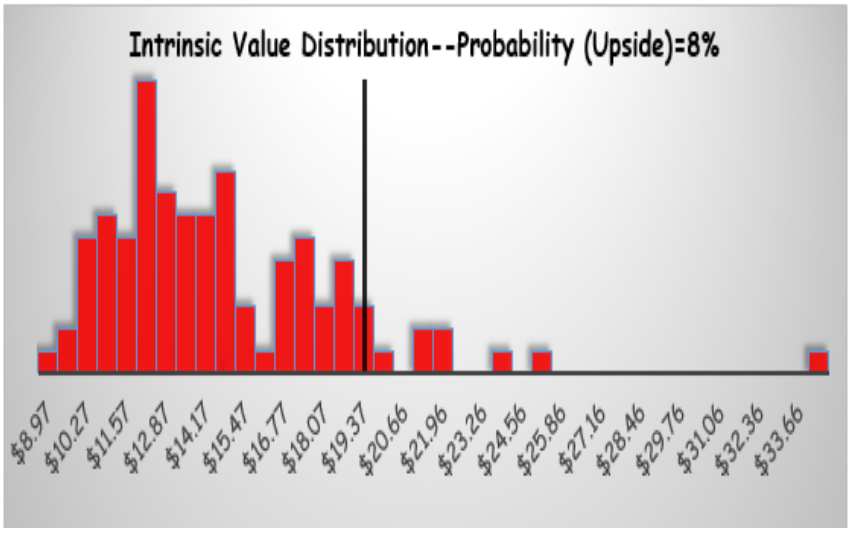
In the most recent earnings call, David E. Bergman, talks about the financials of Under Armour. The total debt was down 18% to $779 million. Capital expenditures were down 59% to $34 million and inventory was up 11% to $1.3 billion. UAA's 2018 outlook shows that they expect revenue to be up approximately 3% to 4% with international growth of greater than 25% being offset by a low-to-mid single digit decline in North America. This can pose a threat because over 75% of their business is in North America. They expect third quarter revenue to be in-line to slightly down versus last year. Third quarter adjusted gross margin is expected to be down approximately 50 basis points due to continued inventory management action. The problem is still based on the portion of their ROIC/WACC which is -.61. They are still a value destroying company even with the lowering of their debt to $779 million. Also, when it comes to debt UAA has had total debt to equity on a steady increase since 2012. From 7.58 in 2012 to 45.43 as of the year ended in 2017. As their debt has been on a steady increase they still are not getting any return from their assets, equity or capital.



In Millions of USD except Per Share 12 Months Ending	2012 Y 12/31/2012	2013 Y 12/31/2013	2014 Y 12/31/2014	2015 Y 12/31/2015	2016 Y 12/31/2016	2017 Y 12/31/2017
Long-Term Debt/Equity	6.46	4.55	18.90	37.41	38.92	37.90
Long-Term Debt/Capital	6.00	3.98	15.62	26.73	27.75	26.06
Long-Term Debt/Total Assets	4.56	3.04	12.18	21.78	21.69	19.10
Total Debt/Equity	7.58	14.52	21.05	39.93	40.25	45.43
Total Debt/Capital	7.04	12.68	17.39	28.53	28.70	31.24
Total Debt/Total Assets	5.35	9.69	13.57	23.24	22.43	22.89

Conclusion

Under Armour showed bad results for 2017 and have made very little improvement for the first two quarters of 2018. They are trending down compared to all of their competitors and they are below even the industry itself, they have many threats when it comes to the retail business at it is and the problems they have gotten themselves in with their debt do not help their case. As the price continues to drop the short interest is growing. It is now at 12.44 and there is a 20% short float even though there is low volume it still is indicating more seller positions. With the threats, the debt that was incurred, the amount of inventory that is not being sold, and the fact that they have a ROIC/WACC that is .61 I believe that Under Armour still has a lot of catching up and strategizing to do before they can see the price of their stock increase. I believe that Under Armour can find their way back to a strong company in the future but as of now they are in too deep with their financial troubles that they still have room to go down. Based on the picture of probability there is an upside probability of only 8% and can see the company decreasing in value from now until 2019.



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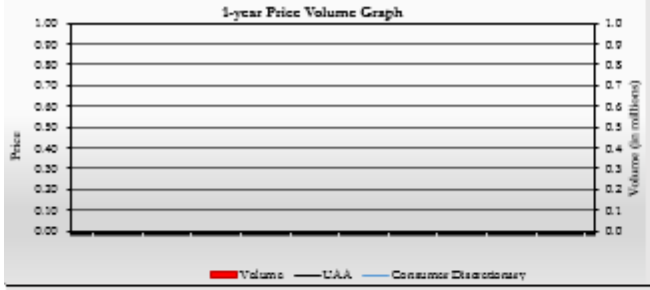
Under Armour, Inc. (UAA) — **BEARISH**

Analysis by Kyle Agresta
10/5/2018

Current Price:	$19.38	Intrinsic Value	$13.20
Divident Yield:	0.0%	Target Price	$12.62

Target 1 year Return: -34.88%
Probability of Price Increase: 8%



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	September 20, 2018
Next earnings date	October 26, 2018

