

WESTPEAK RESEARCH ASSOCIATION

Columbia Sportswear Company (NASDAQ: COLM)

Consumer Cyclical – Sports Apparel and footwear

Columbia – Clothing on Steroids

March 21, 2022

Columbia Sportswear Company ("COLM") is a leading American outdoor apparel and footwear company founded in Portland, Oregon in 1938. They design, source, market, and distribute active, outdoor, and lifestyle apparel, accessories, equipment, and footwear. COLM operates under two distribution segments: Direct to Customers (DTC), Wholesale, and other segments.

Thesis

The growing trend of outdoor activities will effectively make COLM outperform its competitors as the company heavily emphasizes its highly functional and durable products. We also believe that COLM's growth strategies of digitalizing its DTC operations align with the rising trend of e-commerce. Further, COLM's capital allocation plan will continue to increase investor demand and confidence through returning free cash flow to shareholders.

Drivers

COLM's Consumer-First ("C1") and Experience-First ("X1") investment initiatives are critical to the company's growth prospects. The company's intention to grow its DTC segment will nicely complement the industry trend of e-commerce and outdoor activities. The progress of the "C1" and "X1" investment initiatives will be the deciding factor of COLM's success going forward.

Valuation

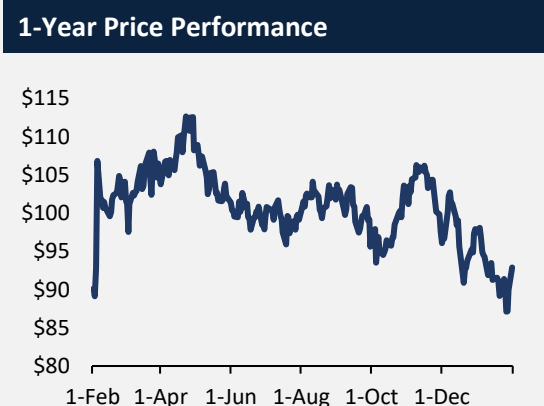
We set a Buy rating on COLM. Our target price is \$123.1 based on our Perpetuity Growth Multiple and our Terminal Exit Multiple from our Discounted Cash Flow Analysis, weighed at 70%, and our Comparable Companies Analysis, weighed at 30%.

Analyst: Kelvin Nip, B+MM '24
contact@westpeakresearch.com

Equity Research	Canada/US
Price Target	C\$ 123.1
Rating	Buy
Share Price (March 21 Close)	C\$ 93.95
Total Return	31%

Key Statistics	
52 Week H/L	\$115/\$83.62
Market Capitalization	\$5.68B
Average Daily Trading Volume	\$305.561M
Net Debt	\$-202.79M
Enterprise Value	\$5.48B
Net Debt/EBITDA	-0.47x
Diluted Shares Outstanding	\$65.22M
Free Float	56.7%
Dividend Yield	1.16%

WestPeak's Forecast			
	2021E	2022E	2023E
Revenue	\$3.03B	\$3.48B	\$4.05B
EBITDA	\$464M	\$531M	\$627M
Net Income	\$204M	\$336M	\$391M
EPS	\$3.08	\$5.09	\$5.93
P/E	29.4x	17.7x	15.2x
EV/EBITDA	22.3x	12.8x	10.2x



Business Overview/Fundamentals

Company Overview

COLM is an American outdoor apparel and footwear company founded in 1938. They focus on designing, sourcing, marketing, and distributing active and everyday lifestyle apparel, accessories, equipment, and footwear products, known for their functional and quality designs suited for all seasons, activities, and locations. Although the company sells products that cater to all seasons and weathers, they heavily emphasize their winter products. Among the products they offer, their jackets appear to be the best seller with a price range of USD\$150-\$300. COLM sells its products around the world in approximately 90 countries under its four main brands: Columbia, SOREL, Mountain Hard Wear, and prAna, and operates two distribution segments: Wholesale and Direct-to-consumer.



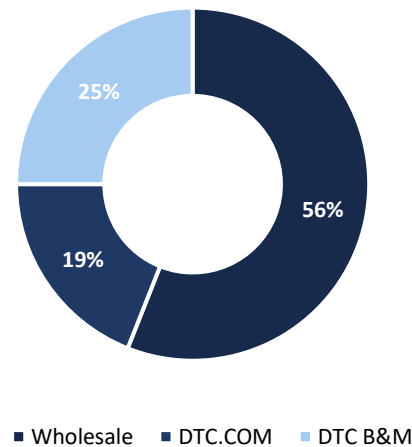
Source: Company Website

Operating Segments

Direct-to-consumer (DTC)

COLM's DTC segment consists of the company-owned network of branded and outlet retail stores, brand-specific e-commerce sites, and concession-based arrangements with third parties at branded outlets and shop-in-shop retail locations. As of December 31, 2020, they operated approximately 450 retail stores. COLM begins designing its seasonal product lines 18 months before the products are available to the consumers in retail stores. During the fiscal year 2020, COLM closed 13 DTC stores in the U.S. and one DTC store in Europe, however, its DTC e-commerce business grew 39% year-over-year. COLM plans to improve its global DTC operations and enhance its digital capabilities on its e-commerce platforms.

Sales Channels In %



Source: Company filings

Wholesale

COLM's wholesale segment consists of small, independently operated specialty outdoor and sporting goods stores, regional, national and international sporting goods chains, large regional, national and international department store chains, internet retailers, and international distributors. In the fiscal year 2020, COLM has nearly 7,050 wholesale customers. The company begins designing and developing its seasonal product lines 12 months before receiving advance orders from its wholesale customers. The spring season products are shipped to wholesale customers from January to June, fall season products are shipped to wholesale customers from July to December. The company intends to invest in initiatives that can drive global awareness and sales, enhancing its consumer experiences.

Growth Strategies

COLM has outlined clear goals and targets that they want to achieve or maintain going forward. The business has a strong intention to grow its DTC segment due to the growing trend of online shopping and sustainability. Four of its strategic priorities include: raise global brand awareness through increasing demand-creating investments, increasing its digital capabilities in its DTC and Wholesale channel and in all geographies to enhance customer experiences, expand and improve its supporting processes and systems for its global DTC operations, and invest in its employees to optimize the organization across all four brands. In terms of its capital allocation priorities, they identified three priorities: invest in organic growth opportunities to drive long-term profitable growth, return at least 40% of free cash flow to shareholders through dividends and share repurchases, and keep an eye on M&A opportunities. All of which rely on market conditions and their strategic priorities.

