

SPRING 2022 Live Case Study

Under Armour (UA)

THE CHALLENGE

Spring 2022 Live Case study concentrates on Under Armour's effort to optimize its wholesale partner network in North America. The company has historically been heavily dependent on wholesale partners, but the industry continues to be influenced by a number of external factors. The executives would like you **to evaluate the wholesale retail sports apparel industry and recommend a path forward**. Develop a strategy to better position UA to win in the market by optimizing its wholesale partner network to maximize revenues and align with evolving market dynamics. Explain your strategic justification and address any risks or tradeoffs with your recommendation. **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 three focus areas below.
3. Provide a go-forward recommendation for Under Armour's wholesale business in North America: should Under Armour continue to invest and grow in the wholesale business or prioritize efforts to enhance its direct-to-consumer offering? What further changes would you recommend Under Armour take for its wholesale partner network?

1) External Analysis:

- Outline the market landscape for wholesale partners in the sports apparel industry (e.g. size, maturity, market share, growth potential, etc.).
- Analyze recent market trends that are impacting wholesale partners – consumer behaviors, investments or changes in business model of key wholesalers, recent closures, etc.
- Conduct a strategic comparison of UA and its top competitors with regard to distribution systems; how have UA's competitors evolved their wholesale strategies?
- Use other external strategic analysis tools covered in the course if applicable (e.g. five forces model, general environment, industry success factors, industry evolution).

2) Internal Analysis:

- What is UA's competitive advantage or disadvantage over rivals in the industry? What is UA's unique positioning that gives them favorable position with wholesale partners?
- What is the role of each wholesale partner in UA's portfolio? How does this align to UA's brand positioning and brand strategy?

- 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, balanced scorecard).

3) Financial Analysis

All calculations should pertain to only the chosen strategy, not to UA as a whole.

- Provide quality cost estimates and benefits to develop and implement your strategy.
- Provide revenue projections for 3 years for the proposed strategy.
- Provide a qualitative assessment of risks and tradeoffs to your recommendations.

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.

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.

License

We have agreements with licensees to develop certain Under Armour apparel, accessories, and equipment. 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	<u>\$ 4,474,667</u>	<u>\$ 5,267,132</u>	<u>\$ (792,465)</u>	<u>(15.0)%</u>	<u>\$ 5,193,185</u>	<u>\$ 73,947</u>	<u>1.4 %</u>	

(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 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.

NORTH AMERICA WHOLESALE

Sports Authority Bankruptcy

Sports Authority, once the nation's largest independent sporting goods retailer, filed for Chapter 11 bankruptcy in 2016. In response to the bankruptcy, Under Armour cut its guidance, incurred a \$23 million impairment charge, and forecasted \$120 million in sales losses due to the store closures.

Kohl's Partnership

In March 2017, Under Armour announced a partnership with Kohl's, which saw Under Armour products being sold in over 1,000 Kohl's stores nationwide. Former CEO Kevin Plank on the partnership: "We believe that there's a massive opportunity with the consumer that's walking into those [Kohl's] stores and looking for the Under Armour brand and, frankly, they haven't been able to find it." Analysts were skeptical of the partnership, noting that "Kohl's does little to enhance the Under Armour brand" due to the significant discounting and markdown strategies employed by Kohl's.

Wholesale Exits

On October 30, 2020, Under Armour announced it would exit between 2,000 and 3,000 wholesale doors in North America in an effort to focus more on direct-to-consumer and abandoning undifferentiated wholesale partners. CEO Patrik Frisk said that UA is "focused on prudent marketplace management and working proactively to ensure that we show up in distribution that is brand-right, profitable, and capable of elevating the Under Armour brand with Focused Performers."