

Fall 2021 Live Case Study

Under Armour (UA)

THE CHALLENGE

Fall 2021 Live Case study concentrates on Under Armour's effort to get into the digital fitness app industry. The company has experienced some issues with the three fitness apps it has acquired a few years ago. Only one app – MapMyFitness – from the three is still in UA's portfolio. The executives would like you **to evaluate the attractiveness of the digital fitness industry market for UA (1)** and **to evaluate MapMyFitness app (2)**. If you think that keeping MapMyFitness platform in the portfolio would benefit the company, develop a strategy to help UA increase its ROI from this app. If you think that UA should drop the app, develop an alternative strategy or suggest another app that would help the company stay current with digital/technological trends. Explain your suggestion and provide specific details on the replacement. **The challenge is limited to the North America (USA and Canada) region.**

To successfully complete this case, **you should do the following:**

1. Carefully read the information about Under Armour provided to you by the executives.
2. Conduct the analysis of all four focus areas below.

1) External Analysis:

- Provide the stats on the digital fitness app industry (e.g. size, maturity, market share, growth potential, etc.).
- Who are the main competitors? Conduct a competitive landscape analysis. Apply the Five-Forces Model analysis of industry competition.
- Discuss the barriers to entry into the industry.
- Use other external strategic analysis tools covered in the course if applicable (e.g. general environment, industry success factors, industry evolution).

2) Internal Analysis:

- What is UA's competitive advantage or disadvantage over rivals in the industry?
- Apply internal strategic tools covered in the course (e.g. value chain, resource-based view, financial analyses, vision-mission-objectives, core competencies, transitory rather than sustained competitive advantage).

3) Digital Fitness Industry Challenge:

Evaluate the attractiveness of the digital fitness industry for UA?

If the industry is attractive, develop a strategy on ...	If the industry is not attractive, develop a strategy on ...
- Where/How to expand if appropriate?	- How or where to diversify/expand, stay current with the digital/technological trends, and improve performance? Identify another app market, or another non-app fitness monitoring market. Explain your suggestion and provide specific details on the replacement.
- What UA should do with MapMyFitness app to increase ROI?	

4) Financial Analysis

- Estimate the cost to develop and implement your strategy.
- Provide revenue projections for 3 years for the proposed strategy.
- Provide projected income statements combining revenue and cost projections from the previous two bullets.

Information from UA Executives

UA DESCRIPTION

Under Armour has one mission: to make you better. We have a commitment to innovation that lies at the heart of everything we do, not just for our athletes but also for our teammates. As a global organization, our teams around the world push boundaries and think beyond what is expected. Together our teammates are unified by our values and are grounded in our vision to inspire you with performance solutions you never knew you needed but can't imagine living without.

Our principal business activities are the development, marketing and distribution of branded performance apparel, footwear and accessories for men, women and youth. The brand's performance apparel and footwear are engineered in many designs and styles for wear in nearly every climate to provide a performance alternative to traditional products. Our products are sold worldwide and are worn by athletes at all levels, from youth to professional, on playing fields around the globe, as well as by consumers with active lifestyles. We generate net revenues from the sale of our products globally to national, regional, independent and specialty wholesalers and distributors.

We also generate net revenue from the sale of our products through our direct-to-consumer sales channel, which includes our brand and factory house stores and e-commerce websites. In addition, we generate net revenues through product licensing as well as digital fitness subscriptions and digital advertising on our Connected Fitness applications. Most of our products are sold in North America. We plan to continue to grow our business over the long term through increased sales of our apparel, footwear and accessories, expansion of our wholesale distribution,

growth in our direct-to-consumer sales channel and expansion in international markets. Our digital strategy is focused on supporting these long-term objectives, emphasizing the connection and engagement with our consumers through multiple digital touch points.