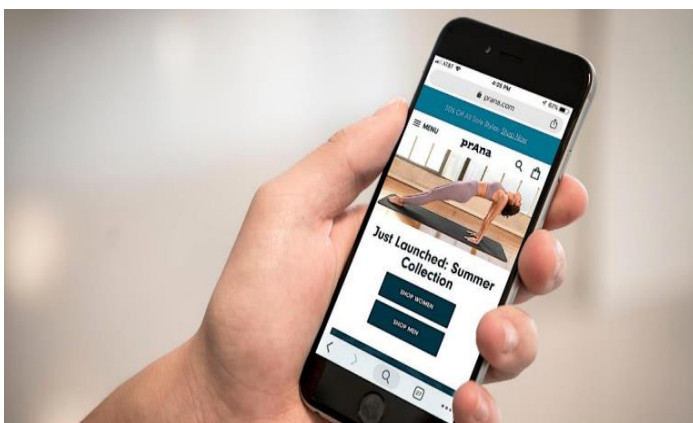
Consumer-First (“C1”) Initiative

COLM began the C1 investment initiative to support the growth and continual development of its omnichannel capabilities through improving the retail platform and information technology systems. Through this initiative, COLM wants to modernize and standardize its processes and systems to improve customer experiences. The C1 platform was implemented in 2019 in North America stores for the Columbia, SOREL, and Mountain Hardwear brands.



Source: Investor Presentation

Experience-First (“X1”) Initiative



Source: Investor Presentation

COLM began the X1 investment initiative to enhance its e-commerce systems in 2018. The project was designed to take advantage of the growing trend of online shopping and browsing using mobile devices. The re-implementation of the e-commerce platform offers an improved online system for consumers to search, browse and check out desired items on their mobile devices. The X1 initiative started in 2019, implemented across 10 countries in Europe-direct and for the prAna brand in the U.S. The implementation took place in North America for the Columbia, SOREL, and Mountain Hardwear brands in 2020.

Industry Analysis

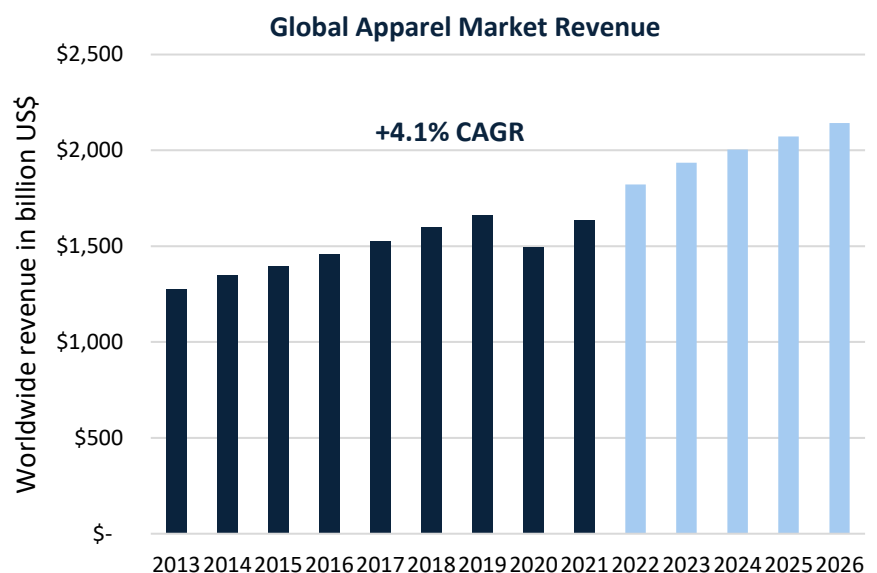
COLM operates under the sports apparel and footwear market. Among its 4 brands, prAna operates under the sports apparel, accessories, and equipment market, SOREL operates under the footwear market, whereas Columbia and Mountain Hard Wear operate in both the apparel and footwear market.

Competitive Landscape and Advantage

The sports apparel and footwear industry is highly competitive, with very high barriers to entry. To enter the market, it takes a tremendous amount of financial and human capital to design, develop, produce quality and affordable products, deliver to its customers through efficient distribution channels. Consumers are very brand conscious when buying sports apparel and footwear products, some of the key players make up most of the markets' total revenue which makes the market an oligopoly. The industry is heavily dominated by industry giants such as Nike (NYSE: NKE), Adidas (FWB: ADS), who enjoy the economies of scale that create cost advantages over any competitors, can pay huge costs to sponsor famous athletes, turning their brand into household names. However, it would be unrealistic to compare COLM to NKE or ADS because NKE and ADS achieved nearly half of its revenue through other product categories such as their basketball and soccer brands, they do not highly emphasize outdoor apparel and footwear for activities like hiking, snowboarding or camping as COLM does. Some of the competing brands that closely match COLM's value proposition, target customers, and growth strategies include North Face, Under Armour, and Lululemon Athletica. COLM differentiates its products through being highly functional and innovative which makes its product difficult to substitute and cater its products towards active outdoor activities. Furthermore, the company offers a more affordable price compared to its competitors, so consumers tend to choose their products due to good value for money.

Industry Growth

The industry is substantially affected by general patterns including seasonal weather and consumer shopping habits. Most products in the industry are marked on a seasonal basis where sales are generally weighted towards the third and fourth quarters. According to Statista, the apparel market is projected to grow 4.1% revenue CAGR between 2012 and 2026, and reach 2,143 billion in 2026. Despite the current economic setback, there has been an increased demand for sustainable sportswear as consumers are more conscious of their health and environmental footprint throughout the pandemic.



Source: Statista

Industry Trend 1: Digitalizing sales channel

Traditionally, organizations adopt a silo structure in their sale channel, to prevent resources and information from being shared among different segments within a company. Although it makes sense to develop a clear and divided sales channel to cluster expertise, as the rise of mobile devices in recent years, the silo structure lacks the ability to bridge the gap between online and offline commerce, which causes inconvenient for customers that want to check the availability of an item in a store or to order out of stock items for later pick-up. Through COLM's "X1" and "C1" investment initiatives, COLM is making efforts to digitalize its sales channels.

