February, 2018

Under Armour Inc: UAA

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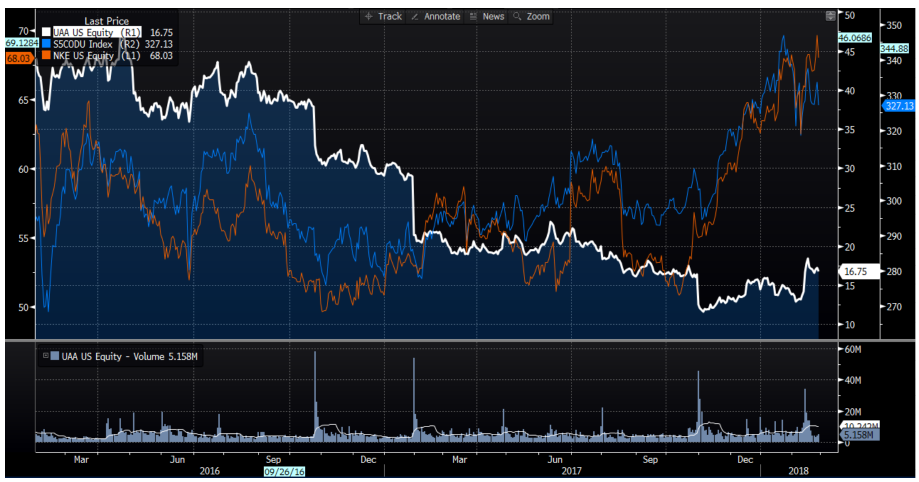
Sector: Consumer Discretionary
Industry: Consumer Durables and Apparel
Current Price: $16.75
Target Price: $18.60

Under Armour is an American company operating in the consumer durables and apparel sector. It was founded by Kevin Plank in 1996. The headquarter is located in Baltimore, Maryland. The company has grown since 1996 mostly in North America and also in international countries like China or area like Latin America. The main activities of the company are to sell footwear, athletic, and lifestyle products. Many famous athletes in the world are supporting the brand Under Armour

HOLD

Current Price:	$16.75
Target Price:	$18.60
Market Cap:	7.001B
Beta:	1.563
EBITA Margin	- 0.79%
WACC	12.86%
ROIC	0.79%



Thesis:

Since 1996, Under Armour is a solid company in term of products and in term of revenue growth. The company has been in constant growth since 2011. At the end of each quarter, investors are pessimistic concerning the sales and net income. However, each time the company shows better result than expected. Under Armor is often underestimated in the market by investors and analysts. Indeed, investors and analysts accuse retail companies are victims of the internet bubble and online shopping (Amazon). To fight this problem caused by online shopping, the company decided to experiment something new in one of their store located in Soho to attract more customers. They put in place a charging point in their store. According to the store manager of this store, this new method works well. Furthermore, even if during the last quarter of 2017 the stock price of UAA went down. However, the

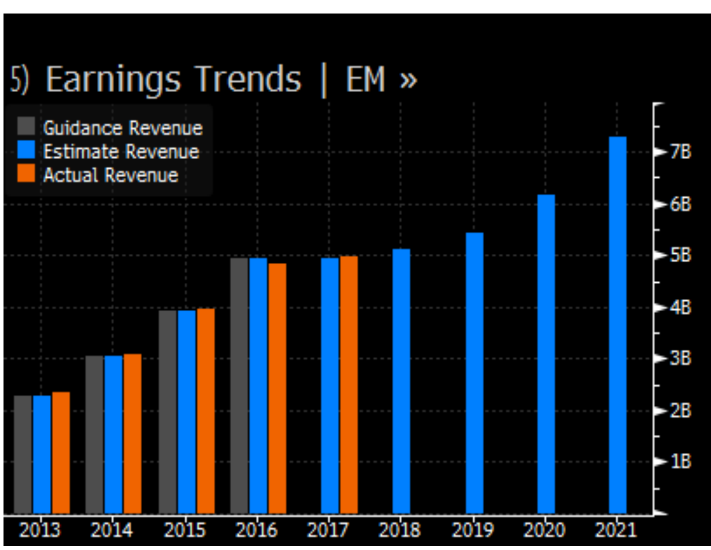
Catalysts:

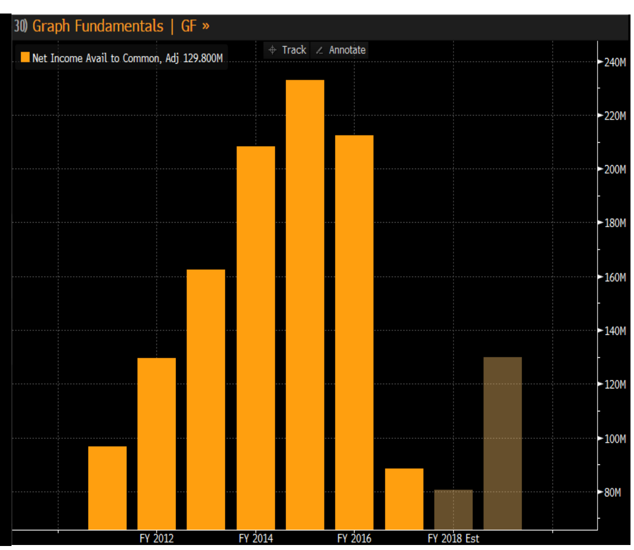
- Short Term: Recent launch of a new product called HOVR. This is a shoe line for running. This product includes Digitally Connected Smart Shoes.
- Mid Term: Continue the construction of their global model, which helps them to improve their operation in a mid-term.
- Long Term: Continue to innovate in creating new products that link with new technology. It will help them to improve their sales and revenues.

results for 2017 were good. An increase of 4.6% relative to the Q4 of 2016. Moreover, in the middle of 2017 the CEO decided to hire a new Chief Operating Officer (Patrik Frisk) to help the company grow. Thus, this report will analyze how Under Armour will grow in the next few years. Furthermore, this paper will argue why Under Armour will be better than the industry in a middle term.

Earnings Performance:

Under Armour has seen since more than a decade, a constant increase in their revenue. As the graph shows, the estimate revenues from analysts are very close each year than the actual revenue. In 2013, 94.1% of their revenue was from North America with only 5.9% from international (EMEA, Pacific Asia and Latin America). However, Under Armour knew that they should go internationally to improve. In 2017, with a revenue of 4,976.6 million, North America represents 76.4%, 9.4% from EMEA, 8.7% from Asia and 3.6% from Latin America. These show that UAA invested to expand its power in important areas. The estimate revenues for the company seem well in a Long-term according to investors. However, for the end of the current year the estimation shows a revenue very close to 2017. The forecast for 2020 and 2021 shows a huge increase. However, the net income saw a decrease in 2017 and the estimate net income for 2018 seems to be less than 2017. Concerning 2016, it was the first time that the estimate net Income adjusted was higher than the real net income. In 2017, the company has seen the most important decrease for its net income adjusted. This decrease was due to high increase of selling, general and administrative expenses (SG&A), and also due to an inventory in excess. According to the CEO, these increases are due to two mains changes in 2017. First, the company changed their systems, they implanted SAP. Secondly, they changed their structure of categories of sale. Finally, Under Armour hired a new COO during the year of 2017 Patrick Frisk. He is the former CEO of Global footwear company The Aldo Group.



