

28-Jan-2016

Under Armour, Inc. (UA)

Q4 2015 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Thomas D. Shaw
Director-Investor Relations

NON-GAAP FINANCIAL MEASURES

- In addition, as required by Regulation G, we need to make you aware that during the call, we will reference certain non-GAAP financial information specifically currency-neutral net revenue growth
- We provide a reconciliation of this non-GAAP financial information in our earnings release, a copy of which is available on our website at, uabiz.com

Kevin A. Plank
Chairman & Chief Executive Officer

BUSINESS HIGHLIGHTS

Opening Remarks

- While this earnings call is to report on our 2015 fourth quarter and the past year as a whole, I want to focus for a moment on the year ahead
- This year, 2016, is Under Armour's 20th year in business
- It's an incredible milestone for any company
- And for us, it means a few things
- It means that the next-generation entering the workforce doesn't know a world where Under Armour didn't exist
 - This generation doesn't recognize us as the underdogs, but as we always was

- It means that we are not a passing fad or a flavor of the month

Interlocking UA Logo

- The interlocking UA logo has been a globally recognized symbol for being aggressive, young and fearless
- It means we are a brand that resonates with athletes, all athletes, and we will continue to thrive because we remain as humble and hungry as we were 20 years ago, with plenty of room left to grow

Net Revenues

- And with that, our scoreboard remains strong
- We are entering this milestone positioned for success, capping off the past year with yet another solid finish
- Total net revenues for Q4 were up 31%, marking our 23rd consecutive quarter of 20% plus net revenue growth

Weather Condition

- And since this call is about our most recent fourth quarter, let me throw out a few more numbers for you that are fourth quarter related. 36%, 34%, 26%, 35%, and 31%
- Those are the percentages we have grown in each of the previous five fourth quarters
- Each year around this time, weather inevitably plays part of the conversation, and each year we answer those who doubt us with extremely strong growth numbers in Q4
 - Was it 72 degrees on the East Coast this past Christmas? It was
 - Did it affect our business in the way some thought it would? No, it did not
- Because here in the U.S. where we currently do the majority of our business, we know that football will be played in the fall, basketball will be played in the winter, baseball will be played in the spring, and like soccer, personal health and fitness is a year-round all-weather interest
- Our business is more diversified than it's ever been, we do not let weather play a decisive role in dictating our success

OUTLOOK.....

- As we move into 2016, we have become a global brand capable of meeting athletes' needs from head to toe
- In Q4, we posted strong gains across our business illustrating the broad-based strength in demand for our brand with:
 - Apparel growing 22%
 - Direct-to-Consumer growing 25%
 - International growing 70%
 - And Footwear growing a whopping 95%

Apparel

- While our growth drivers have not changed since we went public more than 10 years ago, these numbers show how diverse our portfolio has become and reinforces the continued success of our largest category, Apparel
- 10 years ago we were \$281mm company, with Apparel representing 93% of our revenues and Compression representing 64% of the entire business

- Today, our Apparel business represents 71% of our revenues, and Compression is less than 10%
- We closed 2015 with more balance and breadth of product across our businesses
- Men's, Women's and Youth driving our Apparel business to over \$2.8B from just the \$260mm it was a decade ago
- In Q4, Apparel growth of 22% shows cases that our brand has products for all seasons and temperatures
- And perhaps more importantly, that today our athletes have the complete head-to-toe assortment available to them in more channels globally than ever before

Direct-to-Consumer Business

- 10 years ago, our Direct-to-Consumer business represented 6% of our net revenues consisting of a single website and just four domestic Factory House stores
- Today, our Direct-to-Consumer business represents 30% of net revenues made up of 25 global websites and nearly 400 Under Armour-owned and partner retail doors around the world
- It's impossible to not talk about the strength of e-commerce when we look at our Direct-to-Consumer business
 - This business continues to be on fire, not only in the United States, but also around the world
- In China, on Singles' Day, this past November, we had our first \$1mm revenue day online, while in the U.S. mobile has grown to almost 50% of the traffic to our site and represented 23% of e-commerce revenues in Q4
- Consumers continue to look for us in multiple places, and we will be wherever they are, whether it's on a device or in physical doors
- Globally, we continue to drive both awareness and revenue growth as we expand our retail footprint outside the United States closing out 2015 with almost 3 times as many doors in total from just a year ago

International Business

- 10 years ago, we'd just entered Europe, and our International business was \$6mm, primarily driven by our partners in Japan
- Today, International has become almost \$0.5B business with our brands being sold in more than 60 countries
- Last week, I visited our Amsterdam office that has served as our European headquarters for the past 10 years located in the historic Olympic Stadium where the energy and enthusiasm has me more confident in our team and their ability than ever before
- In 2015, every region, every category, and every channel exceeded our plans for our International business, driving 70% growth in Q4, and 69% growth y-over-y
- Two years ago, our International business was 6% of revenues
 - Today, it is 11%, and by 2018, as we said at our Investor Day, we expect it to be 18%
- Our brand certainly translates
- 10 years ago, we had not sold a single pair of shoes

Footwear

- Today, Footwear represents 17% of our business closing in on \$700mm in revenues
- This past quarter, our Footwear revenues grew 95% driven in part by the success of our expanded running line which will feature eight different offerings all over the \$100 price point compared to the four lines offered in the previous year

STEPHEN CURRY'S SIGNATURE BASKETBALL SHOE LINE

- Also driving our growth, and more importantly, creating an incredible connection with our young consumer, is our Stephen Curry's Signature basketball shoe line that launched almost a year ago today
- The sell-through on the Curry Two was like nothing we've ever seen before, the same words that people tend to say after watching Stephen play live
- We're just beginning to see what partnering with the right athletes like Stephen Curry can do for our business
- It's difficult to underestimate the power of having the best sell-through of any Signature basketball shoe this past season
 - It clearly lifted our brand in the mall channel and positioned us for aggressive growth, not only in Signature, but overall, with this most important consumer base