The following table sets forth key components of our results of operations for the periods indicated:

<i>(In thousands)</i>	Year Ended December 31,		
	2020	2019	2018
Net revenues	\$ 4,474,667	\$ 5,267,132	\$ 5,193,185
Cost of goods sold	2,314,572	2,796,599	2,852,714
Gross profit	2,160,095	2,470,533	2,340,471
Selling, general and administrative expenses	2,171,934	2,233,763	2,182,339
Restructuring and impairment charges	601,599	—	183,149
Income (loss) from operations	(613,438)	236,770	(25,017)
Interest expense, net	(47,259)	(21,240)	(33,568)
Other income (expense), net	168,153	(5,688)	(9,203)
Income (loss) before income taxes	(492,544)	209,842	(67,788)
Income tax expense (benefit)	49,387	70,024	(20,552)
Income (loss) from equity method investment	(7,246)	(47,679)	934
Net income (loss)	<u>\$ (549,177)</u>	<u>\$ 92,139</u>	<u>\$ (46,302)</u>

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UA PERSPECTIVE JANUARY 2021 (FROM CEO PATRIK FRISK)

We say at Under Armour, The Only Way Is Through. 2020 was a year that demanded agility, adaptation, and an unrelenting focus on changing consumer needs. Amid a global pandemic, we prioritized our teammates' health and safety, launched our North American eCommerce platform, divested the MyFitnessPal platform, and continued to execute a comprehensive restructuring effort.

As consumers pivoted their exercise routines to at-home workouts and outdoor runs, Under Armour met them with athlete-led solutions. From our Project Rock collection, UA HOVR Machina, Phantom 2, and Breakthru footwear offerings to the Meridian pant, Infinity sports bra, and award-winning UA Sports Mask – we drove hard against our innovation agenda in 2020. Additionally, we passed one million pairs of connected footwear, a significant milestone in deepening our connection with consumers.

That said, there is no doubt that last year was challenging. In 2020, our revenue declined 15 percent to \$4.5 billion and – on an adjusted basis: our gross margin increased 170 basis points to 48.6 percent, our operating income was \$537 thousand, and our diluted loss per share was \$0.26.

Yet, even through the challenges and uncertainty, it is clear that we are on the right path. Our efforts to pursue a clearly defined target consumer, rebase our cost structure, and fundamentally change the way we work are beginning to yield results. And as we work towards improving profitability in 2021, we also believe we are on a measured path to return to a double-digit operating margin over the long-term.

Central to our transformation is an evolution from being a product-led to a purpose-led organization. We are clear about what defines us, why we compete and who we serve. Our purpose is to Empower Those Who Strive for More, which begins with our commitment to our target consumer – the focused performer. Any product or experience we bring to market must make athletes better.

Purpose lies at the intersection of our culture and our relationship with consumers. This empowers us to support the communities we serve more meaningfully. The launch of the Curry Brand is the perfect embodiment of this in action. In late November, we announced our partnership with Stephen Curry to deliver a suite of performance products, including the Curry 8 basketball shoe – the first footwear to feature our proprietary, high-traction footwear cushioning technology: UA Flow. As a powerful foundation, community impact is built into the Curry brand’s business model. Product sales and focused partnerships are being engineered to help fund youth sports in under-resourced areas through equitable access and safe places to play.

Throughout 2020, we worked to rebase our cost structure to ensure we are positioned with an appropriate foundation and agility to scale with future growth. In pursuit of premium brand-right growth, we have more sharply focused our voice, utilizing consumer-centric marketing activations to elevate industry-leading innovations and unique experiences across our business. Greater marketing productivity, along with the tighter alignment of our supply and demand planning functions, has also afforded us greater optionality to maintain a more consistent profitability trajectory over the long-term.

Simultaneously, we are hyper-focused on meeting consumers wherever and whenever they want to engage with us. With an emerging omnichannel focus, we are pursuing a channel-agnostic approach – an effort made even stronger by pandemic-accelerated eCommerce results, which represented nearly half of our total direct-to-consumer business in 2020. In retail, we are working to deliver more profitable formats and greater in-store productivity by reducing promotional levels and creating a more seamless shopping experience across all consumer touchpoints.