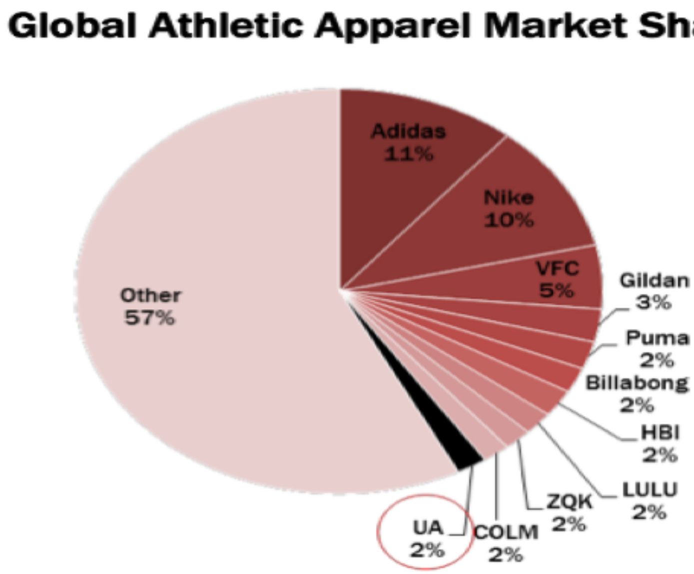


Strategy:

As it stated earlier in this report, Under Armour was created in 1996, it means the company is a new company in this industry. It was a big challenge to create a company like this in this kind of industry where there are many main actors already in place with big market shares (Reebok, Puma, Columbia). Furthermore, big and solid companies like Nike and Adidas were already in the market. The company has proven that they got to be a main actor in this industry in few years. It means that UAA had solid projects because year after year the company has grown in the past, and it means that the company knows where it is going. They took some market share from big companies (Nike and Adidas). Actually, one of the biggest strategy for Under Armour is to continue to expand its brand internationally. As it said earlier in this report, the company increased its sales internationally especially in Europe, Asia Pacific and Latin America. They increased their revenue from foreign countries by 16 % in 4 years. Furthermore, Under Armour has a strong marketing strategy. Indeed, they choose athletes who are the best to represent their brand. As the Chief Marketing executive said the company chose their athletes who are the most driven to win and to be the best because it represents the company attitude. The company has signed athletes like Stephen Curry to get an impact in the basketball market. They also have Misty Copeland who is a star dancer to get a step in the dancing market. Moreover, they have Andy Murray (Tennis), George St-Pierre (MMA), Tom Brady (Football) and other famous athletes. Thus, thanks to the partnership with these athletes, the company shows through these sports icons the power of its brand. For example, thanks to Stephen Curry the brand is present in many countries which show basketball games. Furthermore, Andy Murray who represent the brand in Europe has a real impact on people who are watching tennis matches and who are practicing this sport. This marketing strategy shows and has shown that it has a good impact for international sales. Finally, the company signed a partnership for 10 years with one of the best universities in the United States of America which is UCLA. However, these partnerships costed for the company $466 Million.

Industry Outlook:

The company has been operating for 22 years in the apparel, accessories industry and now it is one of the leaders of this market. The biggest actors of this industry since recent few decades are Nike and Adidas. In addition, from 2013 to the end of 2014, investors and analysts thought that the company Under Armour will be a main actor in the industry. Moreover, the sport industry was in a good trend because of a constant growth in 7 years. In 2014 the sport industry worth was of $60.5 Billions. The growth expected for this industry in 2010 was approximately of $73.5 Billions. This expected increase was mainly due thanks to the medias. Furthermore, this increase is also due to the increase of people who practice sport regularly to stay in shape and get a healthy life. It means that more people year after year will be able to buy more sport clothes that is good for the industry. Because the demand will go up so the production for companies which are present in this industry will increase. Furthermore, Under Armour keeps growing internationally even if Nike and Adidas are already present in these countries where UAA is implanting. Indeed, if Adidas is already present in China and trying to grow in this country. Under Armour should increase their footprint in China to grow their revenue from this country because as the company showed to the world, it is able to perform even if the market is already closed, and already leaded by some main actors. Under Armour is able to increase their international revenue thanks to their business plan and their product. Thus, Under Armour has a very good opportunity to grow their sales in China, Latin America and Europe.