PREMIUM FOOTWEAR

- Footwear, and to be clear, premium footwear continues to be an accelerator to our top line and a huge part of our growth story
- With our sights set on building \$1 billion-plus Footwear brand, it is becoming a bigger and more important component of our business, and the result will be a more balanced blend of Apparel and Footwear within UA posting 57% growth in Footwear for the full year in 2015 is evidence of our ability to resonate with the consumer and provide them with a breadth of products unmatched in years past
- The strength of our Footwear product coming from our expanding team of designers and developers, helped us elevate our business above \$100 at retail, by 1000% this past year
 - And we're even more excited and proud of the product that is coming out in 2016

Basketball Business

- We are seeing what Stephen has done for our basketball business; what basketball has done for our Footwear business, and from there, what Footwear has been for our brand
- The story is being told in our numbers, but is also being told in the courts, fields and pitches around the world
- Show up at any Golden State Warriors game, home or away, it doesn't matter, and you'll see that thousands of people who show up early just to see Stephen Curry's warm-up routine
 - That, as I have described you before, is the power of sport

MVPs

- Speaking of our MVPs, we are continuing on last year's theme of UA ambassadors dominating their respective sport
- Thanks to our roster of athlete to continue to win on the world's biggest stages
- Since the last time we've spoken, in baseball, Bryce Harper of the Washington Nationals was named the major-league baseball MVP internationally
- In tennis, Andy Murray won the Davis Cup for Britain for the first time in 79 years
- And in boxing, Canelo Álvarez became the WBC Middleweight Champion of the World with his victory over Miguel Cotto
 - They joined Stephen, Jordan, Misty and others in our Year of Champions solidifying UA as the home for winners

SUPER BOWL

- Now, with the Super Bowl just over a week away, we will see yet another UA MVP, Cam Newton, compete at the highest levels of sport while representing our brand
- Cam has been a critical driver of our Footwear success with the Highlight Cleat and the Super Bowl will introduce him to a brand new set of consumers
 - It is a platform where companies pay \$5mm to air a simple 32 TV spot during the broadcast, while our guy will wear his UA cleats throughout the entire three-plus hours of the game

Key Personnel Announcement

- And finally, we ended 2015 with a key personnel announcement
- Last month, we announced Brad Dickerson's successor as CFO will be Chip Molloy
- Chip comes to us with significant financial executive experience in the consumer retail sector having served as EVP and CFO for PetSmart from 2007 until 2013
- And where in 2011 he was named Institutional Investor's CFO of the Year for Specialty Retail
- Chip is a Maryland native and a graduate of one of our partner schools, the United States Naval Academy
 - He also graduated from Navy Fighter Weapons School or Top Gun as it is known, where he served for 15 years in the United States Navy
 - With my new partner in place, Chip will work together with Brad over the next month to ensure a smooth transition

Consumer Electronics Show

- So that's how we closed 2015
- Now, let's talk about how we kicked off 2016
- We started this year off with a bang at the Consumer Electronics Show in Las Vegas unveiling a suite of products that will change the way athletes live
- Many of you have heard me talk about Connected Fitness on these calls, or at our Investor Day
 - In the past three weeks, we've seen the vision of this platform truly come to life

Launch of UA Record

- First, we announced the launch of UA Record, one of our four mobile app platforms that collectively are earning more than 130,000 new users a day since just the beginning of the year
- UA Record is the digital dashboard that displays everything you need to know about your health in four quadrants; sleep, fitness, activity and nutrition
- Combined with your bodyweight and our own cognitive measurement of how do you feel, it collects and displays a complete picture of your health in the easiest, most simple way possible

Under Armour HealthBox

- Second, we introduced the Under Armour HealthBox, the world's first complete Connected Fitness system which consists of a band, a heart rate strap, and a smart scale, all in one package
- Building partnership with HTC, these tools work together to capture data pertaining to your health and fitness
 - And again, doing it in the easiest most simple way possible

- Because music is such an important part of how people exercise, we also partnered with Harman Kardon, JBL to launch Bluetooth-enabled wireless headphones, including an updated version to be released later this year that will also read heart rate in lieu of a strap

Smart Shoe

- Finally, we launched our first smart shoe with the Gemini 2 RE, which stands for Record Equipped
- This shoe tracks every step and uploads data including time, date, duration, and distance directly into our platforms
 - This cutting-edge footwear provides an untethered experience and allows the athlete to run device-free
- There is no start or stop button
- When the shoes are on your feet, it's ready and tracking
- And one of the cooler features of this shoe is that it tracks its own lifespan and will send a notification when it's time for a new pair
 - All of these products feed into UA Record as well as more than 400 different connected devices to create the ultimate open platform destination to measure your health and fitness

Partnership with IBM

- Additionally, we announced our partnership with IBM in their Watson platform to help build the insights capability for Under Armour Record
- Wearables have been effective in telling you how many steps you took, or the hours you slept, but they haven't been effective in giving you proactive information on how to utilize that data to make your life better
- Put simply, there was no call to action until now
- IBM's Watson, a platform that executes cognitive thinking will provide personalized insights in real-time to the user based on the information we collect through UA Record, and it'll take the experience and service to a whole new level
- By adding Watson's insights to UA Record, we deliver direction to help you reach your personal goals, whether you want to lose 10 pounds or simply just feel better
 - This is what differentiates UA Record from the rest of the fitness tracking apps, and what gives us confidence is the consumer experience we are building to help change the way athletes live

Connected Fitness

- Now, let me complete the vision for Connected Fitness
- Beyond enriching lives, it will propel our business forward
- This is not a tech initiative
- This is a digital transformation, and therefore, a business transformation for Under Armour
- Before Connected Fitness, we only had retail transaction information for less than 10mm people
 - That's stores and e-commerce combined

