Spring | 14

Under Armour and Manchester United

KINS 4520

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Table of Contents

Executive Summary

Under Armour is a relatively small yet rapidly growing company known for its commitment to innovation. While we currently focus on selling apparel to athletes in the United States, we plan to expand our operations abroad and expand our product offerings to include team-branded jerseys for fans for everyday wear. We will begin this expansion by picking up the fan and player jersey licensing rights for the English Premier League club Manchester United, which are set to expire this year (for the sake of this project we are acting as though the current time period is July 2013 and using the 2012 Under Armour Annual Report). Manchester United is one of the most recognizable and profitable sports clubs in the world, having a value of $3.165 billion and 90 million fans in Europe. Manchester United also has millions of additional fans worldwide, so to accommodate the large demand for their merchandise, we will build a factory/distribution center in Greater Manchester to support our increased production; it will be our core European production facility as we continue to expand throughout and beyond England.

We eventually plan on expanding our presence in the English Premier League by providing and selling apparel for West Ham United in 2016, Liverpool in 2018, and possibly Arsenal in 2019. By becoming involved in the English Premier League, we will gain a global name and presence and be better positioned among our top competitors. Our current international presence is minuscule, so expanding abroad provides us with a wonderful growth opportunity and will greatly increase our revenues, profits, and market share. The apparel we provide for Manchester United players and fans, as well as the apparel for all of the future clubs we will sponsor, will utilize the Under Armour technology that we are most known for, making our team-branded products superior to our competitors' and showcasing our product differentiation and superiority to a vast, new market. Our deal with Manchester United is just the beginning of our expansion.

About Under Armour and the Sport Apparel Industry

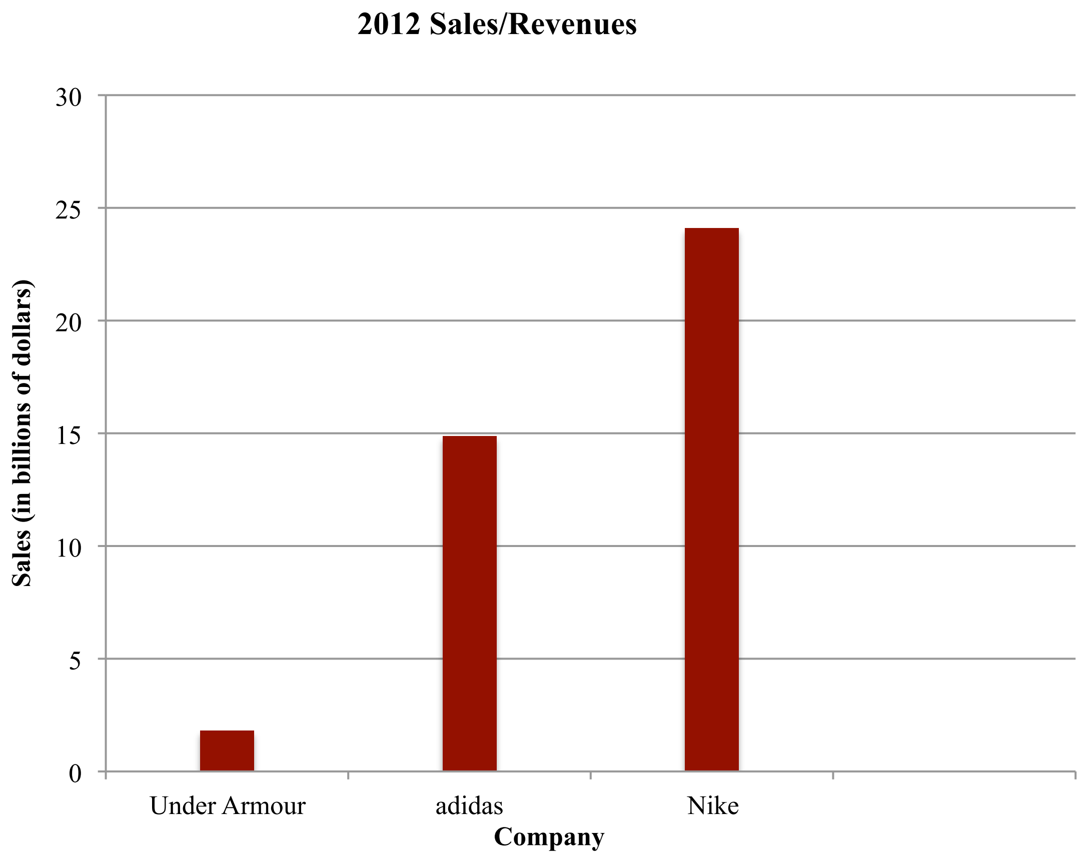

Figure 1. 2012 Sales/Revenues for Under Armour, adidas, and Nike.

According to CNN Money's financial data, Under Armour's current situation has us wanting to increase our market share. Under Armour's 2012 sales/revenues were $1.8 billion while adidas' were $14.88 billion and Nike's were $24.1 billion (data displayed in figure 1).

This data shows that Under Armour currently does not have a large share of the sport apparel market. Currently, Under Armour has a respectable share of the athletic fitness wear industry (what we are known for), but we hope to increase our market share by expanding the brand into the overall sport apparel industry to better compete with Nike and adidas, which includes selling team-branded, everyday fan apparel. Over the past five years, Under Armour stock has nearly quadrupled, putting its market cap in the $9 billion range and placing the company into a much more competitive market territory (Naylor, 2014, para. 8). Over the past three years, the company's year-to-year revenue has grown by no less than 20% every quarter, and over this time period we have added nearly $1 billion in net revenues, putting us in position to reach our 2011 goal of doubling net revenues from 2010 to 2012 (Under Armour, Inc., 2012). With this rise the long-term outlook for the company is bright, and this expansion should help us to better compete with established companies in the industry (Naylor, 2014, para. 9).

The Under Armour brand used to be known as the "tight t-shirt company" but is now a fully integrated athletic brand capable of expansion: compression apparel represented 63% of our apparel mix in 2005; today it is down to just 14% (Under Armour, Inc., 2012). This improvement shows our company's belief that constant innovation will help drive platforms for our brand. Our company's motto is "When we innovate, we win," and we will continue to reimagine and expand our offerings to prolong our growth and success. Our recent innovations include the introductions of Charged Cotton and UA Storm, which both posted substantial growth in 2012, as well as a new technology called coldblack, a fabrication that reflects the sun's heat and light. We will also continue to innovate our core UA TECH t-shirts, as we recently added a softer touch and anti-odor attributes to these products, which will be included in our jerseys for Manchester United. Newness is what our customers demand, and we plan to fulfill this demand by bringing more product to the market while reducing reliance on legacy programs; in this way we are broadening our appeal and reducing our dependency on weather extremes by focusing on areas like Fleece (which grew nearly 50% in 2012), graphic t-shirts, and team-licensed apparel (Under Armour, Inc., 2012).

Under Armour's overall fiscal situation is positive. The company's 5-year compound annual growth rate in net revenues is 24.8%, with the rate of growth increasing 25% in 2012 (Under Armour, Inc., 2012).

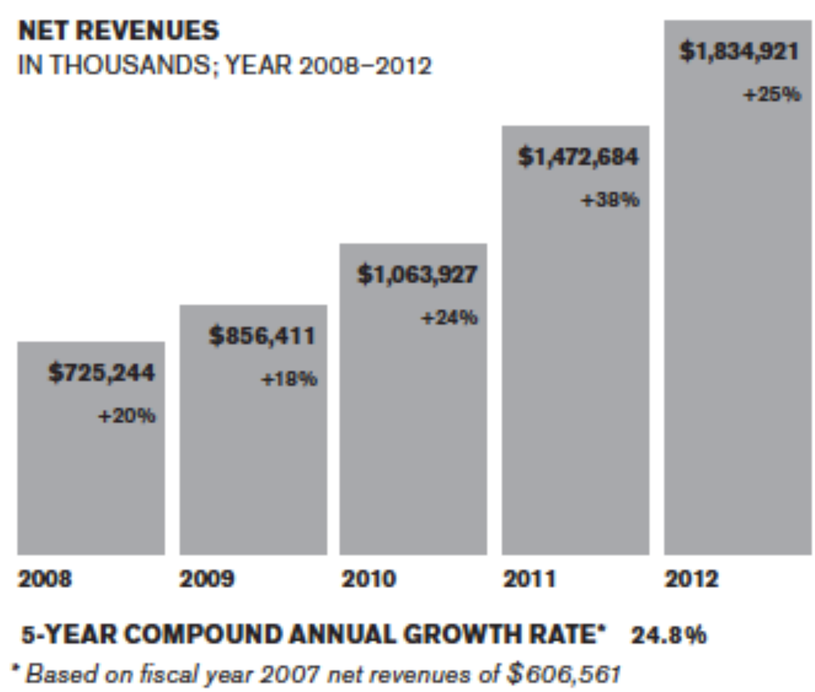

Figure 2. Under Armour Net Revenues and Growth Rates from 2008–2012. Image from the 2012 Under Armour Annual Report.

