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# Under Armour, Inc. (UA)

Q3 2014 Earnings Call

## CORPORATE PARTICIPANTS

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*Chairman, President & Chief Executive Officer*

Brad Dickerson

*Chief Financial Officer*

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## OTHER PARTICIPANTS

Robert F. Ohmes

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Eric B. Tracy

*Janney Montgomery Scott LLC*

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## MANAGEMENT DISCUSSION SECTION

Kevin A. Plank

*Chairman, President & Chief Executive Officer*

### BUSINESS HIGHLIGHTS

#### Diversity

- On our last earnings call in July, I spoke to the diversity of Under Armour
- The diversity in having our revenues spread more evenly across product categories and geographies
- The diversity in whom our brand is now reaching
- And the diversity in how we reach both our existing and new consumers across the globe

#### Revenue Growth and Investments

- With revenues up 30%, Q3 marks our fourth consecutive quarter of total revenue growth of 30% or higher, and our 18th consecutive quarter with revenue growth in excess of 20%
- This consistent outperformance speaks to the continued strength of the athletic cycle, that we have significantly helped drive over the past few years
  - But more importantly, it illustrates the Under Armour brand's ability to thrive beyond our core North American apparel business and help feed our diversification
- The best evidence of that is in the performance of our Footwear and International businesses over the first nine months of 2014

- We've detailed how we've continually invested in both of these growth drivers over the past few years, building the infrastructure needed to grow and adding talent to supplement the team

#### Footwear

- So let me provide some detail that confirms return on the investments we've made in these two, key growth drivers
- Let's begin with Footwear
- As we cited in our release early this morning, our Footwear business grew 50% in Q3, while our International business was up 94%
- In terms of the contribution to the overall revenue growth, Footwear and International have added nearly \$200mm to our growth through the first nine months of this year, and together accounted for 35% of our total growth YTD.
  - What's more encouraging than the actual numbers is the strength of the platforms we are building in these businesses that will lay the foundation for sustainable growth in 2015 and beyond

#### Global Growth

- Let me talk first about our growth globally and the investments we are making in all corners of the globe
- To reinforce our focus on building that global organization, I am dialing into this call today from our office in Hong Kong, on one of five stops I'm making throughout Asia as a part of our continued focus on bringing the Under Armour brand to that global audience
  - Whether its business to our newest retail doors in Chengdu, China; Tokyo, and Singapore, or conversations with potential partners about next generation technology, visiting these markets reinforces the opportunity that we have to grow the Under Armour brand

#### GLOBAL LEADERSHIP TEAM

- Ensuring we bring the right balance of the Under Armour culture and International experience to our global leadership team has been a major focus for me over the past 24 months
- We've done a great job of using our own team to build and establish the Under Armour culture in any market we do business in, especially Europe and China
  - We believe this process enables us to appropriately establish the Under Armour culture outside the U.S. then transition in a level of industry experience that will help accelerate our growth in these critical markets

#### EUROPE

- So first in Europe, where we began doing business back in 2006, our business faced challenges reaching scale
- So we placed Matt Shearer, who is running our business in Canada, in market, and he has helped stabilize and get our brand and business headed in the right direction
- We are making great progress in key markets in Europe
- And we will surpass \$100mm in revenue for the first time this year
  - With this stability in place, we were able to recently recruit industry vet Chris Bate, who bring significant on the ground expertise to our team in Europe
  - While Matt will continue to offer his leadership with the business back here in North America

#### CHINA

- And while the markets of China and Europe could not be more distinct, our strategy of balancing Under Armour culture and industry experience is consistent in these two geographies
- In China, Kevin Eskridge, who originally helped drive our successful outdoor business in the United States has done a tremendous job overseeing the growth of our brand and retail presence in China
- Our plan is for 2015 to bring Kevin and his experience in running our China business back to Baltimore, where he can then influence our global perspective

#### Transition

- As we transition, home grown talent like Kevin back to the U.S., we are bringing in Erick Haskell who comes to UA with a strong sporting goods track record in Asia, especially China
- Seeing how well our brand is being presented in these fast-growing markets outside the U.S. and knowing we are staying true to the culture of who we are as a brand, gives me great confidence that we are building the foundation for a much larger version of what you see from us today
  - But to do so, we need to continually attract talent that brings experience and dimension to the organization
- What I've learned in building Under Armour is that there is no substitution for Grade "A" people, and that bringing fresh yet experienced talent into the Under Armour brand is what will continue to drive our growth and goal of being the number one athletic brand in the world

#### NEW LEADERSHIP

- I mentioned our new leadership in Europe and China, but beyond that we've just added Kerry Chandler as our Chief Human Resources Officer, who brings 20 plus years of global experience from places like Christie's International, the NBA and ESPN
  - In her role, Kerry will help us continue to attract and develop our top talent
- Additionally, at the board level, Karen Katz, the CEO of Neiman Marcus Group, has joined our Board of Directors
- We look forward to Karen's perspective and experience as we continue to navigate our path in both global and omni-channel retail
- So, I'm incredibly excited about the terrific new additions to our team and very proud of the efforts that our current stable has made to help create what we've built to date

#### Footwear

- So turning to Footwear, we saw our third consecutive quarter of 30% plus revenue growth and expect to finish the year with a business over \$400mm
- We continue to gain traction in the large categories of running and basketball
- And much like where we stand in our International growth curve, we are just getting started in Footwear

#### SPEEDFORM

- With the great reaction to our SpeedForm launch earlier this year, we're broadening the platform significantly in 2015
- Next spring, we will see the launch of the SpeedForm Gemini with Charge Cushioning at \$130 retail, and SpeedForm Vent at \$100 retail that features a super lightweight and breathable material in the upper, that was originally developed for our apparel line

- We are taking the SpeedForm technology developed for a single shoe into a broader platform that will enable us to reach a broader range of consumers and gain share on the shoe wall as well