Daily Activity Level Data

- Now, we have daily activity level data from our community members who logged nearly eight billion foods and two billion activities last year alone

- Not only do we have people going into our stores and visiting our e-commerce sites, but we also have a deeper understanding of our consumer based on information collected using Connected Fitness, including, sleep, fitness, activity, nutrition, weight, and how do you feel? This gives us an unparalleled view of their life and needs
 - I refer to it as our math house during our last call
 - But we're also calling it the single view of the consumer

Partnership with SAP

- All of this is possible because of the near 10-year partnership we have established with SAP
- The single view of the consumer is something we're building with the team at SAP that combines global point-of-sale, e-commerce and transactional information through a single sign-on capability together with our Connected Fitness business to create an insight engine that will inform and guide our decision to help grow and scale our brand
 - This will build on our existing SAP platform as we double down and continue to make big bets with big partners
 - We believe that this unique technological advancement will position UA as a best-in-class real-time digital enterprise

Innovations

- At Under Armour, we focus on creating products you don't know you need yet, but once you have it, you won't remember how you lived without it
- Just like our very first T-shirt

MICROTHREAD

- Some great examples of this are the types of innovation we'll bring to the market that will further elevate and diversify our product and continue to distinguish Under Armour
- For example, this year we will launch Microthread, a new cooling technology comprised of Elastomeric Thread that dries 30% faster and is 70% more breathable than similar Lycra construction

REACTOR, COOLSWITCH AND SLINGSHOT

- Then on the heating side, there's Reactor, an insulation that combines warmth and breathability to keep you comfortable without overheating
- This is in addition to many other new innovations like CoolSwitch
- And on the Footwear side, Slingshot
- New innovations, like the ones I just mentioned, bring new opportunities for growth which lead to revenue-driving platforms
- Our goal is that these new innovations will develop as strongly as some of our key revenue-driving platforms from prior years, like:
 - ColdGear Infrared
 - An armor in Apparel
 - And the Signature Curry line in Footwear
- Our relentless pursuit of innovation is just that, relentless; it never stops

CLOSING REMARKS

- When I first began Under Armour 20 years ago, I didn't set out to make just another T-shirt
- I set out to make a better T-shirt; one that solves a problem and gives whoever wears it an advantage
- With our Connected Fitness business, we're not releasing just another fitness app or tracking device, we're building a complete ecosystem to manage your health and fitness with actual insights to make you better
- Finding a better way has been a running theme for us over the past 20 years, whether it's through the products we offer, or the way we operate our business
- And we'll keep finding a better way for another 20 years, because we are just getting started

Bradley James Dickerson

Outgoing - Chief Operating Officer & Chief Financial Officer

FINANCIAL HIGHLIGHTS

Net Revenues

- I would now like to spend some time reviewing our fourth quarter and full year 2015 financial results, followed by our updated outlook for 2016
- Our net revenues for Q4 2015 increased 31% to \$1.17B
- On a currency-neutral basis, fourth quarter net revenues increased 33%
- For the full year, net revenues increased 28% to \$3.96B which compared to our most recent full year guidance of \$3.91B
- On a currency-neutral basis, full year net revenues increased 31%

APPAREL

- Focusing on Q4, we grew Apparel net revenues 22% to \$865mm compared to \$708mm in the prior year's quarter
- With our efforts to building more diversified business, we posted impressive growth across channels and categories despite well-documented weather challenges
- Our focus on building brand equity around the globe through elevated product and experiences was evident in the strong growth of International and Direct-to-Consumer in the quarter
- We also saw success around our continued expansion in key product categories like:
 - Training
 - Running
 - Golf
 - Team sports
 - And basketball

FOOTWEAR AND ACCESSORIES

- Fourth quarter Footwear net revenues increased 95% to \$167mm from \$86mm in the prior year
- Broad-based Footwear strength has been the consistent theme in 2015 though the exceptional performance of our Curry Two Signature basketball line was clearly Q4 standout
- Our Accessories net revenues during Q4 increased 23% to \$97mm from \$79mm last year primarily driven by continued strong demand for our line of bags

GLOBAL DIRECT-TO-CONSUMER

- Our global Direct-to-Consumer net revenues increased 25% for the quarter representing approximately 36% of net revenues
- In global retail, we ended Q4 with 191 owned stores including 161 Factory House stores and 30 Brand House stores

RETAIL AND E-COMMERCE BUSINESS

- With our retail business still heavily weighted to North America Factory House stores we did experience some of the similar weather-related challenges as our overall Apparel business
- However, our strong e-commerce business continues to diversify how we reach global consumers, and we continue to capitalize on our investments in mobile and international where we more than doubled our in-country websites during 2015

NORTH AMERICA

- Looking at our regions, North America net revenue increased 26% to \$1.02B in Q4, compared to \$808mm in the prior year's quarter
- On a currency-neutral basis, North America net revenue increased 27% accelerating from the growth rate posted last quarter despite the warm weather backdrop
 - This strength demonstrates the diversity of our product mix including accelerated Footwear growth and consistent Apparel performance, as well as channel mix between our wholesale partners and our Direct-To-Consumer businesses

INTERNATIONAL

- International net revenues increased 70% to \$139mm in Q4 and represented 12% of total net revenues
- On a currency-neutral basis, International net revenues increased 85% for the period

EMEA REGION

- In the EMEA region, our heightened focus on the UK and Germany continues to drive momentum in these two core markets
- While growth remained strong across all channels, our e-commerce strategy including nine new in-country sites launched in 2015 is playing a key role in broadening our reach and awareness in the region