Digitalization of different sales channels integrates digital tools and technology with in-store services to provide greater customer experiences and solutions. In the sports apparel and footwear industry, some customers want to touch and feel the quality of a product before purchasing, then bring the item to camping or snowboarding. By adopting multi or Omni sales channels, digitalization keeps customers at the center of all strategies and decision-making, which eventually leads to high return rates in sales.

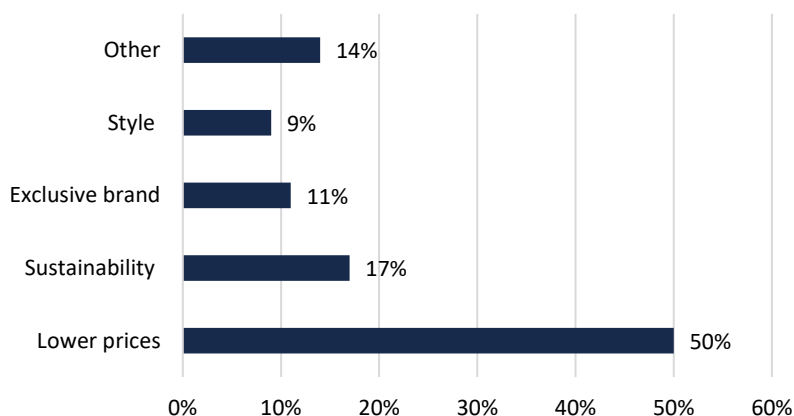


Source: Company App

Industry Trend 2: Generation Z's increasing awareness of Sustainability

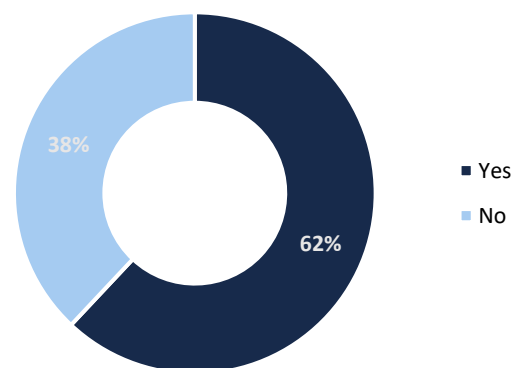
Consumers seem to have a growing preference for more sustainable apparel, footwear or accessories, many of which aim to live a more sustainable lifestyle and choose to purchase a secondhand product is the easiest way to extend the lifetime of an item. Specifically, Generation Z is most likely to buy secondhand apparel due to the increasing global attention and sensitivity to the environmental impact of clothing in recent years. Another reason for the sudden interest in secondhand products could be triggered by the economic uncertainty in the pandemic. With increasing numbers in unemployment and cost of living, a decrease in consumers' purchasing power is also a driving factor of this industry trend. As COLM heavily emphasizes durable, functional, and cheaper products, they can benefit from this industry trend.

Most appealing characteristics for users in the U.S. to buy used apparel at re-sale sites



Source: Statista

Willingness to purchase second-hand goods worldwide



Source: Statista

Investment Thesis

Market View

The market views COLM as a leading outdoor apparel and footwear company with its brands and diversified portfolios. Over the past two years, COLM has suffered a significant decrease in sales due to the COVID-19 pandemic, along with unseasonably warm temperatures and lack of snowfall in many important markets added risk to COLM's DTC and wholesale sales in Q4. At the end of 2021, notable firms such as Baird and Stifel, bulge bracket, Bank of America downgraded COLM from a Buy to a Hold, they dropped their target price for the stock from \$137 to \$108 and cut its Buy rating to a Neutral rating. Bullish investors can look at COLM's decreasing share price as a sign of entry point opportunities.

Investment Thesis 1: Outdoor Sports will be featured in the 2022 Beijing Winter Olympics

According to a research paper from Dechow et al, from USC Marshall School of Business, stocks identified as connected to the Olympics would outperform the non-Olympic matched stocks. The 2022 Winter Olympics will feature alpine skiing, biathlon, snowboarding, and many more, which will benefit COLM over its competitors as the company heavily emphasized its waterproof and warm jackets. The company's competitive advantage of a diversified product portfolio in outdoor products with over 30 innovative technologies can present more choices to consumers with an average price. COLM reported one of their highest Q2 sales ever and is expecting record-breaking sales going into 2022. The apparel market is expected to grow 4.1% revenue CAGR by 2026. We assume that COLM will outperform the overall industry as we project the company to report its revenue growth of at least 20% revenue CAGR by 2026.



Investment Thesis 2: Bring in Nike's Former Chief Technology Officer Improves DTC Segment

COLM's DTC segment became a critical component of the company's growth strategy. COLM recently appointed Skip Potter as Executive Vice President and Chief Technology Officer in April 2021. Skip spent 4 years at Nike, an industry giant as their Chief Technology Officer before joining COLM. Skip is responsible for leading COLM's global technology where he will play a pivotal role in evolving the company's digital footprint, omnichannel, and supply chain capabilities in the company. We believe that COLM's appointment of a veteran tech leader with more than 20 years of industry experience, Skip will bring tremendous growth to the company with its consumer-first ("C1") and Experience-First ("X1") investment initiatives. During his time at Nike, he served as Nike's CTO where he led 2000 digital and e-commerce technology team members around the world, of which e-commerce now represents 21% of Nike's DTC revenue. We believe that Skip's expertise can elevate COLM's information technology and digital capabilities. This appointment will bring positive effects to COLM's transformation and growth going into 2022.