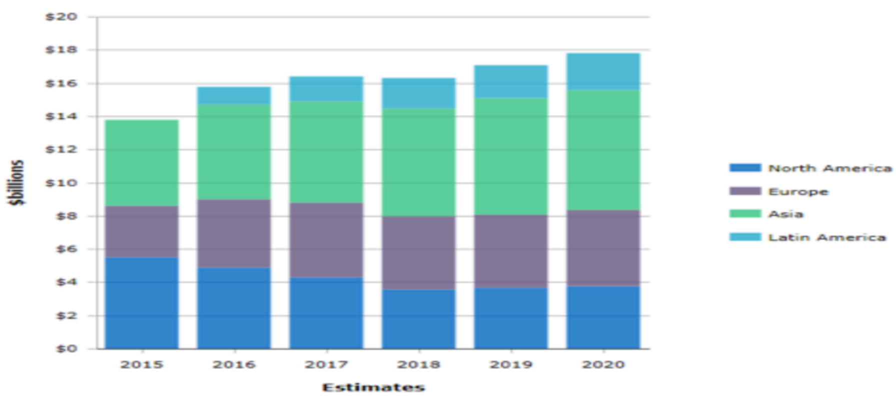


Source : Blogpost

Company Potential Growth:

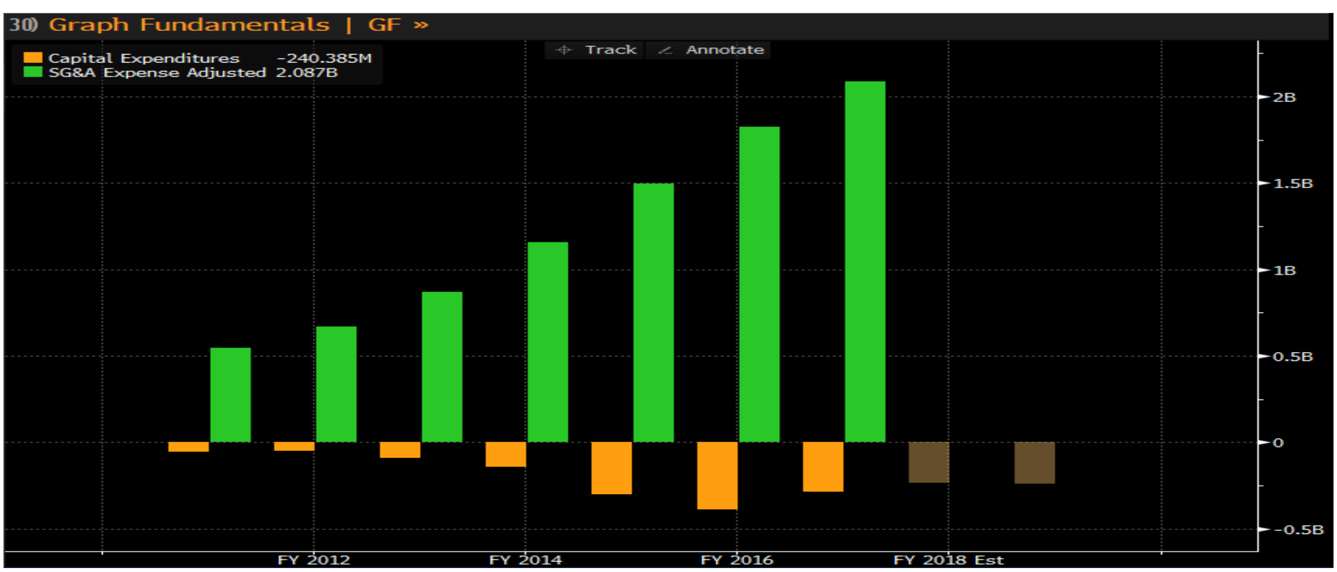
The China sport clothes market has been in a constant growth for 10 years from now. This market increased by 6.5% in 2014. However, as it stated earlier in this report, Nike and Adidas are already present in this market which will be more difficult for Under Armour to increase their sales in this market in this area. However, the Chinese market may overtake the American sports market in 2020 which is good news for the company. As Kevin Plank said: "someday the company Under Armour will have more sales internationally than in North America". Thus, the growth in China should be a good opportunity for UAA to achieve that goal that the CEO of the company said. Actually, UAA is barely implemented in Asia and in Europe but the company has to be more present in these markets and to set this strategy. They started to get some big partnership that I said earlier especially with some famous athletes (Stephen Curry, George St-Pierre, etc..). Moreover, the company is talking with one of the biggest soccer clubs in the world which is Real Madrid. The Spanish club is currently in a partnership with Adidas until 2020. However, these two entities did not find an agreement for the future. If Under Armour find an agreement with Real Madrid, the brand will be representing throughout the world because Real Madrid is followed worldwide. Real Madrid games are retransmitted worldwide. Thanks to this project, UAA will get the best contract that Under Armour could get in its History. However, this deal will have a huge cost for UAA. The company is ready to pay the Real Madrid $150 Millions per year. It will be the biggest deal that soccer has ever seen for a sponsorship.

