

Under Armour Inc.

2Q15 Preview: Spieth, Vonn, and Curry, Oh My. UA's brand is stronger than ever.

Our Call

UA is our #1 pick for long-term growth investors. UA is poised for revenue CAGR of at least ~22% over the next 5 years (\$10B by 2020). The core men's domestic wholesale business remains strong, but growth will be driven by women's & kids' apparel, footwear, DTC and international expansion. Necessary investments are and will be made to support the growth. The acquisitions of new digital platforms and ongoing innovation will continue to enhance the Under Armour brand's relationship with current athletes and soon-to-be athletes. FY15 guidance will continue to increase as the year progresses.

We expect an in-line or better 2Q: We are forecasting 2Q15 EPS of \$0.05, in line with consensus estimate. We expect revenue growth of 26% (\$767M), in line with consensus. We expect GM to decrease 50bps, as the negative effect of the strong dollar and air freight expenses should offset merchandise margin improvements. For FY15, the company expects GM to be flat Y/Y. We expect SG&A to increase 31% and delever by 200bps, largely due to the dilution from the acquisitions of Endomondo and MyFitnessPal. We believe upside to our revenue estimates may come from the growth of footwear, with the recent success of Steph Curry, DTC, and international businesses. UA reports on July 23 BMO.

We remain comfortable with the growth trajectory of apparel: According to SportsScanInfo (SSI), UA's 2Q15 apparel sales increased 32%. Historically, company reported sales gains have been higher than SSI, as SSI does not account for DTC and international sales, which are higher growth. However, 1Q15 was the exception, as reported results were hampered by the negative effect of FX and port slowdowns (see chart on page 3). Hence, we believe that our 2Q15 forecast for a 22% increase in apparel sales will likely prove conservative. Based on our checks, we have seen that UA is continuing to expand its apparel categories into areas such as casual and licensed Major League Baseball. Apparel sales in 2Q continue to be driven by core base layer products. Kids sales continue to outperform, up 54%, while Men's and Women's increased 30% and 23%, respectively.

Apparel is gaining market share pointing to a sustaining healthy business: According to SSI, UA apparel sales in 2Q15 were \$516M versus 391M in 2Q14, for an increase of 32%, and ASP decline of 2%. For the industry as a whole in 2Q15, apparel sales increased 4.3% with flat ASPs. UA apparel sales in 1Q15 were \$514M versus \$401M in 1Q14, for an increase of 28% and ASP decline of 4%. The ASP decrease was likely the result of mix as kid's sales increased more than adult sales. For the industry as a whole in 1Q15, apparel sales increased 2.7% with ASPs up 3%. UA's total market share in apparel, within the National Accounts channel (where UA is predominantly distributed) increased 483bps to 26.5%. UA took share from Adidas and Brand Jordan.

Buy

UA

Price: Last \$88.68

Price Target \$95.00

Footwear & Apparel

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Company Data

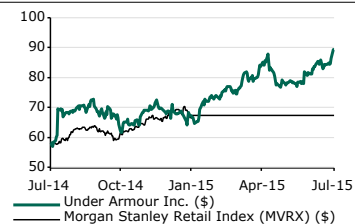
Rating	Buy		
Price: Last	\$88.68		
Price Target	\$95.00		
52-Week Range	\$56.79 - \$89.46		
Market Capitalization (M)	\$19,258.2		
Shares Outstanding (M)	179.9		
Avg. Daily Vol. (000)	2,288.0		
Dividend Yield	0.0%		
Assets (M)	\$2,095.1		

Revenue (\$M)	2014A	2015E	2016E
FY	3,084.4	3,853.4	4,766.3

FYE Dec	2014A (Curr)	2015E (Curr)	2016E (Curr)
EPS (\$)			
Q1 (Mar)	0.06	0.05A	0.12
Q2 (Jun)	0.08	0.05	0.12
Q3 (Sept)	0.41	0.46	0.61
Q4 (Dec)	0.40	0.54	0.68
FY EPS	0.95	1.09	1.53
P/E	93.3x	81.4x	58.0x

Source: FactSet and CRT Capital LLC estimates

Price Performance



Source: FactSet

Any Important Disclosures regarding Price Target Risks, Valuation Methodology, Regulation Analyst Certification, Investment Banking, Ratings Definitions, and any potential conflicts of interest begin on Page I of the Appendix Section. Past performance is no guarantee of future results.

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Footwear's strength is across the board, with basketball driving the largest growth: We believe that UA's strong growth is sustainable. Importantly, revenues in footwear are becoming large and ASPs remain healthy. According to SSI, UA footwear sales in 2Q15 were \$207M versus 129M in the 2Q14, for an increase of 60%, and ASP growth of 8%. 2Q15 total sport footwear sales, according to SSI increased 7.3% with flat ASPs. UA footwear sales in 1Q15 were \$137M versus \$72M in 1Q14, for an increase of 89% and ASP growth of 9%. For the industry as a whole in 1Q15, footwear sales increased 5.3% with ASPs down 1%. Running sales were driven by the Micro G, and sandals sales were driven by the Ignite IV. Basketball sales were driven by the Curry 1, Clutch Drive (Steph Curry) and the new JET, which is a functional court shoe aimed at kids, priced under \$70. UA's total market share in footwear, within the National Accounts channel (where UA is predominantly distributed) increased 178bps to 5.9% versus 4.1% last year. UA took share from Nike, Adidas, and Asics.

