

13-Feb-2018

Under Armour, Inc. (UA)

Q4 2017 Earnings Call

CORPORATE PARTICIPANTS

Lance Allega

Vice President-Investor Relations, Under Armour, Inc.

Kevin A. Plank

Chairman & Chief Executive Officer, Under Armour, Inc.

Patrik Frisk

President & Chief Operating Officer, Under Armour, Inc.

David E. Bergman

Chief Financial Officer, Under Armour, Inc.

OTHER PARTICIPANTS

Randal J. Konik

Analyst, Jefferies LLC

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Edward J. Yruma

Analyst, KeyBanc Capital Markets, Inc.

James Vincent Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Robert Drbul

Analyst, Guggenheim Securities LLC

John Kernan

Analyst, Cowen & Company LLC

Omar Saad

Analyst, Evercore Group LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Under Armour, Inc. Fourth Quarter Earnings Webcast and Conference Call. At this time, all participants are in a listen only mode. Later we will conduct a question-and-answer session, and instructions will be given at that time. [Operator Instructions] As a reminder, today's conference is being recorded.

I would now like to turn the call over to Mr. Lance Allega, Vice President of Investor Relations for Under Armour. Sir, you may begin.

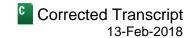
Lance Allega

Vice President-Investor Relations, Under Armour, Inc.

Thank you, and good morning to everyone joining us on today's call to discuss Under Armour's fourth quarter and year-end 2017 results. Participants on this call may make forward-looking statements. These statements are based on current expectations and are subject to certain uncertainties that could cause actual results to differ materially. These uncertainties are detailed in this morning's press release and documents filed regularly with the SEC, all of which can be found on our website at uabiz.com.

During our call, we may reference certain non-GAAP financial information, including adjusted and currency-neutral terms which are defined in this morning's release. We use non-GAAP amounts as a lead in some of our discussions because we feel they more accurately represent the true operational performance and underlying results of our business. You may also hear us refer to amounts in accordance with the U.S. GAAP. Reconciliations of GAAP to non-GAAP measures can be found in the supplemental financial tables included in the

Q4 2017 Earnings Call



press release, which identify and quantify all excluded items and provide management's view of why this information is useful to investors.

Joining us on today's call will be Under Armour Chairman and CEO, Kevin Plank; President and COO, Patrik Frisk; and Chief Financial Officer, Dave Bergman. Following our prepared remarks, we'll open the call for questions.

And with that, I'll turn it over to Kevin Plank.

Kevin A. Plank

Chairman & Chief Executive Officer, Under Armour, Inc.

Thanks, Lance, and good morning, everyone. On our last call, we spoke at length about our strategy of getting big fast and the rapid expansion of our business to gain scale. Scale and innovation, product, sport categories and global footprint, all geared at helping us become one of the world's largest athletic brands. We also detailed some of the operational inefficiencies as a direct result of this growth, including an inconsistent go-to-market process, change management related to shifting toward a category-based construct, and the mismatch in our cost structure that was built to support the expectation of being a much larger company by 2018.

These issues, along with some macro challenges in the North American market, including retail consolidation, changes in consumer preference and intensified competition, created a tough year for our company in 2017. It was tough but also an opportunity to begin the work to transform ourselves into an operationally disciplined organization, capable of supporting the powerful global brand that is Under Armour.

Over the past year, we've made strategic and proactive decisions to advance our systems, reset our structure, and recalibrate our leadership in an effort to simplify our go-to-market, address our inefficiencies and utilize the scale and infrastructure we've built to better serve our consumers and retail customers. As we slow down [ph] the (03:02) speed-up and simplify everything we do to become smarter, faster and stronger, our team is collaborative, humbled and hungrier than ever.

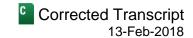
Today, we reported our fourth quarter and year-end 2017 results. Relative to where we are in our journey in the offensive and defensive strategies we're employing, let's take a moment to review some full year highlights, which were fairly in line, if not a little better, than the outlook we gave on our last call.

Revenue was up 3% to \$5 billion. Our wholesale business was down 3%, and DTC revenue was up 14% driven by low-double digit growth in our owned stores and a high-teen increase in our e-commerce business. In total, DTC represented 35% of our global revenue for the full year.

By region, as expected, North American revenue was down 5% and our international business was up 46%, driven by continued strong growth in EMEA, Asia Pacific and Latin America. Having crossed the \$1 billion mark, so quadrupling in the past three years at 22% of global revenue, the size and scale of our international business is on the precipice of being able to deliver more meaningful return on the large investments we've made over the past several years.

By product type, full year results for apparel, footwear and accessories were also in line with our outlook, up 2%, 3% and 10%, respectively. Full year gross margin was down 140 basis points to 45%, a decline due primarily to inventory management initiatives in the heavily promotional environment that we operated in North America throughout much of the year.

Q4 2017 Earnings Call



Looking at SG&A, we continue to be challenged by a highly committed cost structure and asset build over the past few years, one that levers mathematically even higher due to the change in our top line trajectory.

In 2017, our SG&A spend was up 14%, which was 41.9% of total revenue. The fact that there's a 4 in front of this ratio is unacceptable to us, and we are working to address it as quickly, efficiently and as brand-right as possible. In this respect, we're making progress.

SG&A dollars were up 22% in 2016. They're up 14% last year, and we expect it to be up at a mid-single digit rate in 2018. So over the three-year stack, we'll basically halve the growth rate percentage each year. In short, it's very difficult to unpack five years of investing to scale in just five quarters, but we are completely committed to improving this ratio toward industry-best practices.

In addition to SG&A, across the whole business, we are working to engineer additional areas for longer-term leverage. Last year, we announced a \$140 million to \$150 million restructuring plan intended to help better align our resources against our biggest long-term growth drivers. For the full year, we recognized \$129 million of pretax charges under that plan.

After going deeper, broadening our scope and recalibrating our leadership with even greater financial discipline, we've identified additional opportunities to improve our operations. Accordingly, our board approved expanding our restructuring efforts to include approximately \$110 million to \$130 million of additional charges expected to be recorded in 2018.

Dave will provide more details on the 2018 plan later. So to finish out our 2017 results, adjusted operating income of \$157 million and adjusted EPS of \$0.19 were also in line with our outlook.

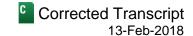
In summary, 2017 was a year we reset and reorganized our business at a level and pace unlike anything we've ever executed. To finish out the year in line with the outlook we provided in October should be taken as an indicator that our actions have begun to take hold and our efforts are putting the brand in a much healthier position to move forward.

In 2018, we're anticipating more stable operating environment for Under Armour, a year that should financially prove to be similar to 2017. And that's perhaps where the similarities end, because within the context of further strengthening our foundation during this fiscal year, we are constructing our long-term operating model, cauterizing the strategies to support it and architecting precisely how we will ensure a more consistent, predictable path to deliver long-term value to our shareholders. To capstone these efforts, we're working toward an Investor Day in the second half of 2018 that we'll be announcing soon.

At this inflection point, there are two simultaneous connected efforts that we are working on: an operational transformation and our long-term strategy. Patrik will get into more detail about our operational transformation, but at the highest level, there are currently several major initiatives that we are tackling with the goal of putting the consumer first, simplifying our operations and driving sustainable, profitable growth.