The market for performance apparel, footwear, and accessories is highly competitive and includes many new competitors as well as increased competition from established companies expanding their production and marketing of performance products. Many of our competitors are large apparel, footwear, and sporting goods companies with worldwide brand recognition and significantly greater resources than Under Armour, such as Nike and adidas. However, the $244 billion sportswear industry is brand-obsessed, and Under Armour has grown quickly since its founding in 1996 and has established itself as a household name alongside these industry titans (Depillis, 2014, para. 2).

Current Ratios

Under Armour	3.58
Nike	3.47
adidas	1.57

Data from *The Wall Street Journal*

The current ratio measures an organization's ability to meet its current liabilities (those due within a year) with its current assets. Under Armour's current ratio of 3.58 suggests that we have the ability to cover our short-term liabilities three and half times over with current assets (see Appendix A for Under Armour's balance sheet). Our current ratio is higher than our two biggest competitors, representing our healthy ability to cover our debts with assets such as cash and accounts receivable. The higher the current ratio figure is, the better off the company is at meeting its current liabilities with its current assets, so out of these three companies, we are performing the best with this ratio and are least likely to need to convert longer-term assets into cash or borrow money to cover liabilities. A current ratio of 3.58 at first seems high, but when compared to Nike, which has a similar value, it is not excessive in this industry's context.

Quick Ratios

Under Armour	2.32
Nike	2.60
adidas	1.00

Data from *The Wall Street Journal*

The quick ratio displays an organization's ability to meet its current liabilities with current assets other than inventory. Because the quick ratio does not include inventory among current assets, it is a more conservative alternative to the current ratio; inventory is difficult to convert into cash if a company faces a financial emergency, so the quick ratio is often a more useful alternative to the current ratio. Our quick ratio is 2.32, suggesting that our company has the ability to cover our short-term liabilities 2.32 times over with current assets other than inventory. For an apparel company with significant inventory, this signifies that we are not overly encumbered with short-term debt, and we have sufficient assets to cover that debt if necessary. However, Nike's 2.60 quick ratio is slightly higher than our ratio, indicating that Nike is outperforming us in this category, but we are still outperforming adidas, which has a quick ratio of only 1.00.

Total Asset Turnover Ratios

Under Armour	1.77
Nike	1.50
adidas	1.29

Data from *The Wall Street Journal*

Under Armour's total asset turnover ratio, a measure of how efficiently an organization is using its assets to make money, is 1.77, which indicates that our revenues exceeded assets by a considerable amount. This ratio suggests that we are using our assets efficiently. The lower the total asset turnover ratio is as compared to data from other companies in the industry, the more slow-moving a firm's sales are. Nike's total asset turnover ratio is 1.50 and adidas' is 1.29, suggesting that Under Armour is using its assets more efficiently than our competitors.

Price to Earnings Ratios

Under Armour	60.78
Nike	22.88
adidas	34.38

Data from *The Wall Street Journal*

The price to earnings ratio is a measure of corporate performance and value, particularly among stock market investors; it estimates how much investors will pay for each dollar of a company's earnings. Because this ratio is heavily influenced by investors' speculation about a company's potential for growth and success in the future, our extremely high price to earnings ratio of 60.78 indicates that Under Armour is perceived to have a high growth potential. A ratio of 60.78 means that Under Armour's stock price was nearly 61 times the company's earnings, a huge price when compared to our competitors': adidas has a price to earnings ratio of 34.38, while Nike's is 22.88. A high price to earnings ratio can indicate subpar net income, but after reviewing our company's income statement, we observed that our net income has actually increased drastically over the past five years at a fairly steady rate, with an increase of 32.47% in 2012, which is much larger than adidas' –14.19% decrease and Nike's 10.84% increase over the same period (see Appendix B for Under Armour's income statement). Although it can be noted that while Under Armour's net income values are increasing at a much faster rate than our competitors', we are also far below those of their competitors, which are much larger companies.

Under Armour is known for being an innovative company, being the first to develop athletic undergarments that push moisture away instead of sucking it in. With this venture, our company did take a risk attempting to bring a new product to the market to meet an unfulfilled need and build a business around it. We also took risks expanding out from our original performance wear products into other areas such as footwear and women's apparel, both of which had slow initial growth but have improved in recent years, with women's apparel now making up nearly 30% of our company's business (Under Armour, Inc., 2012). Building the business beyond what it is most known for – under athletic equipment – has not been easy since the brand is synonymous with what one wears next to the skin and not what is worn over the next layer. But our company is determined to conquer these new areas and continues to invest in them since we believe there is not a product that we cannot build. Our company is also taking risks by developing and selling highly innovative products, such as shirts that track the wearer's heartbeat, a tape-replacing cleat, and a water-repelling sweatshirt (Horovitz, 2012, para. 4). We pride ourselves in being extremely innovative, so it is safe to assume that the company will continue to take risks developing new products in the future, such as our proposal of offering a new line of team-branded, fan jerseys for everyday wear.

Under Armour's current initiatives are continuing to drive business at home, but the company is mindful that we have massive opportunities abroad. International business represented only 6% of our net revenues in 2012, but we believe that the strength in our core United States business affords us the opportunity and patience to make the right decisions in Europe, Latin America, and Asia (Under Armour, Inc., 2012).

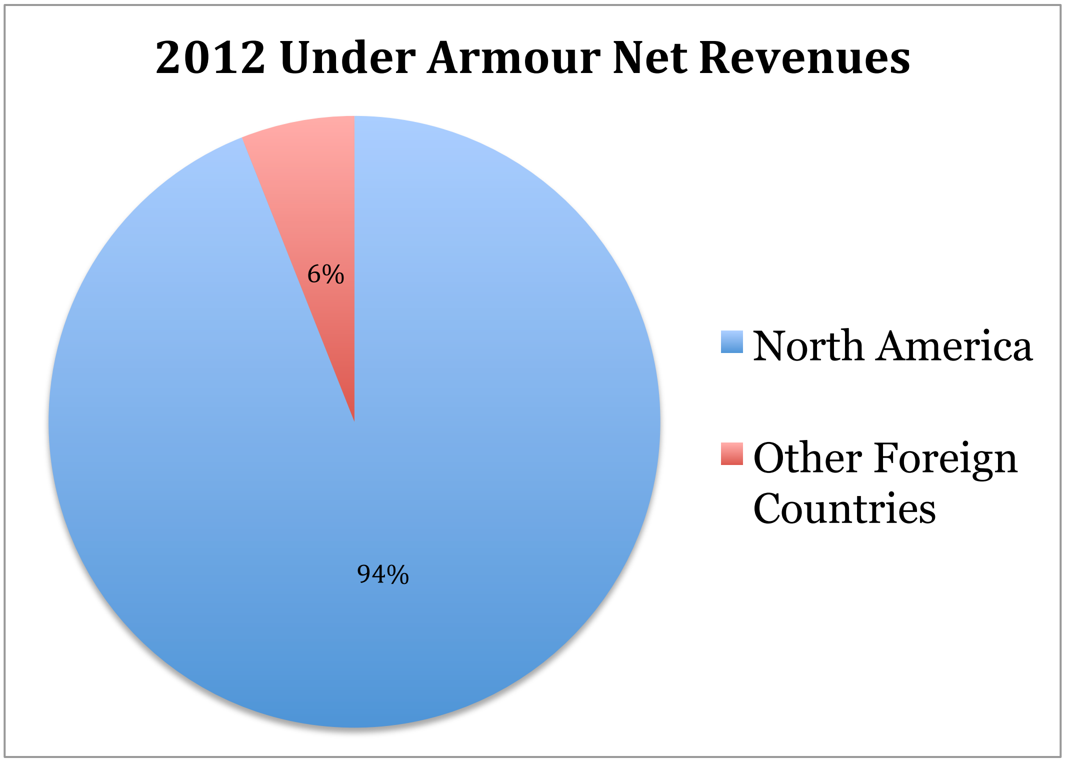

Figure 3. 2012 Under Armour Net Revenues.