ASIA-PACIFIC AND LATIN AMERICA

- In Asia-Pacific, we continue to see tremendous demand for the brand driving triple digit growth across greater China and our Southeast Asia distributor led by the success in expansion of our Brand House stores
- And in Latin America, we are building momentum with many of our recent country expansions like Chile, more than offsetting the well-documented macro challenges in Brazil

Gross Margin Performance

Q4

- Moving on to margins

- Fourth quarter gross margins contracted 190BPS to 48% compared to 49.9% in the prior year's period
- The following factors were the primary drivers during the quarter:
 - First, sales mix negatively impacted gross margin by approximately 90BPS in Q4 vs. the prior year, primarily driven by the continued strong performance of our Footwear business
 - Second, the continued strength of the U.S. dollar negatively impacted gross margin by approximately 80BPS vs. the prior year
 - Third, higher inventory liquidations negatively impacted gross margin by approximately 30BPS

FULL YEAR

- Before I move on with other elements of the quarter, I want to provide a quick snapshot of our gross margin performance for the full year
- Our full year rate in 2015 declined 90BPS to 48.1% compared to 49% in the prior year's period
 - Of this 90 basis point decline, 70BPS resulted from the continued strength of the U.S. dollar

HEADWINDS

- While we also faced additional gross margin headwinds from adverse sales mix impact given the strong growth of our International and Footwear businesses, higher inventory liquidation, specifically in Q4, and higher freight expenses from port disruptions and efforts to better service our business, we were able to offset most of the non-currency related pressure through more favorable product margins in both our North America and International businesses

SG&A Expenses and Marketing Costs

- Selling, general and administrative expenses as a percentage of net revenues leveraged 80BPS to 32.8% in Q4 2015, from 33.6% in the prior year's period
- SG&A details for Q4 are as follows
- Marketing costs decreased to 7.9% of net revenues for the quarter, from 8.4% in the prior period, primarily reflecting the timing of our global marketing campaigns
- Other SG&A costs decreased to 24.9% of net revenues for the quarter, from 25.2% in the prior year, driven primarily by lower incentive compensation expense

Operating Income

- Operating income for Q4 increased 21% to \$178mm compared with \$146mm in the prior year period
- For the full year, operating income increased 15% to \$409mm, compared to our most recent guidance of \$408mm
- The two Connected Fitness acquisitions we made in 2015 negatively impacted full year operating income by approximately \$23mm

Interest & Other Expense and Tax Rate

- Interest and other expense in Q4 increased to \$6mm compared with \$4mm in the prior period, primarily reflecting increased interest expense associated with the financing of our Connected Fitness acquisitions
- Our fourth quarter tax rate of 38.4% was consistent with the prior year

Net Income and EPS

- Our fourth quarter net income increased 21% to \$106mm compared to \$88mm in the prior period, while our diluted EPS increased to \$0.48 from \$0.40 in the prior year's period
- Full year diluted EPS increased 11% to \$1.05 compared to \$0.95 in 2014
- The \$1.05 EPS in 2015 is inclusive of \$0.10 impact from the two Connected Fitness acquisitions we made in 2015

BALANCE SHEET

Cash and Cash Equivalents

- On the balance sheet total cash and cash equivalents for the quarter decreased to \$130mm compared with \$593mm compared at December 31, 2014
- Accounts receivable increased 55% to \$434mm compared with \$280mm at December 31, 2014, primarily related to the timing of shipments within the quarter

Inventory and Debt

- Inventory for the quarter increased 46% to \$783mm compared to \$537mm at December 31, 2014
- Back at our Investor Day in September, and again on our third quarter earnings call, we discussed elevated inventory growth from the 36% rate posted in Q3
 - This growth is largely a result of our strategy to focus on delivering our products to our consumers in a more timely manner and thus drive higher fill rates
 - This strategy includes flowing product to our customers earlier to meet key seasonal floor set dates, as well as strategic investments in Auto Replenishment products
 - While these efforts are driving much of the elevated inventory growth rates the near-term, they are also delivering meaningful improvements in our service levels y-over-y in support of our revenue growth
- In addition, the recent weather trends have led to some excess inventory creation, which we will continue to work through across our normal liquidation channels during H1 2016
- Total debt increased to \$669mm as compared to \$284mm at December 31, 2014, primarily reflecting the financing of our two Connected Fitness acquisitions

Cash Flows and CapEx

- Looking at our cash flows, our investment in CapExs was \$85mm for Q4, compared to \$59mm in the prior year's period, driven primarily by our investments in our global headquarters in Baltimore, and our SAP platform
- Full year CapEx were \$325mm compared to our prior guidance range of \$350mm to \$360mm, primarily due to timing of our investments

2016 OUTLOOK

Net Revenues and Operating Growth

- Now, moving on to 2016
- Based on our current visibility, we expect 2016 net revenues of approximately \$4.95B, representing growth of 25%, and 2016 operating income of approximately \$503mm, representing growth of 23%

- These growth rates remain in line with the long-term growth rates laid-out at our Investor Day last September, and are also consistent with our previous guidance on our third quarter earnings call

Interest Expense and Tax Rate

- Below the operating line, we expect interest expense to increase to approximately \$35mm in 2016, as we expect to increase debt levels to support our business and look for opportunities to refinance our debt with more long-term financing
- In addition, we expect the full year tax rate approximately of 38.5% and fully diluted weighted average shares outstanding of approximately 223mm

Net Revenues

- Now, I'd like to provide more color on our expected results for 2016
- First, with net revenues, we currently anticipate the growth rate for H1 to be above our expected full year growth rate
- Specifically, looking at Q1, we expect the growth rate to be in the high 20% led by many of the same factors from our fourth quarter, including:
 - Strength in Footwear and International
 - Higher planned inventory liquidations
 - And strategies to better service our customers y-over-y
- As is typical at this point in the year, as we gain better visibility on orders, specifically for Q4, we'll provide updates on our progress on future calls

