CASE 7

Under Armour's Turnaround Strategy in 2018: Efforts to Revive North American Sales and Profitability

connect

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Founded in 1996 by former University of Maryland football player Kevin Plank, Under Armour was the originator of sports apparel made with performance-enhancing fabrics–gear engineered to wick moisture from the body, regulate body temperature, and enhance comfort regardless of weather conditions and activity levels. It started with a simple plan to make a T-shirt that provided compression and wicked perspiration off the wearer's skin, thereby avoiding the discomfort of sweat-absorbed apparel.

Plank formed KP Sports as a subchapter S corporation in Maryland in 1996 and commenced selling a performance fabric T-shirt to athletes and sports teams. He worked the phone and, with a trunk full of shirts in the back of his car, visited schools and training camps in person to show his products. Plank's sales successes were soon good enough that he convinced Kip Fulks, who played lacrosse at Maryland, to become a partner in his enterprise. Operations were conducted on a shoestring budget out of the basement of Plank's grandmother's house in Georgetown, a Washington, D.C. suburb. In 1998, the company's sales revenues and growth prospects were sufficient to secure a $250,000 small-business loan, enabling the company to move operations to a facility in Baltimore. Ryan Wood, one of Plank's acquaintances from high school, joined the company in 1999 and became a partner.

KP Sports' sales grew briskly as it expanded its product line to include high-tech undergarments tailored for athletes in different sports and for cold as well as hot temperatures, plus jerseys, team uniforms, socks, and other accessories. Increasingly, the company was able to secure deals not just to provide gear for a particular team but for most or all of a school's sports teams. However, the company's partners came to recognize the merits of tapping the retail market for high-performance apparel and began making sales calls on sports apparel retailers. In 2000, Scott Plank, Kevin's older brother, joined the company in 2000 as Vice President of Finance and certain other operational and strategic responsibilities. When Galyan's, a large retail chain since acquired by Dick's Sporting Goods, signed on to carry KP Sports' expanding line of performance apparel for men, women, and youth in 2000, sales to other sports apparel retailers began to explode. By the end of 2000, the company's products were available in some 500 retail locations.

Prompted by growing operational complexity, increased financial requirements, and plans for further geographic expansion, KP Sports revoked its "S" corporation status and became a "C" corporation on January 1, 2002. The company opened a Canadian sales office in 2003 and began selling its products

in the United Kingdom in 2005. At year-end 2005, about 90 percent of the company's revenues came from sales to some 6,000 retail stores in the United States and 2,000 stores in Canada, Japan, and the United Kingdom. In addition, sales were being made to high profile athletes and teams, most notably in the National Football League, Major League Baseball, the National Hockey League, and some 400 men's and women's sports team s at NCAA Division 1-A colleges and universities.

In late 2005, KP Sports changed its name to Under Armour and became a public company with an initial public offering of common stock that generated net proceeds of nearly $115 million. Under Armour immediately began pursuing a long-term strategy to grow its product line, establish a market presence in a growing number of countries across the world, and build public awareness of the Under Armour brand and its interlocking "U" and "A" logo.

Under Armour quickly earned a reputation as an up-and-coming company in the sports apparel business, achieving sales of $1 billion in 2010 and $3 billion in 2014. Starting in the second-quarter of 2010 and continuing through the third-quarter of 2016, Under Armour cemented its status as a growth company by achieving revenue growth of 20 + percent for 26 consecutive quarters (see Exhibit 1). In announcing the company's 2016 third-quarter financial results, Chairman and chief executive officer (CEO) Kevin Plank said:

> Over the past 20 years, we have established ourselves as a premium global brand with a track record of strong financial results. Looking back over the past nine months, it has never been more evident that we are at a pivotal moment in time, where the investments we are making today will fuel our growth and drive our industry leadership position for years to come. As a growth company with an expanding global footprint and businesses like footwear and women's each approaching a billion dollars this year, we have never been more focused on the long-term success of our Brand.[1]

But despite Plank's optimism about Under Armour's future prospects, management announced a reduced sales and earnings outlook for the fourth quarter of 2016 and weakening demand for Under Armour products in North America. The company's sales growth in North America during the first nine months of 2016 dropped from 25.7 percent in Q1 to 21.5 percent in Q2 to 15.6 percent in Q3. The prices of Under Armour's Class A shares (trading under the symbol UAA) and Class C shares (trading under the symbol UA) dropped nearly 30 percent in the next three trading days, not only because of the weak outlook, but also because of investor concerns about reports of a slowdown in retail sales of sports apparel products in the United States.

EXHIBIT 1 Growth in Under Armour's Quarterly Revenues, 2010–2017 (in millions)

	Quarter 1 (Jan.–March)		Quarter 2 (April–June)		Quarter 3 (July–Sept.)		Quarter 4 (Oct.–Dec.)	
	Revenues	Percent Change from Prior Year's Quarter 1	Revenues	Percent Change from Prior Year's Quarter 2	Revenues	Percent Change from Prior Year's Quarter 3	Revenues	Percent Change from Prior Year's Quarter 4
2010	$ 229.4	14.7%	$ 204.8	24.4%	$ 328.6	21.9%	$ 301.2	35.5%
2011	312.7	36.3%	291.3	42.3%	465.5	41.7%	403.1	33.9%
2012	384.4	23.0%	369.5	26.8%	575.2	23.6%	505.9	25.5%
2013	471.6	22.7%	454.5	23.0%	723.1	25.7%	682.8	35.0%
2014	641.6	36.0%	609.7	34.1%	937.9	29.7%	895.2	31.1%
2015	804.9	25.5%	783.6	28.5%	1,204.1	28.4%	1,170.7	30.8%
2016	1,047.8	30.2%	1,000.8	27.7%	1,471.6	22.4%	1,305.3	11.5%
2017	1,117.3	(2.9)%	1,088.2	8.7%	1,405.6	(4.5)%	1,365.4	4.6%

Source: Company 10-K reports, 2017, 2016, 2015, 2013, 2012, and 2010.

A SUDDEN COLLAPSE IN UNDER ARMOUR'S FINANCIAL PERFORMANCE AND GROWTH PROSPECTS

Under Armour's report of its 2016 fourth quarter and full-year results in January 2017 rang alarm bells. Total fourth-quarter revenues rose 11.7 percent; revenues in North America were up only 5.9 percent; income from operations dropped 6.1 percent companywide and 15.0 percent in North America. To make matters worse, the company's outlook for full-year 2017 was gloomy—expected revenue growth of 11 to 12 percent (the lowest annual growth rate since the company became a "C" corporation in 2002) and a decline in operating income to approximately $320 million, partly because of "strategic investments in the company's fastest growing businesses."[2] Nonetheless, Kevin Plank believed the company's resources and capabilities would enable it to cope with the challenges ahead:

> We are incredibly proud that in 2016, we once again posted record revenue and earnings; however, numerous challenges and disruptions in North American retail tempered our fourth quarter results. The strength of our Brand, an unparalleled connection with our consumers, and the continuation of investments in our fastest growing businesses—footwear, international and direct-to-consumer—give us great confidence in our ability to navigate the current retail environment, execute against our long-term growth strategy, and create value to our shareholders.[3]

In the days following the full-year 2016 earnings release and the 2017 outlook presented by management, the prices of the company's Class A shares and Class C shares—which were already trading about 30 percent below their highs earlier in 2016—dropped another 28 percent.

2017 Turned Out to Be a Terrible Year for Under Armour Overall, Under Armour's performance in 2017 turned out to be worse than management's earlier expectations. In its core North American market, Under Armour found itself on the defensive throughout 2017. A year after growing North American sales from almost $1.0 billion in 2012 to $4.0 billion in 2016 (a compound growth rate of 41.4 percent), Under Armour's 2017 sales in North America dropped $200 million (5.1 percent) to $3.8 billion. Total revenues worldwide were up a meager 3.1 percent—from $4.83 billion to $4.98 billion, after growing at a compound rate of 27.3 percent from 2012 to 2016. Operating income dropped from $417.5 million in 2016 to $27.8 million in 2017. Net income fell from a record high of $257.0 million to a net loss of $48.3 million. The prices of the company's Class A shares and Class C shares which began 2017 trading at $29.34 and $25.49, respectively, closed at $14.43 and $13.32 on the last trading day of December 2017. These declines in Under Armour's stock prices were all the more disheartening to the company's shareholders because the value of stocks listed on the NYSE and Nasdaq stock exchanges had climbed by more than $7 trillion in the 16 months since the 2016 presidential election.

The big drops in Under Armour's operating income and the net loss of $48.3 million were partially due to management's announcement in August 2017 that it would pursue a $140 to $150 million restructuring plan to address operating inefficiencies, transition to a product category management structure, and reengineer the company's go-to-market process (product innovation and design, vendor relationships, delivery times of seasonal products, inventory management, profit margin control, and speed of response to shifting consumer preferences and market conditions); in addition, the plan called for a global workforce reduction of about 300 people, inventory reductions and write-downs, and charges for asset impairments, facility and lease terminations, and contract terminations. These restructuring efforts resulted in $39 million in cash-related charges and $90 million in non-cash related charges against full-year 2017 results.

But the stock price declines were also a reflection of investor concerns about whether the Under Armour brand was in trouble in North America—the experiences of other troubled brands had demonstrated it was extremely difficult to rebuild a brand once it had fallen out of favor with the public. Investors had also been unnerved weeks earlier when analysts at 24/7 Wall St. had ranked Kevin Plank as No. 4 on its list of "20 Worst CEOs in America 2017."[4] Plank had been under the microscope since a controversial split of the company's stock in April 2016 into Class A (vote-entitled), Class B, and Class C (no voting power) shares, where Kevin Plank was granted Class B shares equal to his Class A shareholdings; each Class B share owned by Plank entitled him to 10 votes for every Class A share he owned. Since he owned about 15.8 percent of the Class A shares (as of April 2017), his super-vote Class B shares gave him about 65 percent of the total shareholder voting power on every shareholder vote taken.

