

## Under Armour Inc

## Stronger margins offset North America wholesale softness

Reiterate Rating: NEUTRAL | PO: 9.00 USD | Price: 7.74 USD

## Higher EPS guidance despite sales at the low end

We remain Neutral, as we think longer-term turnaround opportunities are balanced by continued weakness in NA wholesale. 3Q adj. EPS of \$0.19 beat our/Visible Alpha consensus ests of \$0.10/\$0.11 on gross margin (GM) and opex, despite a sales miss. Sales declined 6% (-7.1% ex-FX) to \$1.5bn, driven by continued weakness in North America (NA) wholesale. Mgmt narrowed its FY guidance to sales down 3-4% (vs -2-4% prior) given continued softness in Wholesale (WS) and some pressure from Red Sea disruption but raised EPS to 50-52c from 47-51c prior to incorporate some of the 3Q beat. We are now modeling F24 sales down 3.5% to \$5.7bn. Consequently, we are raising our F24/25 estimates by 6%/4% to \$0.52/\$0.63.

## North America continues to be challenged by weak WS

NA sales declined 11.8%; WS drove the drop as full-price sales were challenged and partly offset by discounting. EMEA sales grew 7% (2% ex-FX), while APAC sales grew 7% (7.5% ex-FX), led by strength in China, and LatAm grew 9% (2.7% ex-FX). For F24, management now expects NA sales down HSD (vs down 5-7% prior) and International sales up HSD (vs up LDD prior). We are modeling F24 NA sales down 7.9%. There are numerous management additions and product launches designed to stabilize sales by driving newness, but the impact of all of these will take time.

## Red Sea disruption estimated to be 1% headwind to 4Q

UAA is exposed to the Red Sea disruption given its high-teens EMEA exposure. 20% of UAA's global apparel imports pass through the impacted region and management expects the Red Sea disruption to be a 1% hit to revenues and pressure shipping costs. Both are contemplated in the 4Q outlook.

## Expect GM improvement in 4Q from product initiatives

GM increased 100bp to 45.2% in 3Q, driven by 260bp of favorable freight costs partly offset by 140bp of pricing pressure due to increased promotions in DTC and steeper discounts to the off price channel, and 20bp of unfavorable FX. UAA has lapped most of the elevated freight costs, but will start to benefit from other supply chain and product initiatives in 4Q and into F25. We anticipate this benefit to be partly offset by continued promotional pressures given retailer caution and demand weakness. Taking these factors into account, we are modeling 4Q GM +180bp to 45.2% and F24 GM +130bp to 46.2%.

Estimates (Mar) (US\$)	2022	2023A	2024E	2025E	2026E
EPS	NA	0.58	0.52	0.63	0.77
GAAP EPS	NA	0.84	0.52	0.63	0.77
EPS Change (YoY)	NA	NA	-10.3%	21.2%	22.2%
Consensus EPS (Bloomberg)			0.49	0.60	0.71
DPS	NA	0	0	0	0
Valuation (Mar)					
P/E	NA	13.3x	14.9x	12.3x	10.1x
GAAP P/E	NA	9.2x	14.9x	12.3x	10.1x
EV / EBITDA*	NA	9.1x	8.7x	7.6x	6.5x
Free Cash Flow Yield*	NA	-5.5%	10.0%	3.0%	4.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 8.

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08 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	5,744.4	5,699.9
2025E Rev (m)	6,114.4	5,815.8
2026E Rev (m)	6,534.3	6,212.7
2024E EPS	0.49	0.52
2025E EPS	0.60	0.63

Lorraine Hutchinson, CFA

Research Analyst

BofAS

+1 646 855 0951

lorraine.hutchinson@bofa.com

Christopher Nardone

Research Analyst

BofAS

+1 646 743 2016

christopher.nardone@bofa.com

## Stock Data

Price	7.74 USD
Price Objective	9.00 USD
Date Established	8-Aug-2023
Investment Opinion	C-2-9
52-Week Range	6.29 USD - 12.34 USD
Mkt Val (mn) / Shares Out (mn)	3,572 USD / 461.5
Free Float	99.8%
Average Daily Value (mn)	51.35 USD
BofA Ticker / Exchange	UAA / NYS
Bloomberg / Reuters	UAA US / UAA.N
ROE (2024E)	11.2%
Net Dbt to Eqty (Mar-2023A)	-1.9%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

GM: gross margin

WS: wholesale

NA: North America

FY: full year

HSD: high single digit

LSD: low single digit

# iQprofile<sup>SM</sup> Under Armour Inc

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022	2023A	2024E	2025E	2026E
Return on Capital Employed	NA	NA	7.0%	7.6%	8.4%
Return on Equity	NA	26.7%	11.2%	12.1%	13.1%
Operating Margin	NA	5.1%	5.6%	6.3%	6.9%
Free Cash Flow	NA	(198)	358	107	171