Deepening our relationship with consumers also means living up to increasingly higher brand expectations. This includes sustainability, which we believe drives performance innovation. Across our business practices, as we strive for proficiency, accountability, and transparency – we’re dedicated to making better, resource-efficient products, leaving a cleaner world wherever our brand touches the environment, and adding value to the communities we engage. Earth is our home field. It’s the only one we’ve got and we’re going to protect it.

Bringing it all together, we remain focused on maintaining our discipline around profitability to drive sustainable shareholder value over the long term. From ongoing operating model refinements, our robust innovation pipeline, and brand elevating strategies to our tighter

inventory management and a rebased cost structure, we are working to deliver greater confidence, consistency, and credibility.

UA PRODUCT LINES

Our product offerings consist of apparel, footwear and accessories for men, women and youth. We market our products at multiple price levels and provide consumers with products that we believe are a superior alternative to traditional athletic products. In Fiscal 2020, sales of apparel, footwear and accessories represented 64%, 21% and 9% of net revenues, respectively. Licensing arrangements and revenue from our Connected Fitness business represented the remaining 6% of net revenues.

In December 2020, we completed the sale of our **MyFitnessPal platform**, which represented the largest business within our Connected Fitness segment, as well as discontinued our **Endomondo platform**. We continue to offer digital fitness subscriptions through our **MapMyFitness platform**, which includes **MapMyRun** and **MapMyRide**. Refer to Note 19 to the Consolidated Financial Statements for net revenues by product.

Apparel

Our apparel is offered in a variety of styles and fits intended to enhance comfort and mobility, regulate body temperature and improve performance regardless of weather conditions. Our apparel is engineered to replace traditional non-performance fabrics in the world of athletics and fitness with performance alternatives designed and merchandised with a variety of innovative techniques and product styles. Our highly technical products extend primarily across the sporting goods, outdoor and active use markets. We market our apparel for consumers to provide a benefit you never knew you needed, but can't imagine living without, including HEATGEAR® to wear 2 when it is hot, COLDGEAR® to wear when it is cold, or our RUSH™ or RECOVER™ designed to increase blood flow. Our apparel comes in three primary fit types: compression (tight fit), fitted (athletic fit) and loose (relaxed). HEATGEAR® is designed to be worn in warm to hot temperatures under equipment or as a single layer. While a sweat-soaked traditional non-performance T-shirt can weigh two to three pounds, HEATGEAR® is engineered with a microfiber blend designed to wick moisture from the body which helps the body stay cool, dry and light. We offer HEATGEAR® in a variety of tops and bottoms in a broad array of colors and styles for wear in the gym or outside in warm weather. COLDGEAR® is designed to wick moisture from the body while circulating body heat from hot spots to help maintain core body temperature. Our COLDGEAR® apparel provides both dryness and warmth in a single light layer that can be worn beneath a jersey, uniform, protective gear or ski-vest, and our COLDGEAR® outerwear products protect the athlete, as well as the coach and the fan from the outside in. Our COLDGEAR® products generally sell at higher prices than our other product styles. Footwear

Footwear

Footwear primarily includes products for running, basketball, cleated sports, slides, training, and outdoor. Our footwear is light, breathable and built with performance attributes for athletes. Our footwear is designed with under-foot cushioning technologies including UA HOVR™, UA Micro G®, UA Flow™, and Charged Cushioning®, engineered to a specific sport with advanced outsole construction.

Accessories

Accessories primarily includes the sale of athletic performance gloves, bags, headwear and sports masks. Our accessories include HEATGEAR® and COLDGEAR® technologies and are designed with advanced fabrications to provide the same level of performance as our other products.

Connected Fitness (Digital)

We offer digital fitness subscriptions, along with digital advertising through our MapMyFitness platform, and until December 2020 through our MyFitnessPal and Endomondo platforms. As noted above, in December 2020 we sold our MyFitnessPal platform and discontinued our Endomondo platform. Our MapMyFitness platform includes applications, such as MapMyRun and MapMyRide.