Since the stock split, Plank had sold some of his Class C shares to fund the creation of Plank Industries, a privately-held investment company with ownership interests in commercial real estate, hospitality, food and beverage, venture capital, and thoroughbred horse racing. Plank's critics had claimed the new venture was absorbing too much of his time. Plank's time in dealing with UA's operating issues and sales slowdown had also been constrained by his involvement in helping spearhead a 25-year, $5.5 billion project (being partially financed with bonds issued by the City of Baltimore's Baltimore Development Corp.) to develop waterfront property in South Baltimore into a mini-city called Port Covington that would create thousands of jobs and drive demand for office buildings, houses, shops and restaurants. Plank Industries' Sycamore Development Co. was the lead private developer of the Port Covington project. So far, Sycamore had completed a number of properties in the project, including a $24 million renovation of a former Sam's Club into a 170,000 square-foot facility for Under Armour, tentatively named Building 37 (Plank's number on his University of Maryland football jersey was 37). Building 37 was on acreage Under Armour had purchased for $70.3 million in 2014 and was being leased by Sycamore to Under Armour for $1.1 million annually. Building 37 was the first phase of Under Armour's plan to create a 50-acre global headquarters campus that would include a new headquarters building on the site of Building 37, additional Under Armour facilities and manufacturing space, a man-made lake, and a small stadium—a layout designed to house as many as 10,000 Under Armour employees (UA employed approximately 2,100 people in Baltimore in early 2018, some 600 of which were housed in Building 37).

To compensate for the time he was spending on outside interests, Plank engineered the appointment of Patrik Frisk, formerly CEO of the ALDO Group, a global footwear and accessories company, as President and Chief Operating Officer (COO) of Under Armour in June 2017. Frisk had 30 years of experience in the apparel, footwear, and retail industry, holding top management positions with responsibility for such brands as The North Face®, Timberland®, JanSport®, lucy®, and SmartWool®. As president and COO, Frisk was assigned responsibility for Under Armour's go-to-market strategy and the successful execution of its long-term growth plan. Kevin Plank titles were Chairman of the Board and CEO.

In 2008, Plank voluntarily reduced his salary from $500,000 to $26,000, which was his approximate salary when he founded Under Armour. As UA's largest stockholder, Plank believed he should be compensated for his services based primarily on the company's annual incentive plan tied to the company's performance and on annual performance-based equity awards. Plank's $26,000 salary remained in place in 2018.

How Under Armour's 2017 Sales Performance in North America Compared Against Its Two Biggest Rivals Under Armour's 5.1 percent decline in 2017 sales in the North American market compared unfavorably with long-time industry leader Nike, whose sales of $15.2 billion in North America during December 1, 2016 through November 30, 2017 were essentially unchanged from the $15.1 billion in sales Nike reported for December 1, 2015 through November 30, 2016.[5] But the real threat to Under Armour's competitive standing in the North American market going into 2018 came from Germany-based The adidas Group—the industry's second-ranking company in terms of global revenues in sports apparel, athletic footwear, and sports equipment and accessories. Two years earlier, Under Armour had overtaken adidas (pronounced ah-di-dah) to become the second largest seller of sports apparel, active wear, and athletic footwear in North America.[6] However, top executives at adidas launched an unusually strong series of strategic initiatives at the beginning of 2017 to increase its share of the sports apparel, active wear, and athletic footwear market in North America from an estimated 10 percent to around 15 to 20 percent. The results were impressive considering stagnant market demand for sports apparel and products in North America—sales of adidas-branded products in North America grew by a resounding 34 percent in the first nine months of 2017.

Under Armour's Outlook for 2018 In February 2018, top executives at Under Armour did not foresee a quick turnaround. Their 2018 outlook for North American revenues was a mid-single-digit decline, although international sales were expected to grow 25 percent. Gross margins were expected to improve 50 basis points to 45.5 percent, but only because of lower planned promotional activity, anticipated savings in product costs, favorable shifts in sales to distribution channels with better margins, and favorable changes in foreign currency. Operating income was projected to be $20 million to $30 million (versus $28.7 million in 2017). Management explained the projections of operating income were low because, after additional review, a decision had been made to pursue a second restructuring plan in 2018 to further optimize operations. This plan entailed:

- 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; and
- 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.

Management said it expected the 2017 and 2018 restructuring efforts to produce a minimum of $75 million in savings annually in 2019 and beyond.

The two restructuring programs were partly necessitated by 2015 management efforts to begin scaling the company's infrastructure to accommodate expected sales of $7.5 billion in 2018. When it became apparent to top executives that Under Armour would not achieve that level of sales until several years later, then scaling back internal operations, budgets, and workforce sizes accordingly was necessary to transform Under Armour into a leaner, more cost-efficient operation.

Exhibit 2 shows selected financial statement data for Under Armour for 2014 through 2017.

EXHIBIT 2 Selected Financial Data for Under Armour, Inc., 2014–2017 (in millions)

Selected Income Statement Data	2017	2016	2015	2014
Net revenues	$4,976.6	$4,825.3	$3,963.3	$3,084.4
Cost of goods sold	2,737.8	2,584.7	2,057.8	1,152.2
Gross profit	2,238.7	2,240.6	1,905.5	1,512.2
Selling, general and administrative expenses	2,086.8	1823.1	1,497.0	1,158.3
Restructuring and impairment charges	124.0	—	—	—
Income from operations	27.8	417.5	408.5	354.0
Interest expense, net	(34.5)	(26.4)	(14.6)	(5.3)
Other expense, net	(3.6)	(2.8)	(7.2)	(6.4)
Income (loss) before income taxes	(10.3)	388.3	386.7	342.2
Provision for income taxes	38.0	131.3	154.1	134.2
Net income (loss)	$ (48.3)	$ 257.0	$ 232.6	$ 208.0
Selected Balance Sheet Data				
Cash and cash equivalents	$ 312.5	$ 250.5	$ 129.9	$ 593.2
Working capital*	1,277.3	1,279.3	1,020.0	1,127.8
Inventories at year-end	1,158.5	917.5	783.0	536.7
Total assets	4,006.4	3,644.3	2,866.0	2,092.4
Long-term debt, including current maturities	792.0	817.4	666.1	281.5
Total stockholders' equity	2,018.6	2,030.9	1,668.2	1,350.3
Selected Cash Flow Data				
Net cash provided by operating activities	$ 234.1	$ 364.4	($ 14.5)	$ 219.0

*Working capital is defined as current assets minus current liabilities.

Note: Some totals may not add up due to rounding.

Source: Company 10-K reports for 2017 and 2016.

UNDER ARMOUR'S STRATEGY IN 2018

Until 2018, Under Armour's mission was "to make all athletes better through passion, design, and the relentless pursuit of innovation." A reworded mission—"Under Armour Makes You Better"—was publicly announced in early 2018. Kevin Plank said the new wording was meant to better convey that "in every way we connect, through the products we create, the experience we deliver and the inspiration we provide, we simply make you better."[7]

The company's principal business activities in 2018 were the development, marketing, and distribution of branded performance apparel, footwear, and related sports accessories for men, women, and youth. The brand's moisture-wicking apparel products were engineered in many designs and styles for wear in nearly every climate to provide a performance alternative to traditional products. Under Armour sports apparel was worn by athletes at all levels, from youth to professional, and by consumers with active lifestyles. Sales of these products were made through two primary channels—wholesale sales to retailers and direct-to-consumer sales (sales at the company's websites in various geographic regions and at its rapidly growing number of company-owned brick-and-mortar Brand Houses and factory outlet stores). In the company's earlier years, revenue growth was achieved primarily by growing wholesale sales to retailers of sports apparel, athletic footwear, and sports equipment and accessories. More recently, however, sales at the company's websites and company-owned retail stores had become the company's biggest growth engine in North America. Starting in 2010, Under Armour had steadily mounted greater efforts to increase its global footprint and increase its wholesale and online sales outside North America, most especially in countries in Europe, the Middle East, and Africa (EMEA), the Asia-Pacific, and Latin America.

In 2013, Under Armour acquired MapMyFitness, a provider of website services and mobile apps to fitness-minded consumers across the world; Under Armour used this acquisition, along with several follow-on acquisitions in 2014 and 2015, to create what it termed a "connected fitness" business offering digital fitness subscriptions and licenses, mobile apps, and other fitness-tracking and nutritional-tracking solutions to athletes and fitness-conscious individuals across the world. Kevin Plank expected the company's connected fitness strategic initiative to become a major revenue driver in the years to come.

In 2018, Under Armour divided its sales into five product categories and also reported its sales and operating income by geographic segment. These are displayed in Exhibit 3 for the years 2014 through 2017.

Growth Strategy

Under Armour's growth strategy in 2018 was centered on six strategic initiatives:

- Continuing to broaden the company's product offerings to men, women, and youth for wear in a widening variety of sports and recreational activities and to increase their appeal to buyers. Special emphasis was being placed on expanding Under Armour's line of women's products to better capitalize on the growth opportunities in the women's segment.
- Increasing its sales and market share in the athletic footwear segment.
- Securing additional distribution of Under Armour products in the retail marketplace by (1) opening greater numbers of Under Armour Brand House stores and factory outlets and (2) capitalizing on growing consumer preferences to shop online. UA management had recently concluded the company's profit opportunities were often better selling its products direct to consumers at retail prices than they were selling to retail stores at wholesale prices sufficiently low to be competitive with the wholesale prices being offered by Nike and adidas.
- Growing Under Armour's global footprint by expanding its sales in foreign countries and becoming an ever-stronger global competitor in the world market for sports apparel, athletic footwear, and related sports products.
- Growing global awareness of the Under Armour brand name and strengthening the connection between consumers and Under Armour branded products worldwide.
- Growing the company's connected fitness business and making it profitable.

Most pressing, of course, was the strategic urgency to revive the company's sales growth, particularly in North America, and return the company to attractive profitability.

