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Draft Topic Paper Four Financial Management ~~Of~~ o Under Armour, Inc.?

Financial Management BUSB 361

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University ~~Of~~ o Redlands

BUSB 485 SD12

Undergraduate Capstone Paper

Instructor Richard Doyle

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Company Overview

Under Armour (UA) is an athletic appeal company that relies on using innovative technology in producing its products. UA focuses on producing quality items that ensure that the athletes are as comfortable as possible when undertaking their activities. Over time, UA has increased its product range to cater to men, women and the younger generation through its production of shoes, tops, bottoms and other accessories. From the company's website, its mission is, "To make all athletes better through passion, design and the relentless pursuit of innovation" (Under Armour, 2019). In 2006, UA went public making it possible for the company to acquire stock value. Currently, UA has expanded its operations overseas with the focus on acquiring new international markets. Nonetheless, even with its growth on the global front it still continues facing stiff competition against fellow athlete companies; Nike and Adidas. To better understand Under Armour's financial management position a SWOT analysis is critical to better weigh the company against its goals and objectives.

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STRENGTHS	WEAKNESSES
➢ Brand image and trendy advertising ➢ Strong revenue streams ➢ Increasing Revenues	➢ Heavy Investment Spending on product innovations, celebrity endorsements and supply chain upgrades ➢ Global expansion results in low dividend payout ➢ Disruptions in the supply chains
OPPORTUNITIES	**THREATS**
➢ Room for international expansion ➢ Diverse product range	➢ The athletic clothing industry is highly competitive ➢ Vulnerability to business cycles

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STRENGTHS

Under Armour has the advantage of its brand name 'Under Armour.' The company made its strategic focus to foster its global brand awareness through targeted marketing. Under Armour has been successful – how do you define this through concepts of Financial mgmt – where its efforts in increased marketing (Not clear), celebrity endorsements, and development of products that take into account foreign tastes in sports and activities have helped put its brand name on the international front (Kraft & Lee, 2009). To further meet its demand in the international space, UA has increased its distribution centers while selecting strategic locations that will enable the company to lower its replenishment times and shipping costs.

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Under Armour enjoys having a strong **revenue stream.** According to Ross et. al., Revenues streams are, "Various sources from which a business earns money from the sale of goods or provision of services" (Ross, ~~Westerfield & Jordan~~ et al), 2017). It offers products under different price levels to accommodate for its varied customer categories who are the men,

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women, and children. Also to have an even bigger revenue stream it sells its products not only through its retail stores but also directly through its website and other consumer sales channel (Kraft & Lee, 2009). Under Armour also caters for the wholesale distribution of its products to independent, regional, specialty and national retailers. When it comes to marketing, UA markets its products through MapMyFitness, Coldgear, Heatgear and Under Armour. Even better UA has extended its business presence across Latin America, North America, Asia-Pacific, and EMEA. By having multiple distribution channels, offering diverse products, having different distribution channels and a global business presence Under Armour has benefited from having a strong revenue channel (Ross, et al ~~Westerfield & Jordan~~, 2017). For example, in 2017 alone, the different retailers that UA works with contributed to the company's $ 3.1 billion in revenues (Matthew, 2017).

Under Armour is a strong and growing company that has been generating increasing revenues every year. From 2011 through 2017, the company has consistently earned a 20% annual increase in its annual profit levels. The same can be said for its **net income** which has also been growing at a steady rate of over 10% (Matthew, 2017). Net income is "A measure of the profitability of a venture. It is an entity's income minus cost of goods sold/expenses"

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(Ross, ~~Westerfield & Jordan~~, 2017). This shows good management of its resources and **expenses.** Expenses are "The costs incurred or required for something or the outflow of

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money to another party for an item/service" (Ross, ~~Westerfield & Jordan~~, 2017). When it comes to its balance sheet, UA has been experiencing a decrease in its cash and cash equivalents, a decrease in its **working capital** and a large increase in its **inventories** and **total assets** (Kraft & Lee, 2009). Working capital is "The capital of a business which is used in its everyday trading operations often calculated as the current assets minus the current liabilities" p# !

(Ross, ~~Westerfield & Jordan~~, 2017). Inventories are, "The finished goods a company accumulates before selling them to end users" (Ross, et al ~~Westerfield & Jordan~~, 2017). Total assets are "The sum of all cash, investments, equipment, fixtures, intangibles and receivables and any other items of value owned by a person or a business entity" (Ross, ~~Westerfield & Jordan~~, 2017). Such suggests an investment in growth for the company and a new distribution center since the investment would see a reduction in cash and an increase in its assets and **liabilities.** Liabilities are, "The company legal financial debts or obligations that arise during the course of its business operations" (Ross, Westerfield & Jordan, 2017).) P. ?

WEAKNESSES

In relation to its financial management, Under Armour's cost of doing business and heavy spending is heavily costing the company. Although its marketing through athletes' endorsement is a positive aspect of the company's brand image, these contracts are very expensive. Also, its supply chain upgrade and product innovation heavily cost the company. Moreover, Under Armour's purchase of MapMyFitness, MyFitnessPal and Endomondo cost the company a total of $710 million (Matthew, 2017). Although this huge investment was aimed to add to the company's product development and market research it heavily costed the company.

