March, 2, 2017

Under Armour Class A: UAA

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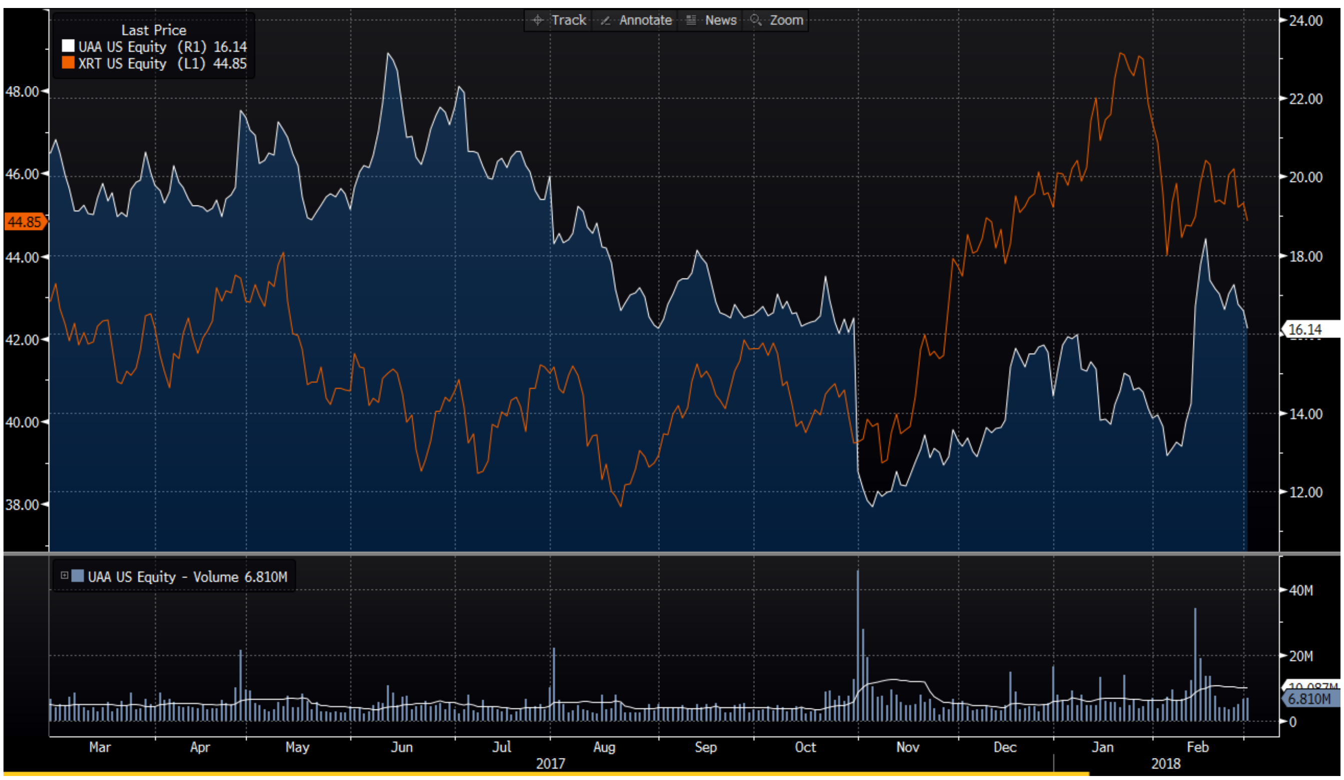
Sector: Consumer Discretionary
Industry: Sporting Goods
Current Price: $16.88
Target Price: $17.64

Company Description: Under Armour, Inc. engages in the developing, marketing and distributing of branded performance apparel, footwear and accessories for men, women and youth. It operates through the following geographical segments: North America; Latin America; Asia-Pacific; and Europe, the Middle East, and Africa. The company was founded by Kevin A. Plank in 1996 and is headquartered in Baltimore, MD.