EXHIBIT 3 Under Armour's Revenues and Operating Income, by Product Category and Geographic Region, 2014–2017

A. Net revenues by product category (in millions of $)

	2017		2016		2015		2014	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Apparel	$3,287.1	66.1%	$3,229.1	66.9%	$2,801.1	70.7%	$ 853.5	80.2%
Footwear	1,037.8	20.9	1,010.7	20.9	677.7	17.1	127.2	12.0
Accessories	445.8	9.0	406.6	8.4	346.9	8.8	43.9	4.1
Total net sales	4,770.8	95.9%	4,646.4	96.3%	3,825.7	96.6%	$1,024.6	96.3%
License revenues	116.6	2.3	99.8	2.1	84.2	2.1	39.4	3.7
Connected fitness	89.2	1.8	80.4	1.7	53.4	1.3	19.2	—
Total net revenues	$4,976.6	100.0%	$4,825.3	100.0%	$3,963.3	100.0%	$1,063.9	100.0%

B. Net revenues by geographic region (in millions of $)

	2017	2016	2015	2014
North America	$3,802.4	$4,005.3	$3,455.8	$2,796.4
EMEA*	470.0	330.6	203.1	134.1
Asia-Pacific	433.6	268.6	144.9	70.4
Latin America	181.3	141.8	106.2	41.9
Connected fitness	89.2	80.4	53.4	19.2
Total net revenues	$4,976.6	$4,825.3	$3,963.3	$3,084.4

C. Operating income (loss) by geographic region (in millions of $)

	2017	2016	2015	2014
North America	$ 20.2	$408.4	$461.0	$372.3
EMEA*	18.0	11.4	3.1	(11.8)
Asia-Pacific	82.0	68.3	36.4	21.9
Latin America	(37.1)	(33.9)	(30.6)	(15.4)
Connected fitness	(55.3)	(36.8)	(61.3)	(13.1)
Total operating income	$ 27.8	$417.5	$408.5	$354.0

*Europe-Middle East-Africa

Source: Company 10-K reports, 2017 and 2016.

Product Line Strategy

For a number of years, expanding the company's product offerings and marketing them at multiple price points had been a key element of Under Armour's strategy. The goal for each new item added to the line-up of offerings was to provide consumers with a product that was a *superior* alternative to the traditional products of rivals—striving to always introduce a superior product would, management believed, help foster and nourish a culture of innovation among all company personnel. According to Kevin Plank, "we focus on creating products you don't know you need yet, but once you have them, you won't remember how you lived without them."[8]

Apparel The company designed and merchandised three lines of apparel gear intended to regulate body temperature and enhance comfort, mobility, and performance regardless of weather conditions: HEATGEAR® for hot weather conditions; COLDGEAR® for cold weather conditions; and ALLSEASONGEAR® for temperature conditions between the extremes.

HeatGear. HeatGear was designed to be worn in warm to hot temperatures under equipment or as a single layer. The company's first compression T-shirt was the original HeatGear product and was still one of the company's signature styles in 2015. In sharp contrast to a sweat soaked cotton T-shirt that could weigh two to three pounds, HeatGear was engineered with a microfiber blend featuring what Under Armour termed a "Moisture Transport System" that ensured the body would stay cool, dry, and light. HeatGear was offered in a variety of tops and bottoms in a broad array of colors and styles for wear in the gym or outside in warm weather.

ColdGear. Under Armour high performance fabrics were appealing to people participating in cold-weather sports and vigorous recreational activities like snow skiing who needed both warmth and moisture-wicking protection from becoming overheated. ColdGear was designed to wick moisture from the body while circulating body heat from hotspots to maintain core body temperature. All ColdGear apparel provided dryness and warmth in a single light layer that could be worn beneath a jersey, uniform, protective gear or ski-vest, or other cold weather outerwear. ColdGear products generally were sold at higher price points than other Under Armour gear lines.

AllSeasonGear. AllSeasonGear was designed to be worn in temperatures between the extremes of hot and cold and used technical fabrics to keep the wearer cool and dry in warmer temperatures while preventing a chill in cooler temperatures.

Each of the three apparel lines contained three fit types: compression (tight fit), fitted (athletic fit), and loose (relaxed). In 2016, Under Armour introduced apparel items containing MicroThread, a fabric technology that used elastomeric (stretchable) thread to create a cool moisture-wicking microclimate, prevented clinging and chafing, allowed garments to dry 30 percent faster and be 70 percent more breathable than similar Lycra construction, and were so lightweight as to "feel like nothing." It also began using a newly developed insulation called Reactor in selected ColdGear items and introduced a new apparel collection with an exclusive CoolSwitch coating on the inside of the fabric that pulled heat away from the skin, allowing the wearer to feel cooler and perform longer.

Footwear Under Armour began marketing athletic footwear for men, women, and youth in 2006 and had expanded its footwear line every year since. Its 2018 offerings included footwear models specifically designed for performance training, running, footwear, basketball, golf, and outdoor wear, plus football, baseball, lacrosse, softball, and soccer cleats. Under Armour's footwear models were light, breathable, and built with performance attributes specific to their intended use. Over the past 5 years, a stream of innovative technologies had been incorporated in the ongoing generations of footwear models/styles to improve stabilization, cushioning, moisture management, comfort, directional control, and performance.

New footwear collections for men, women, and youth were introduced annually, sometimes seasonally. Most new models and styles incorporated fresh technological features of one kind or another. Since 2012, Under Armour had more than tripled the number of footwear styles/models priced above $100 per pair. Its best-selling offerings were in the basketball and running shoe categories.

To capitalize on a recently signed long-term endorsement contract with pro basketball superstar Stephen Curry, Under Armour began marketing a Stephen Curry Signature line of basketball shoes in 2014; the so-called Curry One models had a price point of $120. This was followed by a Curry Two collection in 2015 at a price point of $130, a Curry 2.5 collection at a price point of $135 during the NBA playoffs in May and June 2016, a Curry Three collection in Fall 2016, a Curry 4 collection at a price point of $130 in Fall 2017, and a Curry 5 collection at a price point of $130 at the start of the NBA playoffs in May 2018.

After signing pro golfer Jordan Spieth to a 10-year endorsement contract in early 2015—Spieth had a spectacular year on the Professional Golf Association (PGA) tour in 2015 and was named 2015 PGA Tour Player of the Year—Under Armour promptly sought to leverage the signing by introducing an all-new 2016 golf shoe collection in April 2016. The collection had 3 styles, ranging in price from $160 to $220. A new Spieth One Signature collection was introduced in early 2017 with much the same price points, followed by a Spieth Two collection in early 2018, which was accompanied by a Spieth Tour™ golf glove.

Under Armour debuted its first "smart shoe" (called the SpeedForm Gemini 2 Record Equipped) at a price point of $150 in 2016; smart shoe models were equipped with the capability to connect automatically to UA's connected fitness website and record certain activities in the wearer's fitness tracking account.

In 2018, using freshly-developed connected fitness technologies and several other innovations, Under Armour debuted a new, multi-featured HOVR™ running shoe, which Kevin Plank hailed as a new product that hit what the company called "the trifecta–style, performance, and fit." HOVR models were priced from $100 to $140; all models used compression mesh and a special molded foam that provided a "zero gravity feel," gave the runner return energy with each step to reduce impact, and claimed to deliver "unmatched comfort." The higher-priced "Connected" HOVR models had built-in Under Armour Record Sensor™ technology that could be paired with a mobile phone and used to track, analyze, and store most every known running metric, enabling runners to know what they needed to do to get better. Plank believed the HOVR was "a home run" and a reflection of the company's growing capabilities to churn out innovative products.

Accessories Under Armour's accessory line in 2018 included gloves, socks, hats and headwear, backpacks and bags, eyewear, protective gear, and equipment. All of these accessories featured performance advantages and functionality similar to other Under Armour products. For instance, the company's baseball batting, football, golf, and running gloves included HEATGEAR® and COLDGEAR® technologies and were designed with advanced fabrics to provide various high-performance attributes that differentiated Under Armour gloves from those of rival brands.

Connected Fitness In December 2013, Under Armour acquired MapMyFitness, which served one of the largest fitness communities in the world at its website and offered a diverse suite of websites and mobile applications under its flagship brands, MapMyRun and MapMyRide. Utilizing GPS and other advanced technologies, MapMyFitness provided users with the ability to map, record, and share their workouts. Under Armour acquired European fitness app Endomondo and food-logging app MyFitnessPal in 2015, enabling UA to create a multifaceted connected fitness dashboard that used four independently functioning apps (MapMyFitness, MyFitnessPal, Endomondo, and UA Record™) to enable subscribers to log workouts, runs, and foods eaten, and to use a digital dashboard to review measures relating to their sleep, fitness, activity, and nutrition. Next, UA introduced a Connected Fitness System called Under Armour HealthBox™ that consisted of a multifunctional wristband (that measured sleep, resting heart rate, steps taken, and workout intensity), heart rate strap, and a smart scale (that tracked bodyweight, body fat percentage, and progress toward a weight goal); the wristband was water resistant, could be worn 24/7, and had Bluetooth connectivity with UA Record.

By April 2016, Under Armour had over 160 million users of its various Connected Fitness offerings, with new user registrations growing at the rate of 100,000 per day.[9] Kevin Plank was so enthusiastic about the long-term potential of Under Armour's Connected Fitness business that he had boosted the company's team of engineers and software developers from 20 to over 350 during 2014 and 2015. In 2016, Under Armour organized all of its digital and fitness technologies and products into a new business division called Connected Fitness, under the leadership of a senior vice president of digital revenue.

While Connected Fitness sales grew rapidly, the business lost millions of dollars annually–see Exhibits 3B and 3C. As part of the 2017 restructuring program, Under Armour merged its core connect fitness digital products, digital engineering, and digital media under the direction of a chief technology officer; this management arrangement evolved further in early 2018 with the appointment of a new senior vice president, digital product, who reported to the chief technology officer and had responsibility for leading the strategy for all digital product development in collaboration with executive management, product category heads, marketing, and creative/design. In Under Armour's February 2018 earnings announcement, the Connected Fitness business reported its first-ever positive operating income (almost $800,000) for the fourth quarter of 2017.

Licensing Under Armour had licensing agreements with a number of firms to produce and market Under Armour apparel, accessories, and equipment. Under Armour product, marketing, and sales teams were actively involved in all steps of the design process for licensed products in order to maintain brand standards and consistency. During 2017, licensees sold UA-branded collegiate, National Football League and Major League Baseball apparel and accessories, baby and kids' apparel, team uniforms, socks, water bottles, eyewear, and other hard goods equipment. Under Armour pre-approved all products manufactured and sold by licensees, and UA's quality assurance personnel were assigned the task of ensuring that licensed products met the same quality and compliance standards as the products Under Armour sold directly.

