FLASH NOTE – UNDER ARMOUR

JUNE 7TH, 2019

Under Armour	
Ticker Site BiG	UAA
Ticker BiGlobal Trade	UAA
Ticker BT24	UAA
Ticker BiG Power Trade	UAA
P/E Ratio 2019E	74,24
P/BV Ratio	5,61
EV/EBITDA	40,42

Source: Company´s data;

Price and Performance (Values in USD)	
Price	25,76
52 week high	25,80
52 week low	16,52
YTD	45,8%
Average daily volume (un)	5.253.306
Market Capitalization (mn)	10.841
Beta	1,29
Dividend	0,00
EPS	-0,10

Source: Company´s data;

Analysts Consensus (last 3 months)	
Buy	9
Hold	14
Sell	10

Source: Company´s data;

Financial Data	
Sales (USD mn)	5.193
EBITDA (USD mn)	157
Number of Employees	15.000
ROA	0,1%
ROE	0,3%
D/E	0,36
Dividend Yield	NA

Source: Company´s data;

Notes:

All quotes were updated in Bloomberg at 13h45 of June 6th, 2019.

Relevant Information:

Use the following link to view our most recent publications: https://www.big.pt/InformacaoMercados/TradingIdeas/Index/-1

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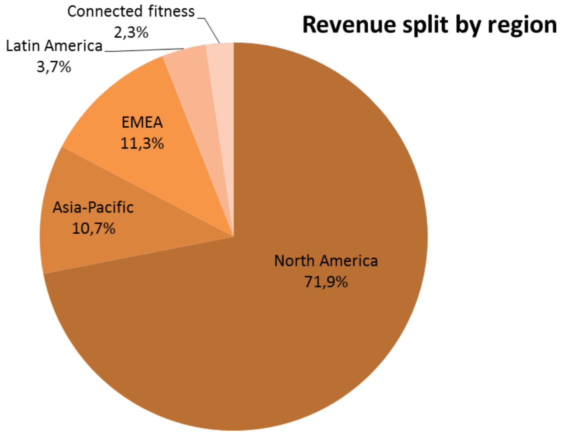
Under Armour (Ticker: UAA)

Description

Under Armour Inc. is an American designer and distributor of apparel and footwear. The company produces sport, outdoor and active lifestyle goods for professional use in football, baseball and hockey as well as for athletes. Also, the company distributes accessories for outdoor activities, such as hunting, fishing and mountain sports. The company was founded in 1996 in Baltimore, U.S, where it is currently headquartered. It employs around 15 thousand people. Under Armour is present in several markets, such as Asia-Pacific, Europe, North and Latin America, however, the major market is United States (72% of total sales in 2018).



Source: Company´s data

Investment Points

Under Armour Inc. has a huge potential to grow in other regions than U.S., namely Asia-Pacific (CAGR of 25% by 2023), also, innovative production gives a great competitive advantage among the biggest players in the market. Future potential is clearly reflected in the P/E ratio, which is equal to 74.2. However, the company had losses in the last two years, which were mainly the result of new restructuring program (2017-2019), which is supposed to significantly improve the efficiency and place the focus of the business to the growth sectors.

Before restructuring Under Armour Inc. didn´t have a clear vision of the business, product segments and faced inefficiency, but the full implementation of the new strategy gives a huge potential for the business to grow.

Environmental, Social and Governance (ESG)

Regarding ESG activities, the company is trying to implement measures, which would decrease their footprint. However, no ratios regarding company´s consumption or waste were disclosed in the recent years, thus it is difficult to evaluate the exact contribution to the environment. Moreover, in the last years the company was involved in controversial activities and accused of women demeaning in the workplace. More information available at the end of the note.

