To: Patrik Frisk, President and CEO

From: Matthew Mariani

Subject: Under Armour, Inc. and Subsidiaries Analysis

Date: May 4, 2020

**Business Brief: Under Armour. Inc, and Subsidiaries**

Under Armour, Inc. and Subsidiaries headquarters is located outside of Baltimore, Maryland. The Company is publicly traded on the New York Stock Exchange under the ticker symbol UAA for class A common stocks and the ticker symbol UA for class C common stocks. This company’s intensions are to develop, market and distribute branded performance apparel, footwear and accessories for men, women and youth. The brand’s performance apparel and footwear are engineered in many designs and styles to wear in nearly every climate to provide a performance alternative to traditional products. Some of Under Armour’s competitors in this market consist of Nike, Adidas, Puma, Reebok, New Balance and Lululemon Athletica. The products they offer are apparel, footwear and accessories for men, women and youth that are marketed at multiple price levels and provide customers with products that they believe are a superior alternative to traditional athletic products. In 2019, sales of apparel accounted for 66% of net revenues, respectively, footwear for 21%, and accessories for 8%. The audit firm that conducted the audit was PricewaterhouseCoopers LLC. The fiscal years were December 31, 2019 and December 31, 2018. The Under Armour SIC code is 2389-Apparel and Accessories. The company recognize revenue pursuant to Accounting Standards Codification 606. The company recognizes revenue when it satisfies its performance obligations by transferring control of promised products or services to its customers, which occurs either at a point in time, and depending on when the customer obtains the ability to direct use of and obtain all of the remaining benefits from products or services. Revenue transactions associated with sale of apparel, footwear, and accessories make up a single performance obligation consisting of sales of products through wholesale or direct to customer channels. The company satisfies the performance obligation and record revenue when transfer of control has passed to the customer based on the terms of sale. Payment is generally required within 30 to 60 days of shipment to wholesale customers, and 60 to 90 days to wholesale customers internationally. Payment is generally due at time of sale to direct consumers transactions. Revenue from companies from licensing arrangements and trademarks is recognized over time during the period. The company recognized these revenues for sales based on royalty arrangements as license products are sold by the licensee. Revenue from connected fitness brand is recognized over the term of the subscription. As of December 31, 2019, the company had 16,400 employees, of which 7,000 were full time. Most of the employees are in the U.S.

**Analysis**

The 10K annual report for 2019 highlighted many different categories of the company operations. The net revenue grew to $5,267.1 million in 2019 from $5,193.2 million in 2018. The growth in revenues is driven from the growing interest in performance products and the strength in the Under-Armour Brand. There was a 1.4% increase in the net revenues between the fiscal year 2019 and 2018. The revenues from apparel were flat, 2% increase in revenue from footwear, and a 1% decrease in accessories revenue. Wholesale revenue increased 1% and direct consumer revenues were flat. Gross margin increased $130 million to $2,470.5 million in 2019 from $2,340.5 million in 2018. The gross margin in 2019 was 46.9% compared to gross margin in 2018 of 45.1%. This increase in gross margin was primarily driven by lower product costs and better mix of products. Majority of net revenues have been recognized in the last 2 quarters of the calendar year primarily due to increase sales volume during the fall selling season including a larger proportion of higher margins direct to consumer sales. There were no restructuring charges incurred during the year ended December 31, 2019, however there was $183 million of restructuring and impairment costs in 2018. These restructuring costs in 2018 were designed to more closely align the company’s financial resources with critical priority of the business and optimize operations. Selling, general and administration expenses increased $51 million to $2,233.8 million in 2019 as compared to $2,182.3 million in 2018. The company selling general administrative expenses consists of costs related to marketing, selling, products innovation and supply chain and corporate services. The increase in selling general administration expense of $51 million was due to increase in marketing expenses due to the growth in the company’s international business and higher compensation expenses, and consulting and management fees.

The company’s cash requirements have been for working capital and capital expenditures. The cash needed for funding inventory and property, plant and equipment came from cash flows from operating activities, borrowing under our bank credit facility and issuance debt securities. Capital investments have included expanding the company in store fixtures and branded concept shop programs, lease hold improvement to our brand and factory house stores, and improvements in information technology systems. Cash flows provided by operating activities decreased $119 million to $509 million in 2019 from $628 million in 2018. This decrease was due to a decrease in working capital. In 2019 the current ratio was 1.90 which was a 7% decrease from 2018 which was 1.97 that means that in both years the company had enough cash to cover its current debts. The acid test in 2019 was 1.05 which was an increase from 2018 which was 0.97. The company was able to meet its short-term obligations. The accounts receivable turnover ratio was similar in 2019 to 2018 which approximated 7.74 turns. The company continues to collect their receivables in a timely manner to pay off their current liabilities. The inventory turnover ratio of 2.93 in 2019 approximated that in 2018. The companie’s challenge is to increase the inventory turnover ratio and the accounts receivable turnover ratio so that the company can convert their inventory and receivable into cash quicker. The industry standard for inventory turnover ratio is approximately 4.0 and accounts receivable turnover ratio is approximately 9.0. The company’s assets turnover ratio is 1.99 which is better than the standard industry ratio of 1.6.

