Under Armour, Inc.
Form 10-Q
May 01, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015
or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission File No. 001-33202

UNDER ARMOUR, INC.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	52-1990078 (I.R.S. Employer Identification No.)
1020 Hull Street Baltimore, Maryland 21230	(410) 454-6428
(Address of principal executive offices) (Zip Code)	(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

As of March 31, 2015 there were 179,386,971 shares of Class A Common Stock and 36,150,000 shares of Class B Convertible Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Under Armour, Inc. and Subsidiaries
Unaudited Consolidated Balance Sheets
(In thousands, except share data)

	March 31, 2015	December 31, 2014	March 31, 2014
Assets			
Current assets			
Cash and cash equivalents	$232,040	$ 593,175	$179,926
Accounts receivable, net	395,917	279,835	331,299
Inventories	577,947	536,714	472,244
Prepaid expenses and other current assets	162,609	87,177	100,857
Deferred income taxes	65,966	52,498	40,831
Total current assets	1,434,479	1,549,399	1,125,157
Property and equipment, net	359,489	305,564	240,721
Goodwill	595,492	123,256	123,388
Intangible assets, net	87,075	26,230	31,571
Deferred income taxes	14,104	33,570	35,538
Other long term assets	57,415	57,064	42,641
Total assets	$2,548,054	$ 2,095,083	$1,599,016
Liabilities and Stockholders' Equity			
Current liabilities			
Revolving credit facility, current	$—	$ —	$100,000
Accounts payable	252,051	210,432	166,920
Accrued expenses	137,482	147,681	103,844
Current maturities of long term debt	43,347	28,951	4,812
Other current liabilities	15,339	34,563	11,676
Total current liabilities	448,219	421,627	387,252
Long term debt, net of current maturities	383,500	255,250	46,846
Revolving credit facility, long term	250,000	—	—
Other long term liabilities	81,809	67,906	56,341
Total liabilities	1,163,528	744,783	490,439
Commitments and contingencies (see Note 5)			
Stockholders' equity			
Class A Common Stock, $0.0003 1/3 par value; 400,000,000 shares authorized as of March 31, 2015, December 31, 2014 and March 31,2014; 179,386,971 shares issued and outstanding as of March 31, 2015, 177,295,988 shares issued and outstanding as of December 31, 2014 and 173,730,570 shares issued and outstanding as of March 31, 2014.	60	59	58
Class B Convertible Common Stock, $0.0003 1/3 par value; 36,150,000 shares authorized, issued and outstanding as of March 31, 2015, 36,600,000 shares authorized, issued and outstanding as of December 31, 2014 and 39,375,000 shares authorized, issued and outstanding as of March 31, 2014.	12	12	13
Additional paid-in capital	554,928	508,350	443,132
Retained earnings	856,640	856,687	664,870

Accumulated other comprehensive income (loss)	(27,114)	(14,808)	504
Total stockholders' equity	1,384,526	1,350,300	1,108,577
Total liabilities and stockholders' equity	$ 2,548,054	$ 2,095,083	$ 1,599,016

See accompanying notes.

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Under Armour, Inc. and Subsidiaries
Unaudited Consolidated Statements of Income
(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2015	2014
Net revenues	$804,941	$641,607
Cost of goods sold	427,277	340,917
Gross profit	377,664	300,690
Selling, general and administrative expenses	349,997	273,834
Income from operations	27,667	26,856
Interest expense, net	(2,210)	(846)
Other expense, net	(1,840)	(874)
Income before income taxes	23,617	25,136
Provision for income taxes	11,889	11,598
Net income	$11,728	$13,538
Net income available per common share		
Basic	$0.05	$0.06
Diluted	$0.05	$0.06
Weighted average common shares outstanding		
Basic	214,697	212,383
Diluted	219,616	216,912

See accompanying notes.

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Under Armour, Inc. and Subsidiaries
Unaudited Consolidated Statements of Comprehensive Income
(In thousands)

	Three Months Ended March 31,	
	2015	2014
Net income	$11,728	$13,538
Other comprehensive income (loss):		
Foreign currency translation adjustment	(12,829)	(1,577)
Unrealized gain (loss) on cash flow hedge, net of tax of ($65) and ($78) for the three months ended March 31, 2015 and 2014.	523	(113)
Total other comprehensive loss	(12,306)	(1,690)
Comprehensive income (loss)	$(578)	$11,848

See accompanying notes.

