

December, 1, 2017

Under Armour, Inc.: UAA

Daniel McAvoy

Sector: Consumer Goods

Industry: Apparel, Footwear and Lifestyle

Current Price: \$13.20

Target Price: \$15.52

Company Description:

Under Armour, Inc. was founded in 1996 by Kevin Plank, who is still the CEO today, in Baltimore, Maryland. When Kevin first started the company, he had one idea, which was to make synthetic performance apparel. Now the company has grown significantly throughout North America, and even into International countries. The company now is in the footwear, athletic, and lifestyle industry with many of the top athletes in the world supporting and wearing their products.

BUY

Current Price:	\$13.20
Target Price:	\$15.52
Market Cap:	7.1B
ROIC:	8.3
WACC:	11.66
EBITDA Margin:	8.07



Thesis: This company has been showing the world for the past 7 years (almost 27 quarters) that they were a company not to mess around with when it came to growth, but during the past year, and last quarter of 2016, they seemed drop off, but still came away with growth around 13%. Analysts may blame the major drop that this stock has seen due to the very big drop in growth in a short time. Also, they may blame that retail companies are losing because everyone is riding the wave that Amazon has created in this industry. The CEO said in their Q2 2017 Earnings Call that there needs to be restructuring of the company and that they need to stop growing to points and then hitting pivots. So with this, he decided to welcome Patrik Frisk to the team at Under Armour and make him the new President and Chief Operating Officer. This is a position where they believe needed improvements to help

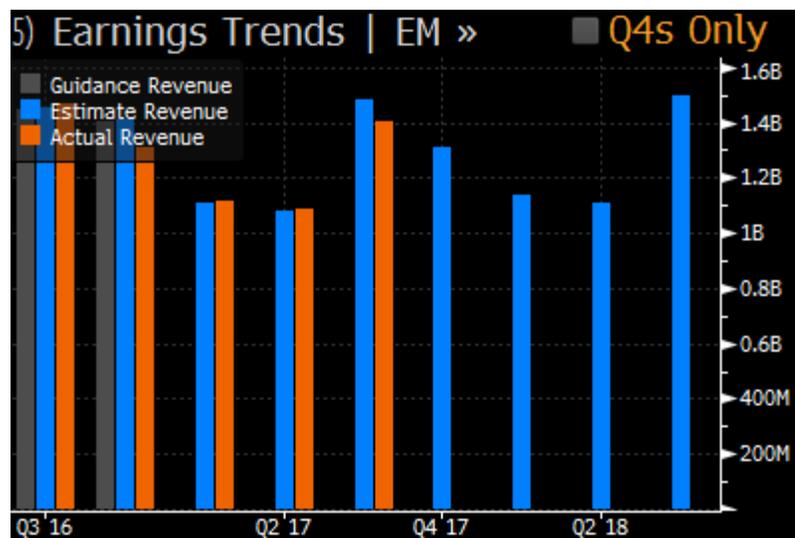
Catalysts:

- **Short Term(within the year):** Finish launching their customized footwear program known as Icon, which includes shoe lines in both training, lifestyle, and basketball.
- **Mid Term(1-2 years):** Finish building their integrated global model, which in turn will help operations to increase speed across all parts of the company.
- **Long Term(3+):** Continue to innovate great products, sign more top athletes throughout the world, and to grow the relationships with their global consumers.

make the company more efficient and to jump the hurdle that they keeping hitting, and enter their next chapter of major growth.

Earnings Performance:

UAA has had a major focus in the international part of their business. They saw a huge potential to grow their product in international waters and some analysts believe this is the reason why they lost so much business in North America. Revenue to wholesale customers declined 13% to \$880 million and direct-to-consumer revenue was up 15% to \$468 million. North America challenges impacted results with revenue down 12%. Strong international momentum continued with revenue up 35%, representing 22% of total revenue. For their international business, revenue in EMEA was up 22%, up 52% in Asia-Pacific (up 53% currency neutral) and up 33% in Latin America. Apparel revenue decreased 8% to \$939 million, as growth in golf and sport style was more than offset by declines in outdoor, women's training and youth. Footwear revenue was up 2% to \$285 million, driven by strength in running and outdoor, offset by basketball and youth. Accessories revenue increased 1% to \$123 million led by golf and men's training, tempered by a decline in outdoor. Like all consumer retail companies, Under Armour, Inc. has been experiencing some fluctuations during certain parts of the year. They see their best returns during the holiday seasons, which we are approaching shortly. I cannot see UAA's stock price fall any farther and with such a huge drop in stock price before the holiday season, I can only see it going back up slowly.