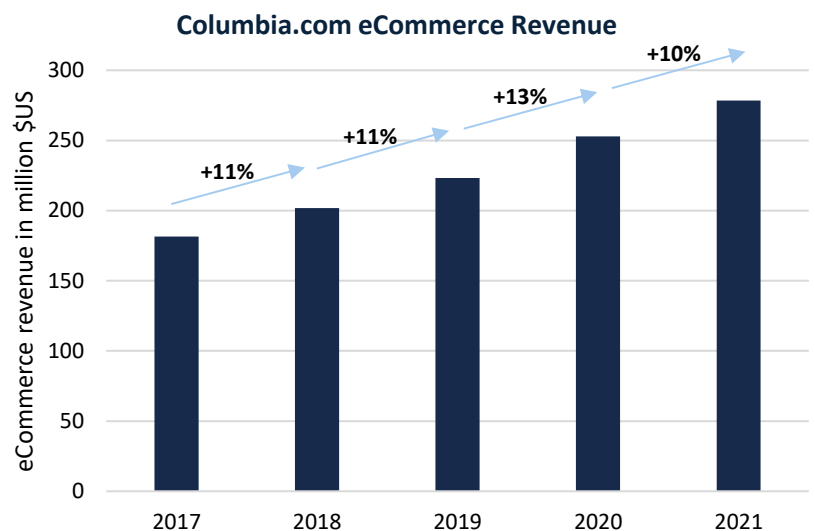
Investment Thesis 3: COLM Return at least 40% of Free Cash Flow to Shareholders

Looking at recent COLM's financials, the company holds a substantial amount of cash and cash equivalents of around 800 million and also the short-term investment of 1 million. COLM also actively invests their current assets which result in 0.5 million of interest income. On the other side of their balance sheet, since COLM does not hold long-term debt, the company does not have to pay any interest expense. COLM has a stable dividend history and the company's capital allocation plan indicated that the company's plans to maintain its strong balance sheet and return at least 40% of free cash flow to shareholders through dividends and share repurchases are very likely to take place. By evaluating the company's future and the historical dividend paid out, we believe that COLM will gain investors' confidence and demand in coming years.

Catalysts

Omicron Variant increase E-Commerce Sales

COLM's e-commerce sales have increased by 12% over the past years, proving that the shift in online shopping triggered by the pandemic isn't slowing down as consumers are turning to their devices for apparel purchases. According to Statista, online shopping will continue to be one of the most popular online activities worldwide, projected to grow to 5.4 trillion dollars in 2022. We believe that the Omicron virus will provide COLM's E-commerce platform enough momentum and durability that Columbia.com will be a more significant sales channel for COLM. We also believe that COLM's share price may rise as sales will increase through its improved e-commerce platform in 2022.



Source: Statista

International Day of Sports Day #OnlyTogether Movement

The #Only Together Movement from 31st March to 6th of April was introduced by the United Nations to encourage outdoor activities during the week of International Day of Sports. During the week of the movement, people may share sporting activities on social media and use the hashtags #OnlyTogether and #SportsDay. This movement can increase global awareness of physical and mental well-being, and attract the public to engage the outdoor activities which make people shop for COLM's products. We believe that this movement being held during the pandemic will trigger a healthier lifestyle amongst both the younger and older generation and the trend is likely to continue as people will continue to explore different opportunities. The catalyst is very likely to boost COLM's sales going forward.

Management Team

Tim Boyle – Chairman, President & Chief Executive Officer

Tim Boyle began his career with COLM in 1971. He got involved in the business when his father, who had been running the company since 1964 died from a sudden heart attack, Tim was involved in the company to continue his father's ambition to expand the company. Tim has served as CEO of COLM since 1988 and reassumed the position of President in 2017, which he previously held until 2015. Tim was appointed as Chairman of the Board in 2020. Tim graduated from The University of Oregon with a Bachelor of Science degree in Journalism in 1971.



Source: Company Website

Jim Swanson – Executive Vice President & Chief Financial Officer

Jim Swanson joined COLM back in April 2003 as a Global Senior Financial Analyst. He was appointed as VP of Finance in May 2015 and was appointed as Senior VP and CFO in 2017. In November 2020, he became the Executive VP and CFO of the company. Before his time at COLM, Jim had experience in financial planning and analysis, tax and accounting roles, including senior financial analyst at Freightliner Corporation and Tality Corporation. Jim graduated from The University of Montana with a Bachelor of Science degree in Accounting and Finance. Then he obtained a Master of Accounting degree at his alma mater.



Source: Company Website

Skip Potter – Executive Vice President & Chief Digital Information Officer

Skip M. Potter joined COLM in April 2021 as Executive VP and CTO where he oversees COLM's global technology team, desired to evolve the company's digital footprint, omnichannel, and supply chain operations. Before joining COLM, Skip spent 4 years at Nike as CTO, Managing VP of Digital Engineering at Capital One, and he also served as the CIO/CTO for British Telecommunication's Enterprise Group. Skip is an alumnus of The University of Colorado at Boulder.



Source: Company Website

Shareholder Base, Liquidity, Market Depth

Shareholder Base

Ownership Summary

Institutions and Individuals primarily hold COLM's shareholder base with 48.75% and 43.9% respectively.

Type	Common Stock	% of Shares Outstanding	Market Value (USD)
Institutions	31,795,295	48.75	2997.7
Corporations	1,316,342	2.02	124.1
Individuals	28,628,589	43.90	2699.1
State Owned	14,385	0.02	1.4
Public	3,462,487	5.31	326.4
Total	65,217,098	100	6148.7

Source: Capital IQ

Timothy Boyle, Chairman, President & CEO, is the largest holder at 36.28%, and his son, Joseph Boyle owns 4.1%. The Boyle family holds a notable 40.38% indicating that the family is dedicated to COLM's long-term success. Large Asset Management firms with strict ESG principles such as Vanguard Group Inc and BlackRock Inc also hold a small percentage of shares outstanding.

Top Holders

Holder	Common Stock	% of Shares Outstanding	Market Value (USD)
Boyle, Timothy	23,658,706	36.28	2,245.4
The Vanguard Group Inc	3,567,100	5.47	338.6
Eaton Vance Management	3,200,493	4.91	303.8
BlackRock Inc	3,016,700	4.63	286.3
Boyle, Joseph	2,674,704	4.10	253.9

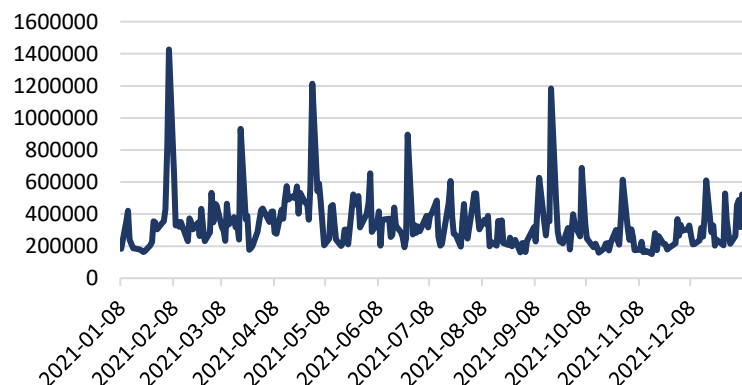
Source: Capital IQ

Source: Yahoo Finance

Liquidity

COLM has an average trading volume of 305,561 with a market cap of 5.68B. The free float is 35.26/65.22, representing a free float percentage of shares outstanding of 56.7%. This implies moderate liquidity.