#### Basketball

- In basketball, where we entered the business just four years ago, we're seeing double-digit sell-throughs with the \$130 ClutchFit Drive Stephen Curry wore during the FIBA Basketball World Cup
- Stephen will transition into his first signature shoe later this season, but you'll see us start to work the ClutchFit technology across our basketball assets, whether it's college programs like Notre Dame, St Johns or Maryland
- And also over in China with the newest member of the Under Armour basketball team, Emmanuel Mudiay, who'll be playing in the Chinese Basketball Association this season and most likely the NBA starting the next

#### Global Footwear Market

- I love talking about our successes in Footwear given the steep learning curve we know we exist in the business
  - We are successfully making that transition from a company learning how to make great shoes into a truly disruptive voice in the global Footwear market
  - We did it last year with the Highlight cleat for football and came back this season, selling almost 50% more at a retail price \$20 higher than last year
- With the mission of being number one in every Footwear category where we compete, we know we have a lot of work ahead as we surpass \$400mm this year
- We ultimately believe Footwear should be as big if not bigger than our apparel business
- And our momentum is helping attract the talent and develop the team that will help make that statement a reality

#### Growth Potential

- So, we talked on our last call about the growth potential we have in the Women's category and the opportunity to reach a new consumer
- We've focused our second Brand Holiday this year starting in late July Women's and we realized within a day or two after the launch of the Misty Copeland commercial that we had a game changing campaign on our hands

#### I WILL WHAT I WANT CAMPAIGN

- The I Will What I Want campaign, initially with Misty and later on with Gisele Bündchen immediately struck a chord with women, with the two commercials generating over 13mm views across YouTube and Under Armour sites
  - It was difficult to turn on a TV or open a magazine in the United States, without seeing the overwhelmingly positive coverage of the campaign
- The campaign also gained traction outside the U.S. with Misty's appearance in Paris and Gisele driving interest in her home country of Brazil
- The campaign drove tremendous traffic to our e-commerce site, primarily women, 70% of which were new consumers to Under Armour

- These consumers engaged with our brand, and more than 350,000 of them downloaded the brand new, I Will What I Want app, our first effort in the bringing the MapMyFitness technology into our brand communications
- And while the reaction to the campaign was rewarding, more importantly it struck a chord with women, resonating with her beyond the field, the pitch or the court

#### PRODUCT AND DISTRIBUTION

- The success of the I Will What I Want campaign positions us extremely well as we continue to build out the product and distribution to expand our reach from the female athlete to the athletic female
- But even as we expand the reach of our brand to new consumers and geographies, we remain extremely focused on the continued development of our North American wholesale business
- Under Armour is a brand built in America
- No question
- We will reach the \$3B mark this year and still have more than 90% of our revenues coming from the United States

#### Core Apparel Business

- Our core apparel business, the majority of which is sold through our wholesale partners, grew more than 20% for the 20th consecutive quarter; that's five years of consistent growth
- So we clearly understand the value of protecting and growing that asset
- And to that end, we're focused on continuing that growth streak by being better partners with our wholesale accounts in 2015
  - For Under Armour, that has and always will start with product
  - Whether it's introducing our best base layer ever next spring, appropriately named Armour, or a more focused training assortment or even expanding our lifestyle offerings
  - We will continue to bring innovation and relevance to these categories in exciting ways in 2015, as well as improve our speed to market

#### MERCHANDISING EXPERTISE

- Beyond these steps, we are also laser focused on improving our merchandising expertise, specifically as it relates to our wholesale partners
- We've seen the benefit of this effort within our own direct consumer and International channels, and we will enable our North American wholesale partners including DICK'S Sporting Goods, Academy Sports, Sports Authority, Hibbett Sports, Cabela's, Foot Locker and the Finish Line, as well as all of our key wholesale partners around the globe to present distinct points of view on Under Armour within all their doors

#### ACQUISITION OF MAPMYFITNESS

- It was almost a year ago that we announced our acquisition of MapMyFitness, and the changes in the landscape in the Connected Fitness space have been significant, with new entrants, new platforms, and new technologies getting a lot of the press
  - Since the acquisition, we've focused our energy on two areas, building the user base by making our platform the most accessible and productive in the space, and better understanding what consumers want and need in this next generation of Connected Fitness

### Global Connected Fitness Community

- On the first piece, we have grown our global Connected Fitness community from 20mm at the time of the acquisition to more than 30mm users today
- That means we are averaging upwards of 30,000 people a day, with that number surging on peak days to over 50,000 joining the site
- And with the progress we've had adding the languages and product enhancement, our goal is to have over 100mm users in the next several years
  - These numbers clearly illustrate the opportunity digital provides Under Armour to reach our consumer in a fitness focused environment
  - But what's truly compelling to us, is what that platform provides in terms of helping our users proactively manage their own health and fitness

### Opportunity

- We understand the opportunity is massive, and we will share our point of view on how UA plans to drive thought leadership to the entire Connected Fitness category starting in early 2015 at CES in Las Vegas
- So, to wrap it up, I want to talk about UA reaching the \$3B market this year, and what that means for us going forward
- Are we proud of the 30% CAGR, both top and bottom-line, that we've delivered since going public nine years ago? No question
- But milestones just leave us thinking about what's coming and how we need to organize to become an even bigger and stronger brand
- We believe that our brand is so much greater than the \$3B we are projecting this year

### INTERNATIONAL BUSINESS

- Our International business will still be less than 10% of our total revenues for 2014, and we foresee a day where it is at least half our business
- Footwear will be less than 15% of the business in 2014, and we can envision it, can be larger than our Apparel business someday

### WOMEN'S BUSINESS

- Our Women's business, which is over \$500mm today is still less than half the size of our Men's business, and we still believe it should be as big or bigger than our Men's category
- The opportunity and appetite around the world for Under Armour is abundant, as I'm seeing firsthand on this trip
- And we understand that great execution will be critical to our path of becoming the number one athletic brand in the world
- We will not stop investing in the talent, the infrastructure, the innovation or the product that will enable us to achieve that goal
- We are very proud of our performance; however, we are just getting started