At the moment, UA is largely focused on acquiring international expansion and although all these investments are meant to ensure the company's future they can result in low **dividend** payout which is unappealing to potential investors. Dividends are "The sum of money pad regularly by a company to its shareholders out of its profits or reserves" (Ross, Wester field & Jordan, 2017). Under Armour is not directly involved in the manufacturing process of its products, it is susceptible to disruptions in its supply chain to the extent that it may fail to have control over the situation. Such may cost the company more as it focuses on constantly acquiring new suppliers.

OPPORTUNITIES

Under Armour started its expansion strategy in 2005, but at the time only 2% of its revenues were from outside North America. However, since then the company has witnessed a growing international segment of 57% while accruing 22% of its total revenues (McDonald et. al., 2018). However, as a global athletic and footwear brand, Under Armour still has a long way to go especially considering that its immediate competitor, Nike, accrues over 53% in revenues from international markets (McDonald et. al., 2018). There is still great room for growth and Under Armour could experience growing revenue levels on investing in international businesses.

Under Armour ventured into footwear in 2006, approximately ten years after it was established. When UA was established it solely focused on producing compression athletic t-shirts, yet by 2016 its decision to venture into footwear had grown the business into being $1 billion Company in revenues (McDonald et. al., 2018). However, despite the growth, its footwear sector stalled from 2016 largely because of stiff competition from Nike and Adidas. To date, the athletic footwear sector is still dominated by Nike and Adidas, both of which were actually started as footwear companies. For example in 2016 where as UA accrued a total of $1 billion in returns from footwear, Nike made an entire $21.1 billion while Adidas made $10.1 billion (McDonald et. al., 2018). In this case, there is potential for Under Armour where it has to figure out how to better structure its footwear so that it can better penetrate the market. Its decision to fail to venture into footwear from the beginning cost the company and hence the company could now better benefit from diversifying its products.

THREATS

The athletic industry is highly competitive where Under Armour is currently competing with four other major companies; Nike, Adidas, Reebok, and ESPN. Nike is especially a major threat as it is termed as a corporate (Matthew, 2017). Hence, UA must strive twice as much to solidify its brand image and come up with unique products while maintaining its revenue stake.

Under Armour is highly susceptible to business cycles which potentially serves as a major risk for the company. For example in 2008, UA was adversely affected by the then recession which affected the total earnings of the company. The company specializes in consumer discretionary items that are known to thrive in an expanding economy where both wages and employment rates are high as well (Matthew, 2017). However, in a recession, such companies barely thrive as could be the case with UA.

RECOMMENDATIONS

Since its IPO in 2006, Under Armour has immensely grown at a rate of 150%, making it evident that investment in sportswear is one of the most profitable ventures. As of 2019, Under Armour had generated 11.87% return on assets, which is above the industry's average hence giving its investors' confidence that they are in the growth stage and stand to maximize on **stakeholder** wealth. Stakeholders are, "A person with an interest or concern in something, especially a business" (Ross, Westerfield & Jordan, 2017). UA has also accumulated a vast

Source of these statistics? Need to cite amount of knowledge, resources, and experience adequate to expand its sportswear industry (Under Armour, 2019). Currently, Under Armour has cash that totals to $348.59 million and it has ventured into a new $327 million credit facility with certain lending institutions in 2011, allowing it to undertake different business opportunities (Under Armour, 2019). By taking part in different business opportunities, UA has the benefit of diversifying its operations, by limiting its over-reliance on current offerings and maximizing its shareholder wealth.

In this case, the most strategic recommendation for Under Armour is to create a masstige brand that targets its high-end customers. When starting out, UA was solely focused on creating apparel for athletes, however, with time it has diversified its target market while creating products that suit the larger market. At the moment, the sportswear industry is dominated by Nike and Adidas with annual revenues that are ten times higher than Under Armour. Hence, by creating a masstige brand, it will better compete for the larger market share while being distinct from its current competitors (Ross, Westerfield & Jordan, 2017). Currently, Under Armour possesses the required skills and resources that will ease and accelerate the implementation of this recommendation as opposed to a new industry in the market. The other advantage that comes with having a masstige brand is that they better compete in design and quality and not in price since most of the clients that purchase masstige brands are often high-income earners. In this case, Under Armour will not be competing based on price but rather on product differentiation which will allow it to enter the masstige market hence making the company's profit margins higher and allowing it to attract a new market segment (Ross, Westerfield & Jordan, 2017). The recommendation is very practical for the company as it allows for UA to improve its competitive position, gain a better financial position, acquire a masstige market segment and to better compete in the sportswear industry through product differentiation.

in the next section

Finally, we will lookinto how UA is performing in the international market.

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References

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Kraft, P., & Lee, J. W. (2009). Protecting the house of Under Armour. *Sport Marketing Quarterly*, *18*(2), 112.

McDonald, R., Christensen, C. M., West, D., & Palmer, J. E. (2018). Under Armour.

Ross, S. A., Westerfield, R. W., & Jordan, B. D. (2017). Essentials of Corporate Finance. (9th ed). McGraw-Hill/Irwin

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While you mention and define about nine concepts from your study of Financial Mgmt, you need to research the actual numbers from the balance sheet annual report or 10K SEC filing and show them how they are calculated to demonstrate knowledge of these concepts. In addition ~~Also~~ to the References page, you have numerous APA citation issues in your narrative

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