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Under Armour, Inc. and Subsidiaries
Unaudited Consolidated Statements of Cash Flows
(In thousands)

	Three Months Ended March 31, 2015	2014
Cash flows from operating activities		
Net income	$11,728	$13,538
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	21,308	17,320
Unrealized foreign currency exchange rate losses	21,416	655
Loss on disposal of property and equipment	227	52
Stock-based compensation	9,043	13,220
Deferred income taxes	4,049	(6,913)
Changes in reserves and allowances	5,792	2,282
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(127,439)	(121,091)
Inventories	(50,303)	(3,915)
Prepaid expenses and other assets	(39,899)	(15,479)
Accounts payable	40,066	7,141
Accrued expenses and other liabilities	(14,264)	(25,841)
Income taxes payable and receivable	(58,250)	(28,505)
Net cash used in operating activities	(176,526)	(147,536)
Cash flows from investing activities		
Purchases of property and equipment	(68,619)	(39,715)
Purchase of businesses, net of cash acquired	(539,109)	(10,924)
Purchases of other assets	(2,494)	(261)
Net cash used in investing activities	(610,222)	(50,900)
Cash flows from financing activities		
Proceeds from revolving credit facility	250,000	—
Proceeds from term loan	150,000	—
Payments on long term debt	(7,355)	(1,265)
Excess tax benefits from stock-based compensation arrangements	34,613	24,038
Proceeds from exercise of stock options and other stock issuances	2,922	8,627
Payments of debt financing costs	(946)	—
Net cash provided by financing activities	429,234	31,400
Effect of exchange rate changes on cash and cash equivalents	(3,621)	(527)
Net decrease in cash and cash equivalents	(361,135)	(167,563)
Cash and cash equivalents		
Beginning of period	593,175	347,489
End of period	$232,040	$179,926
Non-cash investing and financing activities		
Decrease in accrual for property and equipment	$(195)	$(8,650)
Property and equipment acquired under build-to-suit leases	5,631	—
Non-cash acquisition of business	—	11,233

See accompanying notes.

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Under Armour, Inc. and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements

1. Description of the Business

Under Armour, Inc. is a developer, marketer and distributor of branded performance apparel, footwear and accessories. These products are sold worldwide and worn by athletes at all levels, from youth to professional on playing fields around the globe, as well as by consumers with active lifestyles. The Company's Connected Fitness™ platform powers the world's largest digital health and fitness community. The Company uses this platform to connect with its consumers and increase awareness and sales of its products.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Under Armour, Inc. and its wholly owned subsidiaries (the “Company”). Certain information in footnote disclosures normally included in annual financial statements was condensed or omitted for the interim periods presented in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) and accounting principles generally accepted in the United States of America for interim consolidated financial statements. In the opinion of management, all adjustments consisting of normal, recurring adjustments considered necessary for a fair statement of the financial position and results of operations were included. All intercompany balances and transactions were eliminated. The consolidated balance sheet as of December 31, 2014 is derived from the audited financial statements included in the Company’s Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2014 (the “2014 Form 10-K”), which should be read in conjunction with these consolidated financial statements. The results for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015 or any other portions thereof.

On March 17, 2014 the Board of Directors declared a two-for-one stock split of the Company's Class A and Class B common stock, which was effected in the form of a 100% common stock dividend distributed on April 14, 2014. Stockholders' equity and all references to share and per share amounts in the accompanying consolidated financial statements have been retroactively adjusted to reflect the two-for-one stock split for all periods presented.

On January 5, 2015, the Company acquired 100% of the outstanding equity of Endomondo ApS (“Endomondo”), a Denmark-based digital connected fitness company. On March 17, 2015, the Company acquired 100% of the outstanding equity of MyFitnessPal, Inc. (“MFP”), a digital nutrition and connected fitness company. Both companies were acquired to expand the Company’s Connected Fitness community. The initial purchase price allocation for each acquisition is reflected in the consolidated balance sheet as of March 31, 2015. These purchase price allocations are preliminary, pending the finalization of deferred tax assets and liabilities and the valuations for certain intangible assets.

