Q417 EARNINGS CALL SCRIPT

FEBRUARY 13, 2018

KEVIN PLANK

Thanks Lance and good morning everyone. On our last call, we spoke at length about our strategy of getting big fast and the rapid expansion of our business to gain scale. Scale in innovation, product, sport categories and global footprint… all geared at helping us become one of the world's largest athletic brands.

We also detailed some of the operational inefficiencies as a direct result of this growth including an inconsistent go-to-market process, change management related to shifting toward a category-based construct, and the mismatch in our cost structure that was built to support the expectation of being a much larger company by 2018.

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

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

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

Revenue was up 3% to $5.0 billion. Our wholesale business was down 3% and DTC revenue was up 14% driven by low double-digit growth in our owned stores and a high-teen increase in our eCommerce business. In total, DTC represented 35% of our global revenue for the full year.

By region… as expected, North American revenue was down 5% and our international business was up 46% driven by continued strong growth in EMEA, Asia-Pacific and Latin America. Having crossed the $1 billion mark… so quadrupling in the past 3 years… at 22% of global revenue, the size and scale of our international business is on the precipice of being able to deliver more meaningful return on the large investments we've made over the past several years.

By product type, full year results for apparel, footwear and accessories were also in line with our outlook, up 2, 3 and 10%, respectively.

Full year **Gross Margin** was down 140 basis points to 45%, a decline due primarily to inventory management initiatives and the heavily promotional environment that we operated in North America throughout much of the year.

Looking at **SG&A**, we continue to be challenged by a highly committed cost structure and asset build over the past few years – one that levers mathematically even higher due to the change in our top line trajectory. In 2017, our SG&A spend was up 14%, which was 41.9% of total revenue. The fact that there's a '4' in front of this ratio is unacceptable to us and we are working to address it as quickly, efficiently and as brand-right as possible. In this respect, we are making progress: SG&A dollars were up 22% in 2016, up 14% last year and we expect it to be up at a mid-single-digit rate in 2018. So, over the three-year stack – we will have basically halved the growth-rate percentage each year. In short, it's very difficult to unpack 5 years of investing to scale… in just 5 quarters, but we are completely committed to improving this ratio toward industry-best practices.

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

After going deeper, broadening our scope and recalibrating our leadership with even greater financial discipline – we have identified additional opportunities to improve our operations. Accordingly, our Board approved expanding our restructuring efforts to include approximately $110-130 million of additional charges expected to be recorded in 2018. Dave will provide more details on the 2018 plan later so… to finish out our 2017 results… **adjusted operating income** of $157 million and **adjusted EPS** of $0.19 were also in line with our outlook.

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

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

At this inflection point, there are two simultaneous/connected efforts that we are working on – an Operational Transformation… and… our Long-term Strategy.

Patrik will get into more detail about our Operational Transformation, but at the highest level, there are currently several major initiatives that we are tackling with the goal of putting the consumer first… simplifying our operations and driving sustainable, profitable growth.

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

So let me start with PRODUCT… in 2017, we moved to a category management structure to ensure that our understanding of athlete needs is central to everything that we do. We take

deep athlete-consumer insights and innovate to solve their problems and inspire them to push the boundaries of what is possible. In order to do this consistently – to elevate innovation and be a product machine – we are completely re-engineering our go-to-market by focusing on our design approach… revamping the process, calendar and structure… and prioritizing being premium at every price point… all within a consistent margin structure. Much of this process began in the first half of last year and with a 12 to 18-month lead time, we've already begun to see some success with products like our *ColdGear Reactor* and *Unstoppable* apparel collections… and… the *Curry 4*, *Spieth 2* and *UA HOVR Phantom* and *Sonic* running shoes that we just launched ….just a couple weeks ago.

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

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

Next up is SERVICE and putting our consumer athletes at the center of everything we do. Always. From start to finish and back again. No exceptions. Constantly serving our consumer athletes whenever and wherever they choose to engage our brand. As we elevate our game and validate some of our assumptions along the way while digging even deeper to truly understand the consumer decision journey, I believe that our perceived short-term weakness – our focus on "athletic performance" – will ultimately prove to be our greatest long-term strength. Our product must, of course, drive style but we will continue to invest in being an authentic, athletic performance brand. That's us. This focus, along with global operational discipline, will

ultimately ensure we are able to deliver a seamless consumer and customer experience time and time again.

