

COMPANY PROFILE

Under Armour, Inc.

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COMPANY OVERVIEW

Under Armour, Inc. (Under Armour or 'the company') is involved in the development, marketing and distribution of branded performance apparel, footwear and accessories for men, women and youth. The company's product portfolio includes sweats shirts, socks, performance bags, baseball batting gloves, football glove, slides, shoes, sandals, and other products. It also offers products for outdoor activities, such as hunting, fishing, and mountain sports. It offers its products under various brands, including UA, Under Armour, Armour, Heatgear, Coldgear, and Allseasongear, among others. It also markets products online through its own e-commerce website www.underarmour.com. The company has business presence across North America, Latin America, EMEA and Asia-Pacific. Under Armour is headquartered in Baltimore, Maryland, the US.

The company reported revenues of (US Dollars) US\$4,976.6 million for the fiscal year ended December 2017 (FY2017), an increase of 3.1% over FY2016. In FY2017, the company's operating margin was 0.6%, compared to an operating margin of 8.7% in FY2016. The net loss of the company was US\$48.3 million in FY2017, compared to a net profit of US\$257 million in FY2016.

The company reported revenues of US\$1,174.9 million for the second quarter ended June 2018, a decrease of 0.9% over the previous quarter.

KEY FACTS

Head Office	Under Armour, Inc. 1020 Hull Street Baltimore Maryland Baltimore Maryland USA
Phone	1 410 4546428
Fax	
Web Address	www.underarmour.com
Revenue / turnover (USD Mn)	4,976.6
Financial Year End	December
Employees	6,900
New York Stock Exchange Ticker	UAA

SWOT ANALYSIS

Under Armour, Inc. (Under Armour) is involved in the development, marketing and distribution of branded performance apparel, footwear and accessories for men, women and youth. Increase in revenue, broad product portfolio, multi-channel approaches are the company's major strength, whereas dependence on third-party suppliers and manufacturers, lower inventory turnover ratio remain causes of concern. Positive outlook for global footwear market, rising global e-commerce retail market, and growing global US apparel market are likely to offer growth opportunities to the company. However, rising labor cost in the US, intense competition, and foreign exchange risks could affect its business operations.

<p>Strength</p> <p>Increase in revenue Broad product portfolio Multi-channel approach</p>	<p>Weakness</p> <p>Dependence on third-party suppliers and manufacturers Lower inventory turnover ratio</p>
<p>Opportunity</p> <p>Growing global apparel market Positive outlook for the global footwear market Rising global e-Commerce retail market</p>	<p>Threat</p> <p>Intense competition Foreign exchange risks Rising labor cost in the US</p>

Strength

Increase in revenue

Under Armour exhibited a steady revenue growth during the FY2017. In FY2017, the company generated revenues of US\$4,976.6 million as compared to US\$4,825.3 million in FY2016, at annual revenue growth of 3.1%. This growth in annual revenue was driven by rise in the sales of its business segments including Apparel by 1.8%, Footwear by 2.7%, Accessories by 9.6%, License Revenues by 16.8%, and Connected Fitness by 10.9% as compared to previous fiscal year. In terms of geography, the company's sales were increased in its EMEA region by 42.2%, Asia-Pacific by 61.4%, and Latin America by 27.9% as compared to FY2016. Strong revenue performance improves investors' confidence in the company and enables it to pursue its expansion plans.

Broad product portfolio

Under Armour's product offerings consist of apparel, footwear and accessories for men, women and youth. For men and women, the company offers shirts and tops such as short sleeves, sleeveless and tanks, graphic t-shirts, long sleeves, hoodies and sweatshirts, and outerwear, among others; and bottoms such as shorts, pants, leggings and tights, among others. For kids, the company offers shirts, tops and bottoms for boys and girls. The footwear product line includes footwear related to sports such as football, baseball, lacrosse and soccer cleats and spikes, and slides. Under Armour also offers performance

training footwear, running footwear, basketball footwear, trail and hiking shoes and boots. The accessories product line consists of backpacks and bags, headwear, gloves, socks, sunglasses, equipment, and protective gear for men, women, and kids. In FY2017, the company generated 66.1% of its net sales from apparel category followed by 20.9% from footwear category, and 9% from accessories category. Broad product offering proves to be the company's strength as it aids Under Armour in catering to different markets and minimizes risks of being dependent on single segment for revenues.