Under Armour CEO Kevin Plank knows our company has huge growth opportunities abroad, but he has decided to proceed slowly and carefully into these markets so that we are able to take a calculated, broader approach to how we enter them. This will enable us to balance this approach with our larger brand-building initiatives, such as the July 2012 introduction of our kit for Tottenham Hotspur of the English Premier League, reaching more than 20 million fans globally, providing the club with performance apparel, training wear, and replica product for the club's supporters around the world (Under Armour, Inc., 2012). As we build a global organizational structure, we will consistently supplement our current leadership to ensure progress as a leading global athletic brand; recently, Plank was able to recruit Karl-Heinz Maurath, who had worked in adidas' international operations for 22 years, to join Under Armour and oversee our company's international growth ("Executive Profile: Karl-Heinz Maurath," 2014).

The Consumer Price Index is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services, and it gives an indication of expected risk in an industry. We are using the men's and boys' apparel expenditure category for our Consumer Price Index because this is where the majority of Under Armour's operations and sales are located. From July 2008 to July 2009, the CPI of the men's apparel category increased 0.1% ("CPI Detailed Report," 2009). From July 2009 to July 2010, the CPI decreased 0.1% ("CPI Detailed Report," 2010). The CPI decreased 0.3% from

July 2010 to July 2011, decreased 0.1% from July 2011 to July 2012, and increased 1.3% from July 2012 to July 2013 ("CPI Detailed Report," 2011–2013). This CPI data shows that this industry is fairly stable and that no drastically large or volatile changes should be expected from year to year, meaning the industry is a fairly low-risk environment. This CPI data is summarized in the following table:

CPI Percentage Changes for the Men and Boys' Apparel Category

Year Range	**CPI Percentage Change**
July 2008 — July 2009	0.1%
July 2009 — July 2010	–0.1%
July 2010 — July 2011	–0.3%
July 2011 — July 2012	–0.1%
July 2012 — July 2013	1.3%

However, the sport apparel industry is also highly saturated, and new entrants suffer a severe cost disadvantage and require a significant amount of assets to compete with the larger companies in the market. Because the industry is mature, firms must fight for market share rather than relying on market growth. Under Armour has been able to compete successfully because of our brand image and recognition, the performance quality of our products, our selective distribution policies, and our focused gearline merchandising that differentiates us from our competition. We hope to leverage these advantages and take our brand image and success into the area of fan apparel. As we continue to expand internationally and expand our product offerings, we expect to compete for consumer preferences and possibly face greater competition on pricing. Because we are still a relatively small company, this could possibly favor larger competitors with lower production costs per unit that can spread the effect of price discounts across a larger array of products and across a larger customer base than ours. However, because the purchasing decisions of consumers for our products often reflect highly subjective preferences that can be influenced by many factors – including advertising, media, product sponsorships, product improvements, and changing styles – we are confident that we will remain competitive and successful as we expand.

Profit Margins

Under Armour	6.88%
Nike	10.85%
adidas	3.64%

Data from Yahoo! Finance

According to industry analysts, profit margins for apparel producers are generally within a range of 4–13%(Crane, 2007, para. 4). The profit margin data above shows the overall effectiveness and efficiency of the organizations' operations; a higher value represents a company that is efficient in its production and operations, while a low profit margin may reflect inefficient operations and poor management. Our profit margin of 6.88% indicates that the company spent almost 93% of the money generated by sales in the past year on operations and 6.88% was returned to ownership as profit. Even though Nike's profit margin is higher, this data shows that we are a profitable company with appropriate control over costs, especially more so than adidas. The sport apparel industry is large and mature, but Under Armour was able to break into this mature market that already had strong leaders in Nike and adidas by building our company and brand off of a highly differentiated product (Nguyen, 2005, para. 5). So now we will expand our business and break it out of its niche space in this market.

2012 Free Cash Flow

Under Armour	$149.11 million
Nike	$2.71 billion
adidas	$907 million

Data from Yahoo! Finance

Our 2012 free cash flow was positive, at $149.11 million, meaning Under Armour is generating more cash than it spends (see Appendix C for Under Armour's cash flow statement). This figure indicates that Under Armour can be successful in the long-term. In the past five years, Under Armour had only one year with a small negative cash flow (2011), which was due to heavy investments and research and development into new products such as headwear, CHARGED COTTON, and COLDGEAR in order to meet customer demand for these products. The negative cash flow was also caused by higher income tax payable than in previous years due to our company's growing size. Despite having a negative cash flow in 2011, the company's rebound of a positive $149.11 million cash flow in 2012 shows that we do in fact have sufficient cash on hand to meet our debts and obligations and are healthy and growing through investments. However, this data also shows that our company is not generating as much cash as our competitors since it is much smaller in size.

Number of Full Time Employees

Under Armour	1,900
Nike	48,000
adidas	42,540

Data from Yahoo! Finance

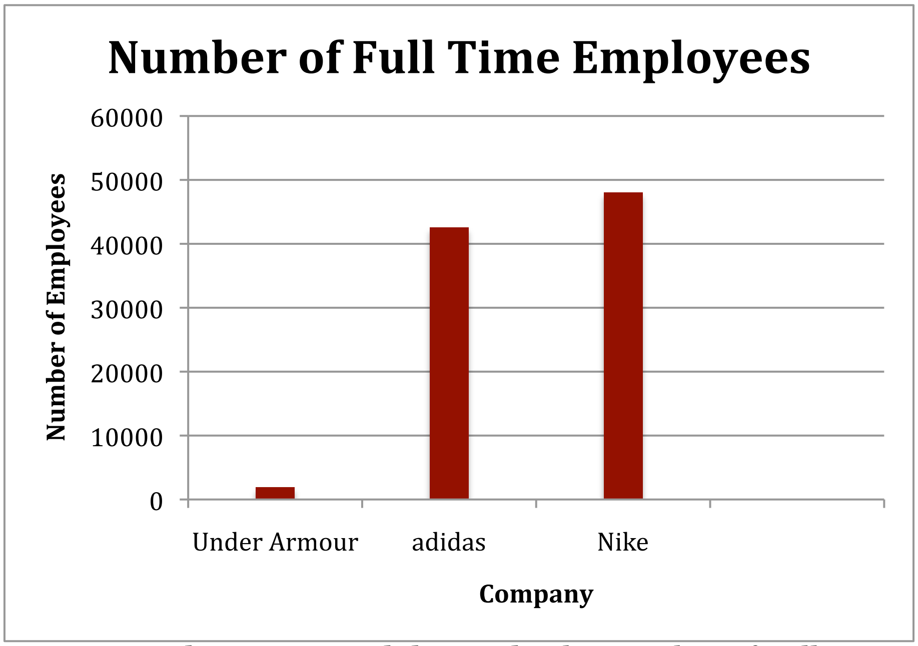

Figure 4. Under Armour, adidas, and Nike Number of Full Time Employees.

Because most of Under Armour's operations are in North America, we have the ability to change and adapt quickly since we are smaller in size and workforce, as shown by figure 4. We are still growing as a company in size and expanding internationally, so we can adjust quickly to consumer requests and market changes. The larger companies have had to take more time adjusting strategy because of the scale of their operations. Larger staffs and budgets mean that decisions can take longer, and this is where Under Armour has the advantage.

True to the apparel industry, activewear companies have not been immune to labor issues as outsourcing to less developed countries has introduced questionable practices and possible human rights violations ("Beneath the [Under] Armour: A Green and Ethical Company?," 2012, para. 2). For example, in the 1980s Nike was slammed for running "sweatshops" abroad. Under Armour has not been attacked with these allegations, but it is important for us to maintain our standards when expanding abroad and uphold global standards of human treatment to overcome industry stereotypes and maintain a favorable image with the public.

Strategic Recommendations

While our company has recently made small moves in the European market, like signing a kit deal with the Tottenham Hotspurs in 2012, we want to begin to take a slightly more aggressive approach entering the international market and making European consumers aware of our brand and products. So our recommendation for Under Armour is to expand the brand more aggressively internationally, specifically in Europe. We are currently focusing on expanding markets to England, and then eventually to the European Union as a whole. To begin our expansion into England, we will begin by contracting with Manchester United, a publically traded English professional football club located in Old Trafford, Greater Manchester. This club is one of the most recognizable and profitable sports clubs in the world: they have won more trophies than any other team in English football and they are the world's second most valuable sports team, having a value of $3.165 billion with 90 million fans in Europe (Ozanian, 2012, para. 2). Furthermore, Manchester United's stock has outperformed the S&P 500 since its initial public offering, solidifying the club's status as one of football's global financial powerhouses. Also, the top three bestselling English Premier League shirts for the 2012–2013 season were for Robin van Persie, Wayne Rooney, and Shinji Kagawa, all three of whom are Manchester United players (Pickup, 2013, para. 11-13).