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Source: Company´s data

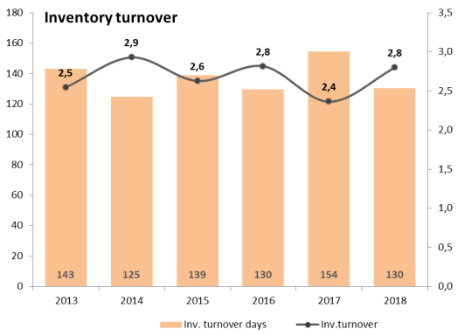
Investment Case

Growth. Under Armour Inc. is expecting to achieve 3% - 4% growth in sales in 2018. The goal is to decrease wholesale sales growth (57% from 61%) and increase sales through direct-to-customer retail (24% from 23%) and digital (15% from 12%) in order to have a control over the distribution channels. The biggest growth potential the company has in Asia-Pacific (25% CAGR by 2023). If the company achieves planed growth rate through the regions, by 2023 it will increase revenues to $7.5 billion, which is 46% more than in 2018 (7% CAGR). Company expects to achieve EPS CAGR of 40% by 2023.

Innovation. Under Armour Inc. since the launch of the business is well-known for the innovative products. The company introduced sport clothes, which absorb humidity and circulate the body heat to maintain the cool body temperature. Also, in 2016 the company opened the design and manufacturing center called Lighthouse, which uses 3D printing to produce shoes, robotics to design merchandise. The center serves as an efficient and highly automated manufacturing tool.

Restructuring. In 2017 Under Armour Inc. started restructuring, which is supposed to strategically transform the business. The company is planning to achieve growth through the focus of the production on the narrower consumer segment, which is youth in mid-20s. To reach the target customers Under Armour Inc. will base the marketing on social media, decrease get-to-customer time to 5 months and adjust the pricing. In addition, the company will improve the operations and costs efficiency. Initially the restructuring was supposed to cost $130 million, however it resulted in $203 million costs in 2018. As a part of restructuring plan the company already did two job layoffs: 2% in 2016 and 3% in 2017. The further workforce reduction of 3% is expected to happen in 2019. Under Armour Inc. is planning to see the first results of restructuring in 2020, which are supposed to reach $200 million in savings.

Financial position. Under Armour Inc. generated 78% higher cash flows in 2018 as compared to 2017. Even though the cash flows are not sufficient to cover all the liabilities, it could cover 78% of financial debts. The company second year in the row has a loss. However, it is decreased in 2018 by 4% to $46 million. Under Armour Inc. does not pay any dividends since it went public, as the company is constantly reinvesting in business development and expansion. The potential growth is reflected in share price, as the company is trading at P/E of 74.



Source: Company´s data

Inventories obsolesce. In recent years Under Armour Inc. accumulated high level of inventory (over $1.2 billion), which was a subject of impairment and write-offs due to changes in customer preferences. Consequently, in 2017, when the company reached the highest inventories level, the inventory turnover decreased to 2.4 and inventory turnover in days increased to 154 days. In comparison, Adidas had an inventory turnover in days equal to 97 days in 2017, while Nike Inc. had a ratio of 128 days. In 2018 inventory was decreased through off-price sales.