License

We have agreements with licensees to develop certain Under Armour apparel, accessories and equipment. In order to maintain consistent quality and performance, our product, marketing, sales and quality assurance teams are involved in substantially all steps of the design and go to market process in order to maintain brand and compliance standards and consistency. During 2020, our licensees offered collegiate apparel and accessories, baby and youth apparel, team uniforms, socks, water bottles, eyewear and other specific hard goods equipment that feature performance advantages and functionality similar to our other product offerings.

See below for net revenues split by product area:

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Net revenues decreased \$792.5 million, or 15%, to \$4,474.7 million in Fiscal 2020 from \$5,267.1 million in Fiscal 2019. Net revenues by product category are summarized below:

(In thousands)	Year Ended December 31,							
	2020	2019	\$ Change	% Change	2018	\$ Change	% Change	
Apparel	\$ 2,882,562	\$ 3,470,285	\$ (587,723)	(16.9)%	\$ 3,464,120	\$ 6,165	0.2 %	
Footwear	934,333	1,086,551	(152,218)	(14.0)	1,063,175	23,376	2.2	
Accessories	414,082	416,354	(2,272)	(0.5)	422,496	(6,142)	(1.5)	
Net Sales	4,230,977	4,973,190	(742,213)	(14.9)	4,949,791	23,399	0.5	
License revenues	105,779	138,775	(32,996)	(23.8)	124,785	13,990	11.2	
Connected Fitness	135,813	136,378	(565)	(0.4)	120,357	16,021	13.3	
Corporate Other (1)	2,098	18,789	(16,691)	(88.8)	(1,748)	20,537	1,174.9	
Total net revenues	\$ 4,474,667	\$ 5,267,132	\$ (792,465)	(15.0)%	\$ 5,193,185	\$ 73,947	1.4 %	

(1) Corporate Other revenues consist of foreign currency hedge gains and losses related to revenues generated by entities within our geographic operating segments, but managed through our central foreign exchange risk management program.

COMPANY OPERATIONS

Marketing and Promotion

We currently focus on marketing our products to consumers primarily for use in athletics, fitness, and training activities, with an emphasis on connecting with our target consumer - the focused performer. We seek to drive consumer demand by building brand awareness that our products deliver advantages to help athletes perform better.

Sports Marketing

Our marketing and promotion strategy begins with providing and selling our products to high-performing athletes and teams at the high school, collegiate and professional levels. We execute this strategy through outfitting agreements, professional, club, and collegiate sponsorship, individual athlete and influencer agreements and by providing and selling our products directly to teams and to individual athletes. We also seek to sponsor and host consumer events to drive awareness and brand authenticity from a grassroots level by hosting combines, camps and clinics for young athletes in many sports. As a result, our products are seen on the field and on the court, and by various consumer audiences through the internet, television, magazines and live at sporting events. This exposure to consumers helps us establish on-field authenticity as consumers can see our products being worn by high-performing athletes. We are the official outfitter of athletic teams in several high-profile collegiate conferences as well as multiple professional sport organizations supporting the athletes on and off the field. We sponsor and sell our products to international sports teams, which helps to drive brand awareness in various countries and regions around the world.

Media

We feature our products in a variety of national digital, broadcast, and print media outlets. We also utilize social and mobile media to engage consumers and promote connectivity with our brand and our products while engaging with our consumer throughout their performance journey. For example, in the first quarter of Fiscal 2020 we launched a new brand campaign, “The Only Way Is Through”, which was introduced during a Performance Summit with over 180 social media influencers and was re-activated through brand authentic moments across the calendar year. Additionally, during the initial wave of the COVID-19 pandemic, we transitioned our campaign from “The Only Way is Through” to "Through This Together" that provided consumers with at home workout solutions across various digital platforms.