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**Brad Dickerson**  
*Chief Financial Officer*

## Q3 FINANCIAL HIGHLIGHTS

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### Net Revenues

- I would now like to spend some time discussing our third quarter 2014 financial results, followed by our updated outlook for 2014 and our preliminary thoughts on 2015
- Our net revenues for Q3 2014 increased 30% to \$938mm
- Similar to last quarter, we saw tremendous traction during Q3 in areas such as:
  - Direct-to-Consumer
  - International
  - And Footwear

### Apparel Category

- Looking at the details for Q3, we grew the Apparel category 26% to \$705mm compared to \$561mm in the prior-year's quarter
- This marks the 20th consecutive quarter of at least 20% y-over-y growth for our largest product category

### PLATFORM INNOVATIONS

- One of the keys to our Apparel growth in recent quarters comes from our ability to develop platform innovations and expand the reach of these innovations across product categories
  - This has driven sustained growth in our two large platforms launched in 2011, Charged Cotton and Storm, and it is evident in ColdGear Infrared, which was launched just last year and is expanded within Apparel to areas like golf and running [indiscernible] (17:41)

### MEN'S, WOMEN'S AND YOUTH BUSINESS

- Within apparel, our Men's business was led by continued strength in golf and outdoor
- In Women's, we saw solid gains in studio, sports bras and outdoor
- And in Youth we experienced broad based strength across both training and sports specific categories

### Footwear

- Third quarter Footwear net revenues increased 50% to \$122mm from \$81mm in the prior year, representing approximately 13% of net revenues for the period
- Expanded running silhouettes were the primary growth driver, as we continued our focus on more balanced price points across our sporting goods distribution while also beginning to broaden offerings across our SpeedForm platform
- While off a small base, we also experienced strong growth in our basketball business during the quarter led by the new ClutchFit Drive

### Accessories Net Revenues

- Our Accessories net revenues during Q3 increased 32% to \$85mm from \$64mm last year
- Growth during the quarter was primarily driven by headwear offerings and gloves
- Our Direct-to-Consumer net revenues increased 35% for the quarter, representing approximately 26% of net revenues
- Square footage in our North America Factory House channel grew 18% y-over-y

- This growth reflects a total of 122 Factory House stores at the end of the quarter, up 9% from Q3 2013, as well as the upsizing of some existing locations
- On the full price side we remained at five Brand House stores in North America
- We continue to see strong momentum in our e-commerce channel where we are driving strong traffic gain through efforts such as I Will What I Want Women's campaign
- During the quarter we also updated our domestic UA.com platform to better optimize the mobile experience while also launching new local sites in the U.K., Germany and France

#### International Net Revenues

##### EUROPE, ASIA PACIFIC AND LATIN AMERICA

- International net revenues increased 94% to \$86mm in Q3, and represented 9% of total net revenues
- In Europe, our strong results throughout the year have been driven by a combination of higher brand awareness and a more focused in-country strategy around our three key markets of the U.K., Germany, and France
- In Asia Pacific, we continue to build both wholesale and distributor relationships including accelerated partner store openings throughout Greater China and Southeast Asia
- Finally, in Latin America, our business benefited from the conversion of our Mexico distributor to an Under Armour subsidiary at the beginning of 2014, as well as our recent market entries into Brazil and Chile

#### Margins

- Moving on to margins, third quarter gross margins expanded approximately 120BPS to 49.6% compared with 48.4% in the prior year's quarter
- Three primary factors contributed to this performance during the quarter
  - First, we lapped higher U.S. import duties from the year ago period contributing approximately 90BPS for the quarter
  - Second, we experienced a favorable sales mix during the period, primarily driven by a more profitable product mix across our Factory House channel contributing approximately 70BPS for the quarter
  - Finally, liquidations negatively impacted gross margins by approximately 40BPS, driven by the shift in Footwear liquidations into Q3 that we highlighted on our last call

#### Selling, General, and Administrative Expenses

- Selling, general, and administrative expenses as a percentage of net revenues deleveraged 230BPS to 34% in Q3 2014 from 31.7% in the prior year's period
- Specific details around our four SG&A buckets are as follows

##### MARKETING AND SELLING COSTS

- First, marketing costs increased to 10.6% of net revenues for the quarter from 10.3% in the prior year period, primarily driven by higher y-over-y sports marketing sponsorships across our international businesses
- Second, selling costs increased to 8.9% of net revenues for the quarter, from 8.1% in the prior year period, primarily tied to the higher costs in the growth of our North America Direct to Consumer business, as well as increased investments to support our global retail store strategies

#### PRODUCT INNOVATION AND SUPPLY CHAIN COST

- Third, product innovation and supply chain cost increased to 8.5% of net revenues for the quarter from 7.3% in the prior year period, primarily driven by higher product innovation cost, including our Connected Fitness efforts, as well as higher personnel costs in Footwear and International
- Finally, Corporate Services held steady y-over-y at 6% of net revenues

#### Operating Income, Margin, Interest and Other Expense

- Operating income for Q3 increased 21% to \$ 146mm compared with \$121mm in the prior year period
- Operating margin contracted 110BPS during the quarter to 15.6% compared to 16.7% in the prior year period
- Interest and other expense for Q3 increased to \$5mm compared with \$1mm the prior year period, primarily reflecting the negative impact of foreign currency

#### Tax Rate, Net Income and EPS

- Our third quarter tax rate of 36.9% was favorable to the 39.4% rate last year primarily driven by lower y-over-y losses across International markets in aggregate
- Our third quarter net income increased 22% to \$89mm compared to \$73mm in the prior year period
- Diluted EPS increased 21% to \$0.41 compared to \$0.34 in the prior year period