1 Year Trading Volume (NASDAQ:COLM)



Valuation

Discounted Cash Flow Analysis

Revenue

COLM's revenue is projected through its main operating segments: DTC and Wholesale. The pandemic seemed to be under control in 2021, with the introduction of various vaccines and the growing trend of online shopping, revenue in the wholesale segment grew by nearly 20%, and DTC rose by nearly 30%. Going into 2022, although Omicron, a variant of the COVID-19 caused chaos around the world, the public has found a way to spend using their devices. The growing interest in outdoor activities will also increase demand for COLM's durable and functional products. We believe that COLM's revenue in its DTC operation will slowly take over its wholesale revenue, driving an estimate of approximately a 23% increase in DTC revenue growth by 2026 and a stable 5% increase in wholesale revenue growth.

Capital Expenditure (CapEx)

With COLM's ambition to grow its DTC segment, the company will make a significant investment in its commerce platforms to improve its global retail platforms and information technology system, along with the potential acquisition of businesses. We forecasted COLM's CapEx will further increase to 26% by 2026 to accommodate the expansion of its e-commerce platform.

Selling, General, & Administrative Expense (SG&A)

COLM's increase in investing and expanding its e-commerce platform will decrease the expenses needed in SG&A. We estimate a stable decrease from 35%-31% in 2026.

Weighted Average Cost of Capital (WACC)

COLM's weighted average cost of capital is determined to be at 10.7% with the cost of equity of 11.1% and cost of debt of 1.4%. According to Bloomberg, to calculate our cost of equity, we set our risk-free rate of 1.3%, expected market return of 10.1%, and Beta of 1.12. In terms of the calculation of the cost of debt, we set the pre-tax cost of debt at 1.2% with a 19.3% effective tax rate.

Terminal EV/EBITDA Multiple

We used the median 2023E EV/EBITDA multiple of 10.7 from the comparable companies' set as we expect COLM's investment initiative will mature by 2023.

Perpetuity Growth rate

We used a perpetuity growth of 2.5%, based on a higher inflation rate in 2021.

Comparable Company Analysis

Under Armour Inc Class A (NYSE: UAA)

Under Armour Inc is an American sports equipment company that develop, market, and distribute branded performance apparel, footwear, and accessories. The company sells its products through wholesale channels, directly to consumers through 422 brand and factory house stores, and its e-commerce sites.

VF Corp (NYSE: VFC)

VF Corporation is an American company that designs and produces lifestyle apparel, footwear. The company's subsidiaries include North Face, Timberland, Supreme, and 10 other brands that offer youth culture/action sports-inspired outdoor and lifestyle apparel, equipment, accessories, and footwear.

Lululemon Athletica Inc (NASDAQ: LULU)

Lululemon Athletica is an American Canadian company that offers retail athletic apparel and accessories. The company offers pants, shorts, tops, and jackets for a healthy lifestyle and athletic activities, such as yoga, running, and training, as well as other sweaty pursuits. It also provides fitness-related accessories.

Ralph Lauren Corp (NYSE: RL)

Ralph Lauren Corporation is an American fashion company that offers apparel and accessories which comprise shoes, eyewear, watches, jewelry, hats, gloves, and leather goods and home products. The company directly operates 548 retail stores and 650 concession-based shop-within-shops, and its e-commerce sites.

Puma SE (ETR: PUM)

Puma SE is a German corporation that offers performance and sport-inspired lifestyle products in categories, such as football, cricket, handball, rugby, volleyball, running, training and fitness, golf, and motorsports. It also issues licenses to independent partners to design, develop, manufacture, and sell watches, glasses, safety shoes, and gaming accessories.

Canada Goose Holding Inc (TSE: GOOS)

Canada Goose Holdings Inc is a Canadian company that designs, and market performance luxury apparel such as parkas, lightweight down jackets, rainwear, wind wear, knitwear, footwear, and accessories for fall, winter, and spring seasons.

ESG

COLM is conscious of integrating environmental, social, and governance practices into its operations. The company has shown that it can keep up with industry ESG standards. Investment from BlackRock Inc and Vanguard Inc reflected their success in their ESG practices.

Source: Sustainalytics

Environmental

They have developed three main pillars to drive positive environmental change. First, prAda wants to create a safer environment for everyone to thrive in, as they primarily sell outdoor apparel and footwear to their consumers and want its consumer to enjoy outdoor activities with their products. Second, they emphasize respecting the planet and people, recognizing that they have the responsibility to make ethical acts. Thirdly, they want to inspire and educate its customers through its progress on sustainable products. COLM's other brands seem to take a similar ESG approach as well.

In its prAda brand specifically, the brand tries to make a statement that style is more about driving positive changes and protecting the planet than about fashion or trends. PrAda acts in its clothing production to design stylish clothing to elevate the look and feel of its seasonal products while incorporating innovative and sustainable fabrics to lessen the impact of its fashion supply chain on the planet.

Social

The company's board of directors currently consists of 80% males and 20% females, which is higher than the global average of 16.9% of board seats held by women according to Deloitte. In terms of its ownership structure, COLM's top 5 holders are represented by the Boyle family and reputable asset managers, in which the Boyle family takes up 40% of the total share. While 40% is a large amount, the company was founded by Tim Boyle's father in 1938 and has been operating for 84 years. It makes a low possibility that the Boyle family decides to sell off the stock.

Governance

COLM's ISS Governance QualityScore is 2. The ISS score is based on four key pillars; Audit, Board, Shareholder Rights; and Executive Compensation. 1 is considered the highest rating, and 10 is considered the lowest. COLM has a very high rating compared to all its comparable companies.