With respect to our long-term strategy, the position, strength and creativity of our brand is job one. To support this, there are four foundational pillars that have served and will continue to serve to fuel the brand through Under Armour's unique personality and performance-based point of view: product, story, service and team.

Q4 2017 Earnings Call



So let me start with product. In 2017, we moved to a category management structure to ensure that our understanding of athlete needs is essential to everything that we do. We take deep athlete consumer insights and innovate to solve their problems and inspire them to push the boundaries of what is possible.

In order to do this consistently, to elevate innovation, and be a product machine, we are completely reengineering our go-to-market by focusing on our design approach, revamping the process, calendar and structure, and prioritizing being premium at every price point, all within a consistent margin structure. Much of this process began in the first half of last year, and with a 12 to 18-month lead time we've already begun to see some success with products like our ColdGear Reactor and Unstoppable apparel collections and the Curry 4, Speed II and UA HOVR Phantom and Sonic running shoes that we just launched just a couple weeks ago.

Second, it's all about bringing product to life, telling globally relevant stories and connecting through social platforms supported by a go-to-market approach that promotes growth and scale. In 2017, we were a loud company and a quiet brand. In 2018, our plan is to be a quiet company and a loud brand. Getting to that point is our HOVR launch. Starting with strategic seeding last fall through the release this month and the ongoing efforts throughout this year, you'll see and hear a lot about HOVR. From marketing, PR and social, to athlete, pace maker and consumer touchpoints, the saturation of this effort has created a significant amount of buzz for our third cushioning platform, which joins Charge and Micro G.

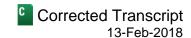
Through a combined product and story lens, HOVR is a fantastic example of Under Armour firing on all cylinders. As a product, HOVR is an Under Armour DNA trifecta of style, performance and fit. And from a story perspective, without comparison, the storytelling and support around UA HOVR is the largest, most comprehensive campaign that we've ever done on a global basis. And this is just the beginning of some of the amplified storytelling you'll hear from us in 2018.

Next up is service and putting our consumer athletes at the center of everything we do, always, from start to finish, and back again, no exceptions, constantly serving our consumer athletes whenever and wherever they choose to engage our brand. As we elevate our game and validate some of our assumptions along the way, while digging even deeper to truly understand the consumer decision journey, I believe that our perceived short-term weakness, our focus on athletic performance, will ultimately prove to be our greatest long-term strength.

Our product must of course drive style, but we'll continue to invest in being an authentic athletic performance brand. That's us. This focus, along with global, operational discipline will ultimately ensure we are able to deliver a seamless consumer and customer experience time and time again.

And finally, our team. The DNA that fuels the bones, muscle and blood of Under Armour is our people. It's been a tough year and this team, our team, is resilient and ready to win. The best part of my day is walking the halls and connecting with the teammates that are building this company, from the rookie call center teammate to the seasoned industry veteran, from Portland, Austin, San Francisco and Hong Kong to Amsterdam, New York and Baltimore, we are single-minded in our passion, purpose and commitment that articulates through our new mission statement, which is UNDER ARMOUR MAKES YOU BETTER. That means in every way we connect, through the products we create, the experiences we deliver and the inspiration we provide, we simply make you better.

In summary, we see you and we hear you. Know that we're, heads down, stabilizing, prioritizing, executing and making measured incremental progress for the company we know we can be. It takes time, which can certainly be challenging on both sides, externally and internally, yet we have the patience, plan and fortitude to see this through methodically and successfully.



And with that, I'll turn it over to Patrik.

Patrik Frisk

President & Chief Operating Officer, Under Armour, Inc.

Thanks, Kevin. On our last call, I spoke about operate, fuel, innovate as the central construct of how we're strengthening our underlying business. Staying accurate in product, story, service, team, today I'd like to detail some of the major initiatives we're working on within our operational transformation. This transformation has three main objectives: put the consumer first, simplify our operations, and drive sustainable profitable growth. At its core, it starts with the consumer. As we work to significantly sharpen our knowledge and connection with our consumer athletes, it's critical that research and design, innovation, engagement, and thus our overall go-to-market are based on consumer insights to create a demand-centric growth model.

To base this work, we've finished our global segmentation study targeting more than 20,000 people and gained an even deeper understanding of how consumers engage our brand, use our product, and [ph] when (13:47) and why they shop Under Armour. Within this consumer decision journey, we are using both quantitative and qualitative attributes to further strengthen our ability to analyze existing market spaces and identify unique areas of white space where we might play.

Now part of every season's consideration, this data and analytic set serves to inform and support the tough decisions we have to make with respect to resource allocation and the financial discipline necessary to provide high returns. High returns then provide more agility for our business. Playing an essential part of the strategic planning process, this enables us to refine our positioning, prioritize product, pricing, and segmentation and ultimately unlock additional value drivers and growth levers.

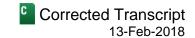
Second, following many years of rapid growth and infrastructure build, we are in the process of simplifying our operations. To restate what was said earlier, it's challenging to unpack five years in five quarters, but we are making progress. As we work through this transformation, we're focused on keeping structured, process and go-to-market continuously aligned to ensure repeatable outcomes.

A lot of the foundational work and tough decisions the team has implemented, along with the expansion of our restructuring plan that we announced this morning, are a direct result of our team digging in deeper and narrowing our focus even more directly to ensure we have greater operational agility. And it is this agility that allows us to align against the largest opportunity for growth and profitable returns

And at the highest level, what does this look like? Well, from a channel perspective, it's optimizing our direct-to-consumer business, amplifying e-commerce and demonstrating, firsthand, that this is an amazing experience for consumers to engage Under Armour and for us to tell our brand story. From a category perspective we're placing a high level of focus on men's training, running and women's training, the areas with brand strength, the largest market opportunity, and most consistent growth.

It's also about being a product machine and turning out consistent innovation to delight the consumer, from sketch, materials and production to discovery, purchase and the entire lifecycle of the product. We are 100% focused on the consumer and creating the world's best performance products. With this respect to geography, it's strategically managing our business in North America through better segmentation, aligning inventory to ensure brand health, and continuing to evolve our distribution relative to the quickly changing market.

Q4 2017 Earnings Call



Internationally, it's continuing to build our footprint and scale, leveraging the investments we have already made and distorting toward more profitable hyper-growth markets like China and the greater Asia Pacific business, as an example.

As we continue to transform toward a more efficient global operating model, we are also evaluating opportunities to redesign key processes and simplify the ways of working to optimize workstreams and productivity, assessing organizational responsibilities and designing key functional and cross-functional processes to drive faster decision-making and, in very tight partnership with Dave, emphasizing and driving accountability and financial discipline throughout the organization.

With our operating structure and processes in alignment, the go-to-market now falls into place, allowing us to make great strides in several areas, such as shortening the current go-to-market calendar and moving from biannual to quarterly cadence that will see continuous improvement going forward and will reach its full effect by early 2020.