Asia Could Be Biggest Contributor to Athletic-Wear Sales Growth



Segment and profitability:

The company is operating in four main segments: Apparel (66.1%), Footwear (20.9%), Accessories (9.0%), and Licensing (2.3%). The revenues of the company increased by approximately 20% in 6 years which is better than their competitors. However, the revenue increased just by 3.14% for the last year. Furthermore, selling, general and administrative (SG&A) expenses increased year after year. However, from 2016 to 2017 these expenses for this sector increased less than the other years. The SG&A for 2017 was 2,086.8 million. However, SG&A have increased because of Capital expenditure. Indeed, the Capital Expenditures for UAA was 387.6M in 2016 and in 2017 was 283.0M. Furthermore, in 2018 and 2019 the capex is expected to be approximately 250M. It means that the company has a strong desire to invest to grow, and to become an influent company in the sport world.

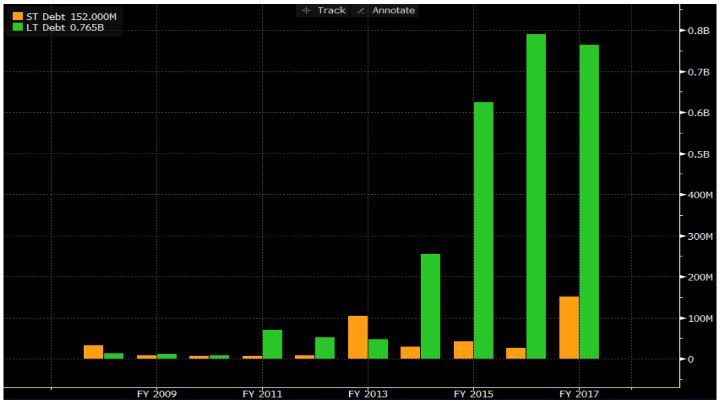


Concerning the profitability of the company for 2017, as shown in the table below, the company in 2017 was in a bad trend. EBITA growth decreased of 43.25%. It is the worst case among its competitors. Thus, the income growth dropped off by 67.54%. Under Armour was the worst again for this category. However, some profitability ratios show that the company is promising for the future. Return on invested capital has seen an increase of 12.93%, which is a good indicator. Furthermore, the return of equity increased by 21.76%. Finally, the EBITA margin grown by 12.57% in 2017. All this information shows that the company in 2017 invested in to trying to grow in the future. Moreover, as I said earlier, the company has some good future projects that will help UAA to get better result in the future. In addition, thanks to their future projects, investors will be more confident about the company growth.