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022	2023A	2024E	2025E	2026E
Cash Realization Ratio	NA	0x	2.4x	1.4x	1.4x
Asset Replacement Ratio	NA	1.4x	1.4x	1.7x	1.5x
Tax Rate	NA	NM	20.2%	20.0%	20.0%
Net Debt-to-Equity Ratio	NA	-1.9%	-16.4%	-15.5%	-16.8%
Interest Cover	NA	23.7x	NM	NA	33.6x

## Income Statement Data (Mar)

(US\$ Millions)	2022	2023A	2024E	2025E	2026E
Sales	NA	5,904	5,700	5,816	6,213
% Change	NA	NA	-3.5%	2.0%	6.8%
Gross Profit	NA	2,649	2,632	2,713	2,930
% Change	NA	NA	-0.7%	3.1%	8.0%
EBITDA	NA	441	464	531	615
% Change	NA	NA	5.0%	14.6%	15.8%
Net Interest & Other Income	NA	(40)	(23)	(18)	(17)
<b>Net Income (Adjusted)</b>	<b>NA</b>	<b>266</b>	<b>236</b>	<b>277</b>	<b>328</b>
<b>% Change</b>	<b>NA</b>	<b>NA</b>	<b>-11.4%</b>	<b>17.4%</b>	<b>18.3%</b>

## Free Cash Flow Data (Mar)

(US\$ Millions)	2022	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	NA	268	236	277	328
Depreciation & Amortization	NA	138	145	167	189
Change in Working Capital	NA	(429)	120	(58)	(66)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	NA	13	65	0	0
Capital Expenditure	NA	(188)	(208)	(280)	(280)
<b>Free Cash Flow</b>	<b>NA</b>	<b>-198</b>	<b>358</b>	<b>107</b>	<b>171</b>
<b>% Change</b>	<b>NA</b>	<b>NA</b>	<b>NM</b>	<b>-70.2%</b>	<b>60.3%</b>
Share / Issue Repurchase	NA	(125)	(75)	(100)	(100)
Cost of Dividends Paid	NA	0	0	0	0
Change in Debt	NA	0	80	0	0

## Balance Sheet Data (Mar)

(US\$ Millions)	2022	2023A	2024E	2025E	2026E
Cash & Equivalents	NA	712	1,118	1,125	1,196
Trade Receivables	NA	760	716	730	780
Other Current Assets	NA	1,488	1,287	1,337	1,389
Property, Plant & Equipment	NA	673	751	864	955
Other Non-Current Assets	NA	1,225	1,208	1,208	1,208
<b>Total Assets</b>	<b>NA</b>	<b>4,857</b>	<b>5,080</b>	<b>5,264</b>	<b>5,528</b>
Short-Term Debt	NA	0	81	81	81
Other Current Liabilities	NA	1,357	1,306	1,313	1,350
Long-Term Debt	NA	674	676	676	676
Other Non-Current Liabilities	NA	827	810	810	810
<b>Total Liabilities</b>	<b>NA</b>	<b>2,859</b>	<b>2,873</b>	<b>2,880</b>	<b>2,916</b>
<b>Total Equity</b>	<b>NA</b>	<b>1,998</b>	<b>2,207</b>	<b>2,384</b>	<b>2,611</b>
<b>Total Equity &amp; Liabilities</b>	<b>NA</b>	<b>4,857</b>	<b>5,080</b>	<b>5,264</b>	<b>5,528</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 8.

## Company Sector

Apparel

## Company Description

Under Armour develops, markets, and distributes branded performance product for men, women, and youth. UA designs and sells a broad offering of authentic apparel, footwear, and accessories in the US, Europe, Asia, and Latin America.

## Investment Rationale

We rate Under Armour shares Neutral. In the near term, we see risk to margins given a weak North America wholesale business and promotions from high industry inventory levels. Over the longer-term, we forecast a compelling margin recovery that drives outsized earnings growth.

## Stock Data

Average Daily Volume 6,633,886

## Quarterly Earnings Estimates

	2023	2024
Q1	0.03A	0.02A
Q2	0.20A	0.24A
Q3	0.16A	0.19A
Q4	0.18A	0.07E



**Exhibit 1: UAA Income Statement**

3Q adj. EPS of \$0.19 beat our/Visible Alpha consensus ests of \$0.10/\$0.11 on gross margin (GM) and opex, despite a sales miss.