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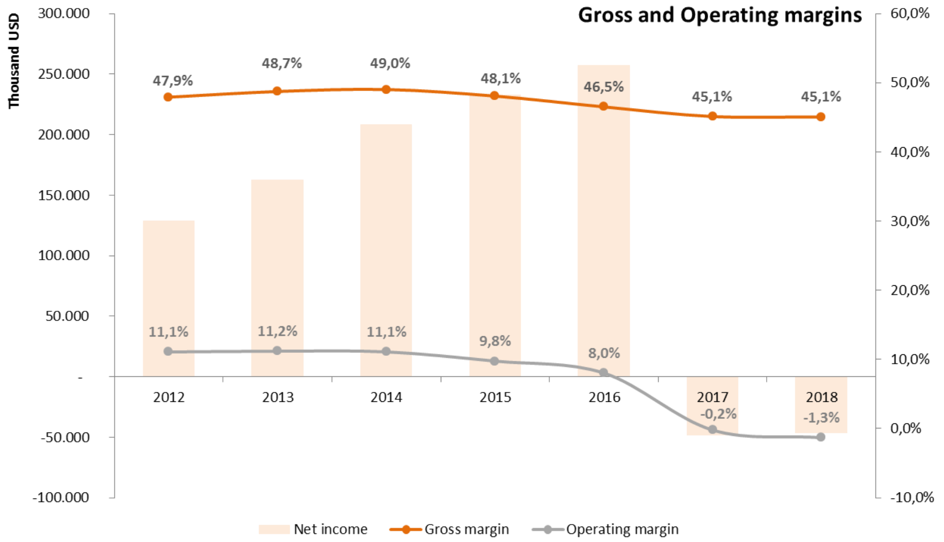
Income Statement (USD millions)	2018	2017
Revenues	**5.193**	**4.989**
Other Revenue	0	0
COGS	(2.853)	(2.738)
Selling, General and Administrative costs	(2.182)	(2.100)
Restructuring and impairment charges	(183)	(124)
Other Expenses/Income	0	0
Operating Expenses	**5.218**	**4.961**
EBIT	**(25)**	**28**
Net Interest	(43)	(38)
EBT	**(68)**	**(10)**
Taxes/benefits	21	(38)
Others	1	0
Net Income	**(46)**	**(48)**
Earnings per share	**(0,1)**	**(0,1)**

Source: Company´s data

Income Statement

Under Armour Inc. has generated a double digit revenue growth in recent years, however it faces a slowdown in the last two years: in 2018 revenues increased by 4.1% as compared to 22% growth in 2016. COGS and SG&A expenses increased in line with the revenues, i.e. 4.2% and 3.9% respectively in 2018. The company was penalized by the increased restructuring costs for the optimization of operations and financial resources, as well as impairment costs for the Connected Fitness brand: expenses increased by 48%. EBITDA margin decreased to a loss of 0.5% as compared to the positive EBITDA margin of 0.6% in 2017. Restructuring costs were also the main reason of the net income loss of $46 million in 2018.



Source: Company's data

Free Cash Flow (USD millions)	2018	2017
Operational Cash Flow	**628**	**237**
Operating Profit	(46)	(48)
D&A, impairments	182	174
Interest Paid	0	0
Interest and dividends Received	0	0
Taxes	3	17
Change Working Capital	655	(98)
Others	(165)	193
Investment Cash Flow	**(203)**	**(282)**
Capex	(159)	(281)
Net Treasury Investments Inflow	0	0
Acquisitions	(39)	0
Disposals	0	1
Others	(5)	(2)
Financial Cash Flow	**(190)**	**107**
Debt change	(190)	98
Share buyback	0	0
Dividends	0	0
Others	0	9
Change in free cash flow	**235**	**62**
Other and forex	**12**	**4**
Cash and equivalents at end	**566**	**318**

Source: Company´s data

Free Cash Flow

Operational cash flow increased almost three times in 2018 due to significant changes in working capital. Increase in receivables was a result of timing of shipment, while the change in inventories was caused by increased sales of off-price merchandise. Investment cash flow decreased by 28% as compared to 2017 due to lower capital expenditure. Also, Under Armour Inc. purchased additional 10% of ownership of Dome Corporation (Japanese licensee), which increased the total investment by 29.5%. Financing cash flows increased, because the company made bigger repayments of debt. The cash flow at the end of the year increased significantly, i.e. by 78% as compared to 2017. Under Armour Inc. does not pay dividends, also it is not engaged in share repurchases as the cash flow is reinvested into business expansion.