Gross Margin

- Next, on gross margin, we expect a relatively consistent y-over-y rate in 2016 as compared to 2015
- For Q1 2016, we anticipate similar y-over-y dynamics as our just completed fourth quarter results, including higher liquidations declared through excess inventory, along with continued currency headwinds
- Thus, we expect our largest gross margin headwind for the year during Q1
- We are planning an approximate 150BPS decline y-over-y

SG&A

- Shifting to SG&A, we expect deleverage expenses in 2016 as our focus remains on making the right investments to drive our long-term global success
- Looking at the marketing portion of SG&A, we expect to continue to invest across our sports marketing assets, global brand campaigns, and retail marketing
- In other SG&A, we are focused on key brand enhancing initiatives that we outlined at our Investor Day, such as Connected Fitness and Global Retail, as well as strategic business areas, including category management and innovation
- With a higher top line growth rate currently expected in the front half of the year, we expect modest overall SG&A leverage in the front half of the year, and modest deleverage in H2

CapEx

- Looking at CapEx in 2016, we are currently planning to invest at the midpoint of our 8% to 10% of net revenues target range outlined at our Investor Day
- Our investments include our global headquarters, as well as our expanding SAP platform that will serve as the architecture for our future growth, while also driving our insights engine to power our single view of the consumer that Kevin spoke about

Inventory

- Finally, inventory
- As we previously stated, our focus on delivering our products to our consumers in a more timely manner and improving our customer service levels
- As a result, we continue to expect inventory growth rates to be slightly elevated above revenue growth rates, in the front half of 2016, with growth rates expected to level off and be in line with revenue growth in the back half of 2016

CLOSING REMARKS.....

- Before we turn it over to Q&A, I wanted to take just a moment to express my thanks to Kevin and the team
- It has been a real privilege and honor over the last 11 plus years to work for Kevin and this great brand, and to have been part of such a strong leadership team and an amazing group of teammates that now tops more than 12,000
- In addition today marks the 37th UA earnings call I have participated in
- And I would like to thank the analysts and Investors on the call today, many of whom I spend time with over the years telling the Under Armour story
- I'm excited to pass the CFO reins to Chip, a proven leader, and I am confident that Chip and the talented team supporting him will continue strong the growth for this great brand

QUESTION AND ANSWER SECTION

Matthew J. McClintock

Barclays Capital, Inc.

Q

Brad. My question is, Kevin, there seems to be a lot of debate in the marketplace on several of our strategies, and you kind of hit upon some of this in your prepared remarks. But in particular, the competitive positioning of both your Footwear and your Women's business, and then also the potential maturity of the domestic business. I was just wondering if you can give us your updated thoughts on those topics? Have there been any strategic changes that we should be thinking about? Thanks.

Bradley James Dickerson

Outgoing - Chief Operating Officer & Chief Financial Officer

A

Hey, Matt. This is Brad. I'm going to start that question and let Kevin follow-up. I think one of the things that's important, there's a lot of noise this time of year with the weather and so forth in Q4. And I think it was important, especially in Kevin's prepared remarks, around the track record we've had with 23 straight quarters above 20% growth. And then even in Q4 in the last six years a CAGR in Q4 about 32% growth. And then planning our business in 2016 at 25%. There's a lot of growth in a multitude of places.

And I think there's – we've talked about this in the past too, I think there's a little bit of a danger in looking at some of the data sets that are out there, specifically a data set like SportScan, and it can be challenging looking at our business relative to something like SportScan where that data is only – is capturing actually less than 40% of our business specifically in Q4. It's missing key data inputs like our Direct-to-Consumer business, our International business and it's actually extrapolating some of our key accounts that are pretty large like the DICK'S and the Foot Locker. And it obviously also includes accounts that we do not service.

So utilizing that data as a proxy for our success, especially in Q4, it can be little bit challenged, as we've seen obviously, because we posted another strong quarter and our Apparel growing over 20%. So I just wanted to start an answer with just, let's be careful on some of those data sets that are out there, and understand how they relate to our business in particular.

Kevin A. Plank

Chairman & Chief Executive Officer

A

Thanks, Brad. And I think it's important just to put some context, so let me just take a couple of minutes and address your questions. So let me begin with Footwear, then I'll do North America, and then I'll close with Women's. I think the best place for us to start is about growth. It goes without saying is that any these questions come down to what does our growth look like. And in Q4 with 31% growth and frankly marking our 23rd consecutive quarter of 20% plus top line revenue growth, our growth story is strong, we remain a growth company, and none of that is wavered.

But I also want to give you some context beginning with Footwear about just how our business has changed since really just 2012 and evolving into a true Footwear brand. Remember 10 year ago, we celebrated, or we went public, we hadn't even launched our first shoe until we launched football cleats in June of 2006. So we've come a long way from there. So beginning with Footwear, just going back to 2012 was 13% of our business, and since then we've added, I don't know, over a couple billion dollars of revenue, and today Footwear is nearly 17% of our business, representing a 42% CAGR over the last just few years.

The diversity, again back in 2012, our mix of product was 33% of our Footwear in 2012 was cleats. Cleats today are down to 22% with plans of being the number one shoe in the market in football, and I'll get back to that in just a second.

In my prepared remarks I mentioned that doubling our running styles over \$100, and I just want to make for context, and I also talked about increasing over 1000%, across all of our Footwear we have more than tripled our Footwear styles priced over \$100, while quadrupling the volume. Like, Footwear for us couldn't be more and better positioned to be truly a premium Footwear brand.

And the best way for me to articulate that, let me just talk about basketball for a second. First of all we have the right athlete in Stephen Curry, and he is, without question, the number one basketball player on the planet today. We've got the right product that's led by the Curry Two, and to be clear, we launched the Curry One just a year ago at \$120 price point. We then came back on a tour that we did with Stephen in the fall in September, and we launched the Curry Two at \$130 price point, and we've learned a tremendous amount over the last year of what we can do, and primarily what we can do in Signature basketball product, and feel incredibly bullish about our ability to continue to raise ASPs going forward.