Concentration of Credit Risk

Financial instruments that subject the Company to significant concentration of credit risk consist primarily of accounts receivable. The majority of the Company’s accounts receivable is due from large sporting goods retailers. Credit is extended based on an evaluation of the customer’s financial condition and collateral is not required. The Company had a customer in North America that individually accounted for 21.5%, 23.4% and 30.9% of accounts receivable as of March 31, 2015, December 31, 2014 and March 31, 2014, respectively. The Company's largest customer accounted for 12.9% and 16.7% of net revenues as of March 31, 2015 and 2014, respectively.

Allowance for Doubtful Accounts

As of March 31, 2015, December 31, 2014 and March 31, 2014, the allowance for doubtful accounts was $5.4 million, $3.7 million and $3.4 million, respectively.

Shipping and Handling Costs

The Company charges certain customers shipping and handling fees. These fees are recorded in net revenues. The Company includes the majority of outbound handling costs as a component of selling, general and administrative expenses. Outbound handling costs include costs associated with preparing goods to ship to customers and certain costs to operate the Company’s distribution facilities. These costs, included within selling, general and administrative expenses, were $13.0 million and $11.3 million for the three months ended March 31, 2015 and 2014, respectively. The Company includes outbound freight costs associated with shipping goods to customers as a component of cost of goods sold.

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Management Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.
Recently Issued Accounting Standards
In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update which supersedes the most current revenue recognition requirements. The new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. This guidance is currently effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption not permitted. In April 2015, the FASB voted for a proposed one-year deferral of the effective date of the new revenue recognition standard. If approved, the new standard will become effective for annual and interim periods beginning after December 15, 2017 with early adoption as of the original effective date permitted.
In February 2015, the FASB issued an Accounting Standard Update which amends the current consolidation guidance. This guidance is effective for annual reporting periods beginning after December 15, 2015 and interim reporting periods within fiscal years beginning after December 15, 2016, with early adoption permitted.
In April 2015, the FASB issued an Accounting Standard Update which requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the debt. This guidance is effective for annual and interim reporting periods beginning after December 15, 2015, with early adoption permitted.
The Company is currently evaluating these standards to determine the impact of their adoption on its consolidated financial statements.
Recently Adopted Accounting Standards
In January 2015, the FASB issued an Accounting Standards Update which eliminates from GAAP the concept of extraordinary items and the need to separately classify, present, and disclose extraordinary events and transactions. This guidance is effective for annual and interim reporting periods beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this pronouncement did not have a material impact on the Company's consolidated financial statements.

3. Acquisitions
Endomondo
On January 5, 2015, the Company acquired 100% of the outstanding equity of Endomondo, a Denmark-based digital connected fitness company, to expand the Company's Connected Fitness community for $85.0 million, adjusted for working capital.
The Company recognized $0.6 million and $0.8 million in acquisition related costs that were expensed during the three months ended March 31, 2015 and December 31, 2014 , respectively. These costs are included in the consolidated statement of income in the line item entitled "Selling, general and administrative expenses." Pro forma results are not presented, as the acquisition was not considered material to the consolidated Company
MyFitnessPal
On March 17, 2015, the Company acquired 100% of the outstanding equity of MFP, a digital nutrition and connected fitness company, to expand the Company's Connected Fitness community. The final adjusted transaction value totaled $474.0 million. The total consideration of $463.9 million was adjusted to reflect the accelerated vesting of certain share awards of MFP, which are not conditioned upon continued employment, and transaction cost borne by the selling shareholders. The acquisition was funded with $400.0 million of increased term loan borrowings and a draw on the revolving credit facility, with the remaining amount funded by cash on hand.
The Company recognized $5.7 million of acquisition related costs that were expensed during the current period. These costs are included in the consolidated statement of income in the line item entitled "Selling, general and administrative expenses."

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The following represents the pro forma consolidated income statement as if MFP had been included in the consolidated results of the Company for the three months ended March 31, 2015 and March 31, 2014:

	Three Months Ended March 31,	
(In thousands)	2015	2014
Net revenues	$808,636	$645,344
Net Income	10,413	6,807

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of MFP to reflect the acquisition as if it closed on January 1, 2014. Pro forma net income for the three months ended March 31, 2014 reflects the impact of $5.7 million in transaction expenses included in the consolidated statement of income for the three months ended March 31, 2015, but excluded from the calculation of pro forma net income for that period.