Multi-channel approach

Under Armour sells its merchandise through wholesale, retail and other channels. The company offers its products through wholesale channels, which include national and regional sporting goods chains, independent and specialty retailers, department store chains, institutional athletic departments and leagues and teams. In addition, Under Armour sells its products to independent distributors in various countries, where it generally do not have direct sales operations and through licensees. As of December 2017, the company operated 162 factory house stores in North America primarily located in outlet centers throughout the US and 19 brand house stores in North America. The company markets its products in Chile, Mexico and Brazil through wholesale distributors, website operations and brand and factory house stores. It also sells its products through independent distributors in other Latin American countries. In EMEA segment, Under Armour markets its products mainly through wholesale distributors, website operations, independent distributors and a limited number of company-owned stores. Further in China, South Korea and Australia, it sells its products through stores operated by its distribution and wholesale partners, along with website operations and stores it operates. The company sells its products to distributors in New Zealand, Taiwan, Hong Kong and other countries in Southeast Asia where it do not have direct sales operations. Under Armour distributes its products in Asia-Pacific mainly through a third-party logistics provider based out of Hong Kong. The company also licenses its products to Dome, which manufactures, markets and sells the company's branded products in Japan. These products are primarily sold to major sporting goods retailers, independent specialty stores and professional sports teams. In addition, Dome sells the company's products through its retail stores in Japan. Therefore, the multi-channel approach increases the company's reach and enables it to cater to a wide customer base. This, in turn, helps Under Armour to enhance its market presence.

Weakness

Dependence on third-party suppliers and manufacturers

Under Armour depends on third-party suppliers and manufacturers outside the US to provide fabrics and to produce its products, and therefore, has little control over the quality of products. In FY2017, approximately 53% of the fabric used in the company's products was sourced from five suppliers located in Taiwan, Malaysia and Mexico. In addition, majority of the company's products are manufactured by unaffiliated manufacturers. In FY2017, the products of Under Armour were manufactured by 39 primary manufacturers, operating in 17 countries, with approximately 61% of apparel and accessories products manufactured in China, Jordan, Vietnam and Malaysia. Further, among 39 manufacturers, 10 manufacturers accounted for nearly 57% of the company's apparel and accessories products, and three manufacturers accounted for about 70% of its footwear products. In FY2017, the footwear products were manufactured by seven primary contract manufacturers, operating mainly in China, Vietnam and

Indonesia. Out of seven manufacturers, five produced around 83% of its footwear products. The company has no long-term contracts with its suppliers or manufacturing sources. Therefore, any failure on the part of manufacturers to achieve and maintain high manufacturing standards could lead to manufacturing errors resulting in product recalls or withdrawals, delays or interruptions in production, cost overruns or other problems that could seriously harm the company's business. The company's reliance on third-party suppliers makes it difficult to ensure the quality of the goods sold in its outlets, and may lead to product recalls. This, in turn, could have an adverse effect on customer retention and brand loyalty.

Lower inventory turnover ratio

Under Armour reported weak inventory turnover ratio during the FY2017. The decline in the turnover ratio and higher inventory turnover days signify that the company incurs high inventory carrying costs, which affect its operating performance. In FY2017, Under Armour reported inventory turnover ratio of 2.4 as compared to 2.8 in FY2016. The company's inventory turnover ratio was lower than its nearest competitors such as adidas AG, Columbia Sportswear Company, Deckers Outdoor Corporation, NIKE Inc., and The Finish Line, Inc., which reported values of 2.8, 2.9, 3.2, 3.8, and 3.9 during the FY2017. Lower inventory turnover than competitors indicates that the company takes more days to clear its inventory in comparison with its competitors. With the given turnover ratio, adidas AG, Columbia Sportswear Company, Deckers Outdoor Corporation, NIKE Inc., and The Finish Line, Inc. took 130, 126, 114, 96, and 94 days to sale its inventory compared to 152 days by Under Armour.

Opportunity

Growing global apparel market

Under Armour could benefit from the growing of global apparel market. The company retails and distributes wide variety of apparels including tops, bottoms for different sports in varied fits and styles products across the globe. Therefore growing global apparel market could increase the demand of the company's products. The changing consumers' fashion style is the key drivers for the global growth of apparel market. Further, improving global macroeconomic condition, rising disposable income levels and increased popularity for online shopping are also fueling the market. According to in-house research report, the apparel market was valued at US\$1,416.4 billion in 2017, and is expected to increase at a CAGR of 5.1% during 2017-22 to reach US\$1,812.4 billion by 2022. Product category wise, womenswear accounted for 52.9% share out of total global apparel market, followed by menswear with 31.4%, and children wear with 15.7% at the end of 2017. Geographically, Asia-Pacific accounted for 38.3% share of the total market value of global apparel, followed by Europe with 27.8%, the US with 23.1%, Middle East with 2.3%, and Rest of World with 8.5% at end of 2017. In this line, in May 2018, the company and Misty Copeland collaborated to launch the Misty Copeland signature collection.