HOLD

Current Price:	$16.88
Target Price:	$17.64
Market Cap:	7.4B
Average Volume:	7.71M
D/E Ratio:	0.37
ROIC:	-1.03%
WACC:	12.95%
Short Interest:	31.8%/5 Days



Thesis:

Under Armour will attempt to build off a restructuring and recuperating year in 2017 to promote growth in the coming year. The company is positioned to expand into international markets where they currently only get 24% of their revenue. These higher growth channels will provide ample opportunity for growth in a less promotional environment. However, these promises are the same type of promises that management as under delivered on starting in the beginning of 2015. This along with the emergence of Adidas and resurgence of Nike make the hyper competitive retail industry even more competitive. Taking these factors into consideration UAA should see sideways price movement in 2018

Catalysts:

- **Short Term (within the year):** Low earnings expectations for first half 2018
- **Mid Term (1-2 years):** Expansion into European and Asian markets. HOVR technology
- **Long Term(3+):** Emergence of Under Armour as a top-tier sports apparel company

Industry Performance and Outlook:

The retail industry has been under pressure since the beginning of 2016 where the hyper competitive U.S industry began to eat into corporate profits. This lead to difficulties for all three of the major players in the sports apparel industry: Nike, Adidas, and Under Armour. However, the industry is poised for a turnaround, according to Deloitte:

"Today's retail trends are driven by the anticipation that consumers will spend confidently throughout 2018. Market growth is projected to reach a healthy 3.2 to 3.8 percent[1], with heated competition among store formats, channels, and players expected to continue."

The market projection of 3.2 to 3.8% growth is significant, but in order to sustain the growth levels needed to maintain the current valuation levels Under Armour needs to sustain growth of around ten percent. This would mean that Under Armour would need to be taking market share from Nike and Adidas which has proven very difficult for the company over the last couple of years. This issue coupled with the combination of the continued issue of the heated competition and high promotional activity will cause major problems for the company going forward.

Business Segments:

Currently Under Armour breaks down its business segments geographically into four main segments, North America, EMEA, Asia Pacific, and Latin America. There is a fifth segment that has been recently created for Under Armor's connected fitness.

North America: The North American segment is the largest segment by far for Under Armour, comprising 76.5% of total revenue for the company. The company sells branded apparel, footwear and accessories in North America through our wholesale and direct to consumer channels. Net revenues generated from the sales of UA products in the United States were $3.6 billion, $3.8 billion and $3.3 billion for the years ended December 31, 2017, 2016 and 2015 respectively.

EMEA: The EMEA segment is composed of Europe, the Middle East, and Africa. This segment makes up 9.4% of overall revenue for the company. The company sells in the same manor as the above segment and has recently began to push into Russia as well. This is a promising segment as it is much less promotional than North America, therefor margins should be better.

Asia – Pacific: This is the segment that management is most excited about due to the success of Stephen Curry in the Asian markets. This market currently makes up under 9%, which has grown from 5.6% in 2016. This is the highest growth opportunity for the company, however Nike and Adidas have saturated this market and breaking in will be much more difficult than management has guided.

Latin America: The Latin America segment contains Mexico, South America, Hong Kong, and Jordan. This segment has grown from 2.9 percent of revenue to 3.6 percent in 2017. This segment is another segment with less promotional activity than North America and therefore an opportunity for growth.

Connected Fitness: The connected fitness segment is the segment that management is most excited about but most blind about as well. Management is very excited about their HOVR technology, which tracks a few statistics while running. However, there is no marked improvement over Nike's Nike+ technology that failed a few years ago. This is one of the major issues with Under Armour's upper management in general, they refuse to look at their competitors and learn the lessons that they need too.

Growth Drivers:

There are a few drivers of growth as long as management stays on track for Under Armour in the upcoming year. The first of those is expansion into foreign markets. If the company is able to diversify its revenue stream there will be both increased growth and margin improvement. Currently, Under Armour has zero operating margin therefore, this improvement is crucial. The company has historically carried right around a 12% margin and this is a target they must get back to in order to return to profitability. The next driver of growth is Under Armour's HOVR technology. This can be a driver of growth as long as UA has learned from the competitors mistakes. The technology segment will be high margin and the inclusion of said technology will allow UA to increase prices and grow margin. However, if this is improperly implemented the company will suffer large losses in time and invested capital. The last driver is continued improvement within the signature athlete lines. Especially in the golf industry where Jordan Speith is one of the most prominent competitors and Stephen Curry who is a reigning NBA champion. Curry's shoes are a leading indicator of how UA behaves, the first Curry was a very good shoe and UA's stock price `soared. However, in recent years, the Curry signature line has faltered and following this, so has Under Armour.