From an innovation perspective, it enables us to redefine the criteria for innovation platforms to transition from concept to in-line and powering the development of seasonless innovation, which is central toward driving the shortened go-to-market calendar, and SKU optimization, which is really about doing more with less. With greater structure and process in alignment, we anticipate that our fall 2019 product will have 30% to 40% less SKUs than our 2017 assortment.

We're also getting much sharper with demand creation, storytelling and our overall ability to connect even more deeply with consumers. We want to be a loud brand and a quiet company in 2018, like Kevin said. To support this, we're simplifying and focusing our marketing, PR and social elements to better leverage the brand equity that has already been built while creating strategies to drive high returns for our efforts. And a few of the things that we're working on include significantly evolving our marketing return on investment to determine exactly what the best mix of sport, social, traditional and digital best supports our ability for Under Armour to make you better.

Next is an absolute acceleration and amplification of digital. How the intersection of product, Connected Fitness and experience interfaces with the ultimate goal of getting the world's best performance products to our consumers. Having assessed our digital capabilities, we're executing pilots and constructing a repeatable quantitative and qualitative playbook, which is a significant improvement for the brand. Now in this respect, moving from seasonal and one-time brand moments to a continuous [indiscernible] (19:01) conversation with our consumers, telegraph the same passion we live and breathe inside these walls.

So to close it out, we're making measurable progress against our transformation, by putting the consumer at the core of everything we do, having a more frequent innovation cycle, increasing our speed to market, executing holistic launches and better segmenting our product at the channel and store level, we're setting up to be a loud brand and operationally disciplined company in 2018 and beyond.

And now I'll turn it over to Dave.

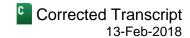
David E. Bergman

Chief Financial Officer, Under Armour, Inc.

Thanks, Patrik. Before we get into our fourth quarter results and our outlook for 2018, I'd like to provide some more context around the 2017 restructuring plan and one-time items that impacted our quarter as well as the 2018 restructuring plan that we announced this morning. On our last call, we provided an update to our restructuring plan that we expected to incur approximately \$140 million to \$150 million of pre-tax restructuring-



Q4 2017 Earnings Call



related charges in 2017. For the year, we recognized a total of \$129 million in charges against that plan, including \$37 million in the fourth quarter.

As we move into 2018, we have uncovered additional opportunities to more closely align our financial resources to drive operational discipline and effectiveness. To that effect, we approved a new 2018 restructuring plan, which is expected to include \$110 million to \$130 million of pre-tax restructuring and other related charges. This plan anticipates up to \$105 million in cash-related charges, consisting of up to \$55 million in facility and lease terminations and up to \$50 million in contract termination and other restructuring charges, as well as up to \$25 million in non-cash charges comprised of up to \$10 million of inventory-related charges and up to \$15 million of asset-related impairments.

In 2017, we made several strategic decisions to drive toward a more efficient and effectively-operated company. We are proud of the work we have done thus far and will use 2018 to further drive efficiencies and streamline our business to become more profitable. Based on our restructuring efforts in 2017 and 2018, we anticipate a minimum of \$75 million in savings annually from these efforts as we move into 2019 and beyond.

We already reviewed some of the full-year highlights, so let's take a few minutes to review our fourth quarter results before turning to our 2018 outlook. Revenue was up 5% to \$1.4 billion. Clicking down, let's start with revenue by channel. Our wholesale business was down 1% to \$733 million in the quarter, reflecting lower demand in our North American business, particularly within the sports specialty channel. Direct-to-consumer revenue grew 11% to \$575 million, driven by continued strong results in our international businesses. DTC in total was 42% of global revenue in the quarter. Licensing was up 10% to \$33 million, primarily driven by strength in our Japanese business.

By region, revenue in our largest market, North America, was down 4% to \$1 billion, which was in line with our expectations. Outside North America, our international business continued its strong momentum, posting a 47% increase in revenue to reach \$317 million or 23% of total revenue in the fourth quarter. On a currency neutral basis, international revenue was up 43%.

Clicking down into the international regions. EMEA revenue was up 46% driven by growth across our wholesale and DTC channels. One highlight in the quarter was the opening of our first Brand House in Europe, which is very exciting for the team and the future of DTC in this region.

Revenue in Asia Pacific increased 56% driven by strong growth in our DTC as we continue to drive both digital and physical touchpoints with the consumer.

Our Latin American business was up 36% led by balanced growth in DTC and wholesale across the key markets of Mexico, Brazil and Chile, as well as our recent entrance into Argentina. And finally, our Connected Fitness business was up 31% driven primarily by new partner relationships.

Turning to gross margin, we saw a 150 basis point decline to 43.2% in the fourth quarter. Excluding the restructuring, which contained about 10 basis points of inventory impacts, adjusted gross margin was 43.3%.

To walk through the components of the decline, the negative drivers included approximately 160 basis points from certain inventory management efforts, including promotions and air freight; and 60 basis points of channel and product mix due to a higher composition of off-price and footwear sales. These pressures were partially offset by 50 basis points of tailwinds from changes in foreign currency and 40 basis points of product costing improvements.

Q4 2017 Earnings Call



SG&A expense increased 41% to \$591 million, driven primarily by timing shifts and demand creation from the third quarter, lower incentive compensation in the prior period and continued investments in our DTC, footwear and international businesses.

With respect to incentive compensation, recall that in the fourth quarter of 2016, we reversed a substantial amount of full year incentive compensation, so that impacts the year-over-year comparison. Fourth quarter operating loss was \$37 million. Excluding the restructuring, adjusted operating income broke even. Interest and other expense was \$12 million.

And turning to taxes, our fourth quarter and full year tax expense included \$39 million of expense related to the December 2017 U.S. Tax Act. This included \$14 million for tax on indefinitely reinvested foreign earnings as well as a \$25 million non-cash charge to reduce our deferred tax assets to reflect the change in U.S. corporate tax rate from 35% to 21%. There were no cash impacts in the fourth quarter related to these charges. However, the charge associated with indefinitely reinvested foreign earnings will have a minor impact on future cash flow.

All in, the impacts of tax reform made for an effective tax rate of negative 80.8% in the quarter. On an adjusted basis, which would exclude the impact of one-time charges and changes due to tax reform, the quarterly tax rate was 94.8%.

Taking all this to the bottom line, net loss was \$88 million or a \$0.20 loss in diluted earnings per share for the fourth quarter. Excluding restructuring and one-time tax reform impacts, adjusted net loss was \$1 million and adjusted diluted EPS broke even.

Turning to our balance sheet, cash and cash equivalents were up 25% to \$312 million. Inventory was up 26% to \$1.2 billion. Important to the inventory story is the split between North America and our international businesses.

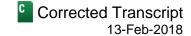
In North America, inventory was up at a mid-teen percentage rate, while our international inventory was up nearly 50%, supporting the strength of this business. Total debt was up 12% to \$917 million. And finally, capital expenditures were down 20% to \$74 million.

Let's now move to our initial outlook for 2018, which we believe will end up looking similar to 2017. For the full year, we expect revenue to be up at a low-single digit percentage rate, anticipating a mid-single digit decline in North America where we believe strength in our DTC business will be more than offset by wholesale contraction. Building on the strong momentum in our international business which passed the \$1 billion mark, we're expecting growth to be north of 25%.