Marketing, Promotion, and Brand Management Strategies

Under Armour had an in-house marketing and promotions department that designed and produced most of its advertising campaigns to drive consumer demand for its products and build awareness of Under Armour as a leading performance athletic brand. The company's total marketing expenses were $565.1 million in 2017, $477.5 million in 2016, $417.8 million in 2015, and $333.0 million in 2014. These totals included the costs of sponsoring events and various sports teams, the costs of athlete endorsements, and ads placed in a variety of television, print, radio, and social media outlets. All were included as part of selling, general, and administrative expenses shown in Exhibit 1.

Sports Marketing Under Armour's sports marketing and promotion strategy began with promoting the sales and use of its products to high-performing athletes and teams on the high school, collegiate, and professional levels. This strategy was executed by entering into outfitting agreements with a variety of collegiate and professional sports teams, sponsoring an assortment of collegiate and professional sports events, entering into endorsement agreements with individual athletes, and selling Under Armour products directly to team equipment managers and to individual athletes. As a result, UA products were seen on the playing field (typically with the Under Armour logo prominently displayed), giving them exposure to various consumer audiences attending live sports events or watching these events on television and through other media (pictures and videos accessed via the Internet and social media, magazines, and print). Management believed such exposure helped the company establish the on-field authenticity of the Under Armour brand with consumers. In addition, UA hosted combines, camps, and clinics for athletes in many sports at regional sites across the United States and was the title sponsor of a collection of high school All-America Games that created significant on-field and media exposure of its products and brand.

Going into 2018, Under Armour was the official outfitter of men's and women's athletic teams at such collegiate institutions as Notre Dame, UCLA, Boston College, Northwestern, Texas Tech, Maryland, South Carolina, the U.S. Naval Academy, Wisconsin, Indiana, Missouri, California, Utah, and Auburn. All told, it was the official outfitter of close to 100 men's and women's collegiate athletic teams, growing numbers of high school athletic teams, and it supplied sideline apparel and fan gear for many collegiate teams as well. Under Armour had been the official supplier of competition suits, uniforms, and training resources for a number of U.S. teams in the 2014 Winter Olympics, 2016 Summer Olympics, and 2018 Winter Olympics.

Under Armour was equally active in negotiating agreements to supply products to high profile professional athletes and professional sports teams, most notably in the National Football League (NFL), Major League Baseball (MLB), the National Hockey League (NHL), and the National Basketball Association (NBA). Under Armour had been an official supplier of football cleats to all NFL teams since 2006, the official supplier of gloves to NFL teams beginning in 2011, and a supplier of training apparel for athletes attending NFL tryout camps beginning in 2012. In 2011 Under Armour became the official supplier of performance footwear to all MLB teams; after signing a 10-year deal with MLB in 2016, Under Armour was scheduled in 2020 to become the official supplier of on-field uniforms, performance apparel, and connected fitness accessories to all 30 MLB clubs on an exclusive basis; and, together with its manufacturing partner, sell a broad range of MLB licensed merchandise. Starting with the 2011/2012 season, UA was granted rights by the NBA to show ads and promotional displays of players who were official endorsers of Under Armour products in their NBA game uniforms wearing UA-branded basketball footwear.

Internationally, Under Armour sponsored and sold its products to several Canadian, European, and Latin American soccer and rugby teams to help drive brand awareness in various countries and regions across the world. In Canada, it was an official supplier of performance apparel to Rugby Canada and Hockey Canada, had advertising rights at many locations in the Air Canada Center during the NHL Toronto Maple Leafs' home games, and was the official supplier of performance products to the Maple Leafs. In Europe, Under Armour was the official supplier of performance apparel to two professional soccer teams and the Welsh Rugby Union. In 2014 and 2015, Under Armour became the official match-day and training wear supplier for the Colo-Colo soccer club in Chile, the Cruz Azul soccer team in Mexico, and the São Paulo soccer team in Brazil.

In addition to sponsoring teams and events, Under Armour's brand-building strategy in the United States was to secure the endorsement of individual athletes. One facet of this strategy was to sign endorsement contracts with newly emerging sports stars—examples included Jacksonville Jaguars running back Leonard Fournette, Milwaukee Bucks point guard Brandon Jennings, Charlotte Bobcats point guard Kemba Walker, 2012 National League (baseball) Most Valuable Player Buster Posey, 2012 National League Rookie of the Year Bryce Harper, tennis phenom Sloane Stephens, WBC super-welterweight boxing champion Camelo Alvarez, and PGA golfer Jordan Spieth. But the company's endorsement roster also included established stars: NFL football players Tom Brady, Julio Jones, and Anquan Boldin; Golden State Warriors point guard Stephen Curry; professional baseball players Ryan Zimmerman, Jose Reyes, and Clayton Kershaw; tennis star Andy Murray; U.S. Women's National Soccer Team players Heather Mitts and Lauren Cheney; U.S. Olympic and professional volleyball player Nicole Branagh; and U.S. Olympic swimmer Michael Phelps. In 2015, Under Armour negotiated 10-year extensions of its endorsement contracts with Stephen Curry and Jordan Spieth; both deals included grants of stock in the company. Recently, Under Armour had signed celebrities outside the sports world to multi-year contracts, including ballerina soloist Misty Copeland and fashion model Giselle Bündchen; wrestler, actor, and producer Dwayne "The Rock" Johnson; and rapper A$AP Rocky (Rakim Mayers). Copeland was featured in one of Under Armour's largest advertising campaigns for women's apparel offerings. Johnson was playing an integral role in promoting UA's connected fitness, apparel, footwear, and accessory products. Mayers was expected to have his own line of premium clothing in a forthcoming Under Armour Sportswear collection. In addition to signing endorsement agreements with prominent sports figures and celebrities in the United States, Under Armour had become increasingly active in using endorsement agreements with well-known athletes to help build public awareness of the Under Armour brand in those foreign countries where it was striving to build a strong market presence. Headed into 2018, Under Armour had signed endorsement agreements with several hundred international athletes in a wide variety of sports.

Under Armour's strategy of signing high-profile sports figures to endorsement contracts, sponsoring a variety of sports events, and supplying products to sports teams emblazoned with the company's logo had long been used by Nike and The adidas Group. Both rivals had far larger rosters of sports figure endorsements than Under Armour and supplied their products to more collegiate and professional sports teams than Under Armour.

Nonetheless, Under Armour's aggressive entry into the market for securing such endorsement agreements had spawned intense competition among the three rivals to win the endorsement of athletes and teams with high profiles and high perceived public appeal had caused the costs of winning such agreements to spiral upward. In 2014, Under Armour reportedly offered between $265 million and $285 million to entice NBA star Kevin Durant, who plays for the Golden State Warriors, away from Nike; Nike matched the offer and Durant elected to stay with Nike.[10] In 2015, adidas bested Nike in a bidding war to sign Houston Rockets star and runner-up NBA most valuable player James Harden to a 13-year endorsement deal, when Nike opted not to match adidas' offer of $200 million. The deal with Harden was said to be a move by adidas to reclaim its number two spot in sports apparel sales in North America behind Nike, months after being surpassed by Under Armour.[11] In 2016, it took $150 million–$10 million per year–for Under Armour to secure a 10-year deal with UCLA to outfit all of UCLA's men's and women's athletic teams.

Under Armour spent approximately $150.4 million in 2017 for athlete and superstar endorsements, various team and league sponsorships, athletic events, and other marketing commitments, compared to about $176.1 million in 2016, $126.5 million in 2015, $90.1 million in 2014, $53.0 million in 2012, and $29.4 million in 2010.[12] The company was contractually obligated to spend a minimum of $261.2 million for endorsements, sponsorships, events, and other marketing commitments from 2018 to 2020.[13] Under Armour did not know precisely what its future endorsement and sponsorship costs would be because its contractual agreements with most athletes were subject to certain performance-based variables and because it was actively engaged in efforts to sign additional endorsement contracts and sponsor additional sports teams and athletic events.

Retail Marketing and Product Presentation The primary thrust of Under Armour's retail marketing strategy was to increase the floor space *exclusively* dedicated to Under Armour products in the stores of its major retail accounts. The key initiative here was to design and fund Under Armour "concept shops"—including flooring, lighting, walls, fixtures and product displays, and images—within the stores of its major retail customers. This shop-in-shop approach was seen as an effective way to gain the placement of Under Armour products in prime floor space and create a more engaging and sales-producing way for consumers to shop for Under Armour products.

In stores that did not have Under Armour concept shops, Under Armour worked with retailers to establish sales-enhancing placement of its products. In "big-box" sporting goods stores, it was important to be sure that Under Armour's growing variety of products gained visibility in all of the various departments (hunting apparel in the hunting goods department, footwear and socks in the footwear department, and so on). Except for the retail stores with Under Armour concept shops, company personnel worked with retailers to employ in-store fixtures, life-size mannequins, and displays that highlighted the UA logo and conveyed a performance-oriented, athletic look. The merchandising strategy was not only to enhance the visibility of Under Armour products and drive sales but also grow consumer awareness that Under Armour products delivered performance-enhancing advantages.

Media and Promotion Under Armour advertised in a variety of national digital, broadcast, and print media outlets, as well as social and mobile media. Its advertising campaigns were of varying lengths and formats and frequently included prominent athletes and personalities. Advertising and promotional campaigns in 2015-2017 featured Michael Phelps, Stephen Curry, Jordan Spieth, Tom Brady, Lindsey Vonn, Misty Copeland, and Dwayne Johnson.

Distribution Strategy

Under Armour products were available in roughly 17,000 retail store locations worldwide in 2018. In many foreign countries, Under Armour relied on independent marketing and sales agents, instead of its own marketing staff, to recruit retail accounts and solicit orders from retailers for UA merchandise. Under Armour also sold its products directly to consumers through its own Brand House stores, factory outlet stores, and various geographic websites.