#### BALANCE SHEET

- On the balance sheet, total cash and cash equivalents increased 34% to \$249mm compared with \$186mm at September 30, 2013
- Long term debt increased to \$192mm from \$54mm at September 30, 2013
- Inventory increased 28% y-over-y to \$637mm compared to \$497mm at September 30, 2013, below our net revenue growth rate for the period

#### CapEx

- Our investment in CapEx was approximately \$26mm for Q3 compared with \$23mm in the prior year period
- We continue to plan 2014 CapExs of approximately \$150mm, primarily driven by incremental investments to support our Direct-to-Consumer and International businesses, further develop and expand our global office footprint and increase capacity at our distribution centers

#### 2014 OUTLOOK

##### Net Revenues and Operating Income

- Now, moving on to our updated outlook for 2014
- Based on current visibility, we expect 2014 net revenues of approximately \$3.03B, representing growth of 30%, and 2014 operating income of approximately \$348mm, representing growth of 31%
- Both expected growth rates are outpacing the long-term growth rates laid out at our Investor Day in June 2013

#### Interest Expense and Tax Rate

- Below operating results, we continue to anticipate moderately higher interest expense in 2014, primarily reflecting the \$150mm term loan closed in May
- We expect a full-year effective tax rate of approximately 40%, ahead of last year's 37.8% rate, given investments to support our International expansion and the inclusion of the state tax credit in 2013

#### Q4 RESULTS

##### Net Revenues

- Given these updated full-year parameters there are several factors to consider for Q4
- First on net revenues; we continued to make – to take a more balanced approach in planning the business around weather expectations for Q4 as compared to last year, especially in our Direct-to-Consumer business, which represented approximately 40% of our total business during Q4 last year

##### Gross Margin Rate

- Our gross margin rate is expected to decline approximately 100BPS y-over-y, given a higher mix impact of our International business, which is more weighted toward lower margin distributor businesses during the period
- And also reflecting some currency headwinds given the strength in the U.S. dollar
- As we have mentioned, our approach to planning our fourth quarter business also factors in to the gross margin outlook for the period

##### SG&A and Inventory Growth

- In SG&A, we continue to expect significant leverage during Q4, particularly in Corporate Services given prior higher incentive compensation expenses and MapMyFitness deal-related costs
- As we have previously indicated, we'll remain opportunistic in investing incremental dollars during Q4 in the event of more favorable than planned net revenues or gross margin rate
- Finally, on the balance sheet, we continue to expect inventory growth will remain relatively in line with net revenue growth during Q4

#### 2015 OUTLOOK

##### Net Revenue Growth Rate and Operating Income

- Before we turn it over for Q&A, we'd also like to provide you with our preliminary outlook for 2015
- Based on our current visibility, we are planning 2015 net revenues and operating income to each grow approximately 22%, in the range of our long-term growth rates established at our 2013 Investor Day
- Based on these numbers, we wanted to outline several preliminary factors to consider for 2015
- First, similar to 2014, the net revenue growth rate for each of our International, Direct-to-Consumer and Footwear businesses is planned to outpace the growth rate of our overall business
- Second, within the operating income line, we're planning for gross margin gains relatively consistent with 2014 balanced with SG&A investments to support both near and long-term global growth opportunities, including International, Retail and Connected Fitness

## CapEx

- Finally, we expect elevated CapEx during the year
- On top of a normalized CapEx growth rate, we plan to invest approximately \$90mm more in two key projects to support our future growth
- A new Southeast distribution center in North America, and the expansion of our corporate headquarters in Baltimore
- We will provide further color on 2015 during our earnings call in January

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## QUESTION AND ANSWER SECTION

Robert F. Ohmes

*Merrill Lynch, Pierce, Fenner & Smith, Inc.*

Q

I was hoping – you know, you guys touched, I think even more than ever on International and you mentioned, being in Hong Kong and everything. Could you just sort of lay out for us, which markets are the greatest focus for Under Armour right now? And say over the next three years; is it China that's the biggest opportunity or is it still LatAm or is Europe coming on stronger, and could you move beyond those three key European markets you mentioned?

Maybe if you could just sort of give us big picture, how we should be thinking about International for Under Armour over the next three years?

Kevin A. Plank

*Chairman, President & Chief Executive Officer*

A

Yeah, great. So let me take a minute and actually go a little bit deeper here, and I think it's that important and obviously wanting to make the statement with – I was actually trying to balance my travel schedule with this call, and then just thinking, it's a part of what we are doing as a company. So we might as well just embrace the office that we've had for a number of years.

So I think there's three real components, the first of which is leadership. Since bringing Charlie Maurath on the team, he has really done a terrific job, I think driving for Under Armour. Number one, laying out our strategy with most importantly the ability to implement behind it, but also just as importantly is building our team. As we mentioned in my script, I spoke about the addition of Chris Bate, who is now in full control and running our European business, and again with the trajectory there of that business heading over \$100mm, very important for us.

Our new Head of China, Erick Haskell who is actually going to start for us probably around Q2 2015, with the transition that'll take place in China. But again, bringing in an industry pro with over 20 years experience that can really hit the ground running for us, and building off of the momentum that was built by Kevin there prior to his landing.

And then thirdly, the addition of a guy named Fernando Pena, who joins us again with 20 year experience in growing and building out a European fleet of stores as well within our industry. So, we're really bringing I think the talent together, and ending with Fernando, I think is a good way just to talk about the stores that we have coming up.

So let me give you some perspective. We've got roughly – by the end of 2014 – we'll have roughly 80 global Brand House stores. And you may be thinking about what it looks like in SoHo and New York City with 14,000 square feet, but globally it's a bit of a different story. Our stores can range anywhere from 1,000 to call it 6,000 square feet, of course without ruling out larger flagship opportunities with the culture of Under Armour that would be profitable and make money, but things that can be more statement retail.