Retail Presentation

The primary goal of our retail marketing strategy is to increase brand floor space dedicated to our products within our major retail accounts. The design and funding of Under Armour point of sale displays and concept shops within our major retail accounts has been a key initiative for securing prime floor space, educating the consumer and creating an exciting environment for the consumer to experience our brand. Under Armour point of sale displays and concept shops enhance our brand’s presentation within our major retail accounts with a shop-in-shop approach, using dedicated floor space exclusively for our products, including flooring, lighting, walls, displays and images.

Sales and Distribution

The majority of our sales are generated through wholesale channels, which include national and regional sporting goods chains, independent and specialty retailers, department store chains, mono-branded Under Armour retail stores in certain international markets, institutional athletic departments and leagues and teams. In various countries where we do not have direct sales operations, we sell our products to independent distributors or we engage licensees to sell our products. We also sell our products directly to consumers through our own network of brand and factory house stores and through e-commerce websites globally. Factory house store products are specifically designed for sale in our factory house stores and serve an important role in our overall inventory management by allowing us to sell a portion of excess, discontinued and out-of-season products, while maintaining the pricing integrity of our brand in our other distribution channels. Through our brand house stores, consumers experience the premium full expression of our brand while having broader access to our performance products. In Fiscal 2020, sales through our wholesale, direct-to-consumer, licensing and Connected Fitness channels represented 53%, 41%, 2% and 3% of net revenues, respectively. We believe the trend toward performance products is global and plan to continue to introduce our products and simple merchandising story to athletes throughout the world. We plan to continue to grow our business over the long term in part through continued expansion in new and established international

markets. We are introducing our performance products and services outside of North America in a manner consistent with our past brand-building strategy, thereby providing us with product exposure to broad audiences of potential consumers. Our primary business operates in four geographic segments: (1) North America, comprising the United States and Canada, (2) Europe, the Middle East and Africa ("EMEA"), (3) Asia-Pacific, and (4) Latin America. Each of these geographic segments operate predominantly in one industry: the development, marketing and distribution of branded performance apparel, footwear and accessories. We also operate our Connected Fitness business as a separate segment.

Despite these multiple business lines, this case concentrates only on the digital fitness apps and is limited to the North America region.

North America

We sell our apparel, footwear and accessories in North America through our wholesale and direct-to consumer channels. Net revenues generated from the sales of our products in the United States were \$2.7 billion and \$3.4 billion for Fiscal 2020 and 2019, respectively. Our direct-to-consumer sales are generated through our brand and factory house stores and e-commerce website. As of December 31, 2020, we had 176 factory house stores in North America primarily located in outlet centers throughout the United States and Canada. As of December 31, 2020, we had 18 brand house stores in North America throughout the United States and Canada.

Consumers can purchase our products directly from our e-commerce website, www.underarmour.com. In addition, we earn licensing revenue in North America based on our licensees' sale of collegiate apparel and accessories, as well as sales of other licensed products. We distribute the majority of our products sold to our North American wholesale customers and our own retail stores and e-commerce businesses from distribution facilities we lease and operate in California, Maryland and Tennessee. In addition, we distribute our products in North America through third-party logistics providers with primary locations in Canada, New Jersey and Florida. In some instances, we arrange to have products shipped from the factories that manufacture our products directly to customer-designated facilities.

Connected Fitness

Throughout Fiscal 2020, we offered digital fitness subscriptions, along with digital advertising through our MapMyFitness, MyFitnessPal and Endomondo platforms. Our MapMyFitness platform includes applications, such as MapMyRun and MapMyRide. We engage this community by developing innovative services and other digital solutions to impact how athletes and fitness-minded individuals train, perform and live. As noted above, in December 2020, we completed the sale of our MyFitnessPal platform, which represented the largest business within our Connected Fitness segment and discontinued our Endomondo platform.