Wholesale Distribution In 2018, Under Armour had an estimated 11,000 points of distribution in North America. The company's biggest retail account was Dick's Sporting Goods, which in 2017 accounted for 10 percent of the company's net revenues. Until its bankruptcy and subsequent store liquidation in 2016, The Sports Authority had been UA's second largest retail account; the loss of this account was a principal factor in Under Armour's struggle to grow wholesale sales to retailers in North America. Other important retail accounts included Academy Sports and Outdoors, Hibbett Sporting Goods, Modell's Sporting Goods, Bass Pro Shops, Cabela's, Footlocker, The Army and Air Force Exchange Service, and such well-known department store chains as Macy's, Nordstrom, Belk, Dillard's, and Kohl's. In Canada, the company's important retail accounts included Sport Chek and Hudson's Bay. Roughly 75 percent of all sales made to retailers were to large-format national and regional retail chains. The remaining 25 percent of wholesale sales were to lesser-sized outdoor and specialty retailers, institutional athletic departments, leagues, teams, and fitness specialists. Independent and specialty retailers were serviced by a combination of in-house sales personnel and third-party commissioned manufacturer's representatives.

Direct-to-Consumer Sales In 2017, 30 percent of Under Armour's net revenues were generated through direct-to-consumer sales, versus 23 percent in 2010 and 6 percent in 2005; the direct-to-consumer channel included sales of discounted merchandise at

Under Armour's factory outlet stores and full-price sales at Under Armour Brand Houses, and various country websites. The factory outlet stores gave Under Armour added brand exposure and helped familiarize consumers with Under Armour's product lineup while also functioning as an important channel for selling discontinued, out-of-season, and/or overstocked products at discount prices without undermining the prices of Under Armour merchandise being sold at retail stores, Brand Houses, and company websites. Going into 2018, Under Armour had 162 stores in factory outlet malls in North America; these stores attracted close to 75 million shoppers in 2017.

During the past several years, Under Armour had begun opening company-owned Brand House stores in high-traffic retail locations in the United States to showcase its branded apparel and sell its products direct-to-consumers at retail prices. At year-end 2017, the company was operating 19 Under Armour Brand House stores in North America. Plans called for having close to 200 Brand House locations in North America by year-end 2018.[14] However, part of Under Armour's 2017 restructuring plan reportedly included closing 33 factory outlet stores and 23 Brand House locations that had not met sales expectations; these closings were responsible for many of the lease terminations disclosed in the restructuring effort.[15]

UA management's e-commerce strategy called for sales at www.underarmour.com (and 26 other in-country websites as of 2016) to be one of the company's principal vehicles for sales growth in upcoming years. To help spur e-commerce sales, the company was enhancing its efforts to drive traffic to its websites, improve its online merchandising techniques and storytelling about the many different Under Armour products sold on its sites, and use promotions to attract online buyers. From time-to-time, its websites offered free limited-time shipping on specified items. Recently, to better compete with Amazon, the company had begun offering free 4 to 6 business day shipping on orders over $60 and free 3 business day shipping on orders over $150. Free shipping on returns within 60 days was standard.

Product Licensing In 2017, 2.3 percent of the company's net revenues ($116.6 million) came from licensing arrangements to manufacture and distribute Under Armour branded products. Under Armour pre-approved all products manufactured and sold by its licensees, and the company's quality assurance team strived to ensure that licensed products met the same quality and compliance standards as company-sold products. Under Armour had relationships with several licensees for team uniforms, eyewear, and custom-molded mouth guards, as well as the distribution of Under Armour products to college bookstores and golf pro shops.

Distribution outside North America Under Armour's first strategic move to gain international distribution occurred in 2002 when it established a relationship with a Japanese licensee, Dome Corporation, to be the exclusive distributor of Under Armour products in Japan. The relationship evolved, with Under Armour making a minority equity investment in Dome Corporation in 2011 and Dome gaining distribution rights for South Korea. Dome sold Under Armour branded apparel, footwear, and accessories to professional sports teams, large sporting goods retailers, and several thousand independent retailers of sports apparel in Japan and South Korea. Under Armour worked closely with Dome to develop variations of Under Armour products to better accommodate the different sports interests and preferences of Japanese and Korean consumers.

A European headquarters was opened in 2006 in Amsterdam, The Netherlands, to conduct and oversee sales, marketing, and logistics activities across Europe. The strategy was to first sell Under Armour products directly to teams and athletes and then leverage visibility in the sports segment to access broader audiences of potential consumers. By 2011, Under Armour had succeeded in selling products to Premier League Football clubs and multiple running, golf, and cricket clubs in the United Kingdom; soccer teams in France, Germany, Greece, Ireland, Italy, Spain, and Sweden; as well as First Division Rugby clubs in France, Ireland, Italy, and the United Kingdom. Sales to European retailers quickly followed on the heels of gains being made in the sports team segment. By year-end 2012, Under Armour had 4,000 retail customers in Austria, France, Germany, Ireland, and the United Kingdom and was generating revenues from sales to independent distributors who resold Under Armour products to retailers in Italy, Greece, Scandinavia, and Spain. In 2014-2017, sales continued to expand at a rapid clip in countries in Europe, the Middle East, and Africa; sales in EMEA countries surpassed $1 billion in 2017

(see Exhibit 3B). However, operating profits in this region were small (see Exhibit 3C). Adidas strongly defended its industry-leading position with European retailers, and Under Armour frequently found itself embroiled in hotly contested price-cutting battles with adidas and Nike to win orders from retailers in many EMEA locations.

In 2010 and 2011, Under Armour began selling its products in parts of Latin America and Asia. In Latin America, Under Armour sold directly to retailers in some countries and in other countries sold its products to independent distributors who then were responsible for securing sales to retailers. In 2014, Under Armour launched efforts to make Under Armour products available in over 70 of Brazil's premium points of sale and e-commerce hubs; expanded sales efforts were also initiated in Chile and Mexico.

In 2011, Under Armour opened a retail showroom in Shanghai, China—the first of a series of steps to begin the long-term process of introducing Chinese athletes and consumers to the Under Armour brand, showcase Under Armour products, and learn about Chinese consumers. Additional retail locations in Shanghai and Beijing soon followed (some operated by local partners). By April 2014, there were five company-owned and franchised retail locations in mainland China that merchandised Under Armour products; additionally, the Under Armour brand had been recently introduced in Hong Kong through a partnership with leading retail chain GigaSports.

Under Armour began selling its branded apparel, footwear, and accessories to independent distributors in Australia, New Zealand, and Taiwan in 2014; these distributors were responsible for securing retail accounts to merchandise Under Armour products to consumers. The distribution of Under Armour products to retail accounts across Asia was handled by a third-party logistics provider based in Hong Kong.

In 2013, Under Armour organized its international activities into four geographic regions—North America (the United States and Canada), Latin America, Asia-Pacific, and Europe/Middle East/Africa (EMEA). In his Letter to Shareholders in the company's 2013 Annual Report, Kevin Plank said, "We are committed to being a global brand with global stories to tell, and we are on our way." Sales of Under Armour products in EMEA, the Asia-Pacific, and Latin America accounted for 21.8 of Under Armour's total net revenues in 2017, up from 11.5 percent in 2015, and 8.7 percent in 2014 (see Exhibit 3B). Under Armour saw growth in foreign sales as the company's biggest market opportunity in upcoming years, chiefly because of the sheer number of people residing outside the United States who could be attracted to patronize the Under Armour brand. In 2017 Nike generated about 53 percent of its revenues outside North America, and adidas got about 70 percent of its sales outside its home market of Western Europe and 80 percent outside of North America—these big international sales percentages for Nike and adidas were a big reason why Under Armour executives were confident that growing UA's international sales represented an enormous market opportunity for the company, despite the stiff competition it could expect from its two bigger global rivals.

One of Under Armour's chief initiatives to build international awareness of the Under Armour brand and rapidly grow its sales internationally was to open growing numbers of stores in popular factory outlet malls and to locate Brand Houses in visible, high-traffic locations in major cities. So far, the company had opened 57 factory outlet stores and 57 Brand House stores in international locations as of year-end 2017, versus 37 factory outlet stores and 35 Brand Houses at year-end 2016. Current long-range plans called for perhaps as many as 800 such stores in 40+ countries outside North America sometime in the 2020 to 2025 period.

Product Design and Development

Top executives believed that product innovation—as concerns both technical design and aesthetic design—was the key to driving Under Armour's sales growth and building a stronger brand name.

UA products were manufactured with technically advanced specialty fabrics produced by third parties. The company's product development team collaborated closely with fabric suppliers to ensure that the fabrics and materials used in UA's products had the desired performance and fit attributes. Under Armour regularly upgraded its products as next-generation fabrics with better performance characteristics became available and as the needs of athletes changed. Product development efforts also aimed at broadening the company's product offerings in both new and existing product categories and market segments. An effort was made to design products with "visible technology," utilizing color, texture, and fabrication that would enhance customers' perception and understanding of the use and benefits of Under Armour products.

Under Armour's product development team had significant prior industry experience at leading fabric and other raw material suppliers and branded athletic apparel and footwear companies throughout the world. The team worked closely with Under Armour's sports marketing and sales teams as well as professional and collegiate athletes to identify product trends and determine market needs. Collaboration among the company's product development, sales, and sports marketing team had proved important in identifying the opportunity and market for four recently launched product lines and fabric technologies:

- CHARGED COTTON™ products, which were made from natural cotton but performed like the products made from technically advanced synthetic fabrics, drying faster and wicking moisture away from the body.
- STORM Fleece products, which had a unique, water-resistant finish that repelled water without stifling airflow.
- Products with a COLDBLACK® technology fabric that repelled heat from the sun and kept the wearer cooler outside.
- ColdGear® Infrared, a ceramic print technology applied to the inside of garments that provided wearers with lightweight warmth.

Sourcing, Manufacturing, and Quality Assurance

Many of the high-tech specialty fabrics and other raw materials used in UA products were developed by third parties and sourced from a limited number of preapproved specialty fabric manufacturers; no fabrics were manufactured in-house. Under Armour executives believed outsourcing fabric production enabled the company to seek out and utilize whichever fabric suppliers were able to produce the latest and best performance-oriented fabrics to Under Armour's specifications, while also freeing more time for UA's product development staff to concentrate on upgrading the performance, styling, and overall appeal of existing products and expanding the company's overall lineup of product offerings.