In Youth, we've heightened our focus to capture the next athlete, driving nearly 50% CAGR just since 2012 in Youth Footwear. And again, building out these departments, building out the teams has never been more important. And speaking of teams, we've more than doubled the size of our Footwear team to nearly 230 people including the recent addition of a dedicated women's team. And I want to be clear, we didn't have a dedicated women's team in 2012, let alone 18 months ago. So we are certainly not done. We continue to build that team out. And growing our presence in Portland with our new headquarters that we'll be opening [ph] soon (40:50).

So these investments in our team, they all mean that these trends are expected to accelerate in 2016. And again, that's off a whopping 95% in the quarter, and 57% for the full year. So some of the ways we expect to leverage that success. First, expanding Curry throughout the upcoming All-Star Game, the playoffs, hopefully the finals, and then the Olympics later this fall. And then ultimately, we'll elevate even further when we launch the Curry Three later this year.

We're also this year going to be entering the Golf category with the most exciting player on the planet as well as the number one player in the world in Jordan Spieth, where we have a new line of Footwear that we'll be debuting around the Masters. In addition, we're going to be doubling our running styles priced over \$100 led by Slingshot and Slingride the knit offerings that we have. In 2012, we had just one. Today, we'll have more than eight over \$100.

We're also going to be doing things like debuting our first smart shoe, the SpeedForm Gemini 2 RE, which means Record Equipped. And that's going to be at \$150 price point, \$20 premium to the standard \$130 Gemini price point. And then as I mentioned a little bit earlier and back to our roots success of Cam Newton who will be playing next week in the Super Bowl wearing the Highlight Cleat that depending on where you look is the number one selling cleat in America at the highest price point continue to drive us toward becoming the number one America football cleat in the market. And again, a goal thought to be impossible back in 2006. So I want to say, it's a small category, it's domestic only. Our brand, our presence, our ability to drive ASPs have never been stronger in North America. And I believe that Footwear is the best example we have of how we are truly just getting started.

So let me take a second and just talk about North America. I want to level set the context of how our distribution is aligned. So often we're compared to our competition. Well, our largest competitor in North America has approximately 24,000 points of distribution just in North America. At Under Armour, we have 11,000, and we

have the ability to expand that, but we haven't. We've stayed committed to our sporting goods, to our mall, to our department stores channel.

And again, this doesn't make going anywhere else impossible for us, but it certainly makes it an opportunity, particularly as we add things like a new merchandising team which just joined. And frankly, we're just inputting Under Armour through 2015. To be clear, prior to 2015 we did not have a merchandising team. So our structure has changed, and frankly, it's evolved.

And we talked about North American growth. In Q3 in North America, we grew 25%. In Q4 in North America, we grew 26%. I don't know if I'd call that accelerating, but I'd certainly call it strong. So the way this is happening, one simple word, one simple phrase, when we innovate, we win.

Bringing new technologies and styles in 2016. I mentioned in my prepared remarks things like, CoolSwitch and Microthread in cooling. In the heating side, we have products like Reactor, a new price point at around \$200 that complements some of our current styles that we have. And also new product items like the Swackett which will elevate our fleece assortment. You'll start to see us move away from things like the Big Logo Hoodie that's been very important to us. But again, you'll continue to see us learn, and you'll continue to see us evolve to not just where the market's heading, but most importantly, where we're taking the market to.

As you think about North America, Footwear is such an extraordinary opportunity for us from the Signature Curry products, to running to kids. We had more styles at higher price points than ever before in 2015, and that will absolutely be the case in 2016. We've also become the number one brand in many places; most recently where we took that title was at Sport Chek in Canada. So across Apparel, Footwear, and Accessories, we are the number one vendor for Sport Chek, a very important sporting goods account. And we're closing on that in the majority, in many of our other distribution.

So premium storytelling. This is not just lip service. That we are committed to our existing distribution, our existing base. And so whether it's storytelling in the way we show up at retail in places like The ARMOURY with our partners at Champs with the blue chip shops that we're building at DICK'S Sporting Goods. We're going to continue to make investments in premium brand statements with our partners. And the way we can do this is that very well the first handshake that we have with that consumer will more than likely be a digital handshake, because across the Connected Fitness platform that we've implemented over the last two and a half years, we now have more than 90mm domestic athletes amplifying our message and driving access to the brand.

And finally, Direct-to-Consumer. Unfortunately, this is an area that the market doesn't have purview to until we're able to tell you our numbers. It's the place though that we typically have the ability to tell our pinnacle brand stories. Beginning with e-commerce, meeting the consumer where they want to be met, capitalizing on investments that we've made to leverage things like mobile trends which now is 50% of our fourth quarter traffic.

And in terms of retail, we added five new Brand House stores in 2015. Again, I want to emphasize, we are a wholesale manufacturer, but we do have this Direct-to-Consumer component that gives us a great complement to, again, meet the consumer where they want us. Adding five new Brand House stores in 2015 with roughly five to as many as eight planned in 2016, including looking back at the year, we launched our 30,000-square-foot flagship on the Magnificent Mile in Chicago. That really I think is one of the best examples of our brand we've ever opened anywhere in the world.

So to be clear about North America, we still see abundant opportunities across the continent. And as we said at our Investor Day in September, we believe that we will double this business by 2018. And we say all of this, recognizing and acknowledging, yes, we of course have places we can be better. We are certainly not perfect, but

we are learning every day and we are putting the team in to make that happen. And so we say all of this about our confidence incredibly humbly as well, is that we have work to be done.