Name (BICS Best Fit)	Sales Growth (%)	EBITDA Growth (%)	EBITDA Margin	Operating Income Margin	Net Income Growth (%)	Net Profit Margin	ex/Sales (%)	Return on Invested Capital	Return on Assets	Return on
Average	4.88%	-5.45%	12.57%	9.80%	-7.88%	7.26%	3.07%	12.93%	8.61%	21.76%
100) UNDER ARMOUR INC-CLA...	3.13%	-43.25%	6.69%	3.20%	-67.54%	1.78%	5.69%	3.58%	2.32%	4.38%
101) COLUMBIA SPORTSWEAR CO	3.75%	5.69%	13.77%	11.34%	8.36%	8.57%	2.16%	13.73%	10.00%	13.28%
102) NIKE INC -CL B	3.63%	-0.14%	14.84%	12.75%	-0.54%	11.13%	3.22%	23.40%	16.55%	32.11%
103) SKECHERS USA INC-CL A	16.86%	6.05%	11.13%	9.14%	13.91%	6.67%	3.27%	17.37%	10.83%	16.18%
104) PVH CORP	3.85%	-1.62%	13.01%	9.22%	-2.53%	6.59%	3.01%	6.77%	4.95%	11.19%
105) HANESBRANDS INC	7.35%	2.17%	16.06%	14.17%	1.00%	11.05%	1.34%	19.69%	10.35%	74.91%
106) OXFORD INDUSTRIES INC	3.23%	-7.03%	12.38%	8.31%	-12.39%	5.06%	4.83%	10.85%	7.71%	13.75%
107) MOVADO GROUP INC	-2.78%	-5.44%	12.64%	10.31%	-3.34%	7.22%	1.07%	8.06%	6.18%	8.29%

Debt :

In the most recent Earning call, the CFO David Bergman talked about the past year which was 2017. The total debt for UAA has increased by 12% to reach 917M. Long term debt represent 0.765B and short-term debt represents 152M. They increased their short-term debt during this year to finance their project of a new integrated global model. This new model should speed up operation and make the company more efficient. It will allow for better management of their operation, and this will allow to grow for the future. Furthermore, the long-term debt in 2017 decreased a little bit. In fact, the long-term debt decreased by $25 Million. Also, the CFO of the company explain that this trend will be the same in 2018, to continue to invest. Furthermore, revenue will be close to 2017 with a low single digit percentage.



Conclusion:

Under Armour, has shown bad results for 2017 compared to the past years. These results show that they are in a bad trend compared to their strong beginning. More than 47% of investors are thinking that the stock has to be held. Even if the past year (2017) has shown bad results in terms of profitability and concerning the net income, this paper proves that the company is aware of the situation and it is acting in consequence to increase their result for the next years coming. As we saw during this report, UAA is putting in place some strategies which are significantly good for their business. Even if UAA is late compared to their competitors, the past proves to us that the company is smart enough to improve. In fact, UAA has stolen some market shares from companies like Nike and Adidas that is a proof that executives in this company have the right strategy to increase in this industry. However, during the beginning of 2017 the stock UAA saw a drop off that the company never saw in its history. This drop off was due to an earning call where the CEO explained that the company is going to restructure many facets of their business. During this year to begin their restructuring, the company hired Patrick Frisk in order to grow internationally because the company knows that this is the key of the success for the company. The company is going to grow consequently in 2019 because 2018 according to the CEO and the CFO is going to be close to 2017.

SIENA college

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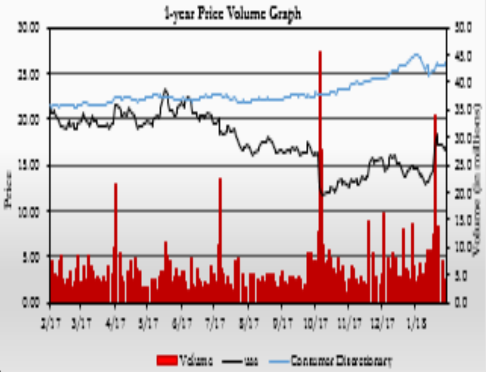
Under Armour, Inc. (uaa) — **NEUTRAL**