Balance Sheet (USD millions)	2018	2017
Assets	**4.245**	**4.006**
Cash & Equivalents	557	312
Short term investments	-	-
Goodwill	546	556
Receivables	653	610
Inventories	1.019	1.159
Property Plant & Equipment	827	886
Intangible Assets	546	556
Joint Ventures & Associates	-	-
Other Assets	477	340
Liabilities	**2.228**	**1.988**
Short term Debt	25	152
Long term Debt	704	765
Payables	561	561
Accrued Expenses	340	297
Other liabilities	598	213
Total Shareowner's Equity	**2.017**	**2.019**
Total Equity and Liabilities	**4.245**	**4.006**

Source: Company´s data

Balance Sheet

During the 2018 the company abandoned a part of fixed assets due to restructuring activities, which resulted in impairment loses, therefore PPE decreased by 7%. Intangible assets (including goodwill), which belongs to the brand of Connected Fitness were revaluated and resulted in impairment. The total losses due to revaluation and impairment of Connected Fitness resulted in costs of $203.9 million in 2018. Long term debt decreased partially because of the repayment of the debt. Other liabilities increased significantly in 2018 due to the customer refund liability, which is a reserve for refunds, discounts and allowances. Total liabilities resulted in an increase of 12% in 2018.

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Guidance

In the first quarter of 2019 outlook Under Armour Inc. presented higher growth than expected, which led to the increased guidance for the 2019. Revenue grew by 2% (3% c.n.). Regionally, sales in North America decreased by 3% due to lower off-price sales and lower demand in direct-to-customer channel, as the company is moving to premium pricing. Sales in Asia-Pacific increased by 25% due to increased sales in off-price and direct-to-customer channels. Revenue increased in EMEA region and in Latin America by 3% and 6% respectively. Regarding the sales channels wholesale grew by 5%, while direct-to-customer and licensing sales decreased by 18% and 6% respectively. Gross margin increased by 1% to 45.2%, which is the result of more favorable pricing. However, the company is expecting a tailwind to gross-margin for the full year due to plans to decrease off-price sales. SG&A costs decreased by 1%. For the full year outlook, the company is expecting to achieve a revenue growth between 3% and 4%. Gross margin on GAAP basis is expected to increase between 1.1% and 1.3% and EPS fall in the range of $0.33 to $0.34.

Kevin Plank, founder and CEO of Under Armour Inc.

Management

Kevin A. Plank founder and CEO of Under Armour Inc. since 1996, owning 16% stake in the company. He is also a member of Board of Directors at National Football Foundation and College Hall of Fame Inc., as well as member of Board of Trustees of the University of Maryland College Park Foundation. Mr. Plank has Bachelor of Arts/Science (University of Maryland) and Master of Business Administration (Robert H. Smith School of Business). CEO recently started company´s restructuring program to optimize the operations and to be able to compete with the main players of the industry.

Main Segments

Under Armour Inc. manufactures apparel, footwear, accessories, which represent 67%, 20% and 8% of revenues in 2018 each, apparel being the main sales generating segment. Connected Fitness business generated the remaining 5% of annual revenue in 2018. Each segment represents particular gearlines, designed for specific use.

Apparel (67% of total revenues, growth 5%)**.** The main purpose of apparel products is to enhance mobility and regulate body temperature in order to improve the performance regardless of weather conditions. Apparel goods are divided into three main types: compression (tight fit), fitted (athletic fit) and loose (relaxed). In 2018 revenues increased due to increase sales in train category.

The main apparel gearlines are HEATHGEAR ® and COLDGEAR ®.

HEATGEAR® is designed to be worn in warm or hot temperature under the equipment or as a single layer. The apparel is designed in a way which absorbs the moisture from the body and keeps it light and cool.

COLDGEAR® is designed to be worn in the cold temperatures, thus it is designed in a way which absorbs moisture from the body while circulating the body heat to maintain the core body temperature. COLDGEAR ® provides apparel to be used under the equipment or outside.

Footwear (21% of total revenues, growth 2%). The goods are designed for the use in the sports, such as basketball, running, for the outdoor and sports lifestyle. The technologies, used in the production are UA HOVR™, Anafoam™, UA Clutch Fit® and Charged Cushioning®, which provide stabilization, moisture, circulation of temperature and cushioning in order to create a maximum comfort for the athletes. In 2018 the main revenue driver was run category.

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Accessories (8% of total revenues, growth -5%). Goods include gloves, bags and headwear. The HEATHGEAR ® and COLDGEAR ® technologies are also applied in the manufacturing in order to provide the same high quality as other products.