Where we are today is building out our philosophy, because the majority of those stores – the 80 stores we'll have outside the United States – the majority of them actually will be in Greater China. So to give you a little perspective on that, as we think about just my trip – and let me just tell you where I've been through Asia so far, going into Tokyo and seeing really the flagship stores we have in Shibuya Station and Harajuku as well. I just left – we were in Chengdu and we built – we've got two stores there existing, and then we're opening up a third store, a 3,300 square foot store, in a new mall called Tai Ku Li that surrounds the Dasi Temple, a 1,500 year old Buddhist Temple. And the store we have there I think is really the statement and really the prototype of what we expect to take our mentality looking around Asia, and frankly around the world.

In Hong Kong early today, we visited our new store in Causeway Bay as well as looked at a few new locations, and tomorrow we're heading to Singapore to take a look at what we have happening there.

So the combination of the 80 stores that we have of our Brand Houses are, the majority of them are partner owned stores, some are through our licensed partners like Dome, about nine of those. And we've got about a dozen or so that our Under Armour brand owned stores. We've got stores existing today in Mexico City, Panama City, the Philippines – I spoke about on the last call and the energy there where we – we sold our first unit by opening our first store in the Philippines, and had 700 people waiting in line. And frankly, the trajectory that we're seeing in Singapore is right in line with that as well.

So the momentum for Under Armour is great as we look at what we have in 2014. When we look out to 2015, we see getting in our first 19 years in business to the first 80 stores, we'll add over 100 stores outside of North America in 2015. That'll help us cover the 62 countries that we're doing – currently doing business in today.

So we have great momentum and frankly what that means in a lot of instances, not only like I used that Philippine example, but we're using – we're using this to help build our brand awareness with the store openings. You know a lot of the global assets we have like Tottenham, Colo-Colo, Cruz Azul, Toluca, the Welsh Rugby Union, et cetera, and we'll continue to add assets at that level. And, but we remain committed to our discipline of 11% of our marketing is that 11% number from our revenues. However, we are over-investing to the tune of 15% to 16% when we think about our International spend.

So we expect to – we think, it's enough money, we think it's the right model, we think we're doing it the right way. This is obviously – this is not a one-year or three-year or five-year plan – this is a 10-year and 20-year plan that we have really on that trajectory to be the number one global brand in the world. So, I like our progress and I like where we are, and frankly being in the middle of one of these trips, it gets me incredibly excited about the opportunity that is to come.

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Robert F. Ohmes

*Merrill Lynch, Pierce, Fenner & Smith, Inc.*



Kevin, that sounds great. A group of us are going to be visiting that Causeway Bay store in a few weeks. So, thanks a lot.

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Kevin A. Plank

*Chairman, President & Chief Executive Officer*

Great. Thank you, Robby.

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Eric B. Tracy

*Janney Montgomery Scott LLC*

Kevin, if I could for you just to follow-up on International, maybe a little bit switching gears to Footwear. And it seems to be inflecting really nicely here. You finally got permission from both retailers and the consumer to grow that business. Talk me through, do you feel like you've got the supply chain, the infrastructure in place to really scale kind of materially here? Are there still kind of significant investments that need to be made? And then maybe talk a little bit more just about the pipeline refresh, as you look into 2015. You mentioned some of the SpeedForm, but maybe highlight some other things that we should be thinking about?

Q

Kevin A. Plank

*Chairman, President & Chief Executive Officer*

Sure. Well, first of all, I mean, we're 10 years in making Footwear, we're eight years having sold Footwear. And when you look at, I mean just take that long road, so like everything, it begins with leadership. So my original partner in the business Kip Fulks, who's been driving Footwear for us and doing an excellent job, and as we say that, we've been adding talent really across the organization. One of the highlights we announced most recently was Fritz Taylor joining organization heading up Running for us.

A

So we're continuing to build there and frankly we are. The goal is not for Kip to be running Footwear two years from now and where it reports in the org, but we are in the market and looking for that global head of Footwear. But the good news is that we've got great leadership in place today that's running and doing a great job for us. That's a – that's an open call as we continue to look and let the world know that we're out looking for that next head.

Secondly, is from a product standpoint. We began in 2006 with football cleats, and the one thing I like to remind people is that 2006 was football cleats, 2007 baseball, 2008 was training, 2009 running and 2010 was basketball. And it's taken us really eight years to get to the leadership position I believe that we've seeing in cleated, and we anticipate in time we will reach that leadership position in every category we're doing business.

But as we sit here, I mentioned the Highlight cleat, the \$130 Highlight cleat that in 2013 was \$110 shoes for us. This year it was \$130 cleat, and so not only was it the number one football cleat in the market this season, but it was also the number six shoe overall for back-to-school according to our good friend Matt Powel.

So we believe that when we have time and we're in market and you ask about supply chain and those all are the right things because the lead times are so long, the supply chain is so long, it just takes time to be excellent. And so we feel very confident that we've met that bar that we set for ourselves in cleated, and frankly we're marching that down in other categories.

Secondly, I'll speak about Running. We've been in running as I mentioned just in 2009 and we're incredibly proud of the ground breaking product that we brought in 2014, and as we saw with the Highlight cleat that we really brought out around Cam Newton, what we're bringing with the \$130 SpeedForm Gemini is a product that we think really has a chance to be a beautiful product for us too. That this is the product of not an individual athlete, but really a product for the true hardcore runner.

And the platform that we launched with SpeedForm is something that we think we can build on, and so that \$100 SpeedForm Vent that I mentioned in my script, is something that is going to be really exciting with colors, and again the upper is something that is taken right from the heritage of our apparel expertise.

And then coming back to the SpeedForm Gemini, which is the actually the official shoe of my trip through Asia, and one of the most comfortable shoes I've ever put on my foot. So we believe that running is something where we can win, but frankly we also look at it and say as we add a new technology once a year, we think over the long haul we're really going to pay dividends for ourselves.