Strategy:

Under Armour, Inc. works in what some analysts would say is the toughest industry to enter. Under Armour started in 1996 when the top sports brands had already been around, with the last big one being Nike (NYSE: NKE). In the past 15 years, Under Armour has proven to North America that they can steal some of the major companies' market share. In the past few years, they have dipped into the international market for athletic apparel. With that being said, one of Under Armour's largest focus is to jump back into the huge growth numbers and to expand on the international market, where they believe they can see the most growth (3-year

growth estimates at 74.98%). In just the past couple months, the CEO was happy to say that the tours of Asia by top athletes Tom Brady and Stephen Curry went extremely well. Both athletes got to interact with thousands of fans in training sessions, retail appearances, and not to mention major product launches. CEO Kevin Plank said they are “...truly just getting started in Asia.” In another segment, UAA is still positive with their apps that track a person’s health. This segment alone increased revenue 320% from 2014 to 2016 and now occupies nearly 2% of total company sales. UAA also sees potential in the wearable market, which means going beyond the wrist wear, and to embedding sensors into clothing that track fitness metrics for anyone. This project is being managed in Austin, Texas.

8) Geo Seg FA GEO »	2016 Rev	3Yr Gr
North America	4.0B	22.22%
International	741.0M	74.98%
Connected Fitness	80.4M	N.A.

Debt:

In Under Armour, Inc.’s most recent Earnings call, the CFO David Bergman talked about how they were starting to finance a new integrated global model that is supposed to speed up operations and make the company more efficient. This may set back Under Armour, Inc. for the rest of the year, where they plan on taking on most of the financing of this project, and this explains why their debt has grown a lot in the past three quarters. Under Armour, Inc. has not released specifics to this project; however, they plan on implementing it as soon as possible. This will not only bring down margins, but also make the company better in operations says Bergman.

In Millions of USD except Per Share	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017*
3 Months Ending	03/31/2016	06/30/2016	09/30/2016	12/31/2016	03/31/2017	06/30/2017
 Short and Long Term Debt	934.5	1,015.1	1,073.8	817.4	861.1	954.7
 Short-Term Debt	167.0	177.0	277.0	27.0	77.0	177.0
 Long Term Debt	767.5	838.1	796.8	790.4	784.1	777.7

New and Future Products:

Under Armour, Inc., and all other major companies that deal with professional athletes, rely on athletes to do most of their marketing to the youth of our world. Most children at a young age look up to professional athletes, and they tend to always choose the best athletes in whatever sport that they enjoy to watch or play. Under Armour, Inc. has done an outstanding job in finding and selecting whom they think will not only be the best sponsors on the field, but also off the field. Some of these athletes include Tom Brady, Cam Newton, Stephen Curry, Bryce Harper, Jordan Spieth, Lindsey Vonn, Carey Price, etc. With that being said, CEO Kevin Plank has done a great job in diversifying their athletes, with Under Armour being in almost every professional sport known to man. Like I mentioned earlier with Under Armour, Inc., they are releasing a new product line, Icon. Cam Newton is releasing his first signature training shoe called C1N, which also blends into the lifestyle industry. Bryce Harper's new launch for Under Armour, Inc. is called the Harper 2. Also with baseball, Under Armour, Inc. is looking to start working with Aaron Judge who has been sensational this year in the MLB. With the NBA and starting soon, they plan to release the Bandit 3 and the Curry 4. Stephen Curry's shoes have always brought positive results for Under Armour, Inc. considering he has been every young child idol who loves basketball. For apparel, Jordan Spieth has been trying out Under Armour, Inc.'s new Lightweight Fleece and this has been taken to notice by not only the youth, but also all ages that play golf. With all these new releases coming out, this can only help Under Armour, Inc. for the rest of the year and into the next year.

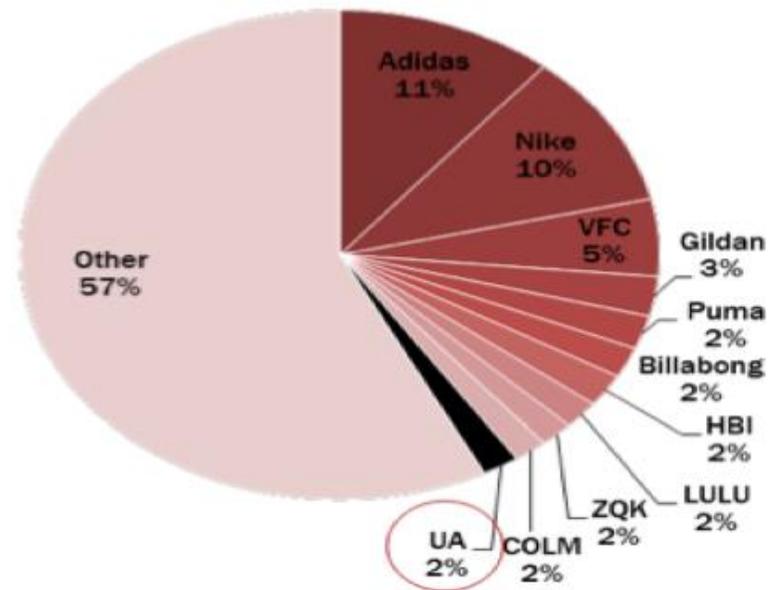


Competitors and Lawsuit:

Under Armour, Inc. has joined a sector in sports that already had many top competitors that have established their market share. Under Armour, Inc. has done just fine getting into the market share, but obviously take advantage when competitors make mistakes in their own business. Within the past few weeks, the top apparel and footwear competitor, Adidas, has entered waters in the justice system at such a huge scale that no business would ever want to happen to them. Adidas was recently caught by the NCAA in bribing players and coaches for college basketball. Across the country, 10 people, including Louisville's Rick Pitino,

were arrested after a federal probe revealed hundreds of thousands of dollars in bribes to influence star athletes' choice of schools, shoe sponsors, agents, even tailors. Obviously this is a sad moment for schools that trusted Adidas as a company, but if you're going to be in a big time market, you need to jump on opportunities like this and go to these schools and make contracts to try and create more revenue as a company.

Global Athletic Apparel Market Share



Direct-to-Customer:

For Under Armour, this segment of their business is a huge factor in their revenue, and all analysts and even the CFO, David Bergman, will say Q4 is their best DTC quarter, and is expected to deliver growth. With that being said, DTC revenue grew a great amount in Q2 at 20% to \$386 million in three different segments combined (Factory, Brand House, and e-commerce) in every region in the world. A big contributing factor to why they had such a good DTC quarter was because of the 11% growth in apparel revenue in the

men's and women's golf segment. CEO Plank gave a big thanks in the Earnings Call to one of Under Armour's golfers (one of the best golfers in the world) saying, "First off, a huge congratulations to Jordan Spieth for winning the British Open and securing a historic third grand slam leg, as the second youngest golfer ever to achieve that milestone. Being that he is young will only help promote Under Armour and help revenue growth in the golf sector, which is a worldwide sport."



Conclusion:

Under Armour, Inc. has seen a great decline within the past year due to how their growth has started to slow down, but when looking at many analyst ideas, they tell people to hold if you already own the stock. I already know that this class owns shares and I believe that it would be in our best interest to hold it before cutting losses. If we look back to earlier into the year when we first bought the stock, we purchased the stock when it was still on its downfall at about \$21, which is not bad, but it has started hitting prices that are more consistent with a company going through restructuring. This company has hired a new COO/President who believes in this company and how they can grow more into the international market and improve the company's efficiencies. This company will stop hitting pivots with projects and hit their new chapter of growth and continue to grab more market share.

Under Armour, Inc. (UAA)

CENTER FOR GLOBAL FINANCIAL STUDIES

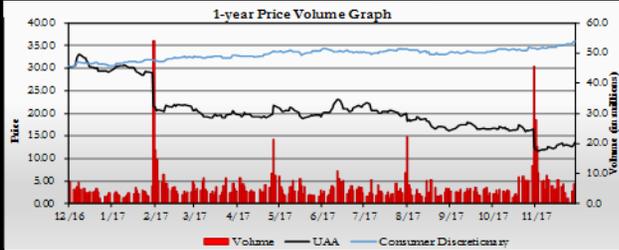
NEUTRAL

Analysis by RICK
12/1/2017

Current Price: \$13.15
Divident Yield: 0.0%

Intrinsic Value: \$13.10
Target Price: \$15.52

Target 1 year Return: 17.99%
Probability of Price Increase: 91%



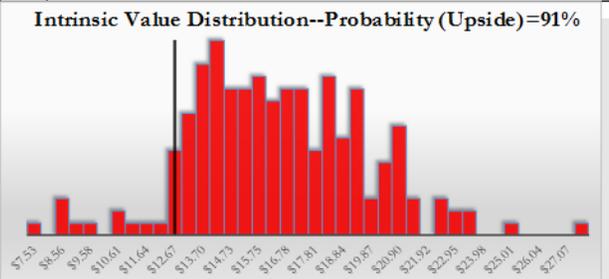
Description
Under Armour, Inc., together with its subsidiaries, develops, markets, and distributes branded performance apparel, footwear, and accessories for men, women, and youth primarily in North America, Europe, the Middle East, Africa, the Asia-Pacific, and Latin America.