We want to gain the licensing rights for the team to be able to produce and sell both the athletic wear and uniforms for the players as well as licensed fan jerseys. By reaching a kit and apparel deal with Manchester United we will be able to expand our brand and introduce our innovative products to millions of consumers in the international market. Making a deal with Manchester United makes us a serious competitor in the football market, the world's most popular game, since we will be associated in kit deals with two of the more successful teams in the English Premier League. This deal will also help propel us into a more competitive position in the global sport apparel industry.

Manchester United is currently nearing the end of its 13-year contract with Nike, and Nike's exclusive period to renegotiate a new deal expires on July 31, 2013. Chelsea just closed a deal with adidas worth $46.2 million per year over 10 years, the second highest of any European football club following Real Madrid. However, because United has averaged higher shirts sales than Chelsea over the past five years, it is likely that United is set to secure a new deal even larger than Chelsea's. Manchester United's current deal is worth $35.9 million per year for 13 years for a total cost of $466.62 million. Over the past five years, United shirt sales have averaged 1.4 million, tied for the most of any team with Madrid, meaning that the annual contract value per shirt sold was $25.64 over the period. But Chelsea's new deal has signaled what a future deal for United will most likely look like: Chelsea sold an average of 910 thousand kits over the past five years, meaning the new deal applies a value of $50.77 per shirt sold. Applying Chelsea's shirt premium to United indicates that a new shirt deal would nearly double from the current $35.9 million to $71.08 million per year (Kanterman, 2013, para. 6).

With this data in mind, Under Armour plans on offering Manchester United a contract to provide their merchandise for 10 years at $72 million per year.

Currently Under Armour only has one distribution center for all of the EMEA (Europe, Middle East, and Africa) region, located in the Netherlands. Opening a new distribution and production center in Manchester will help us to meet the increased demand of English consumers and Manchester United fans worldwide, and would free up the facility in the Netherlands to focus solely on the Middle East, Africa, and Eastern Europe regions. Manchester is a blue-collar city with a workforce of 7.2 million people within an hour's commute of the city center, so finding a quality workforce for the facility will not be difficult ("Manchester Workforce," 2013, para. 2). Also, opening a new manufacturing facility will provide jobs for the home city of the club and can help to create a solid partnership for the future. This would also ultimately double the distribution capabilities of Under Armour in the EMEA region, which will be the location of the majority of consumers of Manchester United apparel.

Manchester is not only an appropriate city to locate a new distribution/production center because it is geographically close to the team we will be sponsoring in the area, but it is also an economic powerhouse in the north of England with a healthy business environment. The city's economy has continued to grow and is now seen as a top international business destination, and business operations in Manchester have the ninth-lowest tax cost of any industrialized city in the world ("Manchester, a Great City to do Business," 2014, para. 3). The city was also voted as the best U.K. city outside of London for availability of retailing.

Furthermore, if we choose to place our Manchester operations in and around the Manchester Airport area, we will receive financial incentives: in 2011 the Manchester Airport region was confirmed as one of the U.K. government's "Enterprise Zones," and with this title any eligible business locating in this area can receive a business rate discount worth up to $375,000 ("About the Enterprise Zone," 2014). This location also provides easy access to major transportation interchange options, such as rail, Metrolink, bus and road networks, as well as national and international air travel. Having such a well-connected distribution and production center will allow us to be efficient in our operations.

Our company currently sells the majority of our products in the United States through wholesale channels like national and regional sporting goods chains, such as Dick's Sporting Goods, The Sports Authority, and Academy Sports + Outdoors, all of which distribute and elevate our brand. We also utilize independent and specialty retailers, department store chains, institutional athletic departments, independent distributors, and direct-to-consumer distribution through our specialty and factory house stores and website. We are continuing to look for new ways to reach consumers and have entered more than 500 new department stores in the United States, including Macy's, Dillards, Belk, and Lord & Taylor (Under Armour, Inc., 2012).

For this new English market, merchandise will be distributed through our center in the Netherlands, as well as a through the additional distribution/manufacturing center located in Manchester. We will also distribute merchandise to retail chains: we will begin by contracting with Sports Direct, the United Kingdom's largest sporting retailer and operator of 156 stores within 100 miles of Manchester, to distribute our products ("Store Finder Results," 2014). Even though many of our sales will be generated online, it is still important to have retail locations in this new market to provide these consumers with a more intimate experience with the new products. We can also open an Under Armour store located in Manchester, and eventually other select, major English cities as we expand to providing merchandise for other teams; we currently only have one retail location in Europe (Scotland). However, as part of our international strategy, we believe it is financially advantageous to not rush and open a large number of stores abroad, but rather to focus on selling our product through wholesalers and retailers that have an established presence in these new markets.

Ecommerce sales will help us distribute merchandise to a large number of people throughout the European region and to Manchester United fans worldwide. Direct-to-consumer channels of distribution grew 34% for us in 2012 to more than half a billion dollars, or nearly the size of our entire business in 2007. This channel represented 29% of total net revenues for the year, up from 27% in 2011. Worldwide we have only a relatively small number of Under Armour stores and outlets, 101, with almost all of them in the United States, so the bulk of this direct-to-consumer business is driven by our online sales. Ecommerce will continue to be a growth vehicle for our company as we drive enhanced merchandising, including a clearer connection with some of our larger branding initiatives planned over the next few years. We believe that many consumers in these new markets will look to ecommerce, both on our website and on Manchester United's, to purchase the new Under Armour Manchester United jerseys. We want to focus on increasing our ecommerce sales, which make it much easier and less risky for us to efficiently reach more individuals around the world than would opening thousands of stores around the globe.

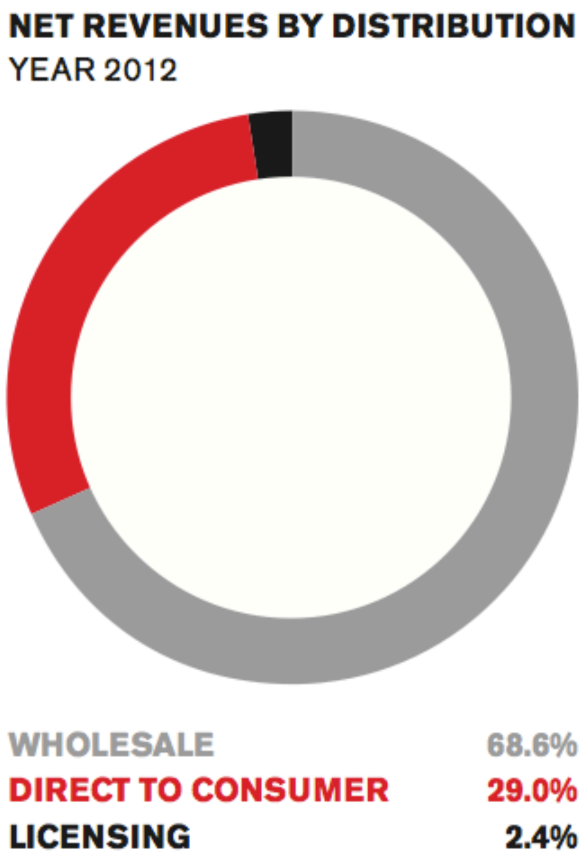

Figure 5. Under Armour Net Revenues by Distribution. Image from the 2012 Under Armour Annual Report.

To oversee these new operations, we will create the position of Vice President of European Operations to serve as a middleman between Under Armour's operations in the United States and Europe. This position fits in well with Under Armour's current structure, which already has a Vice President of China, Kevin Eskridge ("Leadership," 2014, para. 16). This executive will oversee the sales and distribution of Manchester United and Tottenham apparel throughout England and Europe and will eventually oversee sales of other teams' merchandise as we expand our operations and gain the merchandising rights to other teams in Europe. This individual will also keep other Under Armour executives up to date on the progress and current situations in the European market and provide advice on how and where to expand the brand in the region. As our operations in England and Europe become more expansive, we will eventually create other supportive positions to assist this Vice President of European Operations. This position will be included in our international division and will report directly to the President of International Operations, Karl-Heniz Maurath, and have a salary of $800,000 per year, the same amount that the head of Under Armour North American operations receives ("Under Armour Profile," 2014).