In 2017, approximately 53 percent of the fabric used in UA products came from five suppliers, with primary locations in Malaysia, Taiwan, and Mexico. Because a big fraction of the materials used in UA products were petroleum-based synthetics, fabric costs were subject to crude oil price fluctuations. The cotton fabrics used in the CHARGED COTTON™ products were also subject to price fluctuations and varying availability based on cotton harvests.

In 2017, substantially all UA products were made by 39 primary contract manufacturers, operating in 17 countries; 10 manufacturers produced approximately 57 percent of UA's products. Approximately 61 percent of UA's apparel and accessories products were manufactured in China, Jordan, Vietnam, and Malaysia. Under Armour's footwear products were made by seven primary contract manufacturers operating primarily in Vietnam, China, and Indonesia. All contract manufacturers making Under Armour apparel products purchased the fabrics they needed from the 5 fabric suppliers preapproved by Under Armour. All of the makers of UA products were evaluated for quality systems, social compliance, and financial strength by Under Armour's quality assurance team, prior to being selected and also on an ongoing basis. The company strived to qualify multiple manufacturers for particular product types and fabrications and to seek out contractors that could perform multiple manufacturing stages, such as procuring raw materials and providing finished products, which helped UA control its cost of goods sold. All contract manufacturers were required to adhere to a code of conduct regarding quality of manufacturing, working conditions, and other social concerns. However, the company had no long-term agreements requiring it to continue to use the services of any manufacturer, and no manufacturer was obligated to make products for UA on a long-term basis. UA had subsidiaries strategically located near its manufacturing partners to support its manufacturing, quality assurance, and sourcing efforts for its products.

Under Armour had a 17,000 square-foot Special Make-Up Shop located at one of its distribution facilities in Maryland where it had the capability to make and ship customized apparel products on tight deadlines for high-profile athletes and teams. While these apparel products represented a tiny fraction of Under Armour's revenues, management believed the facility helped provide superior service to select customers.

Inventory Management

Under Armour based the amount of inventory it needed to have on hand for each item in its product line on existing orders, anticipated sales, and the need to rapidly deliver orders to customers. Its inventory strategy was focused on (1) having sufficient inventory to fill incoming orders promptly and (2) putting strong systems and procedures in place to improve the efficiency with which it managed its inventories of individual products and total inventory. The amounts of seasonal products it ordered from manufacturers were based on current bookings, the need to ship seasonal items at the start of the shipping window in order to maximize the floor space productivity of retail customers, the need to adequately stock its Factory House and Brand House stores, and the need to fill customer orders. Excess inventories of particular products were either shipped to its Factory House stores or earmarked for sale to third-party liquidators.

However, the growing number of individual items in UA's product line and uncertainties surrounding upcoming consumer demand for individual items made it difficult to accurately forecast how many units to order from manufacturers and what the appropriate stocking requirements were for many items. New inventory management practices were instituted in 2012 to better cope with stocking requirements for individual items and avoid excessive inventory buildups. Year-end inventories of $1.16 billion in 2017 equated to 154.6 days of inventory and inventory turnover of 2.36 turns per year. UA's description of its restructuring plans signaled that inventory reduction initiatives were included.

COMPETITION

The $250 billion global market for sports apparel, athletic footwear, and related accessories was fragmented among some 25 brand-name competitors with diverse product lines and varying geographic coverage and numerous small competitors with specialized-use apparel lines that usually operated within a single country or geographic region. Industry participants included athletic and leisure shoe companies, athletic and leisure apparel companies, sports equipment companies, and large companies having diversified lines of athletic and leisure shoes, apparel, and equipment. The global market for athletic footwear was projected to reach $114.8 billion by 2022, growing at a CAGR of 2.1 percent during the period 2016 to 2022.[16] The global market for athletic and fitness apparel was forecast to grow about 4.3 percent annually from 2015 to 2020 and reach about $185 billion by 2020.[17] Exhibit 4 shows a representative sample of the best-known companies and brands in selected segments of the sports apparel, athletic footwear, and sports equipment industry.

In 2017 and 2018, consumers across the world shopped for the industry's products digitally (online) or physically in stores. And they shopped either for a favorite brand or for multi-brand. The trend was for more consumers to shop digitally and for a brand deemed to be the best or their favorite. Multi-brand shoppers typically wanted to explore and compare the options, either through a dot.com experience or in stores where could view the products firsthand, get advice or personalized assistance, and/or get the product immediately.

As Exhibit 4 indicates, the sporting goods industry consisted of many distinct product categories and market segments. Because the product mixes of different companies varied considerably, it was common for the product offerings of industry participants to be extensive in some segments, moderate in others, and limited to nonexistent in still others. Consequently, the leading competitors and the intensity of competition varied significantly from market segment to market segment. Nonetheless, competition tended to be intense in most every segment with substantial sales volume and typically revolved around performance and reliability, the breadth of product selection, new product development, price, brand name strength and identity through marketing and promotion, the ability of companies to convince retailers to stock and effectively merchandise their brands, and the capabilities of the various industry participants to sell directly to consumers through their own retail/factory outlet stores and/or at their company websites. It was common for the leading companies selling athletic footwear, sports uniforms, and sports equipment to actively sponsor sporting events and clinics and to contract with prominent and influential athletes, coaches, professional sports teams, colleges, and sports leagues to endorse their brands and use their products.

Nike was the clear global market leader in the sporting goods industry, with a global market share in athletic footwear of about 25 percent and a sports apparel

EXHIBIT 4 Major Competitors and Brands in Selected Segments of the Sports Apparel, Athletic Footwear, and Accessory Industry, 2018

Performance Apparel for Sports (baseball, football, basketball, softball, volleyball, hockey, lacrosse, soccer, track & field, and other action sports)	Performance-Driven Athletic Footwear	Training/Fitness Clothing
• Nike • Under Armour • Adidas • Eastbay • Russell	• Nike • Adidas • New Balance • Reebok • Saucony • Puma • Rockport • Converse • Ryka • Asics • Li Ning	• Nike • Under Armour • Adidas • Puma • Fila • Lululemon athletica • Champion • Asics • Eastbay • SUGOI • Li Ning
Performance Activewear and Sports-Inspired Lifestyle Apparel	**Performance Skiwear**	**Performance Golf Apparel**
• Polo Ralph Lauren • Lacoste • Izod • Cutter & Buck • Timberland • Columbia • Puma • Li Ning • Many others	• Salomon • North Face • Descente • Columbia • Patagonia • Marmot • Helly Hansen • Bogner • Spyder • Many others	• Footjoy • Nike • Adidas • Under Armour • Polo Golf • Ashworth • Cutter & Buck • Greg Norman • Puma • Many others

share of 5 percent. The adidas Group, with businesses that produced athletic footwear, sports uniforms, fitness apparel, sportswear, and a variety of sports equipment and marketed them across the world, was the second largest global competitor. These two major competitors of Under Armour are profiled as follows.

Nike, Inc.

Incorporated in 1968, Nike was the dominant global leader in the design, development, and worldwide marketing and selling of footwear, sports apparel, sports equipment, and accessory products. Nike was a truly global brand, with a broader and deeper portfolio of products, models, and styles than any other industry participant. The company had 2017 global sales of $34.4 billion and net income of $4.2 billion in fiscal year ending May 31, 2017. Nike was the world's largest seller of footwear with sales of $21 billion; it held the number 1 market share in all markets and in all categories of athletic footwear (its running shoe business alone had sales of $5.3 billion). Nike's footwear line included some 1,500 models/styles. Nike was also the world's largest sports apparel brand, with 2017 sales of $9.5 billion. Sales of Nike products to women reached $7 billion in 2017.

Nike's strategy in 2017 and 2018 was driven by three core beliefs. One was that the growing popularity of sports and active lifestyles reflected a desire to lead healthier lives. As a result, companies like Nike were becoming more relevant for more moments in people's lives because of their growing participation in calorie-burning, wellness, and fitness activities and because active lifestyles stimulated greater interest in sports-related activities and sports events. Moreover, streaming of sports events and social media were changing the ways people consumed sports content. The NBA, for example, had over 1.3 billion social media followers across the league, teams, and player pages. The growth of watching streamed events on mobile phones was exploding. Second, in a

connected, mobile-led world, consumers had become infinitely better informed and, thus, more powerful because of the information they could access in seconds and the options this opened up—"powered consumers" were prone to consult their phones (or conduct Internet searches on other devices) for price comparisons and availability before deciding where to shop or what to purchase online. Third, the world was operating at faster speeds and the numbers of powered consumers was about to explode. Nike's CEO expected over 2 billion digitally connected people in markets in China, India, and Latin America would join the middle class by 2030. In North America, Nike estimated that its primary consumer base was 50 million people, but that if population trends in China continued at the expected rate, Nike's projected consumer base in China would be more than 500 million people by 2030.

For years, the heart and soul of Nike's strategy had been creating innovative products and powerful storytelling that produced an emotional connection with consumers and caused them to gravitate to purchase Nike products. But at the same time Nike executives understood that brand strength had to be earned every day by satisfying consumer needs and meeting, if not exceeding, their expectations. Exhibit 5 shows Nike's worldwide retail and distribution network at the end of fiscal 2017.