The company’s internal control over financial reporting as of December 31, 2019 has been audited by PricewaterhouseCoopers. In 2015 the company began the process of implementing a global operating and financial reporting information technology system, SAP fashion management solution, as part of a multi-year plan to integrate and upgrade the company’s systems and processes. This implementation of the systems and related change to internal controls will enhance the company’s financial reporting. The company will continue to strengthen their internal financial reporting controls by automating select manual processes and standardizing business reporting and processes across the organization. During 2019 the company implemented internal controls to ensure adequate valuation of contracts and properly assess the impact of the new lease accounting standard on the financial statements in accordance with ASU 2016-02. The company also implemented controls over the new leases system and accounting under this ASU to monitor and maintain appropriate internal control over financial reporting.

In the opinion of PricewaterhouseCoopers the consolidated financial statements present fairly in all material respects the financial position of the company as of December 31, 2019 and 2018 as result of its operations and cash flows for each of the years presented in conformity with general accepting accounting principles. The company changed the manner in which it accounted for leases in 2019, the company adopted ASU 2016-2 leases (topic 842).

**Recommendations**

Due to the situation that the world is currently facing with COVID 19 this will have a negative effect on sales, gross profit and operating profit which is why the company should focus more on online marketing throughout these challenging times. The company should also consider selling products to online shoppers without charging the customers a shipping charge. To ensure the safety of the supply chain and increase profits the company may need to come up with an alternative to produce their products in other countries and expand production in the U.S. Short term furloughs and some temporary layoffs of employees will improve results in the short term. If the company has a slowdown in its business, they may have to raise cash by issuing debt, stock or pursuing additional bank borrowings. The company will complete the implementation of a new financial system and put standard controls in place that will enhance results and give the company consistency and confidence in its reporting.

# References

Under Armour Inc. (2019, May 1). *Annual report which provides a comprehensive overview of the company for the past year*. Retrieved May 4, 2019, from Under Armour: https://about.underarmour.com/investor-relations/financials#module-3

Appendix A

See Attachment for Company Analysis and Company information tables



Appendix B

**Financial Statement Analysis Rubric**

Total 100 points

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Criteria** | **Unacceptable** | **Acceptable** | **Proficient** | **Student Score and Comments** |
| Accurately completes the company analysis worksheet. | Does not accurately complete the ratio analysis and/or interpretations.  (0-9 points) | For the most, accurately completes the ratio analysis and/or interpretations, and links most formulas.  (10-17 points) | Accurately completes the ratio analysis and interpretations, and links all formulas.  (18-25 points) |  |
| Develops an opening paragraph that introduces and accurately describes the company. | Vaguely develops an opening paragraph that introduces the company and identifies few to none of the facts requested.  (0-10 points) | Develops an opening paragraph that introduces the company and/or identifies few of the facts requested.  (11-13 points) | Develops an opening paragraph that introduces the company, identifies the facts requested, and demonstrates solid ability to accomplish the assignment.  (14-15 points) |  |
| Analytically discusses the analysis results and integrates established accounting principles into the discussion. | Vaguely discusses the company analysis results and rarely integrates accounting principles into the discussion.  (0-14 points) | For the most part accurately discusses the company analysis results and does a good job of integrating accounting principles into the discussion.  (15-24 points) | Thoroughly and accurately discusses the analysis and strongly establishes accounting principles into the discussion.  (25-30 points) |  |
| Develops a clear recommendation that is supported with ratio analysis. | Demonstrates little clarity and logic. Readers have difficulty following the line of reasoning.  (0-7 points) | Develops a recommendation with clarity and logic. The recommendation is somewhat supported with interpretations of ratio analysis.  (8-14 points) | Develops a recommendation with clarity and logic. The recommendation is well supported with excellent interpretations of ratio analysis.  (15-20 points) |  |

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| Uses supporting documentation that has been properly references and cited. | Inadequate or minimal use of supporting documentation or not properly referenced or cited.  (0-2 points) | For the most part, uses supporting documentation that is properly referenced and cited.  (3-4 points) | Consistently uses supporting documentation that is properly referenced and cited.  (5 points) |  |
| Considered holistically, demonstrates the ability to write at the undergraduate level. | Considered holistically, the student demonstrates an inadequate ability to write at the undergraduate level.  (0-2 points) | Considered holistically, the student demonstrates an acceptable ability to write at the undergraduate level.  (3-4 points) | Considered holistically, the student demonstrates a proficient ability to write at the undergraduate level.  (5 points) |  |
| **Total Points** | | | |  |

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