Basketball is another area, speaking of top athletes, Stephen Curry, who is our marquee, as it turns – relates to basketball, has been playing in the \$130 ClutchFit Drive for us, and the special exclusive product that we've made Stephen as well as having a signature shoe coming out for him at the end of this year, are things that demonstrate for us that with the right athlete, with the right product that we can absolutely win there. And I think the market has been looking for someone else that can compete or contend, and I think the Under Armour brand is definitely the one that can do it.

Lastly, from a just a product category standpoint is our Youth business. Our Youth business is absolutely on fire, YTD we've got, we're the number two youth shoe in all of sporting goods, and frankly we're doubling down our investments, we've done this really with limited resources and haven't really put as much effort behind it as the momentum and the success has really called for.

So what you're going to see is renewed investment, and that's why what's exciting I think is seeing the 50% growth number that we achieved this quarter in Footwear. And frankly just bringing up to my last question, the long term investment we made in International at 94% growth, when we make these long term investments and we're behind them and we demonstrate that continuity of leadership and vision, I think the results really speak for themselves.

Thirdly, you know from distribution standpoint in Footwear, we've got terrific partners in sporting goods, and frankly you're going to see our partners continue to get more innovative with the way that they're trying to present our products both, from a cleated standpoint, as well as running as well as basketball, and frankly training.

We are going to be testing some new Footwear concepts in some of our key partners, and there is more to come on that. As well as, we also look at you know the terrific partners that we have in the mall channel, and frankly, we are looking for a business as good as our relationships are with the likes of Foot Locker and Finish Line.

So, 2015 is going to be a great come out year for us in Footwear. We're excited to get behind the SpeedForm platform in year two as we really start to hype up that product and really get it rolling, as well as doubling down on what we see in basketball, youth, cleated, and across the board.

So, lastly, if I just may make a side note to it, is just from a facilities standpoint. We've got a new Footwear building opening up in Baltimore in the spring of 2015, as well as expanding our office in Portland is something else we'll do. So leading that fact, that we believe that Footwear has the ability to be as big as or bigger than Apparel is something that really I think underscores the message and the confidence, and frankly the opportunity that exists in our channels of distribution.

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Erinn E. Murphy  
*Piper Jaffray & Co (Broker)*



...if you could just speak a little bit more about the Women's opportunity, and you've obviously had some great campaigns this fall. Any further detail first from a near term perspective, what was the Women's Apparel growth

rate in the quarter? And then, as we think about it longer term, how are you thinking really about the distribution matrix for Women's? Are there new wholesale opportunities you can kind of think about on the horizon that were really maybe perhaps over indexed to the more female shopper? Thank you.

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**Kevin A. Plank**

*Chairman, President & Chief Executive Officer*

A

Yes. Thank you Erinn. Great question, and obviously something top of mind with us coming off of the campaign we just went through. So first and foremost it's really become sort of the topic of the day is getting behind this huge athletic trend that's going on, and frankly we have been positioning ourselves here to lead that market momentum, and frankly we see ourselves as one of the – the one's really driving that momentum.

We've been making women's products since 2003, that we don't get a tremendous amount of credit for. But it really is a testament to the team that we've built putting \$500mm core business together, that in the past had really spoke to – we've been speaking on these calls about going from both that athletic women and women who are athletes that they have evolving needs and are going to play a huge part in creating beautiful product – performance product for each and every one of them.

The Holiday II that we launched was something that I think really spoke and ignited an awareness and conversation with our whole I Will What I Want campaign. To the point where we're not just making the calls any more, but the calls are really coming in from us from a distribution standpoint for instance. I'll speak more on that in just a moment. It was obviously – it was our one of our largest campaigns, it was only one of three brand holidays we do for the year, and committing that frankly in back to school/football season, was something I think probably took a lot of people by surprise, but I think it really underscored the commitment that we have and the belief that we have in our ability to be successful in this category.

As I mentioned always, it comes down to leadership and Leanne Fremar continues to drive for us and be a creative force for Under Armour. So we're credibly important to stand behind Leanne, and frankly as I mention the word force, is that the role that we are going to play is a long-term force in Women's as a whole. We have seen tremendous success basically coming off the campaign, Misty Copeland, as I think everyone would agree is an absolute inspiration to anybody who saw the commercial, but more importantly the reality behind that story that is Misty's Life.

And then frankly dimensionalizing that by responding with adding Gisele to the roster is something which is really a bit of a pinch-me moment, I think also for the brand, of just demonstrating the breadth that we have, of telling that story and speaking to not only the traditional athlete, but someone who's committed to living an active and healthy life. And that speaks to so many people again, underscoring that message of not only the female athlete, but moving toward the athletic female.

We've seen, again coming off of the campaign, tremendous success with the product that we featured particularly through our Direct-to-Consumer channels. But we also saw that in our own accounts, and I'd like to end sort of the Women's part of the discussion today, really about distribution. We mentioned the female athlete, and frankly we think that we have, from a distribution standpoint covered incredibly well where she shops.

One thing I will say about our current distribution is that they are hyper aware of this trend that's happening also. And as you can see in many of our sporting goods partners, our key sporting goods partners that they're working to make enhancements within their own shop displays and layout as well to be more compelling and more appealing, and a more intimate sort of shop experience than I think sporting goods is given credit. So we're very proud from a distribution standpoint of the strides that our existing distribution is going to make, but frankly

we're also looking for places where we can reach and we can speak and we can have a conversation with that female consumer in a way that's appropriate and where she's used to shopping.

So we're looking for appropriate doors where women shop today, that frankly look a lot like our New York City Brand House, with a full display of the women's product line. So I think we've been incredibly proud of what we've put up, but I think to underscore the one message it says is that we believe that our Women's business has every right and ability to be as large as our Men's business. And so, we've got long way to go and we're going to keep working towards that.