In October 2017, Nike CEO Mark Parker provided a brief overview of the company's "Triple Double" strategy that had three components: 2X Innovation, 2X Speed, and 2X Direct:

> In 2X Innovation, we will lead with more distinct platforms, moving from seeding to scaling a lot faster. We'll . . . give consumers better choices to match their preferences. And we'll set a new expectation for style, creating a new aesthetic to wear in all moments of their lives. To the consumer, there is no trade-off between sport and style. We know that more than half of the athletic footwear and apparel is bought for non-sport activities, and we have even more room to grow in this market.
>
> In 2X Speed, we're investing in digital end to end to serve this insatiable consumer demand for new and fresh products. To use a sports analogy, you can't run an up-tempo offense if only half your plays are designed for speed. So we're building new capabilities and analytics to deliver personalized products in real time, and we're engaging with more partners companywide to move faster against our goals. In our supply chain, we've joined forces with leading robotics and automation companies, and we're serving millions of athletes and sports fans faster through manufacturing bases that are closer to our North American consumer. 2X Speed is really all about delivering the right product in the moment, 100 percent of the time.
>
> We never ever take the strength of our brand and premium product for granted. They are indeed our most valuable assets. With 2X Direct [to Consumer], we want as many Nike touch points as possible to live up to those expectations, and that's why we are investing heavily in our own channel and leading with digital. And with our strategic partners, we'll move resources away from undifferentiated retail and toward environments where we can better control with distinct consumer experiences.[18]

Principal Products Nike's 1,500 athletic footwear models and styles were designed primarily for specific athletic use, although many were worn for casual or leisure purposes. Running, training, basketball, soccer, sport-inspired casual shoes, and kids' shoes were the company's top-selling footwear categories. It also marketed footwear designed for baseball, football, golf, lacrosse, cricket, outdoor activities,

EXHIBIT 5 Nike's Worldwide Retail and Distribution Network, 2017

United States	Foreign Countries
• ~15,000 retail accounts	• ~15,000 retail accounts
• 209 Nike factory outlet stores	• 642 Nike factory outlet stores
• 34 Nike and NIKETOWN stores	• 71 Nike and NIKETOWN stores
• 112 Converse retail and factory outlet stores	• 45 Converse retail and factory outlet stores
• 29 Hurley stores	• —
• 8 Distribution centers	• 45 Distribution centers
• Company website (www.nike.com)	• Independent distributors and licensees in over 190 countries
	• 40 + www.nike.com websites

tennis, volleyball, walking, and wrestling. The company designed and marketed Nike-branded sports apparel and accessories for most all of these same sports categories, as well as sports-inspired lifestyle apparel, athletic bags, and accessory items. Footwear, apparel, and accessories were often marketed in "collections" of similar design or for specific purposes. It also marketed apparel with licensed college and professional team and league logos. Nike-brand offerings in sports equipment included bags, socks, sport balls, eyewear, timepieces, electronic devices, bats, gloves, protective equipment, and golf clubs. Nike was also the owner of the Converse brand of athletic footwear and the Hurley brand of swimwear, assorted other apparel items, and surfing gear.

Exhibit 6 shows a breakdown of Nike's sales of footwear, apparel, and equipment by geographic region for fiscal years 2015 to 2017.

Marketing, Promotions, and Endorsements Nike responded to trends and shifts in consumer preferences by (1) adjusting the mix of existing product offerings, (2) developing new products, styles, and categories, and (3) striving to influence sports and fitness preferences through aggressive marketing, promotional activities, sponsorships, and athlete endorsements. Nike spent $3.34 billion in fiscal 2017 (as compared to $2.75 billion in 2013 for) what it termed "demand creation expense" that included the costs of advertising, promotional activities, and endorsement contracts. Well over 500 professional, collegiate, club, and Olympic sports teams in football, basketball, baseball, ice hockey, soccer, rugby, speed skating, tennis, swimming, and other sports wore Nike uniforms with the Nike swoosh prominently visible. There were over 1,000 prominent professional athletes with Nike endorsement contracts in 2011-2017, including former basketball great Michael Jordan, NFL player Drew Brees, NBA players LeBron James, Kobe Bryant, Kevin Durant, and Dwayne Wade; professional golfers Tiger Woods and Michelle Wie; soccer player Cristiano Ronaldo; and professional tennis players Venus and Serena Williams, Roger Federer, and Rafael Nadal. When Tiger Woods turned pro, Nike signed him to a 5-year $100 million endorsement contract and made him the centerpiece of its campaign to make Nike a factor in the golf equipment and golf apparel marketplace. Nike's long-standing endorsement relationship with Michael Jordan led to the introduction of the highly popular line of Air Jordan footwear and, more recently, to the launch of the Jordan brand of athletic shoes, clothing, and gear. In 2003 LeBron James signed an endorsement deal with Nike worth

EXHIBIT 6 Nike's Sales of Nike Brand Footwear, Apparel, and Equipment, by Geographic Region and by Wholesale and Direct-to-Customer, Fiscal Years 2015–2017

	Fiscal Years Ending May 31		
Sales Revenues and Earnings (in millions)	2017	2016	2015
North America			
Revenues—Nike Brand footwear	$ 9,684	$ 9,299	$ 8,506
Nike Brand apparel	4,866	4,746	4,410
Nike Brand equipment	646	719	824
Total Nike Brand revenues	$15,216	$14,764	$13,740
Sales to Wholesale Customers	10,756	10,674	10,243
Sales Direct to Consumer	4,460	4,090	3,497
Earnings before interest and taxes	$ 3,875	$ 3,763	$ 3,645
Profit margin	25.6%	25.5%	26.5%
Western Europe			
Revenues—Nike Brand footwear	$ 4,068	$ 3,985	$ 3,876
Nike Brand apparel	1,868	1,628	1,552
Nike Brand equipment	275	271	277
Total Nike Brand revenues	$ 6,211	$ 5,884	$ 5,705
Sales to Wholesale Customers	4,443	4,429	4,451
Sales Direct to Consumer	1,768	1,455	1,254
Earnings before interest and taxes	$ 1,203	$ 1,434	$ 1,275
Profit margin	19.4%	24.4%	22.4%
Greater China			
Revenues—Nike Brand footwear	$ 2,920	$ 2,599	$ 2,016
Nike Brand apparel	1,188	1,055	925
Nike Brand equipment	129	131	126
Total Nike Brand revenues	$ 4,237	$ 3,785	$ 3,067
Sales to Wholesale Customers	2,774	2,623	2,234
Sales Direct to Consumer	1,463	1,162	833
Earnings before interest and taxes	$ 1,507	$ 1,372	$ 993
Profit margin	35.6%	36.2%	32.4%
Other Regions			
Revenues—Nike Brand footwear	$ 4,409	$ 3,988	$ 3,920
Nike Brand apparel	1,712	1,638	1,750
Nike Brand equipment	375	375	404
Total Nike Brand revenues	$ 6,496	$ 6,001	$ 6,074
Sales to Wholesale Customers	5,105	4,851	5,024
Sales Direct to Consumer	1,391	1,150	1,050
Earnings before interest and taxes	$ 1,284	$ 1,355	$ 1,167
Profit margin	19.8%	22.6%	19.2%
All Regions			
Revenues—Nike Brand footwear	$21,081	$19,871	$18,318
Nike Brand apparel	9,654	9,067	8,637
Nike Brand equipment	1,425	1,496	1,631
Total Nike Brand revenues	$32,160	$30,434	$28,586
Sales to Wholesale Customers	23,078	22,577	21,952
Sales Direct to Consumer	9,082	7,857	6,634
Earnings before interest and taxes	$ 7,869	$ 7,924	$ 7,080
Profit margin	24.5%	26.0%	24.8%
Converse			
Revenues	$ 2,042	$ 1,955	$ 1,982
Earnings before interest and taxes	$ 477	$ 487	$ 517
Profit margin	23.4%	24.9%	26.1%

Note: The revenue and earnings figures for all geographic regions include the effects of currency exchange fluctuations. The Nike Brand revenues for equipment include the Hurley brand, and the Nike Brand revenues for footwear include the Jordan brand. The earnings before interest and taxes figures associated with Total Nike Brand Revenues include those for the Hurley and Jordan brands.

Source: Nike's 10-K Report for Fiscal Year 2017, pp. 26–37.

$90 million over 7 years, and in 2015 he signed a lifetime deal with Nike. Because soccer was such a popular sport globally, Nike had more endorsement contracts with soccer athletes than with athletes in any other sport; track and field athletes had the second largest number of endorsement contracts.

Resources and Capabilities Nike had an incredibly deep pool of valuable resources and capabilities that enhanced its competitive power in the marketplace and helped spur product innovation, shorten speed-to-market, enable customers to use digital tools to customize the colors and styling of growing numbers of Nike products, and thereby drive strong brand attachment and sales growth. Examples of these included the following:

- The company's Nike APP and the SNKRS app were in more than 20 countries across North America and Europe, plus China and Japan, countries that drove close to 90 percent of Nike's growth. These apps provided easy access to Nike products and were becoming a popular way for customers to shop Nike products and make online purchases. The Nike App was the number one mono-brand retail app in the United States. Nike's apps and growing digital product ecosystem were key components of the company's 2X Speed strategy to operate faster and get innovative products in the hands of consumers faster.
- The creation and ongoing enhancement of the NikePlus membership program which in 2017 connected 100 million consumers to Nike–NikePlus members who used the company's mobile apps spent more than three times as much time on nike.com as other site visitors. Starting in 2018, NikePlus members were entitled to "reserved-for-you service" that used machine learning-powered algorithms to set aside products in a member's size that the algorithms predicted members would like. Members could also use a "reserved-by-you" service to gain guaranteed access to products they wanted; this newly developed capability was deemed especially valuable to members wanting a recently-introduced product in high demand. In 2018, Nike began accelerating invitations to NikePlus members to personalized events and experiences and extending benefits and offers from NikePlus partners like Apple Music, Headspace, and Class Pass. Special Nike Unlock offers were sent to members once a month. Nike expected that NikePlus membership would triple over the next five years. Nike executives anticipated that converting consumers into NikePlus members would heighten their relationship to and connection with Nike.
- The establishment of an Advanced Product Creation Center charged with keeping the pipeline flowing with product innovations, new digital products, and manufacturing innovations to make 2X Speed a reality. Nike was aggressively investing in 3D modeling and other related technology to quickly create prototypes of new products; with traditional technology, it often took four-to-six months go from new idea-to-design-to-product prototype. So far, Nike had been able to go from design, to prototyping, to manufacturing, to delivery in less than 6 months, as compared to 9 to 12 months. Nike's goal was to improve its rapid prototyping capabilities to the point where 100 percent of new product innovations could be rapid-prototyped at the Advanced Product Creation Center in Portland, Oregon. Employee athletes, athletes engaged under sports marketing contracts, and other athletes wear-tested and evaluated products during the development and prototyping process.
- A relaunch of all 40+ nike.com websites in late 2017 that featured a new design with better visual appeal and functionality, more storytelling, eye-catching product displays, and better product descriptions–all aimed at generating more visitor traffic, longer shopping times, increased online sales, and achieving 2X Direct.
- Implementing robot-assisted manufacturing capabilities and other recently-developed manufacturing innovations (such as oscillating knives, laser cutting and trimming, phylon mold transfer, and computerized stitching) on a broad scale. In one instance, the use of advanced robotics and digitization techniques was generating a continuous, automated flow of the upper portion of a footwear model with 30 percent fewer steps, 50 percent less labor, and less waste in just 30 seconds per shoe–a total of 1,200 automated robots had been installed to perform an assortment of activities at various manufacturing facilities in 2017. In another instance, Nike had made manufacturing breakthroughs in producing the bottoms of its footwear (the midsoles and outsoles) using innovative techniques capable of delivering a pair of midsoles and outsoles, on average, in 2.5 minutes, compared to more than 50 minutes with previously-used techniques. This new process used 75 percent less energy, entailed 50 percent less tooling cost, and enabled a 60 percent reduction in labor.
- Revamped supply chain practices that had shortened the lead times from manufacturing to market availability from 60 days to 10 days in one instance and from 6 to 9 months to 3 months in other instances.
- Creating a digital technology called Nike iD, whereby customers could go to Nike iD, design their own customized version of a product (say a pair of Free Run Flyknit shoes), view a prototype in an hour or so, have the shoes knitted to order, and get them delivered in 10 days or less.[19]