Debt:

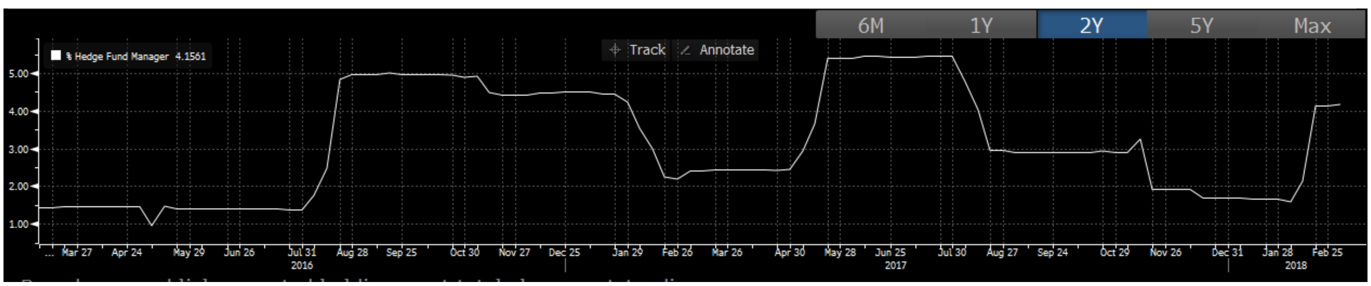
Under Armour has a debt-to-equity ratio of 0.37, which is right around the industry median when compared with Nike and Adidas. However, those companies are much more established and have a better credit rating than Under Armour's BBB- (junk status). Under Armour has over 1.4B in debt coming due in the next year, which could cause issues within the company. This problem can be dealt with through prudent management however, through the last two years this has been an issue for the company.

	Payments Due by Period				
(in thousands)	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Contractual obligations					
Long term debt obligations (1)	$ 980,585	$ 51,925	$ 134,932	$ 125,478	$ 668,250
Lease obligations (2)	1,489,469	140,257	297,759	279,406	772,047
Product purchase obligations (3)	1,093,665	1,093,665	—	—	—
Sponsorships and other (4)	1,170,848	150,428	261,191	241,493	517,736
Total	$ 4,734,567	$ 1,436,275	$ 693,882	$ 646,377	$ 1,958,033

Ownership:

54) Ownership Type	01/29/17	Curr	Change
41) Investment Advisor	84.03	86.49	+2.46
42) Hedge Fund Manager	4.24	4.16	-0.08
43) Bank	3.91	3.19	-0.72
44) Pension Fund	1.37	2.38	+1.01
45) Government	1.27	1.07	-0.20
46) Brokerage	2.54	0.88	-1.66
47) Individual	1.00	0.85	-0.15
48) Insurance Company	0.60	0.62	+0.02
49) Sovereign Wealth Fund	0.83	0.14	-0.69

Over 90% of UAA is owned by institutional investors and hedge funds alona. As evident in the chart below hedgefund interest has fluctuated agressively in the last two years. This has been accompanied by an almost identical fluctuation in short interest over that time. This means that most likely, hedge funds are in UAA as a short position. However, this is not always true as certain hedgefunds have been holding UAA for the longterm. This discrepency boils down to whether or not each individual believes that UA has turned a corner in its business life.

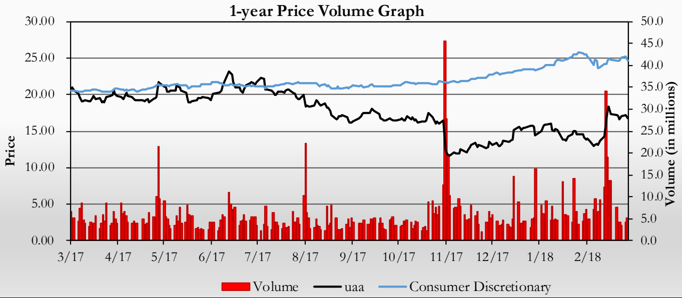


2018 Outlook:

2018 will be a make or break year for Under Armour and Kevin Plank. Either the initiatives and restructuring that was set up in2017 works or it doesn't. The company needs to prove that it can compete with the Goliaths of the industry in Nike and Adidas. There are certainly opportunities out there for the company to take advantage of domestically and abroad. If the HOVR technology is proven to be a transcendent technology then Under Armour will take off an soar to a price of $20+ a share. However, the much more likely scenario is that UA returns to historical margins of around 9% and grows at a much more modest 10 or 11 percent growth per year. This will lead to a one-year price target of $17.64 for a return of around 10%. However, if these initiatives do not pan out UA could see continued losses and a price of around $13 a share once again for a resulting loss of 18.75%. Due to the increased risk and modest returns, I am recommending a hold on UAA.