So finally, let me just address Women's. This business, I want to be clear, is incredibly important to our accounts and it's important to us. And while we believe we have huge opportunity to get better, we delivered yet another quarter of double-digit growth in Women's, now approaching \$75mm in revenue. So 2014 was a year that we defined and we described as the year of the woman. We ignited this conversation on the marketing side with the female consumer that's really taken the brand to a new level of engagement and expectation. And we did that through people, through personalities; personalities like Misty and Gisele. But we also recognize that our product has got to meet that expectation. But what we learned is that she likes us, and she wants to have a relationship with the Under Armour brand.

And so you've seen our product evolve, and just as importantly, in 2015 for us, you watched our team evolve. As we've been investing in our foundation, we've been investing in our team. In not just any one individual, but throughout our product creation engine, our merchandising teams and our new category management with our new leader in Pam Catlett, who will be heading up our Women's management, who brings over 20 years experience in the business. This will all better enable us to create and deliver a 365 day a year experience for her.

2016 is about execution in both Apparel and Footwear. And to be clear, we didn't even have a Women's Footwear team just a little more than a year ago. So building out these resources for us to really capitalize on the opportunity where she, just like the men, want to dress toe-to-head. So we expect to see improved merchandised assortments across our premium distribution, and we also expect to continue to elevate our brand where women want us, in places like e-commerce. And to be clear, on e-commerce, Women's was our number one and largest selling and fastest growing category that we had; faster than Men's and faster than Youth.

So we merchandise correctly, we believe we will win. Listen, we understand that her expectations are incredibly high for us, and that's exactly where we want them to be. We firmly believe that our Women's business should be as we said for a very long time, at least as large, if not longer than our Men's business. Thanks, Matt.

Jim V. Duffy

Stifel, Nicolaus & Co., Inc.

Q

Chip, I look forward to working with you. A couple of questions on the Footwear business. First, as the business and key platforms gain scale, are you making progress on Footwear margins? And what does the arc of that curve look like? And then Kevin, can you maybe speak to the traction you're seeing with Footwear in international markets?

Bradley James Dickerson

Outgoing - Chief Operating Officer & Chief Financial Officer

A

Perfect. Yeah Jim, on the Footwear margins side, yes we're definitely seeing improvements in Footwear margins in general. Now, obviously even with those improvements, Footwear margins are well below our Apparel margins and we've talked about that consistently in the over the years. So we do anticipate still a lot of room on the Footwear side. A lot of that will come from our ability to sell, again, more premium pricing points specifically in categories like running and basketball, which are historically more – our higher margin products. So as they become a bigger part of our portfolio, that will help our margins from a mix perspective.

We've put a lot of investment and energy into the sourcing side of our business, in the development side of our business in Footwear also, so we're seeing some benefit there on the costing side. And I think as Kevin talked about too, the ability to utilize the strength of our brand in these categories too from a pricing perspective. So we

do see Footwear margins, they have improved from the last few years to today. We see them improving in the next few years also. But again, just want to caution that they will continue to be lower than our overall Apparel margins.

That being said though, as we also talked about in the past that you've got to keep in mind from an operating margin perspective, with the higher price points in Footwear, and higher ASPs in Footwear compared to Apparel, you do have the ability to level leverage SG&A a little bit better. So we do see in the long run, even though gross margins will improve in Footwear, but will be below Apparel, that our operating margins in the longer run should look pretty similar to our Apparel business.

Kevin A. Plank

Chairman & Chief Executive Officer

A

And following up on that, we do see the ability to continue to drive ASPs and improve margin by – through premium products as the way that we'll build it out. So, the one thing we've learned is, Malcolm Gladwell says, 10 years or 10,000 hours to perfect something, so I'm not sure that we've perfected Footwear, but we really feel strong about our position in the game right now. And that begins, of course, I think with the athletes that make it real, and that are winning in our Footwear, out on field, out on pitch, out on court, and whether it's Cam Newton, what hopefully he'll do in football in the Super Bowl last week, Jordan Spieth in Golf or Stephen Curry in basketball, as you talk about international we have no greater global ambassadors than the ones that we have there today. And as recently as this past week we also launched Dwayne "The Rock" Johnson that will be sporting Under Armour as his official brand of choice.

So what we've built in Footwear is impressive. But again, we think we still have room to grow, but some of the franchises that we built from Highlight, to SpeedForm, to Gemini, to Gemini Record, to the new Curry product, the Slingshot, the Bandit, I think we've done a great job of building, as I said, franchise businesses across the sports where we want to win. And that typically begins in running, and it begins in basketball. And so we love our positioning there, as I mentioned eight products above \$100, and again, hitting some of those sweet spots for the right distribution that meets, again, the consumer where they want to be met.

So I think we feel very bullish about what we're doing on the international front. And again, some of that evolution too Jim has been things like, we'd launch a product in the United States and then it was six months or a year later we'd launch it on a global basis. It's the ability truly, with Charlie and the team we have on the International side of building and launching those things the way we did it, we've done, I think we've demonstrated our ability to do, has really evolved our company.

A great example, again is, last year when I mentioned going on the Curry tour, the purpose of that tour was launching the Curry Two in China almost six weeks ahead of when we launched it here in North America. So I think that truly becoming a global business means that not being a North American company that sells things in other markets, but truly being a global business that has a global presence and a global position that sells things the same time equally. So we're evolving towards that, but we really like our progress and incredibly excited about where we're heading with it.

Omar Saad

Evercore ISI

Q

[indiscernible] (54:15) especially with everything going on. You kept mentioning premiumization, I think specifically to Footwear. Can you just dig a little bit deeper there, and then talk about does this translate over to Apparel at some point, we sort of see ASPs going up there? And then Brad, maybe you could comment on premiumization, maybe how it might flow-through gross margin over time, especially if you look at gross margin

excluding the mix shift drag and the FX drag and what are the really underlying gross margins going to do over time? Thanks.