Many of the macro factors that we experienced in 2017 we expect to carry over into 2018. Thus, for the full year, we expect apparel, footwear and accessories revenue to each grow at a low-single digit rate. DTC revenue should be up at a mid to high-single digit rate in contrast to our wholesale business, which should be down slightly to flat.

Moving to gross margin. For the full year, we currently anticipate about 50 basis points of improvement compared to 45% in 2017, primarily due to a higher percentage of DTC in the channel mix, changes in foreign currency and lower product costs. To note, we are expecting meaningfully lower promotional activity in the back half of the year of 2018 compared to the back half of 2017.

Q4 2017 Earnings Call



As discussed earlier, we are currently executing against several initiatives that address our overall operating structure, many of which are geared specifically at getting SG&A into better alignment over the long term. In 2018, we're expecting our SG&A to grow at a mid-single digit rate, with higher growth rates in the first half, primarily due to the timing of marketing support for our HOVR and Training campaigns.

To be clear, SG&A to revenue percentage is not where we want it to be in 2018, but following the step-down from 22% to 14% over the past two years and given the magnitude of committed and fixed costs within this line item, we believe we are making meaningful progress. Also keep in mind that, concurrently, it remains a priority to support our growth in our DTC and international businesses, which require continued investments. So we're balancing that in the mix appropriately.

Thus, I want to emphasize this is not just a cost-cutting, right-sizing-only exercise. Kevin, Patrik, and myself, along with the entirety of Under Armour, are aligned that this is about running a smarter, leaner and more efficient organization that gives us constant agility and ability to generate sustainable returns to invest in our brand and drive shareholder value.

Back to our P&L and taking this through to operating income, we're expecting to generate about \$20 million to \$30 million in 2018. Excluding the restructuring, adjusted operating income should be approximately \$130 million to \$160 million.

Interest expense and other expense combined is expected to be approximately \$45 million for the full year. With respect to tax, while corporate reform in the U.S. will provide a benefit over the long term, in 2018, due to our challenged U.S. results, we do not foresee benefits from the rate reduction and will instead see some unfavorable tax impacts due to new base broadening provisions and limitations on certain deductions, coupled with unfavorable tax impacts due to our stock performance over the past year.

These negative impacts will be primarily offset by the beneficial comping of larger valuation reserves recorded in 2017. Longer term, as we execute on our operational initiatives and U.S. income growth, our effective tax rate will benefit from the lower U.S. corporate rate. Excluding the impact of one-time restructuring charges, we expect our 2018 adjusted effective tax rate to be in the 25% to 27% range. Taking this to the bottom line, we're expecting full year adjusted diluted earnings per share of \$0.14 to \$0.19.

Turning to a few items on our balance sheet. Due to the revision of our North American revenue trajectory in the second half of 2017, we anticipate that our inventory growth rates will be fairly consistent with our year-end growth rate through the first half of 2018, and then should move more in line with revenue. Demonstrating our focused capital strategy, we expect full year CapEx to be down more than 20% to approximately \$225 million, compared with \$275 million in 2017.

And finally, with respect to leverage for the year, we are expecting some quarter-over-quarter fluctuations that, combined with the cash impacts of our restructuring plans on our trailing 12-month EBITDA, will cause our leverage ratio to flex above historical levels during parts of 2018. Accordingly, we are in the process of seeking an amendment to our credit agreement to address this short-term issue.

Lastly, to give a little more color on our outlook. We're expecting our second quarter revenue growth rate to be the highest of the year, as we work through elevated inventory in North America. With respect to the first quarter, we currently anticipate revenue to be flat to slightly down versus the prior year. First quarter adjusted gross margin is expected to be relatively flat, and adjusted operating income is expected to be a loss of approximately \$15 million, which puts adjusted EPS at a loss of \$0.06 to \$0.07.

Also, important to note that we anticipate the majority of our restructuring to be completed in the first half of 2018, with the second quarter being higher than the first quarter.

To close out our call today, we remain committed to driving a more efficient and effective company throughout 2018. As we continue to optimize our North American business and our operating model, our resolve remains unwavering, and we believe our long-term goal of creating a more profitable and predictable growth trajectory is intact. We're confident in the work we've done, in the work ahead and our ability to build, fuel and feed Under Armour into emerging as a stronger and better company for our consumers, customers and shareholders.

With that, I will turn it back to the operator for your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Thank you and our first question comes from the line of Randy Konik with Jefferies. Your line is open.

Randal J. Konik

Analyst, Jefferies LLC

Yes. Thanks a lot. I just had two questions. First question is for Dave. Dave, there's a lot of moving pieces to the gross margin. I think the good news here is the gross margin is moving up in 2018. Can you give us some perspective on some of the tailwinds that would be more sustainable to the gross margin beyond 2018, such as you mentioned some improvements in costing that you guys are seeing? As well as you had mentioned that the promotional environment should be better in the back half of 2018, so I'm assuming that impacts the gross margin in the front half of 2018.

So just want to get some perspective on how we should be thinking about long-term gross margin opportunity, not maybe get the number, but some of the factors that you're looking at to kind of drive and improve gross margin on a more than 12-month basis as we look out into the medium term. Thanks.

David E. Bergman

Chief Financial Officer, Under Armour, Inc.

Sure. We definitely feel good about the 50 basis point increase. I think to start, and maybe it's just understanding that some of the past headwinds are definitely diminishing, so we're assuming less promotions in the back half of 2018 versus 2017. That's a plan perspective, a brand protection perspective and we feel pretty good about that, so you will see a little bit better basis point improvement in the back half versus the front half. But also as far as some of those headwinds that are diminishing, international is no longer a headwind for us. That's trending favorably especially with when you think about Asia Pac being our highest growth region and also it's our now highest gross margin region as well, so that's helping. We also expect less air freight as we're not maneuvering through a major ERP system implementation this year, which created some of the elevated air freight last year.

And then also, when you think about FX, after years of headwinds, this has now shifted to a slight tailwind. And then we're also, as you mentioned, seeing some early success from some of the sourcing initiatives. Colin Browne in Supply Chain, we're working really well with our vendor base, working on various initiatives there, but – relative to visibility, negotiation, consolidation et cetera, we're seeing some benefits of that in the back half of this year, but full-year benefits in 2019 and beyond.

And then I think as some of the past headwinds are diminishing, some of the past tailwinds are continuing. So if you think about channel mix, we should continue to see positive impact there, primarily driven by the higher DTC growth. So in summary, we feel pretty good about the 50 basis points and what that could mean for 2019 and beyond.

Randal J. Konik

Analyst, Jefferies LLC

Q

Yeah. That's really helpful. And then, Kevin, congratulations on this HOVR technology. I guess what I wanted to ask around that is since it's been – looks like it's selling really well on the website and your stores, what have you learned from, not just the technology but the aesthetic of what the product actually looks like, especially the Phantom and the success you've had on the design improvements? What can we kind of takeaway that you guys will learn and bring forth either continued in the footwear category or even in the apparel category, whether it be on product design or marketing around these products in 2018 and beyond? Thanks.