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**Brad Dickerson**  
*Chief Financial Officer*

A

And Erinn, this is Brad. Just to add on to the growth rate Youth question you asked. All the categories in Apparel grew at a really healthy rate in the quarter. So we don't really break out the different, the genders and so forth. Obviously Apparel grew at 26% in the quarter. And again all Men's, Women's and Youth were very strong. It's been pretty consistent over the last few quarters, Youth kind of leads the way from a growth rate perspective, and that's been consistent here in Q3, but Men's and Women's were also very, very strong.

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**Omar Saad**

*International Strategy & Investment Group LLC*

Q

Or I guess good evening for you guys in Asia. I wanted to ask question about the Apparel business. Maybe it was a little bit slower growth than we expected, although still a great number. And we heard you Kevin, in your prepared remarks talk about, sounded like some incremental focus on the wholesale channel next year. Can you talk about – give us some more color around that, what's going on in that business? Changes going on there, where you think the opportunities are? Are there areas where you think you can improve in the wholesale apparel piece? Thanks.

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**Kevin A. Plank**

*Chairman, President & Chief Executive Officer*

A

Thanks, Omar. It's a good lead in. But let me begin with – first of all we're not going to apologize for 26% growth in our Apparel revenues, in marking our 20th consecutive quarter of 20% plus revenue growth in Apparel. So like anything there's ebbs and flows in any business, but I think we're incredibly proud of the number and what our team has put forth.

At the same time though, I think it speaks to the overall environment that's happening out there. The trends that you're seeing, particularly in some of the specialty retail shops in general, where it's not an easy market place. And while we're hesitant to quote or comment about the broader market, we absolutely consider ourselves expert in talking about what we're seeing.

So I mentioned in my last comment about some of this huge athletic trend, and the fact that we are a driving force within that trend. We're seeing a lot of good things out in the market, but frankly to your point, there is a plenty of places where we can do better. Women's is a great place for us to start. On the heels of that second brand holiday featuring Misty and then Gisele, we still have ample opportunities to be hyper focused on delivering the best product for our wholesale partners, in wherever she shops. Today I think we're proud of that incredible marketing story we put out there and I think it sets the bar for the level that our product team needs to deliver as well.

And we recognize, we've got good competitors in this space, and this is not a one horse race by any stretch, so we've got to earn it each and every day. And I think what you'll see from us is continuing to tell incredibly compelling marketing stories, that resonate with women in a deep way, but also having product that supports that as well.

So you'll see I think renewed vigor and adjustments and modifications that we'll be making within our line in some of our key our key distribution channels now, as well as some of the channels we'll be going toward.

But what that commercial did really Omar, it really inspired us to make better product, and I think you'll see better, more compelling, more timely, and things we're doing with that like shortening lead times and being more proactive from a style standpoint, are things that are very important to us.

If I went down the list of a few places where I think we can get better and moving even beyond Apparel but Footwear for instance, we posted a 50% growth, but frankly we look at that number and we say we think we can be much better. We have tremendous opportunity not only within our – as I mentioned before our key wholesale channels and partners, but even bigger opportunities with our mall partners like Finish Line and Foot Locker.

So – and when we look at things like the International growth numbers, 94% growth it shows that our brand translates, but we still have some pretty significant on-time delivery issues. And so, as good as a lot of the numbers are, we recognize that we can be better and there's more efficiency that come.

But we do see, merchandising, building out our merchandising function is a new initiative that we have in the company as well. And I think one thing that definitely is certain is that, our strong quarter shows that when we invest in initiatives or growth drivers, good things happen, i.e. Footwear and International. So we're going to end this year above the \$3B mark, and while we're incredibly proud of that accomplishment, I think it goes without saying that we are just getting started, and see ample runway within not only our existing doors, but we also see the new opportunities for growth drivers for many, many years to come.

So work to come, but there is a lot of great innovation. I think that's one thing that is certain, is that there is an effect that's happening out there with companies that innovate and companies that are trusted brands. And companies that innovate, that don't know how to communicate with the consumer are probably going to be lost. And companies that communicate with the consumer, but don't know how to innovate, they too will probably be lost. So we see ourselves as really at the vortex of those two things, and will continue to execute on that for, within all of our product categories.

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Omar Saad

*International Strategy & Investment Group LLC*

Q

Thanks. Can I ask a quick follow-up on the DTC channel plans? How the new Brand Houses are doing and plans maybe to open new stores over the next few quarters?

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Kevin A. Plank

*Chairman, President & Chief Executive Officer*

A

Yeah. I went through it in depth, I think from a global basis. But we've made the announcement of our upcoming flagship in Chicago. And I think you'll see a couple more here in the United States. But again, one thing I didn't mention is that the most recent store that we're actually opening this week is actually our own Lab store in Baltimore.

Our sales meeting is coming up in 10 days and we're bringing in all of our partners from all over the globe, and really to have the ability to start standardizing our processes. That's one thing where – continuity is a very important word in business – and I think that we're finally really getting to the ability to find stride with the businesses that we build, and building that continuity and building an expectation that there's a consistent message in the store, there's consistent merchandising in store.

We went through periods where we were launching our product for international markets six months a year behind when we're launching here in the States. So same thing with marketing. So getting to being a truly global company is something very important, and we talk about new retail stores that we do here. Frankly, it really, we're not looking to cannibalize any of the great partners we have here in the States. But, where we don't have great opportunities for distribution partners outside the U.S., it really allows us to galvanize our team here and articulate a point of view of how we expect to show up everywhere consistently around the globe. So we'll continue to do that more and more and get better and better at it.

Michael Binetti  
*UBS Securities LLC*

Q

So, if I reflect back on the Analyst Day last year, you pointed to 12% operating margins over three years as a target with – and laid out a lot of the investment opportunities ahead. Your guidance for 2015 implies the margins will be flat next year. That seems to imply that the margins will begin to expand pretty rapidly after 2015. Can we just talk for a minute about your longer term thinking on those targets, given the updates you helped us with today?