Connected Fitness (2% of total revenues, growth 18%) is a digital fitness division, which offers fitness subscriptions through MapMyFitness, MyFitnessPal and Endomondo platforms. It was opened in 2013 and since then it is being developed to help athletes in training activities.

License (2% of total revenues, growth 7%). Under this product line Under Armour Inc. develops specific apparel, accessories and equipment products as requested by the licensees. In 2018 agreements were signed with collegiate, NFA and NBA.

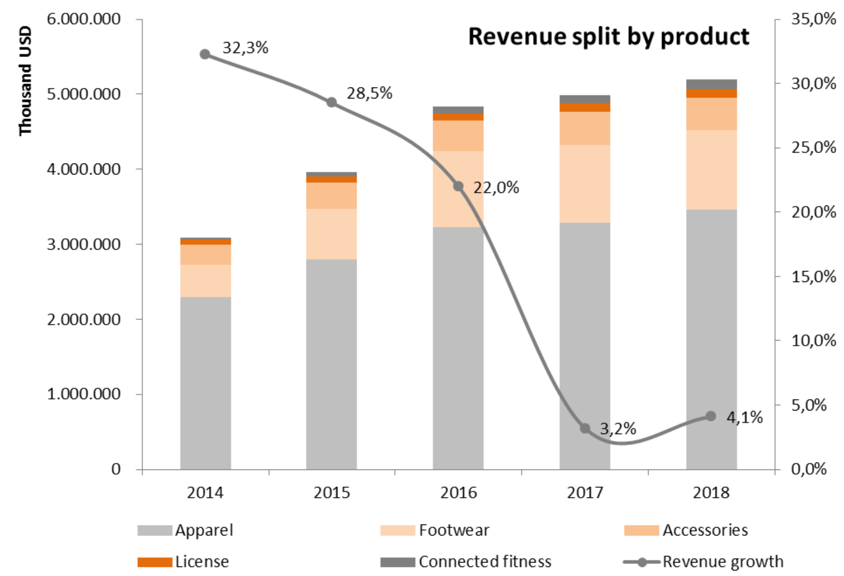
Under Armour Inc. also presents revenue split and results based on the geographies, where it operates.

North America (72% of total revenues, growth -2%). Revenues decreased due to lower demand. Negative growth was partially offset by off-price sales. Operating income was negative (loss of $66 million in 2018) due to restructuring and impairment costs.

EMEA (11% of total revenues, growth 25%). Revenues increased due to higher wholesale sales in UK, Italy and Spain. Operating income was negative (loss of $9 million in 2018) due to restructuring and impairment costs as well as increased costs in marketing and commercial dispute.

Asia-Pacific (11% of total revenues, growth 29%). Revenues increased due to increased demand in China and increased sales through direct customer channel. Operating income increased as compared with 2017, but op. margin decreased by 1.9% to 17% due to investment in direct-to-consumer business.

Latin America (4% of total revenues, growth 5%). Revenues increased due to increased demand in Mexico and Chile. Operating income was negative (loss of $48 million in 2018) due to restructuring and impairment costs.



Source: Company´s data

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M&A

Under Armour Inc. have not made any significant acquisitions in the last years. However, the company acquired several platforms in the past to expand its digital business line.

In 2013 Under Armour acquired the platform of **MapMyFitness** for $150 million in order to establish the digital business line, which would help athletes to track their performance and improve the training.

In 2015 the company acquired **Endomondo** for $85 million and **MyFitnessPal** for $475 million to expand its Connected Fitness suite. The two platforms were supposed to supplement the existing platform of MapMyFitness. Endomondo had 20 million users and MyFitnessPal brought 80 million users.

The three strategic acquisitions made Under Armour Inc. as one of the largest digital health and fitness companies. Connected fitness grew by 15% and 18% in 2017 and 2018 respectively. It makes 2% of total revenues.