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

Analysis by Al Capone	Current Price:	$16.14	Intrinsic Value	$15.99	Target 1 year Return: 9.27%
3/2/2018	Divident Yield:	0.0%	Target Price	$17.64	Probability of Price Increase: 34.67%



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	5.07%
Effective Tax rate	21%

Market Data	
Market Capitalization	$6,740.30
Daily volume (mil)	6.80
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	8.27
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%	7.9%

Market and Credit Scores
Recommendation (STARS) Value--1
Recommendation (STARS) Description--Strong Sell
Quality Ranking Value--B+
Quality Ranking Description--Average
Short Score--5
Market Signal Probability of Default % (Non-Ratings)
-1.199%
CreditModel Score (Non-Ratings)--bbb+

Industry and Segment Information

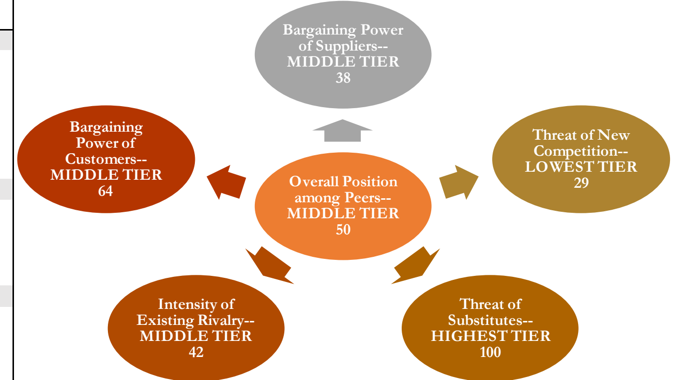
LTN Revenues by Geographic Segments	LTM Revenues by Business Segments
United States--95%	North America--76%
Foreign--6%	Emea--9%
#VALUE!	Asia-Pacific--9%
#VALUE!	Latin America--4%
#VALUE!	Connected Fitness--2%

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

Management	Position	Total Compensations Growth	Stock Price Growth During Tenure
Plank, Kevin	Founder, CEO & Chairman	12.48% per annum over 5y	10.05% per annum over 5y
Maurath, Karl-Heinz	Chief Revenue Officer	-4.01% per annum over 4y	19.38% per annum over 4y
Browne, 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)	12.6%	6.38%	9.98%
Operating Margin	10%	6.17%	10.95%
Revenue/Capital (GAAP)	1.23	1.03	0.91
ROE (GAAP)		7.6%	15.0%
Net margin		4.1%	6.3%
Revenue/Book Value (GAAP)	#VALUE!	1.87	2.38
Invested Funds	**uaa (LTM)**	**uaa Historical**	**Peers' Median (LTM)**
Cash/Capital	7.3%	14.3%	16.6%
NWC/Capital	30.8%	16.6%	13.3%
Operating Assets/Capital	45.8%	61.0%	55.6%
Goodwill/Capital	16.2%	8.0%	14.5%
Capital Structure	**uaa (LTM)**	**uaa Historical**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.40	0.22	0.54
Cost of Debt	4.0%	4.6%	5.0%
CGFS Rating (F-score, Z-score, and default Probability)	CC		
WACC	9.0%	9.5%	8.9%

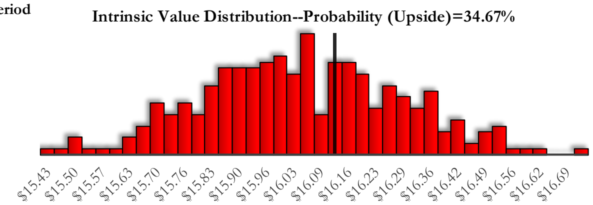
Porter's 5 forces (Scores are percentiles)



Valuation

Forecast Assumptions	Explicit Period (8 years)	Continuing Period
Revenue Growth CAGR	12%	2%
Average Operating Margin	8%	9%
Average Net Margin	0%	7%
Growth in Capital CAGR	0%	2%
Growth in Claims CAGR	-1%	2%
Average Return on Capital	0%	43%
Average Return on Equity	2%	60%
Average Cost of Capital	9%	9%
Average Cost of EquityKe	10%	10%

Intrinsic Value Distribution--Probability (Upside)=34.67%



Sensitivity Attribution Analysis