Brad Dickerson  
*Chief Financial Officer*

A

Yeah, Michael, I mean, our June 2013 Investor Day guidance really was a dollar amount, so we were looking at \$4B revenue guidance and \$480mm operating income guidance. Obviously, that implied the 12% operating margin, but I think the more important number was the operating income number. And that's really the way we've been talking about our business over the last couple of years, and obviously as we're guiding to, is that we're really focused on making the right investments to continue to sustain this great top line growth rate going forward.

And we're less focused on the operating margin percentage as we are making sure that we're having a good healthy growth rate in operating income dollars. So, that's something we wanted to really point out is that that the Investor Day guidance really was a dollar number, not necessarily a rate, that a lot of people are implying.

So as we look forward – again guidance was a flat operating margin. It's a consistent theory, same story of – we have to make sure that we balance the desire for us to continue to grow our top and bottom lines – but also balance that with the investments we need to sustain our growth. So, there's things like International, Connected Fitness and Retail that we're talking about continuing to invest more in; it's important for us to continue to sustain that growth through those investments.

We've also talked about, if results come in better than we plan, either Q4 this year or in 2015, that we'll be opportunistic in areas of SG&A and look to invest more, to either give us more confidence in our near-term growth or help us in longer term growth potentially also. So, I would be less focused on the operating margin percentage than the growth rate. Obviously, the growth rate in operating income is a much bigger percentage for us than the operating margin percentage, and that's what we're focused on.

Michael Binetti  
*UBS Securities LLC*

Q

Okay. And If I could just ask one quick follow-up, Brad. Could you clarify that for 2015 you're thinking the gross margins – will they be flat y-over-y or the gross margin improvement will be similar to 2014?

And then if you could just talk about some of the push and pull on that number for the next year, we've heard some competitors talk about input cost and material cost lower. You've got a number of pricing and mix

initiatives, but a lot of noise around the business mix with the structures internationally. Maybe just a few of the broad brush strokes we can think about for the model next year?

Brad Dickerson

*Chief Financial Officer*

A

Sure. Sure. And so this is a little tough when you are at this time of year because we're guiding to five quarters out basically right now. We have some good visibility to the front half of the year. We still have a lot of work to do and gain visibility of the back half of the year. But in general, we think it's the full year gross margin rate for 2015 will improve over 2014, similar to the improvement we're seeing in 2014 over 2013.

At a very high level, the puts and takes of gross margin, similar story I think than what you're hearing is that there is going to be definitely some favorability just in general margins overall through our supply chain efforts, through whatever might help – there might be out there in input costs. But we'll also have some things working against us. FX has been starting to work against us a little bit here as we move to back half of the year, and we expect that might work against us a little bit next year, too. Although not a huge factor in working against us it definitely is a factor, relatively to our size of our business overseas.

You also have the International business, which will continue to grow at a healthy rate next year, and again a lot of that being distributor type businesses comes at a little bit of a less gross margin than the wholesale business. So that will have a little bit of a negative impact too. Those are probably the big broad based strokes, but again, that overall improvement in 2015 should look similar to the improvement you've seen y-over-y in 2014.

Sam Poser

*Sterne, Agee & Leach, Inc.*

Q

I just have a couple of questions about 2015. Given what I would expect to be the continued growth in your International business, accelerated growth there, how do you view that 22% from, as North America vs. International, and how should we think about the tax rate next year?

Brad Dickerson

*Chief Financial Officer*

A

Sam, on the growth rate, so a couple of things to consider here, and again going back to my comment from Michael's question on we are guiding out five quarters here, so as we get further out on that guidance the visibility's still a little tougher. But when you look at the growth rate of 22% next year a couple of things to take into consideration. On the International piece, obviously we're still going to have a very, very healthy growth rate next year. But comparing that growth rate to 2014's growth rate you've got to take into account the fact that we launched a lot of markets this year in 2014, some distributors in places like Hong Kong, Taiwan, Australia, New Zealand, Singapore, along with bringing our Mexico distributor in house to a wholly owned subsidiary, and obviously also launching markets like Brazil and Chile. So we'll be obviously comparing against those launches in 2015 vs. 2014, but to your point, we are absolutely planning it to be a very, very healthy growth rate in International, just not quite the growth rate of 2014. Also, when you take into consideration – the other piece I think to take into consideration I would say is probably more the North America DTC business, a little bit of the wholesale business too, but more the DTC business. And again, this goes back to the fact that a very very important data point for us in Q4 2015, especially in our DTC business, is how do in Q4 2014, and we're not through the quarter yet this year. So we talked about our approach to how we're planning 2014 fourth quarter, relative to coming off the weather help last year, and the supply chain improvements last year also. So when we look at that, let's see how we get through Q4 this year, get to the January earnings call, that'll be a really big important data point that'll help us determine how Q4 2015 looks. So I think those are the two areas that if you ask what are probably the biggest questions around what's changing in your growth model in 2015, those would

be the two areas I'd point to the most. And I'd also probably two areas I'd point to relative to, if things can work in our favor could you see upside, those would be the areas I'd expect, if we did see upside, we'd probably see them in those two areas more or less. Yeah.

Sam Poser

*Sterne, Agee & Leach, Inc.*

And the tax...

Q

Brad Dickerson

*Chief Financial Officer*

Yup.

A

Sam Poser

*Sterne, Agee & Leach, Inc.*

...are you considering to stick with a 40% tax rate, or I mean would it be a little bit less, just because the International business is going to grow outpace the growth of the U.S. business?

Q

Brad Dickerson

*Chief Financial Officer*

Yes, you're right. I think what start to see as we move forward here is some of these international markets in places like Europe and in China, we expect to be closer to breakeven as we get in to 2015, we'll still be have some losses in some of the newer markets like Latin America, but the benefit of starting to get towards profitability and achieve profitability in these markets will help our tax rate absolutely.

A

So we are still again trying to roll up the numbers for next year, but the anticipation would be because of that International business and improving on the bottom line of the International business that you would expect the tax rate to come down. I don't have the exact number yet, but you should expect it to come down from 40%

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