Our competitor Nike sponsors many teams in order to get their brand noticed in the European market. For example, their recent deal with U.K. Athletics provided them with a kit deal for all of British Athletics (Joseph, 2013, para. 1). In the English Premier League, Nike does not aim to land the most number of teams in Europe as adidas does, but rather focuses on representing the best teams; they currently represent three of the top four teams in the league: Manchester United, Manchester City, and Arsenal (see Appendix D for a graphic displaying every English Premier League club's sponsor). In the area of Premier League Kit deals, adidas has 38% of the $5.5 billion industry, holding a slight 2% lead in market share over Nike. Nike's model of being recognized with some of the best teams instead of focusing on getting the most teams is an appropriate strategy for us to emulate at this time since we are just now expanding abroad and do not yet have the capabilities or supply lines to provide for a large number of teams immediately ("Adidas All In On Premier League Kit Supply," 2013, para. 1).

When operating in England, our company must be complaint with both United Kingdom and European Union laws and regulations. One broad area of difference in English law that we need to consider before we expand is in the area of employment law. Employment law in the U.K. is designed to protect employees, whereas in the U.S. the law often favors the employer. For example, in England, at-will employment does not exist; the employee-employer relationship is governed by employment law, with some of these provisions present in employment contracts. Furthermore, terminations in the United Kingdom must be justifiable and follow certain statutory rules, including a period of notice. Failure to adhere to these rules can result in discrimination claims by the employee. The U.K. is also stricter on background checks: while U.S. law allows employers to conduct relatively easy background checks, in the U.K. these are only allowed when relevant to the job performed. Also, in the U.K., it is primarily the employer's responsibility to physically collect evidence and retain appropriate records of employees' eligibility to work in the U.K.; this gathering of evidence is part of the employment onboarding process in the U.K. since right-to-work violation penalties in the U.K. are much more severe than they are in the U.S. ("U.S. vs. U.K. Employment Law: What's the Difference," 2012, para. 2-6).

There are also differences in contract law between the U.S. and the U.K. For example, unlike U.S. law, in the U.K. the law does not work on a general implied duty of good faith except in certain areas like employment and insurance law. The two countries also differ when it comes to limitation clauses. In English law if a breach of contract leads to loss of revenue, production, or profit, the contract must expressly state that such losses are excluded in order for the losses to be excluded. In the U.S., the words "indirect and consequential losses" expressly exclude loss of revenue, production, and profit that stem from a breach of contract. Another area of difference is the concept of unilateral mistake. Under U.S. law a mistaken party can avoid a contract if enforcement would be unconscionable and the innocent party did not know or have reason to know of the mistake. In England, the contract is only void if the innocent party knows of the other party's mistake and the mistake relates to some fundamental part of the offer ("Differences in UK and US Business Law," 2013, para. 2-12).

As a multinational company, we are subject to income tax and a variety of other taxes in the U.S. and numerous foreign jurisdictions. As a result, we closely monitor proposed changes in tax laws and, where appropriate, advocate on these proposals to ensure they do not expose us to double-taxation or unfairly and adversely affect our profitability, especially when compared to our competitors in other countries. As such, we seek to support efforts to create an efficient tax system by identifying and securing tax legislation that allows us to be competitive in the global marketplace. Part of this effort includes analyzing and utilizing incentive-based or other programs. We understand that taxes on corporations such as Under Armour ultimately fall as a burden on working families in the form of higher prices for our products. Our objective is to minimize these costs and, as a result, benefit our consumers, employees, and shareholders. In all of our efforts to promote tax efficiency, we prefer to work in broad coalitions with other businesses and through trade associations where our views are aligned.

Once we begin operating more extensively in the U.K., we plan to become a member of the multi-stakeholder Observatory on Counterfeiting, established after agreement by EU member states in early 2009. This Observatory is at the forefront of the fight in Europe against fake goods and infringements on intellectual property rights, and with a coveted brand and intellectual property rights that are essential to our innovative products, it is important that we be involved in this fight against intellectual property theft. We plan to send representatives to all conferences and events and want to contribute to the Observatory's work, especially in regard to future directions for IP policy and legislation, data collection, and raising consumer awareness ("The European Observatory," 2014, para. 1-3).

We also plan to become a member of the Federation of the European Sporting Goods Industry (FESI), which represents the interests of European sporting goods manufacturers. Through our membership we will engage with a number of national EU governments on intellectual property rights legislative initiatives and improved enforcement of these rights. The FESI recently hosted the first meeting between the sporting goods sector and representatives from the European Union to help launch the start of a formal intellectual property rights dialogue with the goal of IPR legislative alignment and improved mutual cooperation ("About FESI," 2009, para. 1).

In the future after supplying for Manchester United, we plan on expanding to become the provider for other English Premier League clubs as well. We will not seek a deal to provide kits to Manchester City, because the rivalry between this club and Manchester United is well known, fierce, and bitter. We believe that it is more advantageous if our company chooses a side in this rivalry by supplying the kit for only one of the clubs. Because our company wants to expand smoothly into this new market and not rush our expansion so that we can maintain our quality and develop our supply lines, our next sponsorship kit will hopefully be with West Ham United (see Appendix E for a map displaying the location of every English Premier League team). This club's kit deal with adidas is set to expire in 2016 ("West Ham United Announce adidas Kit Deal," 2013, para. 2). We believe this is a good second club to sponsor because they are valued twelfth out of the twenty clubs in the League (Markham, 2013, para. 2). This means that while they are well known, their fan base is smaller than Manchester United's, which will allow us to not take on too much expansion at once. Their contract expiration in 2016 also gives us a proper amount of time to adjust to our new operations in this market and get settled before any additional expansion.

In 2018, we plan to become the kit provider to Liverpool when the club's deal with Warrier expires in 2018 ("LFC and Warrior Announcement," 2012, para. 1). Liverpool is the sixth most valuable club in the League and sponsoring their shirts and other merchandise will allow us to expand our brand to yet another valuable, successful English Premier League club (Markham, 2013, para. 2). The next club we would like to provide for after Liverpool would be Arsenal, whose kit deal with Puma expires in 2019 (Prindlville, 2014, para. 3). Arsenal is the second most valuable team in the League, so becoming a provider for their merchandise so soon may be out of our reach.

How We Will Move Forward with Recommendations

Our production and distribution levels may need slight changes to accommodate this increase in sales in England. At the production level, Under Armour already produces Tottenham jersey kits, but producing Manchester United merchandise will require a new production plant to handle this greater amount of demand. We will finance this new facility through debt financing. Debt financing involves borrowing money, typically in the form of a loan from a bank, another financial institution, or a commercial finance company, to fund the business. There are a couple of advantages to debt financing: the bank or lending institution has no say in the way we run our company and does not have any ownership in our business. Also, the business relationship ends once the money is paid back, and the interest on the loan is tax deductible. Our loan can be short term or long term, and the principal and interest are known figures that we can plan in a budget, provided that we do not take a variable rate loan.

Under Armour's current ratio shows that the organization has the ability to cover its short-term liabilities three and half times over with current assets. So Under Armour would be able to payoff the debt used to finance the construction of the new facility. In addition, equity financing has some drawbacks. Equity financing involves bringing in investors or partners who provide capital in exchange for a share of ownership of the business, and it may require returns that could be more than the rate we would pay for a bank loan. Under Armour would also not benefit from giving away stock to finance a facility we can afford with current profit and debt financing.

Under Armour has high profits and even higher projected profits, so we can afford to borrow enough to finance the construction of the facility. Under Armour's total debt to equity ratio in June 2013 was only 0.063, indicating that we are not currently highly leveraged and are healthy enough to take on a small amount of debt to grow our company. We are certainly less leveraged than many of our competitors since the industry average is 0.42 ("Under Armour NYSE:UA," 2013). As figure 6 indicates, Under Armour has never been a highly leveraged company.

Under Armour Historical Debt to Equity Ratio

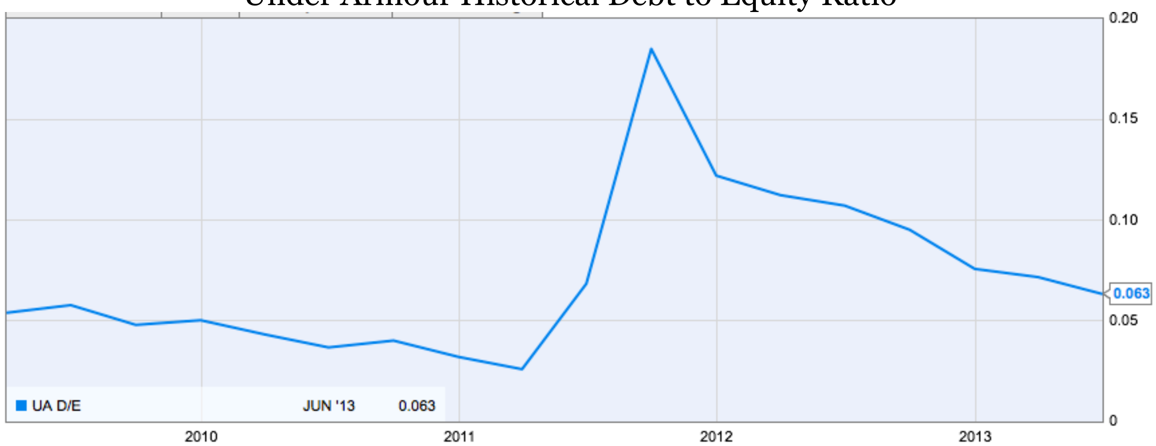

Figure 6. Under Armour Historical Debt to Equity Ratio. Image from Daily Finance (2014).