Kevin A. Plank

Chairman & Chief Executive Officer, Under Armour, Inc.



Yeah. Thanks, Randy. I think one of the best things about our industry is how simple it is at the end of the day. When it comes down to it, the consumer has a very basic expectation and we've defined that, we call it the trifecta at Under Armour, and it's style, performance and fit. And that's what makes us unique as a brand and what really makes our product differentiated is that when we deliver on those three things, first and foremost, it looks great; number two it's got performance or has technology in it which is what makes it Under Armour and has a reason and a purpose for being; and then also just the comfort and the fit that goes into the product, I think, that's one thing that HOVR really exemplifies for us and our brand.

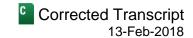
It also is – it's a simple story. I think it falls under what we call a franchise, is that the consumer can look for it, they know what it is. It was a program that we were able to execute globally, all around the world, including we have one of our UA HOVR Houses, which will be kicking off in Los Angeles this weekend, around NBA All-Star game. We've been in Munich, we've been in Shanghai. So the team has really done a great job as our first true global launch, but I think it says – it's very telling is that the consumer comes to Under Armour for, first and foremost, great product. It's delivered and designed the right way, but they also want it easily communicated through a story.

So we believe we have massive opportunity, I think, in footwear for us as a brand. When we think about footwear, women's and international being our three big growth drivers, all that are now above \$1 billion for us, and give us the ability to look to lean on. But it really comes back, I think, to just making sure that the product is right.

We've learned a lot of lessons in 2016 and 2017. There's nothing that says I think for any brand to be able to show up, put a logo on a product and assume it will sell. It's got to hit that trifecta and we feel pretty good about what we're doing. And beyond the fact is – probably the best thing about HOVR is just the discovery factor. A, it looks great; number two, it's probably one of the most – one of if not the most comfortable shoe you've ever put on your foot. I'd vote for the latter; and number three, it's also a Connected shoe. There's a technology in it that allows you to have this community clock that you can run with yourself and against friends and against seeing how many people – how many miles have been logged on in that as well.

So it really is the first product that I think really drives the manifestation between the digital and the physical of what we can do with our Connected Fitness business and our teams in Copenhagen, San Francisco and Austin.

Q4 2017 Earnings Call



So like I said, that product is just a home run, and I think you can look to see more of those type of franchise-types approach on a clearly communicated way going forward from us as well.

Randal J. Konik

Analyst, Jefferies LLC

Very helpful. Thank you.

Operator: Thank you, and our next question comes from the line of Jonathan Komp with Baird. Your line is open.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Yeah. Hi. Thank you. Kevin, you've done a good job of really summarizing of lot of what's going on currently to address some of the issues. I want to take a step back. I know you've talked about the recoveries being really a two-year journey for the company, and I'd love it if you could maybe take some time to talk about specific examples that have given you more or less confident in that view?

Patrik Frisk

President & Chief Operating Officer, Under Armour, Inc.

Yeah, I think I'll take this one. This is Patrik here. I think some of the things that are giving us real confidence, Kevin touched on the HOVR story here, but I think it's the way we're now approaching everything that we're doing, we're putting the consumer at the center of what we do. We've just completed, as I said, a major global consumer segmentation study as well as some other interesting work in the space where we compete, which is giving us more insight into understanding where we can be competitive in the space.

We're coupling that together with the process improvements that we've made around our go-to-market and are driving now a much more coherent calendar, if you like, which is also giving us line of sight into improvements in the calendar as it relates to speed to market.

So the teams are really starting to work much better together, and the reason we're referring so much to HOVR is because it was the first time we were able to execute a 360-degree campaign a few weeks ago across the world simultaneously at the same time. And we clearly see that when we do that, the consumer responds. So for us, it's kind of the first showing, if you like, inside of the new go-to-market, and that's why the big things for us as we look into 2018 and beyond, and which gives us a lot of confidence.

The second thing is also as you think about efficiencies inside of the work we're doing around SKU optimization, for example. The fact that we're driving 40 less SKUs more or less over a two-year period, and 25% just in 2018 to 2019 alone, also shows that when we put our mind to it, and when we really understand the consumer and the space, we're able to make those difficult decisions of what not to do as well. So that's giving us a lot of confidence in our team's ability to execute in this new environment that we're in.

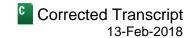
Kevin, I don't know if you want to add something to that maybe.

Kevin A. Plank

Chairman & Chief Executive Officer, Under Armour, Inc.

Yeah, I think it's important that as a company, we've really focused on scale over the last several years. And I think it's probably one of the most debated topics of is it right, is it wrong, is it [ph] here or there (42:24)? It's a

Q4 2017 Earnings Call



decision that we made, and frankly we're really glad that we're able to go through. I think what many companies are facing, especially what we're seeing right now is a \$5 billion brand. So having built that, and one thing we know is that building a brand is frankly much more difficult than becoming streamlined to where we want to be in operations.

And so we feel like we've done one – what you're hearing from us is that we have a heavy focus to what we're going to build into – we've done in 2017 what we're building into 2018 and we're not done and we're not going to probably take either one easy. We're going to focus on continuing to be a great brand but of course getting operationally excellent.

And the good news about this, as Patrik said, is this journey began back in 2017. We made a lot of really hard difficult decisions from modifying our structure of going from ahead of apparel, footwear, and accessories to category management with distinct categories that really like running, and soccer, and golf, and training, et cetera.

We also upgraded our ERP systems with SAP and something that we're continuing to see the fruits of what that's going to mean for us going forward and then, of course, bringing in the leadership with Patrik joining our team. So what we have to say is all three of these things are about seven months into it right now.

And so 2017 was about us getting started and 2018 is about us really optimizing, and I think you'll see us do that. But we want to be clear, there's a lot of work for us to do in 2018, but as I think hopefully you're hearing from us is that we feel very confident in the strategy and the plan that we have in place, so we'll keep running on that.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Great. And if I could follow up specifically on the cost efficiencies and SG&A reductions, I'm curious if you could share a little bit more on the pacing of some of the benefits you expect. I know the guidance is for at least \$75 million of savings by 2019. Will you be getting some of that this year? And then also, longer term, when you look to get the G&A ratio back below 40%, is that like a one-year or a three-year or five-year type aspiration? Just curious how you think about kind of the duration of the path to get there.

David E. Bergman

Chief Financial Officer, Under Armour, Inc.

Jonathan, this is Dave. I'll give you a little bit of feedback on this year and what we're driving through. I think we'll hold future years to our Investor Day, which we'll be excited to talk about later in the fall. But relative to what we're doing now, first, it's really just driving through. A lot of it is the fixed costs and the committed costs that we're working on. If you think about it, North America is deleveraging due to top line, so that really distorts and imbalances the SG&A even more. But within the fixed cost area, we've got global distribution center 3PL expansion. We've got offices, facility [ph] right (45:07) around the world, the FMS and IT systems. We've got pretty significant depreciation expense from previously-higher CapEx years, just to name some of those larger areas.

So it's not easy to slow down or turn off quickly but we've made meaningful progress in 2017 going into 2018. When you think about those fixed costs, they were growing well, well ahead of revenue in 2016 and 2017, and we're getting them much closer in line with revenue growth in 2018, which is great.