<b>Under Armour</b>	<b>1Q 23</b>	<b>2Q 23</b>	<b>3Q 23</b>	<b>4Q 23</b>	<b>FY 2023</b>	<b>1Q 24</b>	<b>2Q 24</b>	<b>3Q 24</b>	<b>4Q 24E</b>	<b>FY 2024E</b>	<b>1Q 25E</b>	<b>2Q 25E</b>	<b>3Q 25E</b>	<b>4Q 25E</b>	<b>FY 2025E</b>
<b>Income Statement</b>	<b>Jun</b>	<b>Sept</b>	<b>Dec</b>	<b>Mar</b>		<b>Jun</b>	<b>Sept</b>	<b>Dec</b>	<b>Mar</b>		<b>Jun</b>	<b>Sept</b>	<b>Dec</b>	<b>Mar</b>	
Net Sales	1,349.1	1,573.9	1,581.8	1,398.9	5,903.6	1,317.0	1,566.7	1,486.1	1,330.1	5,699.9	1,288.7	1,578.7	1,557.4	1,391.0	5,815.8
Cost of sales	718.9	860.1	883.4	792.0	3,254.3	709.3	814.7	814.9	729.1	3,068.0	687.6	813.1	846.2	755.5	3,102.4
Gross profit	630.2	713.8	698.4	606.9	2,649.3	607.7	752.0	671.2	601.0	2,631.9	601.1	765.7	711.2	635.5	2,713.4
SG&A	585.7	584.4	603.7	571.6	2,345.5	586.8	606.2	579.2	540.8	2,313.0	568.1	601.7	621.9	557.5	2,349.2
Operating profit	44.5	129.4	94.7	35.3	303.8	20.9	145.8	92.0	60.2	318.9	33.0	163.9	89.3	78.0	364.2
Interest income (expense)	(6.0)	(3.6)	(1.6)	(1.7)	(12.8)	(1.6)	(0.4)	(0.2)	0.0	(2.2)	0.5	0.5	0.5	0.5	2.0
Other income (expense)	(13.8)	(5.8)	2.9	(10.5)	(27.1)	(6.4)	(6.4)	0.3	(8.0)	(20.5)	(5.0)	(5.0)	(5.0)	(5.0)	(20.0)
Pretax income	24.7	120.1	96.0	23.1	263.9	12.9	139.0	92.1	52.2	296.2	28.5	159.4	84.8	73.5	346.2
Income tax expense	9.0	27.1	20.5	(61.0)	(4.5)	4.0	29.5	8.1	18.3	59.8	5.7	31.9	17.0	14.7	69.2
Tax rate	36.3%	22.5%	21.4%	-264.3%	-1.7%	30.7%	21.2%	8.8%	35.0%	20.2%	20.0%	20.0%	20.0%	20.0%	20.0%
Income (loss) from equity method investment	(0.9)	(0.9)	0.1	(0.3)	(2.0)	(0.4)	0.2	0.2	(0.3)	(0.4)	0.0	0.2	0.2	(0.3)	0.0
Net Income	14.9	92.1	75.6	83.8	266.3	8.5	109.614	84.234	33.6	236.0	22.8	127.7	68.0	58.5	277.0
<b>Earnings per share</b>	<b>\$0.03</b>	<b>\$0.20</b>	<b>\$0.16</b>	<b>\$0.18</b>	<b>\$0.58</b>	<b>\$0.02</b>	<b>\$0.24</b>	<b>\$0.19</b>	<b>\$0.07</b>	<b>\$0.52</b>	<b>\$0.05</b>	<b>\$0.29</b>	<b>\$0.15</b>	<b>\$0.13</b>	<b>\$0.63</b>
Basic shares outstanding	458.4	454.3	448.8	444.1	451.4	444.9	443.5	437.3		451.3	445.3	442.2	439.1	435.9	440.6
Diluted shares outstanding	468.2	464.1	459.0	454.7	461.5	454.5	453.7	448.4	448.4	451.3	445.3	442.2	439.1	435.9	440.6
<b>Margins</b>															
Gross profit margin	46.7%	45.4%	44.2%	43.4%	44.9%	46.1%	48.0%	45.2%	45.2%	46.2%	46.6%	48.5%	45.7%	45.7%	46.7%
bp change y/y	(280)	(564)	(659)	(313)	(469)	(57)	264	101	180	130	50	50	50	50	48
	20	(291)	(313)	(184)		(37)	(26)	(212)	(4)						
Supply chain, freight, logistics	(160)	(100)	40	180	(130)	320	410	260							
Promotions, pricing	(50)	(300)	(400)	(400)	(170)	(300)	(120)	(140)							
Mix	(40)	(100)	(230)	(50)	(120)	(10)	(20)	0							
FX	(30)	(50)	(60)	(40)	(50)	(70)	(10)	(20)							
Other															
SG&A expense	43.4%	37.1%	38.2%	40.9%	39.7%	44.6%	38.7%	39.0%	40.7%	40.6%	44.1%	38.1%	39.9%	40.1%	40.4%
bp change y/y	309	(165)	(602)	(483)	(243)	114	156	80	(20)	85	(47)	(58)	96	(58)	(19)
% change y/y	7.5%	-2.5%	-10.6%	-3.8%	-2.9%	0.2%	3.7%	-4.1%	-5.4%	-1.4%	-3.2%	-0.7%	7.4%	3.1%	1.6%
Operating margin	3.3%	8.2%	6.0%	2.5%	5.1%	1.6%	9.3%	6.2%	4.5%	5.6%	2.6%	10.4%	5.7%	5.6%	6.3%
bp change y/y	(589)	(400)	(57)	170	(226)	(171)	108	21	200	45	97	108	(46)	108	67
<b>% change y/y</b>															
Sales	-0.2%	1.8%	3.4%	7.5%	3.1%	-2.4%	-0.5%	-6.0%	-4.9%	-3.5%	-2.2%	0.8%	4.8%	4.6%	2.0%
vs '19															
SG&A	7.5%	-2.5%	-10.6%	-3.8%	-2.9%	0.2%	3.7%	-4.1%	-5.4%	-1.4%	-3.2%	-0.7%	7.4%	3.1%	1.6%
EBIT	-64.2%	-31.5%	-5.6%	229.0%	-28.4%	-52.9%	12.6%	-2.8%	70.7%	5.0%	57.7%	12.5%	-3.0%	29.6%	14.2%
EPS	-86.7%	-35.2%	17.0%	-3059.2%	-15.0%	-40.7%	21.7%	14.1%	-59.3%	-9.4%	172.2%	19.5%	-17.5%	79.1%	20.2%