ESG Risk Rating

12.7 Low Risk

Negligible	Low	Medium	High	Severe
0-10	10-20	20-30	30-40	40+

prAna®

**CLOTHING FOR
POSITIVE CHANGE**

Source: Investor Presentation

Risks

Risks in Executing Strategic Priorities

COLM's strategic priorities are to drive brand awareness and sales through focused demand creation investments, expand and improve its DTC operations with better systems and processes and build up its digital capabilities to enhance customer experiences. While most of its strategies require an increase in expenditures, COLM must modify other aspects of the business to generate funds and resources. Specifically, in its DTC operations initiative to invest in e-commerce platforms, global retail platforms, and information technology systems, since many of its DTC operations costs are fixed, the inability to offset their spending with increased profits may cause a decrease in operating margin or negative cash flow, resulting in significant costs to discontinue its real estate leases to lose down DTC brick and mortar store.

In its digital and technology initiative to improve operational and financial performance, transitioning to new systems requires significant investments, and implementing them to the employees, contractors, software and system providers are very challenging. As COVID-19 increased consumers' reliance on e-commerce platforms, difficulties such as system failures, system outages, and loss of system availability may lead to lingering effects such as extra operational costs, corruption of data, delayed shipments, and excess inventory which negatively impact customers and sales. Overall, failure to transition or implement new initiatives smoothly may hurt the functionality of the entire business.

COVID-19 Outbreak

COLM operates internationally in four different geographical segments. Risk factors include various macro conditions. The COVID-19 pandemic affects: COLM's ability to sell its products in certain locations or markets, decrease in product demand due to decline in discretionary spending by consumers, disruptions in the supply chain including manufacturers' ability to produce and distribute, potential changes to government regulations, legislations and policies, currency rate fluctuations and unable operate its brick-and-mortar stores. Certain locations are exposed to more risks than others, Vietnam, where most of its contract manufacturing is located, Russia, where its largest international distributor is located, and China, where its largest portion of raw materials is sourced. If COVID-19 continues to hit those three major locations, it may cause a substantial adverse effect on its financial condition and operating results.

Order Cancellation from Wholesale Customers Decrease Sales or Gross profit

As COLM does not have a long-term contract with its wholesale customers, instead, the wholesales customers buy COLM's products on an order-by-order basis with the rights of cancellation and rescheduling before shipments. In addition, if its wholesale customers suffer in business or fail to commit to their orders, or COLM fails to deliver the products in an agreed-upon manner, wholesale customers also have the right to postpone, reduce, cancel or discontinue their orders at any timeline. COLM starts designing and producing products 12 months before receiving purchase orders from its wholesale customers, so the timing of the delivery and cancellation may impact COLM's strategies to forecast future sales and profit. In addition, COLM has contracted with their independent international distributors, which may include annual purchase minimums that must be met to retain distributional rights, the distributors are not required to purchase products from COLM.

Failure in Forecasting Sales Lead to Excess or Lack of Inventory

As COLM starts its production of orders 12 months before the selling season of the products, COLM faces the threat of sudden changes in sales or consumer demand. When COLM forecasts its sales of the selling season, they are exposed to risks such as product cancellation, increased discounts or extended credit terms to its wholesale customers, and human error of judgments. Excess of inventory during the selling season may lead to a gain in storage costs and have an adverse effect on COLM's brand image. Inventory shortage during the selling season may delay shipments of products and fulfill product orders, which increases the cost to expedite production and delivery and affect its brand loyalty.

Reliance on Contract Manufacturers

COLM generally maintains a short-term manufacturing relationship with its contract manufacturers worldwide and primarily in the Asia Pacific region. COLM heavily relies on its manufacturers to source its products, to secure quality and timely production capacity. As manufacturers may use sub-contracted manufacturers to produce products, if contract manufacturers are unable to produce in time and meet the product quality standard, COLM may miss its delivery deadline and result in order cancellations, price concessions, product returns, non-compliance with product standards, and additional logistic costs. Without long-term assurance, competitors may obtain COLM's manufacturing capacity and limit COLM's production. Eventually loss in sales due to inability to satisfy consumer demand.

Recommendation

Buy

Based on our analysis, we believe that COLM is currently undervalued by the market. Despite COLM competing in a highly competitive industry, the company is able to differentiate itself from its peers. COLM's growth strategies effectively align with major industry trends such as the rise of e-commerce and outdoor activity, while increasing investor demand through its strong balance sheet.

Our implied share price weighting: 50% on Perpetuity Growth method, 20% on Exit Multiple method, 15% on P/E Implied Price method, and 15% EV/EBITDA Implied Price method which projects a target share price of \$123.1 representing a 31% total return.