Relative Valuation

Under Armour Inc. stands as an outlier in the industry due to its high P/E ratio: 74.2 versus the industry average of 20.2. Even though it is expected to decrease in the following years to 52.9, it stays above the average. It implies about the growth potential, which the company has. EV/EBITDA and EV/Sales are also above the industry average. However, EBITDA margin falls below the peers ‘average: 5% versus 13.7%.

Name	Country	Market Cap (mn)	Currency	P/E 2019E	P/E 2020E	EV/EBITDA	EV/Sales	YTD	1 Yr. Price Δ	Margin EBITDA
COLUMBIA SPORTSWEAR	UNITED STATES	6.579	USD	21,2	19,1	14,5	2,4	14,5%	5,5%	16,5%
CARTER'S INC	UNITED STATES	4.096	USD	13,7	12,6	10,8	1,7	11,0%	-18,7%	15,7%
OXFORD INDUSTRIES INC	UNITED STATES	1.220	USD	15,7	14,5	9,9	1,2	0,9%	-20,4%	12,0%
HANESBRANDS INC	UNITED STATES	5.751	USD	9,0	8,9	10,2	1,5	27,0%	-17,8%	15,1%
GILDAN ACTIVEWEAR INC	CANADA	10.132	CAD	18,7	16,0	15,9	2,9	18,6%	31,2%	17,9%
VINCE HOLDING	UNITED STATES	159	USD	38,1	29,8	14,8	0,7	46,8%	13,2%	4,4%
VF CORP	UNITED STATES	34.052	USD	25,3	22,2	18,6	2,7	27,7%	8,3%	14,3%
UNDER ARMOUR	UNITED STATES	10.841	USD	74,2	52,9	40,4	2,0	45,8%	6,2%	5,0%
Average exc. Under Armour				20,2	17,6	13,5	1,9	20,9%	0,2%	13,7%

Source: Company´s data

Risks

Seasonality. The company has noticed that the revenues significantly increase in the last two quarters of the year (fall season) due to increase in sales of higher priced cold weather products, especially through direct-to-customer sales channel. Accordingly, inventory, accounts payable and accrued expenses increase in the fall season also. Under Armour Inc. must manage the cash flows carefully to be able to meet all the obligations throughout the year and avoid insolvency.

Obsolete inventory. Under Armour Inc. was significantly increasing the amount of inventory in the recent years until it reached $1.2 billion and due to changed customer preferences the company was not able to utilize all production. Even though the company decreased inventory by 12% in 2018, it still holds $1 billion in inventory. Also, Under Armour Inc. took measures to decrease the inventory amount, i.e. increased off-price sales and decreased the number of individual products. However, off-price sales might eventually be harmful for a company as the merchandise is being sold at the discount. Also, in 2019 Q1 management emphasized that off-price selling must decrease. Therefore, the company has to take other measures to decrease the inventory to avoid impairment and write-offs.

Consumer demand and preferences. The company is exposed to the risk of failure to anticipate the consumer preferences. In the sportswear industry consumer loyalty is low, especially for the less known brands, meaning that consumers can quickly move to other

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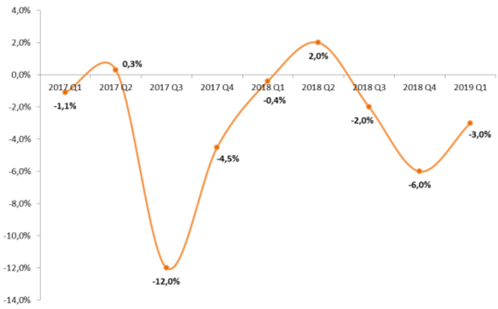
brand in case of different trends. When athletic trends moved to the streetwear fashion, Under Armour was not able to cope with the different preferences, which led to lower sales and increased storage of inventory.

Dependence on manufacturers. Under Armour Inc. is highly dependent on manufacturers, which develop the production. 55% of apparel and accessories are produced by 10 partners, while 87% of footwear is produced by 5 manufacturers. Changes in the conditions of agreements or other issues between the partners may lead to the decreased supply. Also, the company is not controlling the manufacturers, thus sometimes bad-quality production is being distributed, which negatively affects the brand image.