General Information
Sector: Consumer Discretionary
Industry: Textiles, Apparel and Luxury Goods
Last Guidance: November 3, 2015
Next earnings date: January 31, 2018
Estimated Country Risk Premium: 5.12%
Effective Tax rate: 19%
Effective Operating Tax rate: 19%

Market Data	
Market Capitalization	\$5,492.92
Daily volume (mil)	5.88
Shares outstanding (mil)	441.70
Diluted shares outstanding (mil)	448.04
% shares held by institutions	64%
% shares held by investments Managers	51%
% shares held by hedge funds	3%
% shares held by insiders	16.33%
Short interest	12.52%
Days to cover short interest	8.83
52 week high	\$33.45
52-week low	\$11.40
Volatility	41.24%

Past Earning Surprises	
Quarter ending	Revenue
9/30/2016	1.42%
12/31/2016	-7.16%
3/31/2017	0.81%
6/30/2017	0.99%
9/30/2017	-5.03%
Mean	-1.80%
Standard error	1.8%

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



Management	
Position	
Frank, Kevin	Founder, CEO & Chairman
Maurath, Karl-Heinz	Chief Revenue Officer
Brownie, Colin	Chief Supply Chain Officer
Funk, Patrick	President & COO
Bergman, David	Chief Financial Officer
Pipps, Paul	Chief Technology Officer

Profitability	
Return on Capital (GAAP)	6.1%
Operating Margin	5%
Revenue/Capital (GAAP)	1.34
ROE (GAAP)	9.9%
Net margin	4.0%
Revenue/Book Value (GAAP)	2.49

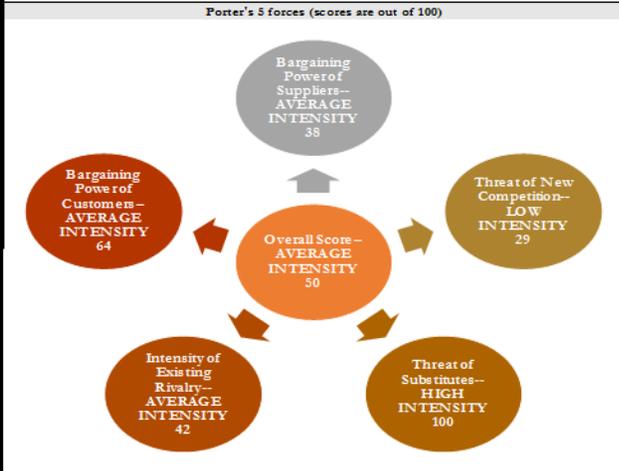
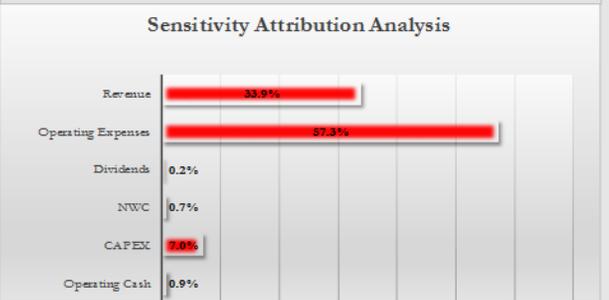
Capital Structure	
Total Debt/Market Capitalization	0.41
Cost of Existing Debt	3.1%
CGFS Rating (F-score, Z-score, and default Probability)	BB
WACC	8.0%

Total compensation growth	
13.04% per annum over 3y	
-14.29% per annum over 3y	
N/M	

Total return to shareholders	
8.75% per annum over 3y	
34.71% per annum over 3y	
N/M	

Invested Funds	
Cash/Capital	-4.0%
NWC/Capital	41.4%
Operating Assets/ Capital	46.7%
Goodwill/ Capital	15.9%

Valuation	
NO PAT Margin Forecast	7.4%
WACC Forecast	8.0%



Period	Revenue Growth Forecast
Base Year	5%
9/30/2018	3%
9/30/2019	7%
9/30/2020	9%
9/30/2021	11%
9/30/2022	10%
9/30/2023	10%
9/30/2024	11%
9/30/2025	11%
9/30/2026	12%
9/30/2027	6%
Continuing Period	3%

Period	Return on Capital Forecast
Base Year	13.7%
9/30/2018	1.4%
9/30/2019	2.6%
9/30/2020	3.0%
9/30/2021	4.4%
9/30/2022	7.0%
9/30/2023	8.1%
9/30/2024	9.3%
9/30/2025	10.5%
9/30/2026	11.7%
9/30/2027	11.7%
Continuing Period	11.4%

Revenue to Capital Forecast	
1.55	
1.40	
1.44	
1.50	
1.59	
1.65	
1.67	
1.68	
1.69	
1.70	
1.60	
1.46	

Price per share Forecast	
\$13.35	
\$15.97	
\$17.70	
\$19.57	
\$21.54	
\$23.63	
\$25.80	
\$28.09	
\$30.49	
\$32.95	
\$35.46	