And then when you look at the variable expenses. We've got to continue to prioritize there because we want to be able to support the growth in our DTC in international, which are SG&A-intensive, so it's definitely something that we're balancing in the mix appropriately.



Q4 2017 Earnings Call



It's all about running smarter, leaner and more efficient. So when you think about the benefits from the 2017 restructuring, they're definitely benefits that we're already seeing in 2018. The benefits will be bigger in 2019 and beyond. You're not really maybe seeing, externally, those benefits from the 2017 plan as well, mainly because they're partially masked by those higher fixed costs and also the SG&A-intensive international expansion and DTC growth that we're going through. So again, it's a little difficult to unpack the five years and five quarters, but we're driving hard and we're excited about what it means for 2019 and beyond.

Jonathan R. Komp Analyst, Robert W. Baird & Co., Inc.	Q
Okay. Great. Thank you.	
Operator: Thank you. And our next question comes from the lin open.	e of Edward Yruma with KeyBanc. Your line is
Edward J. Yruma Analyst, KeyBanc Capital Markets, Inc.	Q
Hey, good morning, and thanks for taking my question.	
Kevin A. Plank Chairman & Chief Executive Officer, Under Armour, Inc.	A
Hi, Ed.	
Edward J. Yruma Analyst, KeyBanc Capital Markets, Inc.	Q

It seems like some really strong enthusiasm around international results this year and your guidance for next year. You also talked about improving profitability there. So could you kind of quantify how we should think about international profitability and the trajectory? And then as a follow-up, there's been a little bit of noise around covenants, so kind of comfort around your debt and the covenants that you have. Thank you.

David E. Bergman

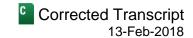
Chief Financial Officer, Under Armour, Inc.

Sure, Ed. This is Dave. From an international perspective, you're right. I mean we've been doing extremely well there. The teams in these international regions are simply amazing, and, honestly, I hope they're listening to this call and I'm sure they are, because they've been just been doing a phenomenal job growing in each of those regions and doing it in a brand-right way.

We've been exceeding 40% growth in the international regions for the last three years. When you look at Asia Pacific, we're very bullish, especially in China and Korea, we have the highest growth, but also with the sport and performance becoming more important culturally there, so we're uniquely positioned, I think, to capture and gain that momentum. Also, in EMEA, there's great strides in traction there with some of our larger wholesale partners, along with accelerating DTC growth and helping to drive improved profitability there.

Latin America, which is our most recent and our smallest international market right now, but quickly becoming a significant contributor to the international portfolio. And they have balanced growth in DTC and wholesale.

Q4 2017 Earnings Call



To your point around profitability, that's probably just as exciting, or if not more exciting, from my position is that after years and years of investment in these international areas, they are really turning the corner at this point and becoming profitable. And take an example like Asia Pacific becoming very profitable and really starting to contribute back to the consolidated pre-tax income of the company, which is great to see, which we're also excited about what that means for future tax rates as well. So again, international up and down doing very, very well for us. Those teams have been amazing. We continue to drive on that together.

On your other comment relative to leverage and the debt covenant, this is really a short-term issue. Partially, it's the math with the 12-month trailing EBITDA, due to combined impact, the two-year pivot period that we've talked about with a little bit lower profitability and roughly two years or, in total, \$250 million in potential restructuring charges. However, we do anticipate having over 50% available within our revolver even at our peak leverage points in Q2 and Q3. And we have line of sight to being free cash flow positive by year-end.

So we're in good shape but we do have some short-term pressure on the leverage ratio driven by that forecasted EBITDA. So we've been in discussions with our banks and we're in the process of obtaining an amendment to alleviate those short-term pressures, and we expect to execute quickly. So we feel like we're in a good spot to work through that.

Edward J. Yruma

Analyst, KeyBanc Capital Markets, Inc.

Great. Thanks so much.

Kevin A. Plank

Chairman & Chief Executive Officer, Under Armour, Inc.

Thanks, Ed.

Operator: Thank you. And our next question comes from the line of Jim Duffy with Stifel. Your line is open.

James Vincent Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Thanks. Good morning. My question is on inventory management. What are the key steps of bringing inventory growth more in line with revenue growth? And what are the expected consequences to the margin in doing so? Is there a lot more clearance and discounting you'll need to see before the back half of the year? And then building on that, what are the plans to improve inventory turns to more industry-appropriate levels in the future and some of the steps necessary to get there?

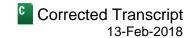
David E. Bergman

Chief Financial Officer, Under Armour, Inc.

Yeah, Jim. This is Dave. I'll start, and then I'll probably let Pat chime in as well. I think first, just making sure we have the context around the fact that if you step back to October 31, we took over \$300 million out of our top line plan for 2017. And obviously at that point, a lot of that inventory had already been produced, was either on its way to us or was already within our distribution facility. So there's definitely some overhang coming into 2018 that we're dealing with.

And we're going to be actively moving through that in a brand-right way through our own outlet stores but also through our third-party off-price partners, which have been great as well. So we're going to get after that pretty hard in the first half of the year. We expect to be much more in line towards revenue growth in the back half of the

Q4 2017 Earnings Call



year. And that's part of the reason why you'll see gross margin improvements a little bit more in the back half versus the front half. But as far as a lot of the different levers, I can turn it over to Patrik, he can give a little more color on that as well.

Patrik Frisk

President & Chief Operating Officer, Under Armour, Inc.

Α

Yes, I think it's, for us, very much also planning the business correctly, right? So for us going into 2018, especially in the back half, we've thought about our planning differently. We talked a little bit about the SKU optimization that we're implementing and how we're now thinking more holistically around our inventory levels across our distribution, across our segmentation, and that's going to continue into 2019 as well. So we feel that we're more in control, if you like, in terms of how we think about inventory across the world, across our channels of distribution. And we feel that we're planning our business much better, and that will accelerate through the back half of 2018.

James Vincent Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Thank you.

Kevin A. Plank

Chairman & Chief Executive Officer, Under Armour, Inc.

A

Thanks, Jim.

Operator: Thank you. And our next question comes from the line of Bob Drbul with Guggenheim Securities. Your line is open.

Robert Drbul

Analyst, Guggenheim Securities LLC



Hi. Good morning. The questions I have are around just the different segments in the business. Can you talk about where you think you are in women's and in the youth businesses, and how they trended in the fourth quarter and the expectation for 2018?

Patrik Frisk

President & Chief Operating Officer, Under Armour, Inc.

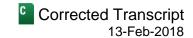


Yeah, I'll take [ph] that one here (52:33). This is Patrik. I think in terms of how we think about our opportunities for growth going forward, we still believe that women's is a tremendous growth opportunity for us across the world, together with, of course, footwear. And we talked also about our international business.

We believe youth continues to be a very, very important part of our business, and an area where we want to actually increase our market share going forward. We have a lot of engagement, especially in North America, with youth and travel and club organizations. We have contracts with over 400 of those organizations across our business.