Revenue growth in US, q/q



Source: Company’s data

Competition. Under Armour Inc. is exposed to highly competitive market, with the big players, such as Nike Inc. and Adidas, which have more than half of the market share. Knowing that North America is the main market of Under Armour Inc. (72% of sales in 2018), the company has to compete against the biggest company in the industry Nike Inc. Also, both companies are highly present in Basketball sector. Severe competition impacted the company in the last years as sales in U.S. were decreasing almost all quarters since 2017.

Macroeconomic events. Trade war between U.S and China has a negative impact on the company´s performance. Under Armour Inc. produced 18% of its merchandise in China in 2018: the percentage decreased significantly as compared to 2013, when the company was producing 46% of merchandise (in 2023 the aim is to reduce the percentage to 7%). Nevertheless, trade tariffs may result in higher costs, lower supply or lower number of manufacturers.

Environmental, Social and Governance (ESG)

Environment. Under Armour Inc. belongs to Sustainable Apparel Coalition and Environmental Defense Fund. The company seeks for sustainability through its products, manufacturing and operations. In terms of products, the company exchanged the use of non-recyclable elastane into the polymer developments, which can be fully recycled. Also, in the dyeing process, the company reduced the use of water, energy and chemicals. It has estimated that 5.5 Olympic swimming pools of water are being saved using the new technology. In order to reduce plastic waste, Under Armour Inc. started using cartoon recyclable boxes for the packaging. However, the company does not disclose any ratios of water, energy and waste use.

Social. Under Armour Inc. belongs to Fair Labor association in order to ensure that the rights of all employees are respected with equality. However, in 2018 the company was accused of violating women rights, i.e. the company´s culture was described as demeaning to women, due to cases when women were unable to seek for promotion. Another investigation revealed that company regularly expensed executives´ trips to inappropriate places. It was officially banned in 2018, after the reveal of investigation. Under Armour Inc. does not disclose any information regarding gender equality or employees turnover.

Governance. 20% of Board Directors (2 out of 10) are women. The percentage of Independent Directors is equal to 90% and the average age of Directors is 62 years.

Under Armour Inc. is not involved in any significant CSR activities in 2018.

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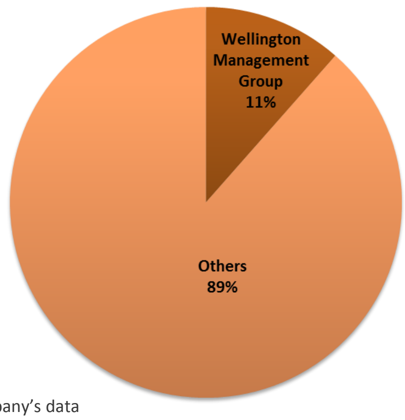
Graph

Source: BiGlobal Trade (partner Saxo Bank); BiG Research

Shareholders



Source: Company's data

Calendar

July 27th, 2019: 2nd Quarter 2019 Results

October 24th, 2019: 3rd Quarter 2019 Results

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○ Accumulate, expected absolute return between +5% and +15%;
○ Keep/Neutral, expected absolute return between -5% and +5%;
○ Reduce, expected absolute return between -5% and -15%;
○ Sell, expected absolute return below -15%;
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• The records of the investment recommendations of the Research Team are provided below. The detailed external consultation of the respective performances may be provided if so requested.

PSI20 Notes in the last 12 months as of 31st of December of 2018:

	Number of Recomendations	%
Accumulate/Buy	2	66,7%
Keep/Neutral	1	33,3%
Reduce/Sell	0	0,0%
Total	3	100,0%

Trading Ideas in the last 12 months as of 31st of December of 2018:

	Number of Recomendations	%
Profit Taking	9	56,3%
Stop Loss	7	43,8%
In Place	0	0,0%
Total	16	100,0%

Pair Trades in the last 12 months as of 31st of December of 2018:

	Number of Recomendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
Total	0	0%

Source: BiG Research

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