Appendix 1: Model Summary

	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26
(Figures in mm USD)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Income Statement											
Revenue	2,377.0	2,466.1	2,802.3	3,042.5	2,501.6	3,028.5	3,484.2	3,925.2	4,463.0	5,125.3	5,948.8
EBITDA	316.5	322.9	409.2	516.7	283.7	464.8	531.6	608.4	736.4	896.9	1,100.5
Net Income	198.4	112.3	274.9	330.5	108.0	203.7	335.5	377.1	473.8	591.5	738.4
Earnings Per Share	\$ 2.81	\$ 1.59	\$ 3.91	\$ 4.83	\$ 1.62	\$ 3.06	\$ 5.06	\$ 5.69	\$ 7.15	\$ 8.93	\$ 11.14
Cash Flow Statement											
Capital Expenditures	(50.0)	(53.4)	(65.6)	(123.5)	(28.8)	(30.0)	(59.7)	(55.9)	(54.6)	(54.7)	(56.2)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-
Divestitures	-	-	-	-	-	-	-	-	-	-	-
Dividend Payment	83.6	83.7	83.5	81.4	79.7	79.3	79.0	82.3	82.3	82.3	82.3
Dividend Per Share	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.25
Dividend Payout to Earnings	-42.1%	-74.5%	-30.4%	-24.6%	-73.7%	-38.9%	-23.6%	-21.8%	-17.4%	-13.9%	-11.1%
Dividend Payout to Core FCF	-40.8%	-47.3%	-29.1%	-23.2%	-28.2%	-20.9%	-21.8%	-21.0%	-17.1%	-13.9%	-11.2%
Dividend Yield	2.2%	1.9%	1.4%	1.3%	1.6%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Balance Sheet											
Current Assets	1,412.0	1,649.5	1,765.3	1,875.7	1,855.6	2,001.9	2,571.9	3,016.2	3,592.4	4,302.3	5,182.3
Non-Current Assets	601.9	563.4	603.4	1,055.8	981.0	945.5	918.7	903.1	894.5	891.6	893.8
Assets	2,013.9	2,212.9	2,368.7	2,931.6	2,836.6	2,947.4	3,490.6	3,919.3	4,486.9	5,194.0	6,076.1
Current Liabilities	362.9	453.6	572.9	630.9	552.6	634.7	709.4	761.0	854.8	970.4	1,114.1
Non-Current Liabilities	69.5	107.0	105.5	451.2	451.2	418.3	418.3	418.3	418.3	418.3	418.3
Liabilities	432.4	560.6	678.4	1,082.1	1,003.8	1,053.0	1,127.7	1,179.3	1,273.1	1,388.7	1,532.4
Shareholders' Equity	1,560.8	1,622.0	1,673.9	1,849.4	1,832.8	1,894.4	2,150.8	2,445.6	2,837.0	3,346.2	4,002.3
Cash	551.4	673.2	437.8	686.0	790.7	758.5	1,164.6	1,518.1	1,889.2	2,346.7	2,912.6
Debt	-	-	-	371.5	353.2	330.8	330.8	330.8	330.8	330.8	330.8
Net Debt	(551.4)	(673.2)	(437.8)	(314.5)	(437.5)	(427.8)	(833.9)	(1,187.4)	(1,558.5)	(2,015.9)	(2,581.8)
Minority Interests	20.7	30.3	16.5	-	-	-	-	-	-	-	-
Debt/EBITDA	-	-	-	0.7 x	1.2 x	0.7 x	0.6 x	0.5 x	0.4 x	0.4 x	0.3 x
Operating Metrics											
Return on Equity (ROE)	12.7%	6.9%	16.4%	17.9%	5.9%	10.8%	15.6%	15.4%	16.7%	17.7%	18.5%
Return on Assets (ROA)	9.9%	5.1%	11.6%	11.3%	3.8%	6.9%	9.6%	9.6%	10.6%	11.4%	12.2%
Return on Invested Capital (ROIC)	3.0%	1.7%	4.2%	5.0%	1.6%	3.1%	5.1%	5.8%	7.2%	9.0%	11.3%
Valuation Metrics											
Stock Price (High)	\$ 63.55	\$ 72.54	\$ 95.74	\$ 109.74	\$ 101.45	\$ 93.95	\$ 93.95	\$ 93.95	\$ 93.95	\$ 93.95	\$ 93.95
Stock Price (Low)	\$ 43.94	\$ 51.56	\$ 74.67	\$ 80.46	\$ 51.82	\$ 93.95	\$ 93.95	\$ 93.95	\$ 93.95	\$ 93.95	\$ 93.95
Stock Price (Average)	\$ 53.75	\$ 62.05	\$ 85.21	\$ 95.10	\$ 76.64	\$ 93.95	\$ 93.95	\$ 93.95	\$ 93.95	\$ 93.95	\$ 93.95
Diluted Shares Outstanding (Average)	70.6	70.5	70.4	68.5	66.8	66.6	66.3	66.3	66.3	66.3	66.3
Market Capitalization (Average)	3,796.1	4,371.6	5,998.5	6,513.7	5,117.1	6,252.5	6,225.7	6,225.7	6,225.7	6,225.7	6,225.7
Enterprise Value (Average)	3,265.4	3,728.8	5,577.1	6,199.2	4,679.5	5,824.7	5,391.8	5,038.3	4,667.2	4,209.8	3,643.9
P/E	19.1 x	38.9 x	21.8 x	19.7 x	47.4 x	30.7 x	18.6 x	16.5 x	13.1 x	10.5 x	8.4 x
EV/EBITDA	10.3 x	11.5 x	13.6 x	12.0 x	16.5 x	12.5 x	10.1 x	8.3 x	6.3 x	4.7 x	3.3 x
FCF Yield to Market Capitalization	6.0%	5.2%	3.2%	2.0%	3.7%	4.5%	4.8%	6.6%	7.1%	8.7%	10.8%
FCF Yield to Enterprise Value	7.0%	6.1%	3.5%	2.1%	4.0%	4.8%	5.5%	8.1%	9.4%	12.9%	18.4%
Free Cash Flow											
EBIT	256.5	263.0	351.0	395.0	137.0	255.5	445.0	536.9	673.2	839.3	1,046.5
Tax Expense	(58.5)	(154.4)	(85.8)	(74.9)	(31.5)	(49.3)	(85.8)	(103.5)	(129.8)	(161.8)	(201.8)
D&A	60.0	59.9	58.2	121.7	146.6	209.3	86.6	71.5	63.2	57.6	54.0
Capital Expenditures	(50.0)	(53.4)	(65.6)	(123.5)	(28.8)	(30.0)	(59.7)	(55.9)	(54.6)	(54.7)	(56.2)
Changes in NWC	20.1	110.8	(63.6)	(188.2)	(35.6)	(104.2)	(89.2)	(39.2)	(111.2)	(137.0)	(170.3)
Unlevered Free Cash Flow	228.2	225.9	194.3	130.0	187.8	281.3	296.8	409.8	440.8	543.4	672.2
Valuation Summary											
Current Price	\$ 93.95										
Target Price	\$ 123.10										
Total Return	31.0%										
Recommendation	BUY										
DCF Valuation											
Perpetuity Growth Implied Price	\$ 106.66										
Exit Multiple Implied Price	\$ 136.09										
Comps Valuation											
Comps - EV/EBITDA Implied Price	\$ 125.40										
Comps - P/E Implied Price	\$ 158.37										