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

In summary, we see you *and* we hear you. Know that we're heads-down, stabilizing, prioritizing, executing and making measured incremental progress toward the company we know we can be. It takes time, which can certainly be challenging on both sides – externally and internally… yet we have the patience, plan and fortitude to see this through methodically and successfully. And with that, I'll turn it over to Patrik.

PATRIK FRISK

Thanks, Kevin. On our last call, I spoke about "Operate / Fuel / Innovate" as the central construct of how we're strengthening our underlying business. Staying anchored in product, story, service, team… today I'd like to detail some of the major initiatives we're working on within our Operational Transformation. This transformation has three main objectives: put the consumer first… simplify our operations… and drive sustainable, profitable growth.

At its core, it starts with the consumer. As we work to significantly sharpen our knowledge and connection with our consumer athletes… it's critical that research and design, innovation, engagement and thus our overall go-to-market are based in consumer insights to create a demand centric growth model. To base this work, we've finished our global segmentation study targeting more than 20,000 people and gained an even deeper understanding of how consumers engage our brand, use our product… and when and why they shop Under Armour.

Within this consumer decision journey, we are using both quantitative and qualitative attributes to further strengthen our ability to analyze existing market spaces and identify unique areas of white space where we might play. Now part of every new season's consideration, this data & analytics set serves to inform and support the tough decisions we have to make with respect to resource allocation and the financial discipline necessary to provide higher returns. Higher returns then provide more agility for our business. Playing an essential part of the strategic planning process, this enables us to refine our positioning… prioritize product, pricing and segmentation… and ultimately unlock additional value drivers and growth levers.

Second, following many years of rapid growth and infrastructure build, we are in the process of simplifying our operations. To restate what was said earlier – it's challenging to unpack 5 years in 5 quarters, but we *are* making progress. As we work through this transformation, we're focused on keeping "structure, process and go-to-market" continuously aligned to ensure repeatable outcomes.

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

- From a channel perspective it's optimizing our direct-to-consumer business, amplifying eCommerce and demonstrating first-hand that this is an amazing experience for consumers to engage Under Armour… and for us to tell our brand story.
- From a category perspective, we're placing a high level of focus on Men's Training, Running and Women's Training – the areas with brand strength, the largest market opportunity and most consistent growth.
- It's also about being a product machine… and turning out consistent innovation to delight the consumer. From sketch, materials and production… to discovery, purchase and the entire life cycle of the product… we are 100% focused on the consumer and creating the world's best performance products.
- With respect to geography, it's strategically managing our business in North America through better segmentation, aligning inventory to ensure brand health, and continuing to evolve our distribution relative to the quickly changing market. Internationally, it's continuing

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

As we continue to transform toward a more efficient global operating model, we are also:

- Evaluating opportunities to redesign key processes and simplify the ways of working to optimize work streams and productivity;
- Assessing organizational responsibilities and designing key functional and cross-functional processes to drive faster decision making; and,
- In very tight partnership with Dave, emphasizing and driving accountability and financial discipline throughout the organization.

With our operating structure and processes in alignment, the go-to-market now falls into place allowing us to make great strides in several areas such as:

- Shortening the current go-to-market calendar and moving from a bi-annual to a quarterly cadence that will see continuous improvement going forward and reach its full effect by early 2020.
- From an innovation perspective, it enables us to redefine the criteria for innovation platforms to transition from concept to inline empowering the development of season-less innovation which is central toward driving the shortened go-to-market calendar.
- And… SKU optimization, which is really about doing more with less. With greater structure and processes in alignment, we anticipate that our Fall 2019 product will have 30-40% less SKUs than our 2017 assortment.

We're also getting much sharper with demand creation, storytelling and our overall ability to connect even more deeply with consumers. We want to be a loud brand and a quiet company in 2018 like Kevin said. To support this, we are simplifying and focusing our marketing, PR and social elements to better leverage the brand equity that has already been built while creating strategies to drive higher returns for our efforts. A few of the things we are working on include:

- Significantly evolving our Marketing Return on Investment, to determine exactly what the best mix of Sport, Social, Traditional and Digital best supports our ability for Under Armour

to *Make You Better*.