DIGITAL FITNESS APPS

Original Acquisitions and Intention

In 2015, UA laid the groundwork for the Connected Fitness business, assembling the world's largest digital health and fitness community across three mobile application platforms that were acquired: MapMyFitness, Endomondo, and MyFitnessPal. UA ended 2015 with approximately 160 million registered users that logged nearly 8 billion meals and 2 billion activities over the course of 2015. With an average of more than 100 thousand new users joining everyday, we have positioned ourselves at the epicenter of the consumer's active lifestyle. As a result, we are becoming part of the athlete's life, 24/7. From sleep and activity, to fitness and nutrition, we are individually interacting with our consumer, turning their data into a call to action in support of our mission to make all athletes better. The vision is to use this data to create a single view of the consumer that combines global point-of-sale, e-commerce, and transactional information through a single sign-on capability. We can then match this information with our Connected Fitness data to create a truly unique consumer insight engine.

UA efforts in Connected Fitness not only provide us with better information to help us make better business decisions and build better products, but help athletes make better choices in their own personal health and fitness, to ultimately enrich their lives. To be clear, this was not a technology initiative. This is a digital transformation, and therefore a business transformation for UA. The view is that the Connected Fitness business has the ability to enhance all of the growth drivers that we laid out 15 years ago and are still our growth drivers today: men's apparel, women's apparel, footwear, international, direct-to-consumer. The intent of purchasing and developing the apps was that the deeper understanding of our consumer gained through Connected Fitness informs our business decisions across our growth drivers, ultimately leading to selling more shirts and shoes.

2020 Divestment Of MyFitnessPal, Closing Of Endomondo, Recommitment To MapMyRun

In 2020, UA made a decision to divest MyFitnessPal and shut down Endomondo by end-of-year 2021, leaving only MapMyRun as UA's digital application going forward. Under Armour sold off MyFitnessPal to investment firm Francisco Partners for \$345 million – a fair bit lower than the \$475 million paid for the connected fitness app and platform back in 2015.

When the company first announced that it would be acquiring MyFitnessPal and Endomondo five years ago, it was fairly clear about its goals – building a social community of users that could be exposed to Under Armour's brand, and encouraging regular physical activity that would increase demand for athletic apparel and footwear. In those arenas, MyFitnessPal likely had some measure of success. The platform has grown from 80 million users in 2015 to more than 200 million in 2020. But Under Armour decided to leave the platform behind in an effort to reinforce a singular ecosystem strategy (and pick up a bit of extra capital in the process).

As part of the ongoing transformation, UA is committed to actively managing our business to ensure that our strategies and assets are prioritized to connect even more deeply with our target consumer – the Focused Performer. Divesting MyFitnessPal reduces the complexity of UA’s consumer’s brand journey by empowering sharper alignment with the long-term digital strategy as we work towards a singular, cohesive UA ecosystem. Additionally, it affords investment flexibility to drive greater return and value to our shareholders over the long-run. In the same mindset, the smaller Endomondo – purchased for \$85 million in 2015 after two years of roughly stagnant user counts – isn’t getting the preferential treatment of the other two platforms. On the other hand, MapMyFitness ([purchased in 2013 for \\$150 million](#)) now stands as the primary digital player within Under Armour’s Connected Fitness business unit alongside the company’s connected footwear efforts.

Please see the accompanying PDF for some recent stats on the MapMyRun application consumer use.

2020 Connected Fitness Revenue and Operating Income

(In thousands)	Year Ended December 31,			
	2020	2019	\$ Change	% Change
Revenue				
Connected Fitness	135,813	136,378	(565)	(.4)
Operating Income				
Connected Fitness	17,063	17,140	(77)	(.4)

Net revenues in our Connected Fitness operating segment decreased \$0.6 million to \$135.8 million in Fiscal 2020 from \$136.4 million in Fiscal 2019 primarily driven by a decrease in advertising revenue and one-time development fee from a partner in Fiscal 2019. Additionally, the decrease in revenue is due to the sale of the MyFitnessPal platform during the fourth quarter of Fiscal 2020. Operating income in our Connected Fitness segment was flat in Fiscal 2020 compared to Fiscal 2019.