Our marketing and advertising efforts will need to be slightly adjusted as we enter this market. Current marketing focuses on selling products to consumers that are used primarily for use in athletics, fitness, training, and outdoor activities. Under Armour should continue to drive consumer demand by building brand equity and awareness that our products deliver advantages, but we need to start marketing and promotion efforts focused on our new fan apparel worn in everyday life, not just for use in athletics. We need to make sure our marketing and advertising efforts deliver the message that our products made for Manchester United fans are just as high-tech and superior as the products we produce for athletes; by doing this, we can ensure that our brand's reputation and image of producing innovative technology will remain even though we will be making apparel for a different consumer.

Under the direction of the Under Armour Director of Digital Media Dan Mecchi, our company has relied heavily on social media to reach and engage our consumers and launch brand awareness campaigns, and we plan to continue these efforts when marketing in England, especially since Britons are the second most prolific Facebook and Twitter uses in Europe (Woollaston, 2013, para. 2).

Because we intend to rely heavily on social media, we do not expect to incur large initial marketing or advertising costs as we enter the English market. Although, as figure 7 shows, when we expand to other countries in Europe with less rampant social media use, we may incur additional costs from utilizing more traditional marketing and advertising channels to reach these consumers. In addition, Manchester United itself is an effective form of advertisement since the club is so well known. In addition, many fans will want to purchase our Manchester United gear because it is the newest and trendiest.

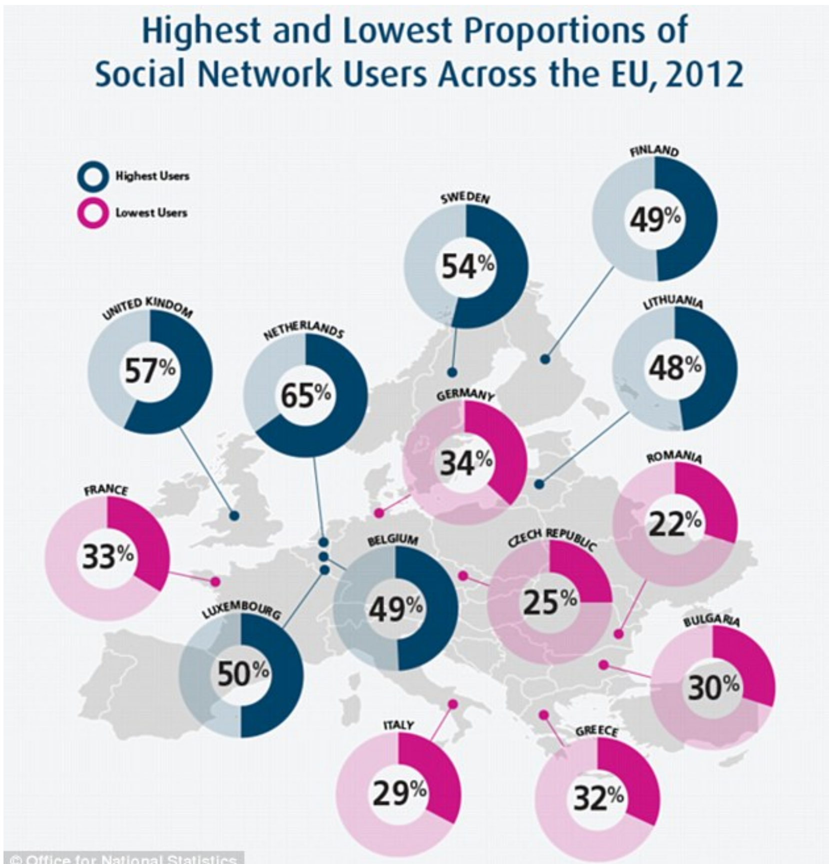

Figure 7. Highest and Lowest Proportions of Social Network Users Across the EU. Image from Mail Online (2012).

As previously mentioned, a new distribution and production facility needs to be built. First a location must be picked. Under Armour would benefit by having the location in Manchester, preferably in the Manchester Airport region in order to take advantage of the financial incentives being offered for businesses in that area and to take advantage of the easy access to multiple modes of transportation nearby. We want to build a large center to be able to adequately cover not only all Manchester United products and distribution, but also future products and jersey kits for other English Premier League teams as well. Accomplishing this will require a 1 million square foot facility, with a projected construction cost of $135 million (Risher, 2009, para. 1-4).

It may take up to four months to pick a location and get it approved. Then the facility would need to be built. Estimates state that it would take roughly a year to build the new facility. After that, staffing and resource allocations would need to occur. We predict that it will take about 400 employees total to staff the new facility, and each employee will be paid an average salary of around $50,000 a year, which is $20 million in additional staffing costs per year.

It could take an additional four months to get all of the staff and all the materials needed to produce and distribute Under Armour Manchester United products. So overall, we are looking at about a year and half long process to build and finish the distribution center. Until this facility is built, our current European distribution center in the Netherlands will assist in producing the new Manchester United jerseys. But because this facility cannot handle producing all of the large volume of product we will need for Manchester United, we will have to temporarily outsource some of our production until the new facility is completed. We would subcontract our manufacturing during this time to factories in Vietnam. It requires an estimated $14 to make one Under Armour jersey in Vietnam, and we estimate that in our first year of production we will need to produce 1.4 million jerseys, with 400,000 of these being produced at our facility in the Netherlands and 1 million of these being outsourced to Vietnam (Kanterman, 2013, para. 4). So we estimate that our total outsourcing operations to Vietnam during this first year while our facility is being built will cost around $14 million. Once our new distribution and production facility is complete, it will be the beginning of our expansion of European operations in our International Division that we hope to grow and expand as we begin sponsoring more English Premier League teams.

During this first year, we will incur the cost of the new $135 million facility in Manchester and the $14 million in costs for producing an additional amount of jerseys in Vietnam while the facility is being built. After reviewing Under Armour's cash flow statement (see Appendix C) we created these future yearly cash flow predictions:

Payback Period Calculation

Year	**Incremental Cash Flow**	**Cumulative Cash Flow**
0	($149,000,000)	($149,000,000)
1	$21,299,000	($127,701,000)
2	$28,083,000	($99,618,000)
3	$35,123,000	($64,495,000)
4	$47,770,000	(16,725,000)
5	$65,147,000	$48,422,000

With this data we can conclude that our payback period for the new facility and one-year outsourcing costs will be 4 years and 14 weeks (in 2017).

Projected Impact

If these recommendations are followed, we expect our foreign net revenues, total net revenues, gross profit, and market share to all increase each year for the next five years. Our compound annual growth rate in income from operations from 2008–2012 was 19.3%, with a 28% increase in 2012, so our company is already in a healthy growth position even before we implement our plan to expand into England (Under Armour, Inc., 2012). Our current foreign net revenue is modest, at just over $108 million in 2012, but we project that this expansion into the English market will help increase these figure to more than $305 million by 2017, a huge 35.4% increase in foreign revenues in just five years (see Appendix F for full 5-year Under Armour financial projections). This increase in foreign revenue will obviously greatly increase our total net revenues: we project that by 2017 our total net revenues will grow from 2012's $1.8 billion to $4.9 billion as we expand and garner more sales from a more global market. Perhaps even more important to our business is profit. While our gross profit is currently $849 million, we project that with this expansion into England and providing for such a globally popular team, by 2017 our profits will exceed $2 billion. Our goal is to better rival competitors like Nike and adidas, and by 2017 we predict that our market share will grow from its current 4.91% to 9%, a percentage we plan to continue increasing even after 2017 as we expand to sponsoring more teams and gaining more consumers around the world. We are confident enough in our products to believe that once consumers are introduced to the superior apparel we provide for them to support their favorite football team, they will turn to our brand for their other needs, such as for workout clothing, shoes, or general Under Armour-branded apparel that is not branded by their favorite football team.