All of Nike's competitively valuable resources and capabilities were being dynamically managed; enhancements were made as fast as ways to improve could be developed and instituted and new capabilities were being added in an effort (1) to provide customers with a better "Nike Experience" and (2) to respond faster to ongoing changes in consumer preferences and expectations. Collaborative efforts were underway in Nike's organizational units to transfer new or enhanced resources and capabilities to all seven of the company's product categories and also extend them to all of geographic regions and countries where Nike had a market presence. The goal was to mobilize Nike's resources and capabilities to produce an enduring competitive advantage over rivals and give customers the best possible experience in purchasing and using Nike products.

Manufacturing In fiscal year 2017, Nike sourced its athletic footwear from 127 factories in 15 countries. About 94 percent of Nike's footwear was produced by independent contract manufacturers in Vietnam, China, and Indonesia but the company had manufacturing agreements with independent factories in Argentina, Brazil, India, and Mexico to manufacture footwear for sale primarily within those countries. Nike-branded apparel was manufactured outside of the United States by 363 independent contract manufacturers located in 39 countries; most of the apparel production occurred in China, Vietnam, Thailand, Indonesia, Sri Lanka, Malaysia, and Cambodia.

The adidas Group

The mission of The adidas Group was to be the best sports company in the world. Headquartered in Germany, its businesses and brands in 2017 consisted of:

- Adidas–a designer and marketer of active sportswear, uniforms, footwear, and sports products in football, basketball, soccer, running, training, outdoor, and 6 other categories (89.2 percent of Group sales in 2017). The mission at adidas was to be the best sports brand in the world.
- Reebok–a well-known global provider of athletic footwear for multiple uses, sports and fitness apparel, and accessories (8.7 percent of Group sales in 2017). The mission at Reebok was to be the best fitness brand in the world.
- Other businesses (2.1% of Group sales in 2017).

Exhibit 7 shows the company's financial highlights for 2015 to 2017. The company had recently divested five businesses–TaylorMade Golf, Adams Golf, Ashworth brand sports apparel, CCR Hockey, and Rockport brand shoes–to focus all of its resources on achieving faster and more profitable sales growth in both its adidas and Reebok businesses.

The company sold products in virtually every country of the world. In 2017, its extensive product offerings were marketed through thousands of third-party retailers (sporting goods chains, department stores, independent sporting goods retailer buying groups, and lifestyle retailing chains–with a combined total of 150,000 locations worldwide, and Internet retailers), 2,588 company-owned retail stores, 13,000 franchised adidas and Reebok branded stores with varying formats, and company websites (www.adidas.com and www.reebok.com) in 40 countries.

Like Under Armour and Nike, both adidas and Reebok were actively engaged in sponsoring major sporting events, teams, and leagues and in using athlete endorsements to promote their products. Recent high-profile sponsorships and promotional partnerships included numerous professional soccer and rugby teams, sports teams at the University of Miami, Arizona State University, and Texas A&M University; FIFA World Cup events; the Summer and Winter Olympics; the Boston Marathon and London Marathon; and official outfitters of items for assorted professional sports leagues (NBA, NHL, NFL, and MLB) and teams. High-profile athletes that were under contract to endorse adidas and Reebok products included NBA players James Harden and Damian Lillard; soccer players David Beckham and Lionel Messi; NFL players Aaron Rodgers, C.J. Spiller, Robert Griffin III, Demarco

EXHIBIT 7 Financial Highlights for The adidas Group, 2015–2017 (in millions of €)

	2017	2016	2015
Income Statement Data			
Net sales	€21,218	€18,483	€16,915
Gross profit	10,703	9,100	8,168
Gross profit margin	50.4%	49.2%	48.3%
Operating profit	2,070	1,582	1,094
Operating profit margin	9.8%	8.6%	6.5%
Net income	1,173	1,017	668
Net profit margin	5.5%	5.5%	4.0%
Balance Sheet Data			
Inventories	€ 3,692	€ 3,763	€ 3,113
Working capital	4,033	3,468	2,133
Net sales by brand			
adidas	€18,993	€16,334	€13,939
Reebok	1,843	1,770	1,731
Net sales by product			
Footwear	€12,427	€10,132	€ 8,360
Apparel	7,747	7,352	6,970
Equipment*	1,044	999	1,585
Net sales by region			
Western Europe	€ 5,883	€ 4,275	€ 4,539
North America	4,275	3,412	2,753
Greater China	3,789	3,010	2,469
Latin America	1,907	1,731	1,783
Japan	1,056	1,007	776
Middle East, Africa, and other Asian Markets	2,907	2,685	2,388
Russia and Commonwealth of Independent States	660	679	739

*In 2017, the company completed the previously announced divestitures of its TaylorMade Golf, Adams Golf, Ashworth, and CCM Hockey businesses; the divestures of TaylorMade Golf, Adams Golf, and the CCM Hockey businesses accounted for the decline in Equipment sales from 2015 levels. In 2016, the company completed its divestiture of its Rockport brand shoe business.

Source: Company annual reports, 2017 and 2015.

Murray, Landon Collins, and Von Miller; and MLB players Chase Utley, brothers B.J. and Justin Upton, Carlos Correa, Josh Harrison, and Chris Bryant. It had also signed non-sports celebrities Kanye West and Pharrell. In 2003, soccer star David Beckham, who had been wearing adidas products since the age of 12, signed a $160 million lifetime endorsement deal with adidas that called for an immediate payment of $80 million and subsequent payments said to be worth an average of $2 million annually for the next 40 years.[20] Adidas was anxious to sign Beckham to a lifetime deal not only to prevent Nike from trying to sign him but also because soccer was considered the world's most lucrative sport and adidas management believed that Beckham's endorsement of adidas products resulted in more sales than all of the company's other athlete endorsements combined. Companywide expenditures for advertising, event sponsorships, athlete endorsements, public relations, and other marketing activities were €2.14 billion in 2017, €1.89 billion in 2016, €1.89 billion in 2015, and €1.55 billion in 2014.

In 2015-2017, adidaslaunched a number of initiatives to become more America-centric and regain its #2 market position lost to Under Armour in 2015. This included a campaign to sign up to 250 National Football League players and 250 Major League Baseball players over the next three years. It had secured 1,100 new retail accounts that involved prominent displays of freshly styled adidas products and newly introduced running shoes with high-tech features. The adidas brand regained its #2 position in the United States in 2017.

Research and development activities commanded considerable emphasis at The adidas Group. Management had long stressed the critical importance of innovation in improving the performance characteristics of its products. New apparel and footwear collections featuring new fabrics, colors, and the latest fashion were introduced on an ongoing basis to heighten consumer interest, as well as to provide performance enhancements–indeed, in 2017, 79 percent of sales at adidas came from products launched in 2017; at Reebok, 69 percent of sales came from products launched in 2017. About 1,060 people were employed in research and development (R&D) activities; in addition, the company drew upon the services of well-regarded researchers at universities in Canada, the United States, England, and Germany. R&D expenditures in 2017 were €187 million, versus €149 million in 2016, €139 million in 2015, and €126 million in 2014.

Over 95 percent of production was outsourced to about 300 independent contract manufacturers located in China and other Asian countries (79 percent), Europe (9 percent), the Americas (11 percent), and Africa (1 percent). The Group operated 10 relatively small production and assembly sites of its own in Germany (1), Sweden (1), Finland (1), the United States (4), and Canada (3). Close to 97 percent of the Group's production of footwear was performed in Asia; annual volume sourced from footwear suppliers had ranged from a low of 256 million pairs to a high of 403 million pairs during 2013-2017. During the same time frame, apparel production ranged from 292 million to 404 million units and the production of hardware products ranged from 94 million to 110 million units. In all three categories, the largest production volumes occurred in 2017.

The company was stepping up its investments in company-owned, robot-intensive micro-factories to speed certain products to key geographic markets in Europe and the United States much faster and to also lower production costs and boost gross profit margins. At the same time, the company had begun reengineering its existing supply chain and production processes to enable the company to respond quicker to shifts in buyer preferences, be able to reorder seasonal products and sell them to buyers within the season, and to reduce the time it took to get freshly designed products manufactured and into the marketplace.

Executives at The adidas Group expected that the Group's global sales would increase by 10 percent in 2018; management also wanted to achieve a 2018 operating margin of 10.3 to 10.5 percent, and grow 2018 net income to a level between €1.62 billion and €1.68 billion (about 40 percent higher than 2017—see Exhibit 7).

ENDNOTES

[1] Company press release, October 25, 2016.
[2] Company press release, January 31, 2017.
[3] Company press release, January 31, 2017.
[4] Douglas A. McIntyre and Jon C. Ogg, "20 Worst CEOs in America 2017," December 26, 2017, https//247wallst.com (accessed February 22, 2017).
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[16] According to Allied Market Research, "Athletic Footwear Market—Report" published June 2016, www.alliedmarketresearch.com.
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[20] Steve Seepersaud, "5 of the Biggest Athlete Endorsement Deals," www.askmen.com (accessed February 5, 2012).