## Price objective basis & risk

### Under Armour Inc (UAA)

Our \$9 PO is based on a 7x 2025 EV/EBITDA to reflect the weaker sales outlook. This is in line with the average multiple for athletic retailer peers given a similar sales and operating margin outlook.

Upside risks are a quicker than expected turnaround in N. America and within UAA's Direct-to-Consumer business as well as continued strong momentum in APAC could support a higher multiple.

Downside risks to our PO are a longer than expected promotional environment in North America and weaker international sales.

## Analyst Certification

I, Lorraine Hutchinson, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
<b>NEUTRAL</b>				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
<b>UNDERPERFORM</b>				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA
<b>RSTR</b>				
	Macy's	M	M US	Lorraine Hutchinson, CFA



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase<sup>®</sup> is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

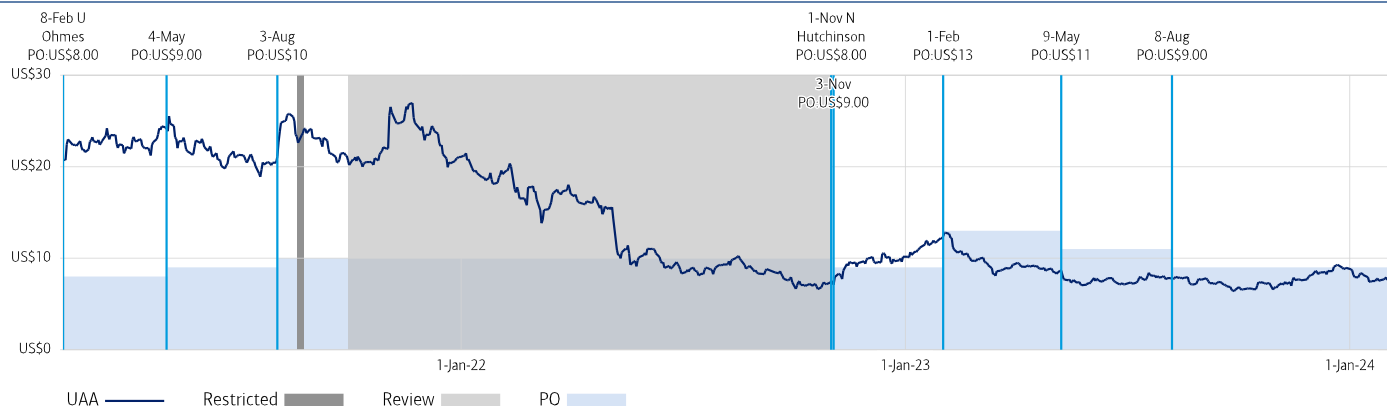
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# Disclosures

## Important Disclosures

### Under Armour (UAA) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Textiles/Apparel Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	13	52.00%	Buy	8	61.54%
Hold	6	24.00%	Hold	3	50.00%
Sell	6	24.00%	Sell	2	33.33%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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