We currently deal with about 1,000 high schools directly with contracts out of the 16,000 that exist, and we sell to another thousand. So as we think about our youth business, it's currently in a state where we feel that we're going to be really having an opportunity to grow that also as we expand our direct-to-consumer and our e-commerce and digital business going forward. So we feel very good about our youth business.

Q4 2017 Earnings Call



Our women's business, we continue to invest into this. And remember, we're about seven months into our category management where we really stood up our women's business in a stronger way. And as we're coming out of 2017 and heading into 2018, we feel that our assortment and our distribution is now much more put together and getting sharper. And it's what Kevin said before, the SPF factor, the style, performance and fit factor is getting that specific Under Armour point of view across much, much better in the back half of 2018.

So we believe that as we look into 2018 and beyond, with the category management that we put into place, with the deeper understanding of the consumer, with the deeper understanding of the segments where we're competing into, we're going to get a stronger and stronger business for women as we move forward across the world.

Kevin A. Plank

Chairman & Chief Executive Officer, Under Armour, Inc.

And if I could, too, Bob, if there's one thing about this brand is that kids love this brand. This brand was built because of the aspiration that made little boys and little girls put on our products, apparel or footwear, and make them feel they could jump a little higher, be a little stronger, run a little faster, and so that's something you'll continue to see us double-down on.

As far as the women's space, again, to echo what Patrik just said, we can just be better. So we're invested there, we're positioned there, but what you'll see from us is a brand that gets and understands that what we need to do for her is simply deliver on fit, style and color. And I think you'll see that coming out from us in a progressive way as we continue to get better and better in our women's business. But we believe in it, we're focused and we think that she likes us, we just have to do a better job at giving her more reasons to buy Under Armour, and that's a head to toe statement as well.

Robert Drbul

Analyst, Guggenheim Securities LLC

Great. And I guess the second question that I have is, you talked about, I think it's 30% to 40% reduction in SKUs in the fall of 2019. Can you talk about your segmentation of product by channel, with a lower number of SKUs, and sort of where you think you are from that perspective?

Patrik Frisk

President & Chief Operating Officer, Under Armour, Inc.

Well, I think it's really thinking through our distribution across the world, right, and every channel, and understanding our positioning in each segment. And as we stood up category management about seven months ago, as we've said here today, and we've coupled that now also with the deeper understanding of the consumer as well as our channels, we're getting just more pointed, and we're getting a stronger point of view.

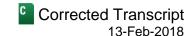
We're taking out the noise, if you like, in terms of the SKUs that we believe should be driving our business going forward, ensuring that every product that we put into every channel has the right price/value equation, has the right SPF, style, performance and fit equation. And we just looked honestly at ourselves and said listen, what do we really need to drive the business in a brand-appropriate way for each channel? And we made those hard decisions. And that's what you're going to start seeing from Under Armour going forward, us making those really hard decisions.

Robert Drbul

Analyst, Guggenheim Securities LLC



Q4 2017 Earnings Call



Great. Thank you very much. Good luck.

Kevin A. Plank

Chairman & Chief Executive Officer, Under Armour, Inc.

Thanks, Bob.

Operator: Thank you. And our next question comes from the line of John Kernan with Cowen. Your line is open.

John Kernan

Analyst, Cowen & Company LLC

Good morning, everybody. Thanks for taking my question.

Kevin A. Plank

Chairman & Chief Executive Officer, Under Armour, Inc.

Thanks, John.

John Kernan

Analyst, Cowen & Company LLC

[indiscernible] (56:54). International seems to be obviously a real point of strength, Asia Pac was up over 60% in 2017. What are you learning about China, the size of that market? We can all see the popularity of Steph Curry in China. Two of your biggest competitors generate operating margins north of 30% in that region. So just want to know what you're learning about that market and how big you think it can be for Under Armour?

Patrik Frisk

President & Chief Operating Officer, Under Armour, Inc.

Yeah, I think – I'll go, okay. So I think what's interesting for us in China is that if you compare us to most of our competitors, we're still relatively small and we're very premium. We've definitely come in at the upper end of the marketplace. Most of our distribution right now in terms of the direct-to-consumer business that we have there is positioned in the Tier 1 and into the Tier 2 cities. We believe we have an enormous amount of opportunity to continue to grow our brick-and-mortar business there, but what we also see is an expanding digital e-commerce business that is really resonating with the consumer.

So we believe, like Dave said earlier, that our teams have done an incredible job in terms of positioning the brand in that marketplace. We're fortunate to also have some of the best athletes on the planet to support that business, especially inside of the basketball category. And for us, that's of course a great asset. So I don't know, Dave, if you want to expand on the gross margins.

David E. Bergman

Chief Financial Officer, Under Armour, Inc.

Yeah, I guess just adding a little bit to that. The Asia Pac region is definitely going to be – or continue, at least in the near term, to be one of our highest growth areas, but it also is becoming one of our most profitable. The gross margins are strong. And now that we've actually over the past year has been building up the distribution structure that we need, the office structure that we need, a lot of the foundation's been laid. So now Erick Haskell and his team in Asia Pac are really driving forward hard. And now that we've got some scale, we can really start returning some of that profit to the bottom line.

Q4 2017 Earnings Call



So we might not be driving right away to the profitability that some of our competitors have in the region, but I think we're trying to make sure that we go at the right pace to stay in line with the brand and make sure that we're working with the best partners out there, and we're going at a good, steady pace that's right for Under Armour and we'll continue doing that.

Kevin A. Plank

Chairman & Chief Executive Officer, Under Armour, Inc.

А

And just again to pile on sort of the energy and excitement we have around Asia as a whole. That started with Japan, that relationship that goes back nearly 20 years now for the brand, so we've been there for a long time. China since 2010 but really amplified in the last couple years due to the leadership that Dave mentioned. But we have a terrific team on the ground, hundreds of doors opened in China last year. We'll repeat that again this year, there's a tremendous amount of capacity. We're in over 60 cities right now across China, and we see the ability for us to begin to backfill and, obviously, there's many more cities that we have the opportunity to go to as well.

We just opened our largest store in Asia, over 20,000 square feet in Beijing. So we feel like we're in a really good position and really proud, I think, of what this team has put together and I think the opportunity that we have, so great things. But international, again, we talked about going for scale in the last several years, really doubling down and getting behind our international business is something that's paying dividends for us today as we are able to manage through North America right now and being able to lean on what we have coming in from the international markets.

John Kernan

Analyst, Cowen & Company LLC

Okay. Thanks. If I can just ask a quick follow-up on the North American wholesale market. Dave, what's embedded in your guidance for North America wholesale as we go into the back half of the year when compares obviously ease?

David E. Bergman

Chief Financial Officer, Under Armour, Inc.



Yeah. I mean, I guess a couple things. We mentioned a lot of the same factors that drove business in North America in 2017 are going to carry into 2018. I do think that we're going to be challenging ourselves to make sure that we're brand-right and potentially tempering some of the promotional activity in the back half of the year and we've planned for that accordingly.

We expect there's going to be a little bit of additional contraction in the U.S. market as we continue to optimize our distribution there. There is a little bit weaker consumer demand driven by a variety of factors that are impacting us that we've talked about over the past. So we're not expecting a miraculous turnaround in North America. Again, that's why we've been kind of talking about 2018 being fairly similar to 2017, and we're continuing to maneuver through that in the most strategic way.