- Next, is an absolute acceleration and amplification of Digital – how the intersection of product, connected fitness, and experience interfaces with the ultimate goal of getting the world's best performance products to our consumers. Having assessed our digital capabilities, we're executing pilots and constructing a repeatable quantitative and qualitative playbook, which is a significant improvement for the brand.
- Now in this respect, moving from seasonal and one-time brand moments… to a continuous, always-on conversation with our consumers telegraphs the same passion we live and breathe inside these walls.

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

DAVE BERGMAN

Thanks, Patrik. Before we get into our fourth quarter results and our outlook for 2018, I'd like to provide some more context around the 2017 restructuring plan, and one-time items that impacted our quarter as well as the 2018 restructuring plan that we announced this morning.

On our last call, we provided an update to our restructuring plan that we expected to incur approximately $140 to $150 million of pre-tax restructuring and related charges in 2017. For the year, we recognized a total of $129 million in charges against that plan, including $37 million in the fourth quarter.

As we move into 2018, we have uncovered additional opportunities to more closely align our financial resources to drive operational discipline and effectiveness. To that effect, we approved a new 2018 restructuring plan, which is expected to include $110-130 million of pre-tax restructuring and other related charges. This plan anticipates:

- Up to $105 million in cash related charges, consisting of up to $55 million in facility and lease terminations and up to $50 million in contract termination and other restructuring charges; as well as,

- Up to $25 million in non-cash charges comprised of up to $10 million of inventory related charges and up to $15 million of asset related impairments.

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

We already reviewed some of the full year highlights, so let's take a few minutes to review our fourth quarter results before turning to our 2018 outlook.

Revenue was up 5% to $1.4 billion. Clicking down, let's start with revenue by channel:

- Our **Wholesale** business was down 1% to $733 million in the quarter, reflecting lower demand in our North American business, particularly within the sports specialty channel.
- **Direct-to-Consumer** revenue grew 11% to $575 million driven by continued strong results in our international businesses. DTC in total was 42% of global revenue in the quarter.
- **Licensing** was up 10% to $33 million primarily driven by strength in our Japanese business.

By region, revenue in our largest market, **North America**, was down 4% to $1.0 billion, which was in-line with our expectations. Outside North America, our **International** business continued its strong momentum, posting a 47% increase in revenue to reach $317 million, or 23% of total revenue in the fourth quarter. On a currency neutral basis, international revenue was up 43%.

Clicking down into the international regions:

- **EMEA** revenue was up 46% driven by growth across our wholesale and DTC channels. One highlight in the quarter, was the opening of our first brand house in Europe… which is very exciting for the team and the future of DTC in this region;
- Revenue in **Asia-Pacific** increased 56%, driven by strong growth in our own DTC as we continue to drive both digital and physical touchpoints with the consumer;

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

Turning to **Gross Margin**… we saw a 150 basis point decline to 43.2% in the fourth quarter. Excluding the restructuring, which contained about 10 basis points of inventory impacts… **Adjusted Gross Margin** was 43.3%. To walk through the components of the decline, the negative drivers included approximately:

- 160 bps from certain inventory management efforts including promotions and air freight; and,
- 60 bps of channel and product mix due to a higher composition of off-price and footwear sales

These pressures were partially offset by:

- 50 bps of tailwinds from changes in foreign currency; and
- 40 bps of product costing improvements.

SG&A expense increased 41% to $591 million… driven primarily by: timing shifts in demand creation from the third quarter… lower incentive compensation in the prior period… and continued investments in our DTC, footwear and international businesses. With respect to incentive compensation, recall that in the fourth quarter of 2016, we reversed a substantial amount of full-year incentive compensation… so that impacts the year-over-year comparison.

Fourth quarter **Operating Loss** was $37 million. Excluding the restructuring, **Adjusted Operating Income** broke even.

Interest and Other Expense was $12 million.

And turning to taxes, our fourth quarter and full year tax expense included $39 million of expense related to the December 2017 *U.S. Tax Act*. This included $14 million for tax on

indefinitely reinvested foreign earnings as well as a $25 million non-cash charge to reduce our *deferred tax assets* to reflect the change in U.S. corporate tax rate from 35% to 21%. There were no cash impacts in the fourth quarter related to these charges. However, the charge associated with *indefinitely reinvested foreign earning*s will have a minor impact on future cash flow.