Guidance raise likely: We contend that UA's current 2015 revenue growth guidance of 23% will prove conservative. We believe that as more of the substantial orders of 2H are in hand, and factors such as FX and port slowdown abate, management will raise guidance. We are maintaining our forecast for revenue growth of 24.9% in FY15. UA will hold an investor day in mid-September. At that time, management will provide a new long-term plan. UA will likely achieve its \$4B revenue target (on a trailing 12-month basis) by 1Q16 or 2Q16. At the Investor Day in June 2013, UA set a target of achieving \$4B in revenue by the end of FY16. We believe that UA will provide a new revenue target of \$10B by 2020, representing a CAGR of ~22% over the next 5 years.

2Q15 Estimates

	<u>2Q15E</u>	<u>2Q14A</u>	<u>Variance</u>
Revenue	766.7M	609.7M	25.8%
Gross Margin	48.70%	49.20%	(50)bps
SG&A % of Sales	45.50%	43.51%	199bps
SG&A \$s	348.8M	265.3M	31.5%
Operating Margin	3.20%	5.69%	(249)bps
EBITDA	45.8M	51.7M	(11.4%)
GAAP EPS	\$0.05	\$0.08	(42.6%)
Segment			
Apparel	512.4M	420.0M	22.0%
Footwear	153.4M	109.5M	40.0%
Accessories	75.5M	59.9M	26.0%
License	25.4M	20.2M	26.0%

Source: Company Reports and CRT Capital Group LLC estimates (in millions, except per share data)

FY Outlook

	<u>2015</u>	<u>2016</u>
	<u>Estimate</u>	<u>Estimate</u>
Revenue	3,853.4M	4,766.3M
Gross Margin	49.07%	49.47%
SG&A % of Sales	38.05%	37.59%
Operating Margin	11.02%	11.87%
EBITDA	480.4M	663.8M
GAAP EPS	\$1.09	\$1.53
Segment		
Apparel	2797.8M	3413.4M
Footwear	604.7M	816.3M
Accessories	339.5M	413.1M
License	103.0M	123.6M

Source: Company Reports and CRT Capital Group LLC estimates (in millions, except per share data)

Footwear & Apparel Growth by Quarter, Actual vs. Sportsfan

	1Q14		2Q14		3Q14		4Q14		1Q15		2Q15	
	Actual	SSI	Actual	SSI	Actual	SSI	Actual	SSI	Actual	SSI	Estimate	SSI
Footwear	41.2%	1.2%	34.2%	25.1%	50.1%	36.1%	55.0%	64.1%	41.1%	89.0%	40.0%	60.0%
Apparel	32.9%	29.8%	35.4%	20.6%	25.6%	11.6%	29.7%	15.1%	20.9%	28.0%	22.0%	32.0%

Source: Company Reports and CRT Capital Group LLC estimates and SportsfanInfo

Valuation and Risks

Over the past 3 years, UA has traded at an average multiple of 45x FY2, and EPS estimates. On a PEG ratio basis, UA has traded at an average of 1.5x FY2 estimates.

UA's multiple is most highly correlated with FY2 sales growth (~85%), which we anticipate will continue as the Direct-to Consumer channel further strengthens, footwear, continues its double digit growth, and the expansion of product lines and growth overseas ramp up. We regard it as likely that UA will be afforded a considerable premium to the S&P given the long term viability of the brand and the remaining white space for the company.

Our \$95 price target reflects a P/E multiple of 62X our 2016 EPS estimate, and a price/sales of 4.4x. We view UA as momentum stock and expect to see multiple expansion as growth in footwear, retail and international markets accelerates. We also believe that consensus EPS estimates will prove conservative.

Risks:

Risks include declining growth rate in apparel due to weather or changing customer fashion/taste, inability to gain traction in footwear, and increased competition from larger and more established global competitors.

Other companies mentioned:

Nike (NKE – \$112.35– Neutral)

Adidas (ADS.DE-€69.51-NR)