These acquisitions have been accounted for as business combinations under the acquisition method and, accordingly, the total purchase price is allocated to the tangible and intangible assets acquired and the liabilities assumed based on their respective fair values on the acquisition dates, with the remaining unallocated purchase price recorded as goodwill. These purchase price allocations are preliminary, pending the finalization of deferred tax assets and liabilities and the valuations for intangible assets. The Company expects to finalize the purchase price and goodwill allocations to reportable segments during the second quarter of 2015. The following table summarizes the allocation of estimated fair values of the net assets acquired during the three months ended March 31, 2015, including the related estimated useful lives, where applicable:

	MyFitnessPal		Endomondo	
	(in thousands)	Useful life (in years)	(in thousands)	Useful life (in years)
Finite-lived intangible assets:				
User base	$38,300	10	$10,600	10
Nutrition database	4,500	10	—	0
Technology	3,200	5	5,000	5
Trade name	2,300	5	400	5
Other net assets acquired (net liabilities assumed)	8,896		(1,925)	
Net assets acquired	$57,196		$14,075	
Goodwill	406,731		73,169	
Total fair value of consideration	$463,927		$87,244	

The Company estimated the acquisition date fair values of intangible assets based on income-based discounted cash flow models using estimates and assumptions regarding future operations. The Company will amortize the intangible assets on a straight-line basis over their estimated useful lives.

The goodwill recorded as a result of the acquisitions primarily reflects unidentified intangible assets acquired, including operational synergies across the Company, assembled workforces, the value of integrating acquired technologies and engaging and growing the connected fitness community. None of the goodwill is expected to be deductible for tax purposes.

4. Credit Facility and Other Long Term Debt

Credit Facility

In May 2014, the Company entered into a new unsecured $650.0 million credit facility and terminated its prior $325.0 million secured revolving credit facility. The credit agreement has a term of five years through May 2019, with permitted extensions under certain circumstances. The credit agreement initially provided for a committed revolving credit facility of $400.0 million, in addition to an aggregate term loan commitment of $250.0 million, consisting of a $150.0 million initial term loan, which was drawn in full at the closing of the credit agreement, and $100.0 million delayed draw term loan, which was drawn in full in November 2014 for general corporate purposes. In March 2015, the Company amended the credit agreement, providing an additional $150.0 million of term loan borrowings, which were borrowed on the closing date of the amendment, resulting in aggregate term loan borrowings under the credit agreement of $400.0 million. This amendment also increased revolving credit facility commitments available under the credit agreement from $400.0 million to $800.0 million, of which the Company borrowed $250.0 million on the closing date of the amendment. These additional borrowings were used to fund, in part, the acquisition of MFP. At the Company's request and the lenders' consent, revolving and/or term loan borrowings may be increased by up to $300.0 million in aggregate, subject to certain conditions as set forth in the credit agreement, as amended.

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Incremental borrowings are uncommitted and the availability thereof will depend on market conditions at the time the Company seeks to incur such borrowings.

Borrowings under the revolving credit facility may be made in U.S. Dollars, Euros, Pounds Sterling, Japanese Yen and Canadian Dollars. Up to $50.0 million of the facility may be used for the issuance of letters of credit and up to $50.0 million of the facility may be used for the issuance of swingline loans. There were no significant letters of credit or swingline loans outstanding as of March 31, 2015.

The Company used $100.0 million of the proceeds from the initial term loan to repay the $100.0 million outstanding under the Company's prior revolving credit facility. No penalties or other early termination fees were incurred in connection with the termination of the prior revolving credit facility.

The credit agreement contains negative covenants that, subject to significant exceptions, limit the ability of the Company and its subsidiaries to, among other things, incur additional indebtedness, make restricted payments, pledge their assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. The Company is also required to maintain a ratio of consolidated EBITDA, as defined in the credit agreement, to consolidated interest expense of not less than 3.50 to 1.00 and is not permitted to allow the ratio of consolidated total indebtedness to consolidated EBITDA to be greater than 3.25 to 1.00 ("consolidated leverage ratio"). As of March 31, 2015, the Com