Market Assumptions

Estimated Equity Risk Premium	0.00%
Effective Tax rate	0%

Market Data

Market Capitalization	$8,488.56
Daily volume (mil)	2.81
Shares outstanding (mil)	444.94
Diluted shares outstanding (mil)	442.70
% shares held by institutions	70%
% shares held by investments Managers	59%
% shares held by hedge funds	6%
% shares held by insiders	16.30%
Short interest	8.69%
Days to cover short interest	8.63
52 week high	$24.69
52-week low	$11.40
Volatility	43.71%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
6/30/2017	1.26%	366.76%
9/30/2017	-5.03%	8.81%
12/31/2017	4.18%	-0.67%
3/31/2018	6.08%	-11.40%
6/30/2018	2.14%	-28.77%
Mean	1.73%	66.94%
Standard error	28.1%	6.5%

Market and Credit Scores

Recommendation (STARS) Value	3
Recommendation (STARS) Description	Hold
Quality Ranking Value	B+
Quality Ranking Description	Average
Short Score	5
Market Signal Probability of Default % (Non-Rating)	1.011%
CreditModel Score (Non-Rating)	bb

Industry and Segment Information

LTM Revenues by Geographic Segme	LTM Revenues by Business Segments
United States	73%
Foreign	27%
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North America	76%
Europe, The Middle East and Africa (EMEA)	9%
Asia-Pacific	9%
Latin America	4%
Connected Fitness	2%

Peers

Lululemon Athletica Inc.	V.F. Corporation
Tapestry, Inc.	Foot Locker, Inc.
Hanesbrands Inc.	G-III Apparel Group, Ltd.
Michael Kors Holdings Limited	PVH Corp.
Ralph Lauren Corporation	Fossil Group, Inc.

Management

Plank, Kevin	Founder, CEO & Chairman
Frick, Patrik	President & COO
Bergman, David	Chief Financial Officer
Fipps, Paul	Chief Digital Officer
Alloga, Lance	Vice President of Investor Relations
Stanton, John	Senior VP, General Counsel & Corporate Secre

Position

Total Compensation Growth	Stock Price Growth During Tenure
21.41% per annum over 5y	14.32% per annum over 5y
	0% per annum over 0y
	0% per annum over 0y
	0% per annum over 0y

Profitability

Profitability	UAA (LTM)	UAA Historical	Peers' Median (LTM)
Return on Capital (GAAP)	-3.3%	8.12%	11.33%
Operating Margin	-2%	6.96%	12.98%
Revenue/Capital (GAAP)	1.56	1.17	0.87
ROE (GAAP)		8.8%	15.8%
Net margin		4.6%	7.0%
Revenue/Book Value (GAAP)	#VALUE!	1.90	2.25

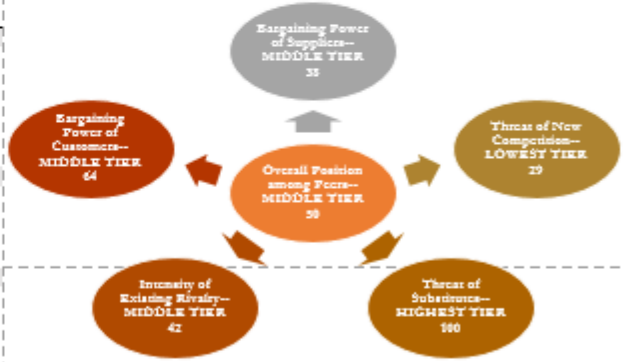
Invested Funds

Invested Funds	UAA (LTM)	UAA Historical	Peers' Median (LTM)
Cash/Capital	9.5%	12.4%	8.7%
NWC/Capital	19.8%	19.6%	10.8%
Operating Assets/Capital	53.9%	54.0%	56.2%
Goodwill/Capital	16.8%	10.4%	16.3%

Capital Structure

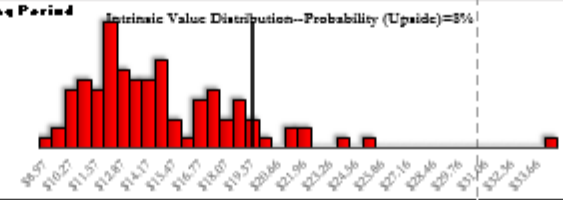
Capital Structure	UAA (LTM)	UAA Historical	Peers' Median (LTM)
Total Debt/Market Capitalization	0.42	0.27	0.49
Cost of Debt	4.2%	3.4%	4.8%
CGFS Rating (F-score, Z-score, and default Probability	CC		
WACC	5.0%	3.4%	4.8%

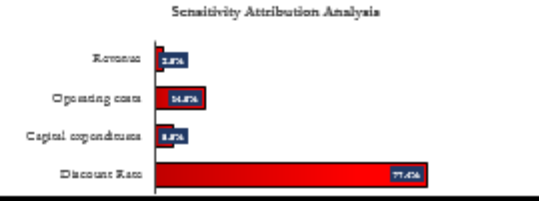
Porter's 5 Forces (Scores are percentiles)



Valuation

Forecast Assumptions	Explicit Period (6 years)	Continuing Period
Revenue Growth CAGR	5%	4%
Average Operating Margin	5%	4%
Average Net Margin	1%	1%
Growth in Capital CAGR	-1%	4%
Growth in Claims CAGR	0%	4%
Average Return on Capital	-1%	-1%
Average Return on Equity	-1%	0%
Average Cost of Capital	5%	5%
Average Cost of Equity Ke	5%	5%





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