Analysis by Al Capone	Current Price: $16.75	Intrinsic Value $16.63	Target 1 year Return: 10.42%
3/2/2018	Divident Yield: 0.0%	Target Price $18.50	Probability of Price Increase: 56



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	February 12, 2018
Next earnings date	May 1, 2018

Market Assumptions

Estimated Equity Risk Premium	6.16%
Effective Tax rate	22%

Market Data

Market Capitalization	$7,029.72
Daily volume (mil)	5.16
Shares outstanding (mil)	441.70
Diluted shares outstanding (mil)	440.73
% shares held by institutions	109%
% shares held by investments Managers	47%
% shares held by hedge funds	5%
% shares held by insiders	13.34%
Short interest	13.22%
Days to cover short interest	8.09
52 week high	$23.46
52-week low	$11.40
Volatility	43.04%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2016	-7.16%	-12.47%
3/31/2017	0.81%	222.65%
6/30/2017	0.99%	229.29%
9/30/2017	-5.03%	8.81%
12/31/2017	4.18%	-100.00%
Mean	-1.24%	69.66%
Standard error	1.0%	29.8%

Market and Credit Scores

Recommendation (STARS) Value--1
Recommendation (STARS) Description--Stron
Quality Ranking Value--B+
Quality Ranking Description--Average
Short Score--5
Market Signal Probability of Default % (Non-Ratings)--1.071%
CreditModel Score (Non-Ratings)--bbb+

Industry and Segment Information

LTM Revenues by Geographic Segme	LTM Revenues by Business Segments
United States--76%	North America--76%
Foreign--9%	Emea--9%
North America--9%	Asia-Pacific--9%
Other Foreign Countries--4%	Latin America--4%
Segment Adjustment--2%	Connected Fitness--2%

Peers

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

Management	Position	Total Compensation Growt	Stock Price Growth During Tenure
Plank, Kevin	Founder, CEO & Chairman	12.48% per annum over 5y	10.05% per annum over 5y
Mourath, Karl-Heinz	Chief Revenue Officer	-4.01% per annum over 4y	19.38% per annum over 4y
Brauno, Colin	Chief Supply Chain Officer		0% per annum over 0y
Frisk, Patrik	President & COO		
Bergman, David	Chief Financial Officer		
Fipps, Paul	Chief Technology Officer		

Profitability	uaa (LTM)	uaa Historical	Peers' Median (LTM)
Return on Capital (GAAP)	12.5%	6.30%	11.85%
Operating Margin	10%	6.17%	11.28%
Revenue/Capital (GAAP)	1.22	1.02	1.05
ROE (GAAP)		7.5%	16.5%
Net margin		4.0%	6.7%
Revenue/Book Value (GAAP)	#VALUE!	1.87	2.46
Invested Funds	**uaa (LTM)**	**uaa Historical**	**Peers' Median (LTM)**
Cash/Capital	7.3%	14.3%	17.0%
NWC/Capital	30.8%	16.6%	15.7%
Operating Assets/Capital	45.8%	61.0%	54.3%
Goodwill/Capital	16.2%	8.0%	13.0%
Capital Structure	**uaa (LTM)**	**uaa Historical**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.40	0.22	0.53
Cost of Debt	4.0%	4.6%	4.7%
CGFS Rating (F-score, Z-score, and default Probabilit; CC			
WACC	7.6%	10.6%	9.4%

Porter's 5 forces (Scores are percentiles)

Valuation

Forecast Assumptions	Explicit Period (6 years)	Continuing Period
Revenue Growth CAGR	10%	2%
Average Operating Margin	8%	10%
Average Net Margin	3%	10%
Growth in Capital CAGR	6%	2%
Growth in Claims CAGR	6%	2%
Average Return on Capital	10%	19%
Average Return on Equity	8%	27%
Average Cost of Capital	7%	7%
Average Cost of Equity Ke	9%	9%