Appendix 2: Discounted Cash Flow Analysis

	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26	
(Figures in mm USD)	FY2016	FY2017	FY2018	FY2019	FY2020	Q1-2021	Q2-2021	Q3-2021	Q4-2021	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	
WACC Calculations																
Cost of Equity																
Risk-free rate	1.3%															
Expected market return	10.1%															
Market Risk Premium	8.8%															
Beta	1.12															
Cost of Equity	11.1%															
Cost of Debt																
Pre-tax cost of debt	1.2%															
Debt Adjustment factor	1.38															
Effective tax rate	19.3%															
Cost of Debt	1.4%															
WACC																
Market value of equity	6,225.7															
Market value of debt	330.8															
Total Capitalization	6,556.5															
Cost of equity	11.1%															
Cost of debt	1.4%															
WACC	10.6%															
Free Cash Flow																
EBIT	256.5	263.0	351.0	395.0	137.0	70.5	35.0	133.5	42.5	255.5	445.0	536.9	673.2	839.3	1,046.5	
Less: Tax expense	(58.5)	(154.4)	(85.8)	(74.9)	(31.5)	(14.6)	5.4	(33.3)	(8.2)	(49.3)	(85.8)	(103.5)	(129.8)	(161.8)	(201.8)	
Add: Depreciation and amortization	60.0	59.9	58.2	121.7	146.6	30.5	61.0	84.5	33.4	209.3	86.6	71.5	63.2	57.6	54.0	
Less: Capital expenditures	(50.0)	(53.4)	(65.6)	(123.5)	(28.8)	(3.9)	(8.5)	(8.0)	(9.6)	(30.0)	(59.7)	(55.9)	(54.6)	(54.7)	(56.2)	
Less: Change in net working capital	20.1	110.8	(63.6)	(188.2)	(35.6)	22.8	(53.8)	(263.3)	121.3	(104.2)	(89.2)	(39.2)	(111.2)	(137.0)	(170.3)	
Unlevered Free Cash Flow	228.2	225.9	194.3	130.0	187.8	105.3	39.1	(86.7)	179.3	281.3	296.8	409.8	440.8	543.4	672.2	
Discount factor						-	-	-	0.25	0.25	1.25	2.25	3.25	4.25	5.25	
Present Value of Unlevered Free Cash Flow						-	-	-	174.8	174.8	259.0	326.3	317.2	353.5	395.2	
Discounted Cash Flow Valuations																
Perpetuity Growth Method					Exit Multiple Method					WACC						
Perpetuity Growth Rate					Terminal EV/EBITDA Multiple					11.60% 11.10% 10.60% 10.10% 9.60%						
PV sum of unlevered FCF	1,826.1							1,826.1		1.50%	\$ 88.18	\$ 92.98	\$ 98.32	\$ 104.29	\$ 111.01	
Terminal value	4,972.8							6923.2402		2.00%	\$ 91.46	\$ 96.69	\$ 102.55	\$ 109.13	\$ 116.59	
Enterprise Value	6,798.9							8,749.4		2.50%	\$ 95.10	\$ 100.84	\$ 107.29	\$ 114.60	\$ 122.96	
Add: Cash	599.5							599.5		3.00%	\$ 99.17	\$ 105.49	\$ 112.66	\$ 120.85	\$ 130.29	
Less: Debt	330.8							330.8		3.50%	\$ 103.74	\$ 110.76	\$ 118.79	\$ 128.04	\$ 138.83	
Less: Other EV adjustments	-							-								
Equity Value	7,067.6							9,018.1								
Shares outstanding	66.3							66.3								
Implied Share Price	\$ 106.66							\$ 136.09								
Current Price	\$ 93.95							\$ 93.95		Perpetuity Growth Rate	WACC					
Implied Price	\$ 106.66							\$ 136.09			11.60%	11.10%	10.60%	10.10%	9.60%	
Total Return	13.5%							44.9%			8.7 x	\$ 112.09	\$ 114.41	\$ 116.79	\$ 119.23	\$ 121.74
											9.7 x	\$ 121.42	\$ 123.96	\$ 126.57	\$ 129.25	\$ 132.01
										10.7 x	\$ 130.76	\$ 133.52	\$ 136.36	\$ 139.27	\$ 142.27	
										11.7 x	\$ 140.09	\$ 143.08	\$ 146.14	\$ 149.29	\$ 152.54	
										12.7 x	\$ 149.43	\$ 152.63	\$ 155.93	\$ 159.32	\$ 162.80	

Appendix 3: Comparable Companies Analysis

(Figures in mm USD)

Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple			P/E Multiple		
				2021 EV/EBITDA	2022E EV/EBITDA	2023E EV/EBITDA	2021A P/E	2022E P/E	2023E P/E
VF Corp	NYSE: VFC	28,226.6	33,707.4	34.8 x	18.0 x	16.0 x	79.0 x	22.5 x	19.4 x
Under Armor Inc	NYSE: UAA	11,416.9	11,696.7	16.9 x	16.8 x	14.6 x	25.2 x	30.0 x	25.2 x
Lululemon Athletica I	NASDAQ: LULL	47,682.0	47,548.3	47.8 x	29.5 x	25.1 x	81.9 x	47.5 x	39.8 x
Ralph Lauren Corp	NYSE: RL	8,835.7	9,261.6	20.7 x	9.2 x	8.5 x	(72.8 x)	16.2 x	14.7 x
Puma SE	ETR: PUM	17,431.4	18,203.3	19.6 x	15.7 x	13.3 x	51.1 x	35.7 x	28.2 x
Canada Goose Holdi	TSE: GOOS	3,916.8	4,375.7	41.8 x	19.1 x	14.6 x	73.3 x	34.6 x	25.1 x
COLM	(XCH: TCK)	6,225.7	5,957.0	23.3 x	13.4 x	11.1 x	30.7 x	18.4 x	16.4 x
Median					17.4 x	14.6 x	32.3 x	25.2 x	
Mean					18.1 x	15.3 x	31.1 x	25.4 x	
High					29.5 x	25.1 x	47.5 x	39.8 x	
Low					9.2 x	8.5 x	16.2 x	14.7 x	
				EV/EBITDA Implied Price			P/E Implied Price		
Median				\$	121.07	\$ 122.43	\$	164.37	\$ 144.11
Mean				\$	125.40	\$ 128.35	\$	158.37	\$ 145.49
High				\$	202.14	\$ 207.46	\$	242.06	\$ 228.03
Low				\$	65.89	\$ 72.82	\$	82.63	\$ 84.24

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Kelvin Nip

Analyst

WestPeak Research Association

contact@westpeakresearch.com