All in – the impacts of tax reform made for an **Effective Tax Rate** of negative 80.8% in the quarter. On an **Adjusted** basis… which would exclude the impact of one-time charges and changes due to tax reform, the quarterly tax rate was 94.8%.

Taking all of this to the bottom line, **Net Loss** was $88 million or a 20-cent loss in **Diluted Earnings Per Share** for the fourth quarter. Excluding restructuring and one-time tax reform impacts, **Adjusted Net Loss** was $1 million and **Adjusted Diluted EPS** broke even.

Turning to our Balance Sheet…

- **Cash and Cash Equivalents** were up 25% to $312 million;
- **Inventory** was up 26% to $1.2 billion. Important to the inventory story is the split between North America and our International businesses. In North America, inventory was up at a mid-teen percentage rate while our International inventory was up nearly 50% supporting the strength of this business.
- **Total Debt** was up 12% to $917 million;
- And finally, **Capital Expenditures** were down 20% to $74 million.

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

Many of the macro factors that we experienced in 2017, we expect to carry over into 2018. Thus, for the full year we expect:

- **Apparel, footwear, and accessories** revenue to each grow at a low-single digit rate;
- **DTC** revenue should be up at a mid to high single-digit rate… in contrast to our **Wholesale** business, which should be down slightly to flat.

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

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

To be clear, SG&A to revenue percentage is not where we want it to be in 2018, but following the stepdown from 22% to 14% over the past two years, and given the magnitude of committed and fixed costs within this line item, we believe we are making meaningful progress.

Also, keep in mind…that concurrently, it remains a priority to support our growth in our DTC and international businesses, which require continued investments… so we're balancing that in the mix appropriately. Thus, I want to emphasize this is not just a cost cutting, right-sizing only exercise. Kevin, Patrik and myself, along with the entirety of Under Armour… are aligned that this is about running a smarter, leaner, and more efficient organization that gives us consistent agility and ability to generate sustainable returns to invest in our brand and drive shareholder value.

Back to our P&L and taking this through to **Operating Income**…… we're expecting to generate about $20-30 million in 2018. Excluding the restructuring, **Adjusted Operating Income** should be approximately $130-160 million.

Interest Expense and **Other Expense** combined is expected to be approximately $45 million for the full year.

With respect to tax… while corporate reform in the U.S. will provide a benefit over the long term… in 2018 – due to our challenged U.S. results – we do not foresee benefits from the rate reduction, and will instead see some unfavorable tax impacts due to new base broadening provisions and limitations on certain deductions; coupled with unfavorable tax impacts due to our stock performance over the past year. These negative impacts will be primarily offset by the beneficial comping of larger valuation reserves recorded in 2017…. Longer term, as we execute on our operational initiatives and U.S. income grows, our effective tax rate will benefit from the lower U.S. corporate rate.

Excluding the impacts of one-time restructuring charges… we expect our 2018 **Adjusted Effective Tax Rate**, to be in the 25 to 27% range.

Taking this to the bottom line… we're expecting full year **Adjusted Diluted Earnings Per Share** of 14 to 19 cents.

Turning to a few items on our balance sheet…

- Due to the revision of our North American revenue trajectory in the second half of 2017, we anticipate that our inventory growth rates will be fairly consistent with our year-end growth rate through the first half of 2018, and then should move more in line with revenue;
- Demonstrating our more focused capital strategy, we expect full year **CapEx** to be down more than 20% to approximately $225 million compared with $275 million in 2017; and finally
- With respect to leverage for the year, we are expecting some quarter over quarter fluctuations that, combined with the cash impacts of our restructuring plans on our trailing 12-month EBITDA, will cause our leverage ratio to flex above historical levels during parts of 2018. Accordingly, we are in the process of seeking an amendment to our credit agreement to address this short-term issue.

Lastly, to give a little more color on our outlook… we're expecting our second quarter revenue growth rate to be the highest of the year as we work through elevated inventory in North America. With respect to the first quarter, we currently anticipate **Revenue** to be flat to slightly down versus the prior year. First quarter **Adjusted Gross Margin** is expected to be relatively flat and **Adjusted Operating Income** is expected to be a loss of approximately $15 million,

which puts **Adjusted EPS** at a loss of of six to seven cents. Also, important to note that we anticipate the majority of our restructuring to be completed in the first half of 2018 with the second quarter being higher than the first quarter.

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

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