Kevin A. Plank

Chairman & Chief Executive Officer

A

So let me start and then I'll let Brad finish up. So first of all, on the Apparel side is that, again, a majority of our business 70% plus of our business is still in Apparel. So it is our focus, it's our largest team here, and frankly it's where we've built our brand as innovators. And so some of the things that I mentioned on the call, Reactors, Swackett, CoolSwitch, some of the products that we have in the Apparel offerings, all that continue to support our existing ColdGear business. We effectively built the \$25 price point for HeatGear, and the \$50 price point for ColdGear, and since then we've been evolving.

So as we look, we are a premium brand and one of the other things that I mentioned, and I'll maybe go into a little more depth on, is just our ability now to have merchandising. And you asked about ASPs and price points, again, we didn't have a merchandising team in 2014. It was a category that we started building out for ourselves in 2015. And so 2015 for us is about building the team.

In 2016, it's about segmenting and playing it out in the market. And what that means is again having a right product, in the right place, at the right time. And truly having a team, this isn't just selling same styles to everyone on an equal basis, but being specific and differentiating between what we do in the mall vs. what we do in the sporting goods, let alone what we do at DICK'S Sporting Goods vs. what we do in one of our other accounts. And so, we will be incredibly thoughtful about that in a way that we drive.

As we look forward into 2017, we really see the ability to drive efficiency of really looking at pricing, and really looking at the ability for us to maximize and optimize things like margin. But also, again, making sure that it's with the right product and that it sells through is because some of the things that we've dealt with this year is bringing product in and having our floor set in time for January. And no one can predict things like what happened in this fourth quarter, but I think one of the things we're most proud of is that in spite of what happens with weather, we still have close to 31% top line growth. So we'd love that to see continue to translate and drive margin. It's one of our key barometers that we use here in the company. And I think frankly as Brad will tell you right now, we're doing a good job, but more importantly, there's a planning going forward. We continue to drive and demonstrate that premium position in the marketplace.

Bradley James Dickerson

Outgoing - Chief Operating Officer & Chief Financial Officer

A

Yeah Omar, on the second part of your question on margins in general, yeah, you're correct. In 2015, that was probably really evident relative to my prepared remarks, when you look at 2015 gross margins going backwards, 90BPS. And the large majority of that 70BPS coming from foreign currency impact. A lot of other things going on in the rest of that 20BPS.

But the fact of the matter is, we had some pretty strong headwinds in 2015 relative to air freight as we're looking at servicing our customers during the year, and the port disruption earlier in the year, mix we talked about a lot during the year. Footwear, International working against us from a gross margin perspective pretty significantly. And we were able to offset a lot of that just through our general increase and improvement in product margins, specifically on the Apparel side.

So as you look forward in 2016 and beyond, you should see continued improvement in places like our Footwear product margins, like our Apparel product margins. International, even to some degree as we go forward should

get better as the businesses in countries we do directly, whether it's through our DTC or through wholesale, become a larger part of our share vs. some of the distributors we do today.

So I think in all aspects of our business, you will see that improve over time. Mix will definitely work against us, because these businesses are still Footwear and International, still lower margin businesses. But to your point, our ability to improve those margins is great. And our ability to improve margins in Apparel is not only possible, but it's happening right now as we speak.

Kate McShane

Citigroup Global Markets, Inc. (Broker)

Q

A quick question, not to harp on weather, but I just wondered if you could give a little bit more detail about how you were able to mitigate some of the risk from the warmer weather? How you're going to be liquidating some of the inventory going into H1? And if there are any plans going forward about how to better, again, mitigate inventory risk from adverse one-time type events?

Bradley James Dickerson

Outgoing - Chief Operating Officer & Chief Financial Officer

A

Yeah Kate, this question has come up a lot over the last few years in Q4 specifically on weather. We've had some warm fourth quarters, some colder fourth quarters, and so forth. And our answer is pretty consistent. Over the last few years, there's obviously going to be a little bit of an impact of weather. There's no doubt about that. And it impacts our business too. And we said the last few years is probably a couple percentage points of growth impact relative to weather specifically, one way or the other, whether it's warm or cold. So yeah, there's no doubt in Q4 this year we had a little bit of that impact. And we talked about the fact of managing our way through that and liquidating some excess inventory and taking care of that also in the front half of next year, specifically in Q1.

But overall, from a top line perspective, it's really only a couple percentage points of growth one way or the other probably. And that – and again, when you look at specifically this fourth quarter, that was more of a North America dynamic. And places where you'd see it probably impact us the most would be our North America wholesale Apparel business and our Factory House business. But again, with the diversity of our product lines in Apparel, with Footwear's strong growth, International's strong growth, there's just much more going on in our business that offset some of those weather impacts, which again are probably a couple of percentage points of growth one way or the other.

So going forward, I think continuously being careful how we plan Q3, and specifically Q4 in years, not being overly optimistic on weather, but being prudent and putting ourselves in a position to be opportunistic if weather behaves for us, I think is really important. To the same extent, if weather doesn't behave, it will impact us a little bit, and we can manage our way through that, specifically with the strong Factory House channel we have.

Kevin A. Plank

Chairman & Chief Executive Officer

CLOSING REMARKS

- Yeah, thank you all for your questions today and for the opportunity to tell our story
- Again, we're incredibly proud of the company that's been built, and most importantly, the people that have built it
- So first of all, I want to welcome Chip, someone who went to high school less than five miles from here

- So I want to welcome him home
- And college less than 30 miles from here
- So it's great to have Chip back in Maryland
- He spent a long time on the other coast, and getting him back to the East is going to be great and what we have going forward
- And I also want to take a minute
- I want to thank Brad for 11 great years together
- An incredible run that we've built as a company, and most importantly as a team
- And so you'll be missed here
- And again, we wish you the very best in your next endeavor

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