John Kernan

Analyst, Cowen & Company LLC

(

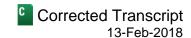
Okay. Thank you.

Kevin A. Plank

Chairman & Chief Executive Officer, Under Armour, Inc.

Thanks, John.

Q4 2017 Earnings Call



David E. Bergman

Chief Financial Officer, Under Armour, Inc.

A

Thanks, John.

Patrik Frisk

President & Chief Operating Officer, Under Armour, Inc.

Д

Thanks, John.

Operator: Thank you. And our next question is from the line of Omar Saad with Evercore. Your line is open.

Omar Saad

Analyst, Evercore Group LLC

C

Good morning, guys. Thanks for taking my question. I actually wanted to ask about the comments you made early on about evolving the creative process, the product design and development process. Maybe you guys could elaborate on that and what your aim is and what you think the outcome will be in terms of elevating the company's ability to produce better products that are more relevant. Thanks.

Patrik Frisk

President & Chief Operating Officer, Under Armour, Inc.



Well, hi, Omar. This is Patrik. I think what we're referring to there is the entirety of the process. And we're now starting out with the consumer first and that goes for all of the teams that we have engaged. And the idea is that they're not just starting out with the consumer first, they're starting out with the consumer first inside of the space where we're competing. So it's about purpose, ultimately, and making sure that, to Kevin's earlier point, the SPF factor, style, performance, fit, is part of that equation all the way through.

But it's being more purposeful. In other words, we're cutting SKUs, we're being focused on the consumer, we understand the space that we're going to be competing in and, as a consequence, the design teams and the product development teams are being more focused around their execution. We believe that this will ultimately drive better product from us in both the short term and the long term.

If you couple that with a great go-to-market process, where actually both marketing and products start out together, we're having the teams joined at the hip as they go through the process. That enables us to better build out our 360-degree approach to the consumer, truly understanding the consumer journey as the consumer moves through the purchase journey and understanding each touchpoint for the consumer, what they're expecting from us at each touchpoint, and then understanding what we are best delivering against that expectation for each touchpoint consistently, time and time again.

So a lot of it is about consistency and a lot of it is about the process itself, enabling our teams both from a design, product development and marketing perspective, to learn and have a bit of kaizen, right, in terms of incremental improvement for each season that goes by. That gives us a lot of confidence going forward. I don't know, Kevin, if you want to add on to that something maybe.

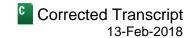
Kevin A. Plank

Δ

Chairman & Chief Executive Officer, Under Armour, Inc.

Yeah, Omar, I've got a pretty unique perspective of 21 years in this company, 13 now nearly as a public company, and sort of the difference in the ability to be an entrepreneur to be able to move from when there's a problem, you

Q4 2017 Earnings Call



go sit on the problem for a day, a week, a month, until it's fixed. And the size and scale that we've been able to get to as a company, I think it's a real testament to the team and the hard work that we've put in, but it also requires the process that we need. And why Patrik was such a great fit to be able to come and help our organization is the industry experience and just the understanding really in the go-to-market process of being able to drive that all the way through, to drive the calendar discipline, and to put the things in place that, as a growth company, that could build and just maybe make a few SKUs and put it in aisles and stack it high and let it fly, that's not the case.

Our competitors are very good, and the expectation, the shopping experience, is incredibly competitive and something that we've got to be great at. And so that means we need to be great with the product that we put into the existing distribution, and we need to make sure and ensure that that distribution is segmented. And so now because it translates and crosses over so many different languages, we've got to be simple in that messaging too.

And so it really is a bit of a process that really has us rethinking the way that we bring product to market as a company. Our job is, again, it's not to be over-complicated. Our job's to delight consumers for product that exceeds their expectations. And we've got to be able to tell it in a really simple way. And one thing we know is that when we innovate, we win.

And I want to be clear, too, for the call is that while you'll see us talk about how we're incorporating style and, of course, to be Under Armour, must have performance and the fit and comfort must be great, but we do believe in our performance heritage. We do believe that the current perceived weakness of performance is something that's going to prove to be our long-term greatest strength. So we are not going to back off of that. You'll continue to see us double down. But I'd probably use again, HOVR as the archetype for as we make this definition of what is our brand. Our job's to make you better, and that's frankly what our new mission statement says. So every time you interact with us, we're just going to make you a little bit better.

Omar Saad

Analyst, Evercore Group LLC

Yeah, Kevin, I was going to say, it feels a little bit like, as I listen to you guys talk about the brand and where its core competencies are, and you mentioned I think focusing on running and men's training and women's training, is it fair to interpret from you guys that there's a little bit – and I don't want to say back-to-basics, but back to the core and origins of what the Under Armour brand has stood for, albeit on a global scale in a much bigger platform? Is that the right way to think about it? Especially in the construct of the market seems to be moving so much towards lifestyle and sport fashion, are you really kind of just carving out the Under Armour positioning in the marketplace as a performance leader? Is that fair to interpret it that way?

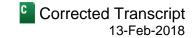
Kevin A. Plank

Chairman & Chief Executive Officer, Under Armour, Inc.

Yeah. Look, we're not ignoring the market and so I want to make sure people understand. We're not tone deaf. We just understand who we are, and who we are is what's built this company that we have today. And I think what's exciting for everyone here and the reason that our team came to work in this brand to begin with is because of the belief that they had that we could make athletes just a little bit better.

And so there's a lot of people that are running the play right now of what it means to turn strictly to a lifestyle and, frankly, ignoring performance at some level. And so what we're saying is that we get it, but we believe that every product that we make yet it has to look great, it has to be stylish, but it has to have the DNA that makes it Under Armour.

Q4 2017 Earnings Call



So again, when you see it, you should start with, wow, what an amazing looking product, and be, wow, is that Under Armour? And see as, wow, if it's Under Armour, what's it do? That's the thing that makes it the DNA for our brand, and we want to be able to answer that with, it's not just a normal sweatshirt but you can wear this thing in a rainstorm. We want to be able to say that it's not just a pant, but it's a golf pant with super-stretch and you can spill on it or it can take mud or dirt and wash it in the washer and not have to go to the dry cleaner.

So the things that make the DNA, the amount of science and technology and time that goes into the products that we build, I don't think we've gotten enough credit for, and I think other people are trying to enter our categories and not probably do the homework that we do in order to put the products out in the marketplace that we do. So Under Armour is special.

When you see an Under Armour logo it means that the product does something and is doing something to make you better. And so we're going to make sure, A, that that comes through in every product we have. We going to make sure – because I don't think we've been as emphasized on design as we can be to take credit, because all of the cost and the structure has been in the fabrications. So we're going to make sure we're not going to back off on the fabrics, but you're going to see a bit more thought and a bit more finish in things that are completely relevant to what we do. But it will be market and trend-right and something that you'll continue to see us evolve into.

Omar Saad

Analyst, Evercore Group LLC

Thank you. That's helpful to hear.

Operator: Thank you. And ladies and gentlemen, this concludes today's question-and-answer session. Thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone have a great day.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2018 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.