Projected Under Armour Growth

	2012 Value	**2017 Projection**
Foreign Net Revenue	$108.188 million	$305.54 million
Total Net Revenue	$1.8 billion	$4.9 billion
Gross Profit	$879 million	$2.117 billion
Market Share	4.91%	9%

Not only will our market share change, but we also anticipate that this new product will change our company's market position: as previously mentioned, we are largely known for our high-tech, innovative apparel for athletes; however, expanding and providing apparel for fans instead of just athletes will push our brand into the larger and more broad sport apparel category with Nike and adidas, which encompasses apparel and merchandise for both athletes and fans.

While we predict this expansion will place us into the same general market as Nike and adidas, we plan to differentiate ourselves by making sure this merchandise for fans still has the superior Under Armour technology for which we are best known. Our English Premier League fan apparel will utilize some of the same technology we use in apparel for our athletes. For example, the jerseys will have Under Armour's Lightweight UA Tech fabric with our signature Moisture Transport System to push sweat away from the body (Under Armour, Inc., 2012). So even though we are offering team-licensed jerseys for fans like our competitors have been doing for years, we are maintaining our superior apparel quality and technology. So while competitors can easily join in on providing kits for European football clubs, they cannot match or easily duplicate our innovative technology.

We feel confident expanding into the Manchester United and English Premier League markets because both are stable, established, and popular markets with millions of fans worldwide. There is a major demand for Manchester United fan merchandise, and for merchandise for all other English Premier League teams, so we feel confident expanding and building our global brand in these markets. There is risk that other, larger competitors like Nike and adidas can try to sponsor Manchester United or any of the other future teams we will sponsor after our contracts with the clubs end, and they have the financial resources to do so, but we are confident that our products are superior and will be more desired than our competitors' by both fans and athletes.

We are also a smaller company and thus able to focus more of our attention on Manchester United and other future clubs that we could possibly sponsor, and these clubs will appreciate and benefit from our more focused attention. There is the risk that our brand may not immediately resonate in foreign markets; but we can adjust our marketing and advertising efforts and approach should this happen, and because we are expanding in a slow, calculated fashion abroad, we are in a position to properly face this challenge should it arise.

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Appendix A

Under Armour Balance Sheet

Period Ending	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010
Assets			
Current Assets			
Cash And Cash Equivalents	341,841	175,384	203,870
Short Term Investments	-	-	-
Net Receivables	198,575	150,227	117,299
Inventory	319,286	324,409	215,355
Other Current Assets	43,896	39,643	19,326
Total Current Assets	**903,598**	**689,663**	**555,850**
Long Term Investments	-	-	-
Property Plant and Equipment	180,850	159,135	76,127
Goodwill	-	-	-
Intangible Assets	4,483	5,535	3,914
Accumulated Amortization	-	-	-
Other Assets	45,546	48,992	18,212
Deferred Long Term Asset Charges	22,606	15,885	21,275
Total Assets	**1,157,083**	**919,210**	**675,378**
Liabilities			
Current Liabilities			
Accounts Payable	228,766	169,812	139,817
Short/Current Long Term Debt	9,132	6,882	6,865
Other Current Liabilities	14,330	6,913	2,465
Total Current Liabilities	**252,228**	**183,607**	**149,147**
Long Term Debt	52,757	70,842	9,077
Other Liabilities	35,176	28,329	20,188
Deferred Long Term Liability Charges	-	-	-
Minority Interest	-	-	-
Negative Goodwill	-	-	-
Total Liabilities	**340,161**	**282,778**	**178,412**
Stockholders' Equity			

Misc Stocks Options Warrants	-	-	-
Redeemable Preferred Stock	-	-	-
Preferred Stock	-	-	-
Common Stock	35	34	17
Retained Earnings	493,181	366,164	270,021
Treasury Stock	-	-	-
Capital Surplus	321,338	268,206	224,887
Other Stockholder Equity	2,368	2,028	2,041
Total Stockholder Equity	**816,922**	**636,432**	**496,966**
Net Tangible Assets	**812,439**	**630,897**	**493,052**

Appendix B

Under Armour Income Statement

Fiscal year is January-December. All values USD Millions.	2009	2010	2011	2012	2013	5-year trend
Sales/Revenue	**$856**	**$1,064**	**$1,473**	**$1,835**	**$2,332**	
Cost of Goods Sold (COGS) incl. D&A	443	533	763	958	1,195	
COGS excluding D&A	415	502	726	915	1,145	
Depreciation & Amortization Expense	28	31	36	43	51	
Depreciation	25	29	33	40	-	
Amortization of Intangibles	3	3	4	3	-	
Gross Income	**413**	**531**	**710**	**877**	**1,137**	
SG&A Expense	328	418	549	668	872	
Research & Development	0	0	0	0	-	
Other SG&A	328	418	549	668	872	
Other Operating Expense	0	0	0	0	-	
Unusual Expense	(4)	1	(1)	(3)	-	
Non Operating Income/Expense	(5)	(0)	(2)	(3)	(1)	
Non-Operating Interest Income	0	0	0	0	-	
Equity in Affiliates (Pretax)	0	0	0	-	-	
Interest Expense	2	2	4	5	3	
Gross Interest Expense	2	2	5	6	3	
Interest Capitalized	-	-	1	0	-	
Pretax Income	**82**	**109**	**157**	**203**	**261**	
Income Tax	36	40	60	75	99	
Income Tax - Current Domestic	40	47	49	79	-	
Income Tax - Current Foreign	1	4	7	8	-	
Income Tax - Deferred Domestic	(2)	(10)	6	(13)	-	

Income Tax - Deferred Foreign	(3)	(0)	(3)	0	-
Income Tax Credits	0	0	0	0	-
Equity in Affiliates	0	0	0	0	-
Other After Tax Income (Expense)	-	-	-	(0)	-
Consolidated Net Income	47	68	97	128	162
Minority Interest Expense	0	0	0	0	-
Net Income	**47**	**68**	**97**	**128**	**162**
Extraordinaries & Discontinued Operations	0	0	0	0	-
Extra Items & Gain/Loss Sale Of Assets	0	0	0	0	-
Cumulative Effect - Accounting Chg	0	0	0	0	-
Discontinued Operations	0	0	0	0	-
Net Income After Extraordinaries	47	68	97	128	162
Preferred Dividends	0	0	0	0	-
Net Income Available to Common	**47**	**68**	**97**	**128**	**162**
EPS (Basic)	0.46	0.67	0.92	1.21	1.50
Basic Shares Outstanding	100	102	103	104	105
EPS (Diluted)	0.46	0.67	0.92	1.21	1.50
Diluted Shares Outstanding	101	103	105	106	108
EBITDA	**114**	**144**	**198**	**252**	**316**

Appendix C

Under Armour Cash Flow Statement

Operating Activities

Fiscal year is January-December. All values USD Thousands.	2009	2010	2011	2012	2013	5-year trend
Net Income before Extraordinaries	$46,785.0	$68,477.0	$96,919.0	$128,778.0	$162,330.0	
Depreciation, Depletion & Amortization	28,249.0	31,321.0	36,301.0	43,082.0	50,549.0	
Depreciation and Depletion	25,300.0	28,700.0	32,700.0	39,800.0	-	
Amortization of Intangible Assets	2,949.0	2,621.0	3,601.0	3,282.0	-	
Deferred Taxes & Investment Tax Credit	(5,212.0)	(10,337.0)	3,620.0	(12,973.0)	(18,832.0)	
Deferred Taxes	(5,212.0)	(10,337.0)	3,620.0	(12,973.0)	(18,832.0)	
Investment Tax Credit	0.0	0.0	0.0	-	-	
Other Funds	9,348.0	19,873.0	24,362.0	31,821.0	59,366.0	
Funds from Operations	**79,170.0**	**109,334.0**	**161,202.0**	**190,708.0**	**253,413.0**	
Extraordinaries	0.0	0.0	0.0	0.0	-	
Changes in Working Capital	39,871.0	(59,220.0)	(145,984.0)	9,053.0	(133,343.0)	
Receivables	3,792.0	(32,320.0)	(33,923.0)	(53,433.0)	(35,960.0)	
Inventories	32,998.0	(65,239.0)	(114,646.0)	4,699.0	(156,900.0)	
Accounts Payable	(4,386.0)	16,158.0	17,209.0	35,370.0	14,642.0	
Income Taxes Payable	(6,059.0)	4,950.0	4,567.0	4,511.0	7,443.0	
Other Accruals	11,656.0	21,330.0	23,442.0	21,966.0	56,481.0	
Other Assets/Liabilities	1,870.0	(4,099.0)	(42,633.0)	(4,060.0)	(19,049.0)	
Net Operating Cash Flow	**119,041.0**	**50,114.0**	**15,218.0**	**199,761.0**	**120,070.0**	