Positive outlook for the global footwear market

Under Armour could benefit from the growing of global footwear market. The company retails and distributes athletic footwear products across worldwide. Therefore growing global footwear market could increase the demand of the company's products. The changing consumer trends in the recent past, improving global macroeconomic condition, preferences from younger generations and technological

advancements in sole making are expected to be the major growth drivers driving the market. Rising disposable income levels and increased popularity for online shopping are also fueling the market. According to in-house research report, the global footwear industry market was valued at US\$314.6 billion in 2017, and is expected to increase at a CAGR of 5.2% during 2017-22 to reach US\$404.6 billion by 2022. Product category wise, Women footwear accounted for 54% share of the total market value of global footwear, followed by men's footwear with 28.3% and children's footwear with 17.8% at the end of 2017. Geographically, Asia-Pacific accounted for 34.5% share of the total market value of global footwear, followed by Europe with 29.1%, the US with 24.3%, Middle East with 1.6%, and Rest of World with 10.6% at end of 2017. In this line of business, in February 2018, the company launched a new innovation in footwear cushioning technology, UA HOVR..

Rising global e-Commerce retail market

Under Armour offers branded apparel, footwear and accessories online through its e-commerce website site www.underarmour.com. The online sales have been growing at a fast pace in recent times as the online channel is growing in popularity as the most preferred channel for several customers across the globe. It could enable the company to expand its business opportunity across the globe. According to an in-house report, the global online retail market valued of US\$929.8 billion in 2017 and is expected to increase at a CAGR of 13.4% during 2017-22 to reach US\$1,740.8 billion by 2022. Growing number of consumers' engagement in internet coupled with rising penetration of mobile internet are majorly driven the online retail market across the globe. Category wise, electrical and electronics accounted for 32% of the total online sales globally, followed by apparel retail with 23.7%, food and grocery retails with 15.2%. Geographic wise, Asia-Pacific accounted for 37.6% of the total global online sales, followed by the US with 32% and Europe with 25.3%. The company has its online presence over 150 countries across the globe.

Threat

Intense competition

Under Armour operates in a highly competitive performance apparel, footwear and accessories market. Under Armour mainly competes on brand image and recognition, quality, performance, consumer preferences, and price. The company's nearest competitors include adidas AG, Columbia Sportswear Company, Deckers Outdoor Corporation, NIKE Inc., PUMA SE, Quiksilver, Inc., The Finish Line, Inc., Benetton Group SpA, J.Crew Group, Inc., New Balance Athletic Shoe, Inc., and The Athlete's Foot Brands LLC. Under Armour also competes with those manufacturers, who are specialized in offering outdoor apparel and private label products. In addition, the company competes with others for purchasing decisions and limited floor space at retailers. Further, as it owns a limited number of fabric or process patents, current or future competitors may produce and market products similar to certain of its products. Many of its competitors have greater financial, distribution, marketing and other resources, longer operating histories, strong brand recognition among consumers, more experience in global markets and greater economies of scale. Thus, intense competition can lead to price wars and pressurize the company's profitability as well as market share.

Foreign exchange risks

Under Armour operates in many parts of the world and is exposed to fluctuations in foreign exchange rates. The company reports financials in the US dollar and therefore its revenue is exposed to volatility of the US dollar against other functional currencies, as it conducts business operations worldwide.

Significant part of its revenue is also denominated in other currencies such as Euro, Canadian dollar, British pound, Russian ruble, Chinese renminbi, Japanese yen, Australian dollar, South Korean won, Mexican peso, Brazilian real, Chilean peso. Major elements exposed to exchange rate risks include the company's investments in overseas subsidiaries and affiliates and monetary assets and liabilities arising from business transactions in foreign currencies. In FY2017, the company reported a gain of US\$23.4 million from foreign exchange translation adjustments as compared to a loss of US\$13.8 million in FY2016. To minimize risks from currency fluctuations, the company could involve in foreign exchange hedging activities by entering into foreign exchange forward contracts. However, there could be no assurance that such hedging activities or measures would limit the impact of movements in exchange rates on the company's results of operations.

Rising labor cost in the US

Increasing manpower costs may have a negative effect on the company's operating costs and adverse effect on their profits. The tight labor markets, government mandated increases in minimum wages and a higher proportion of full-time employees are resulting in an increase in labor costs. The federal minimum wage rate in the US reached US\$7.25 per hour in January 2018. From January 2018, 18 states and 20 cities, including New York City, Washington, D.C., and California announced to increase their minimum wage to US\$12 and above. Arizona and California increased their minimum wage by US\$0.5 per hour to US\$9.80 and US\$11 respectively; and Alaska increased their minimum wage by US\$0.04 to US\$9.84. Colorado, Florida, Hawaii, Maine and Michigan states increased their minimum wages to US\$10.2, US\$8.25, US\$10.10, US\$10 and US\$9.25 respectively. Moreover, New Jersey, Ohio, Washington and Rhode Island increased their minimum wages to US\$8.6, US\$8.3, US\$11.5 and US\$10.1 respectively. As Under Armour has its major operations in the US, such rise in minimum wages may increase its operating costs, which in turn affect its profit margins.

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