Quarterly Income Statement

	FY13	1Q14	2Q14	3Q14	4Q14	FY14	1Q15	2Q15E	3Q15E	4Q15E	FY15E	1Q16E	2Q16E	3Q16E
Revenue	2332.1	641.6	609.7	937.9	895.2	3084.4	804.9	766.7	1180.2	1101.5	3853.4	991.1	957.1	1457.3
Cost of Sales	1195.4	340.9	309.7	472.6	448.9	1572.2	427.3	393.3	600.6	541.4	1962.6	522.1	487.1	730.2
Gross Profit	1136.7	300.7	300.0	465.3	446.3	1512.2	377.7	373.4	579.6	560.1	1890.8	469.0	469.9	727.1
SG&A	871.6	273.8	265.3	319.2	300.0	1158.3	350.0	348.8	408.4	359.1	1466.3	421.2	423.0	500.2
EBIT	265.1	26.9	34.7	146.1	146.3	354.0	27.7	24.5	171.3	201.0	424.5	47.8	46.9	226.9
Other Expense (Income)	4.1	1.7	1.0	4.9	4.2	11.7	4.1	4.0	4.0	4.0	16.1	4.0	4.0	4.0
EBT	261.0	25.1	33.7	141.2	142.1	342.2	23.6	20.5	167.3	197.0	408.4	43.8	42.9	219.9
Income taxes	98.7	11.6	16.0	52.1	54.4	134.2	11.9	10.3	66.9	78.8	167.9	16.6	16.3	82.0
GAAP Earnings	162.3	13.5	17.7	89.1	87.7	208.0	11.7	10.3	100.4	118.2	240.6	27.1	26.6	137.9
Non Recurring Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Normalized	162.3	13.5	17.7	89.1	87.7	208.0	11.7	10.3	100.4	118.2	240.6	27.1	26.6	137.9
EBITDA	315.6	44.2	51.7	164.2	166.0	426.0	27.7	45.8	188.1	218.7	480.4	72.5	70.8	241.3
Wtd. avg. dil. shares out.	215.3	216.9	217.3	218.0	219.7	218.0	219.6	219.8	220.1	220.2	219.9	220.9	221.5	221.5
GAAP EPS	\$0.75	\$0.06	\$0.08	\$0.41	\$0.40	\$0.95	\$0.05	\$0.05	\$0.46	\$0.54	\$1.09	\$0.12	\$0.12	\$0.62
Recurring EPS	\$0.75	\$0.06	\$0.08	\$0.41	\$0.40	\$0.95	\$0.05	\$0.05	\$0.46	\$0.54	\$1.09	\$0.12	\$0.12	\$0.62
Margin Analysis														
Gross	48.7%	46.87%	49.20%	49.61%	49.85%	49.0%	46.92%	48.70%	49.11%	50.85%	49.1%	47.32%	49.10%	49.5%
SG&A	37.37%	42.68%	43.51%	34.03%	33.51%	37.55%	43.48%	45.50%	34.60%	32.60%	38.05%	42.50%	44.20%	34.3%
EBIT	11.37%	4.19%	5.69%	15.58%	16.34%	11.48%	3.44%	3.20%	14.51%	18.25%	11.02%	4.82%	4.90%	15.2%
EBITDA	13.54%	6.89%	8.48%	17.50%	18.54%	13.81%	3.44%	5.98%	15.94%	19.86%	12.47%	7.32%	7.40%	16.1%
Tax Rate	37.80%	46.14%	47.53%	36.90%	38.30%	39.21%	50.34%	50.00%	40.00%	40.00%	41.10%	38.00%	38.00%	38.0%
Adj Net	6.96%	1.98%	1.71%	9.71%	6.84%	6.75%	1.98%	1.71%	9.71%	6.84%	6.24%	1.98%	1.71%	9.7%
Growth Analysis														
Revenue	27.1%	36.0%	34.1%	29.7%	31.1%	32.3%	25.5%	25.8%	25.8%	23.0%	24.9%	23.1%	24.8%	23.3%
Gross Profit	29.3%	38.9%	36.6%	32.9%	27.4%	33.0%	25.6%	24.5%	24.6%	25.5%	25.0%	24.2%	25.9%	24.4%
SG&A	30.0%	34.9%	41.6%	39.2%	19.1%	32.9%	27.8%	31.5%	27.9%	19.7%	26.6%	20.3%	21.3%	22.2%
EBIT	27.0%	99.1%	7.4%	20.9%	48.6%	33.5%	3.0%	(29.3%)	17.2%	37.4%	19.9%	72.6%	91.1%	29.1%
EBITDA	25.4%	74.4%	17.3%	23.2%	47.0%	35.0%	(37.4%)	(11.4%)	14.6%	31.8%	12.8%	162.1%	54.5%	29.1%
Recurring EPS	24.7%	71.1%	(0.4%)	21.1%	34.8%	26.5%	(14.4%)	(42.6%)	11.5%	34.5%	14.8%	129.9%	157.0%	33.3%
Efficiency Analysis														
GM y/y	82	95	88	119	(146)	29	5	(50)	(50)	100	4	40	40	40
2 Yr GM	34	129	333	86	(41)	111	100	38	69	(46)	33	45	(10)	(10)
SG&A y/y	83	(38)	230	232	(338)	18	80	199	57	(91)	50	(98)	(130)	(30)
EBIT y/y	(1)	132	(142)	(113)	192	11	(75)	(249)	(107)	191	(46)	138	170	70
EBITDA y/y	(19)	151	(122)	(93)	200	28	(345)	(250)	(156)	131	(135)	388	142	70

Source: Company Reports and CRT Capital Group LLC estimates (in millions, except per share data)

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