Investing Activities

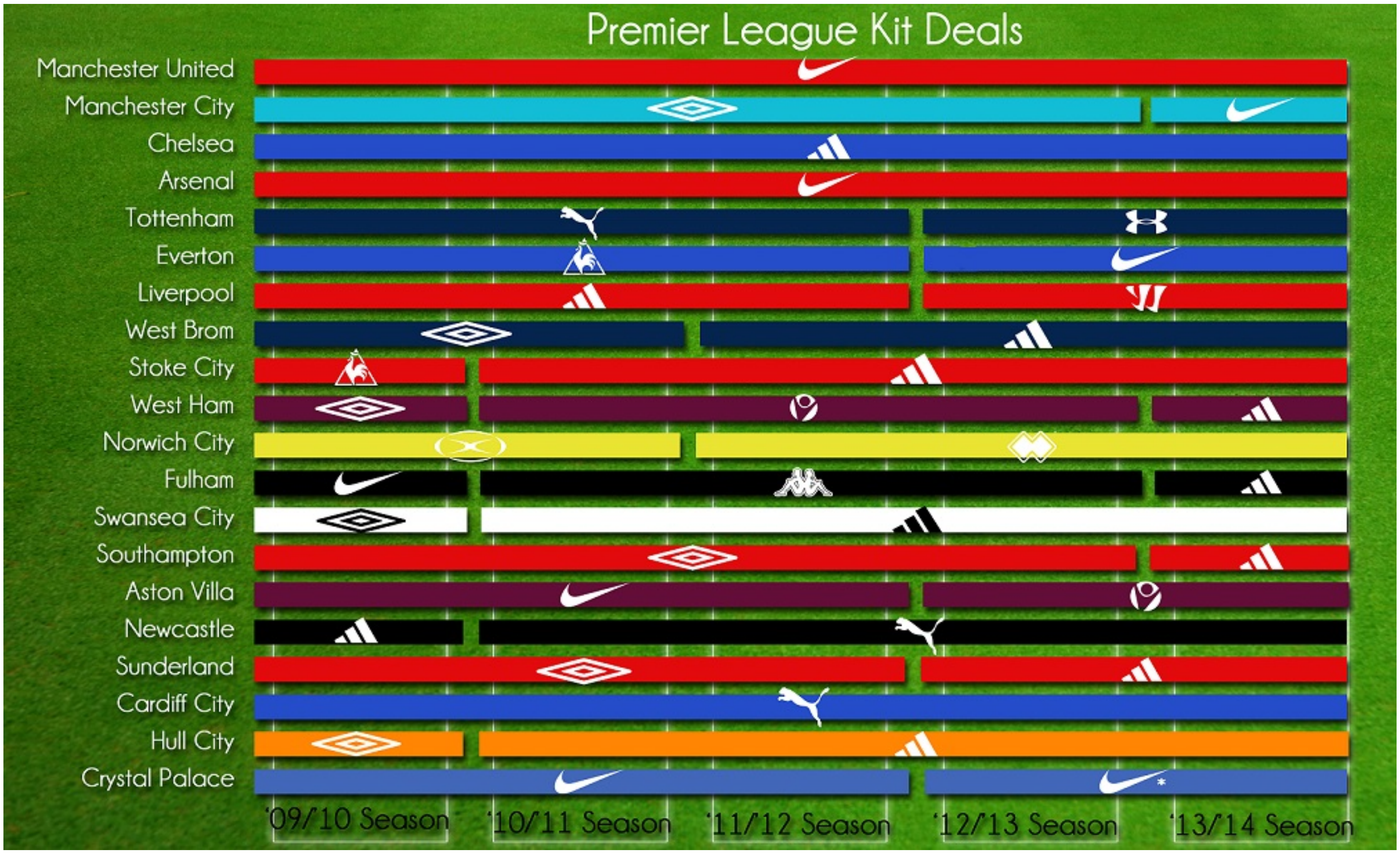
	2009	2010	2011	2012	2013	5-year trend
Capital Expenditures	(19,845.0)	(30,182.0)	(56,228.0)	(51,960.0)	(88,305.0)	
Capital Expenditures (Fixed Assets)	(19,845.0)	(30,182.0)	(56,228.0)	(50,650.0)	(87,830.0)	
Capital Expenditures (Other Assets)	0.0	0.0	0.0	(1,310.0)	(475.0)	
Net Assets from Acquisitions	0.0	0.0	(23,164.0)	0.0	(148,097.0)	
Sale of Fixed Assets & Businesses	0.0	0.0	0.0	-	-	
Purchase/Sale of Investments	0.0	(11,125.0)	(3,862.0)	0.0	-	
Purchase of Investments	0.0	(11,125.0)	(3,862.0)	0.0	-	
Sale/Maturity of Investments	0.0	0.0	0.0	0.0	-	
Other Uses	(35.0)	(478.0)	(6,182.0)	0.0	(1,700.0)	
Other Sources	0.0	0.0	0.0	5,029.0	0.0	
Net Investing Cash Flow	**(19,880.0)**	**(41,785.0)**	**(89,436.0)**	**(46,931.0)**	**(238,102.0)**	

Financing Activities

	2009	2010	2011	2012	2013	5-year trend
Cash Dividends Paid - Total	0.0	0.0	0.0	0.0	0.0	
Common Dividends	0.0	0.0	0.0	0.0	-	
Preferred Dividends	0.0	-	0.0	0.0	-	
Change in Capital Stock	5,128.0	7,335.0	14,645.0	14,776.0	15,099.0	
Repurchase of Common & Preferred Stk.	0.0	0.0	0.0	0.0	-	
Sale of Common & Preferred Stock	5,128.0	7,335.0	14,645.0	14,776.0	15,099.0	
Proceeds from Stock Options	0.0	0.0	0.0	0.0	0.0	
Other Proceeds from Sale of Stock	5,128.0	7,335.0	14,645.0	14,776.0	15,099.0	
Issuance/Reduction of Debt, Net	(26,722.0)	(4,281.0)	20,902.0	(20,347.0)	94,529.0	
Change in Current Debt	(25,000.0)	-	0.0	(25,000.0)	100,000.0	
Change in Long-Term Debt	(1,722.0)	(4,281.0)	20,902.0	4,653.0	(5,471.0)	
Issuance of Long-Term Debt	6,295.0	5,262.0	58,320.0	48,983.0	0.0	
Reduction in Long-Term Debt	(8,017.0)	(9,543.0)	(37,418.0)	(44,330.0)	(5,471.0)	
Other Funds	5,127.0	4,189.0	10,260.0	17,868.0	17,167.0	
Other Uses	0.0	0.0	0.0	0.0	-	
Other Sources	5,127.0	4,189.0	10,260.0	17,868.0	17,167.0	
Net Financing Cash Flow	**(16,467.0)**	**7,243.0**	**45,807.0**	**12,297.0**	**126,795.0**	
Exchange Rate Effect	2,561.0	1,001.0	(75.0)	1,330.0	(3,115.0)	
Miscellaneous Funds	0.0	0.0	0.0	0.0	0.0	
Net Change in Cash	85,255.0	16,573.0	(28,486.0)	166,457.0	5,648.0	
Free Cash Flow	99,196.0	19,932.0	(41,010.0)	149,111.0	32,240.0	

Appendix D

English Premier League Kit Deals



Appendix E

English Premiere League 2013-2014 Location Map

Appendix F

Under Armour Financial Projections

Table D1: Foreign Net Revenue Projections

Year	2012	2013	2014	2015	2016	2017
Revenue (in thousands)	$108,188.00	$129,417.00	$157,500.49	$192,623.11	$240,393.64	$305,540.32
Percent increase from each year	—	19.60%	24.50%	20.20%	17.80%	16.20%

Table D2: Total Net Revenue Projections

Year	2012	2013	2014	2015	2016	2017
Revenue (in billions)	$1.80	$2.20	$2.70	$3.30	$4.00	$4.90
Percent increase from each year	—	22.20%	22.70%	22.20%	21.20%	22.50%

Table D3: Gross Profit Projections

Year	2012	2013	2014	2015	2016	2017
Revenue	$879 million	$1.1 billion	$1.3 billion	$1.6 billion	$1.83 billion	$2.117 billion
Percent increase from each year	—	25.10%	18.20%	23.10%	14%	15.7%

Table D4: Market Share Projections

Year	2012	2013	2014	2015	2016	2017
Market share	—	4.91%	5.32%	6.80%	8.43%	9%