

Columbia Sportswear (COLM)

\$72.92 (As of 03/09/20)

Price Target (6-12 Months): **\$62.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 02/11/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: A

Momentum: F

Summary

Shares of Columbia Sportswear have lagged the industry in the past year. The company has been grappling with high SG&A expenses, which increased in fourth-quarter 2019. Further, elevated investments to improve global DTC operations along with higher personnel, demand creation and technology costs caused the metric to rise in 2019. In fact, management expects SG&A expenses, as a percentage of sales, to rise 40-50 bps in 2020. Also, international presence exposes the company to volatile currency movements and tariff-related concerns. Nonetheless, Columbia Sportswear has been seeing growth in various product categories. The company's top line continued to improve year over year in the fourth quarter on brand strength. Moreover, Project CONNECT aided its gross margin performance. Investments in DTC business are also yielding.

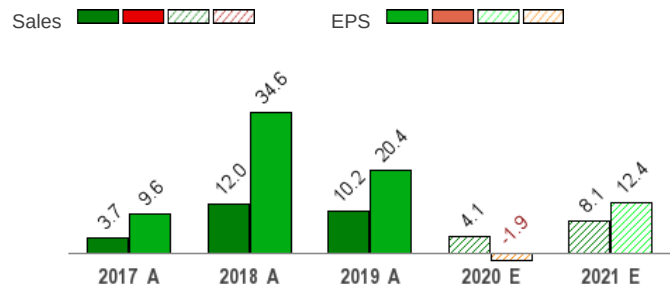
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$109.44 - \$70.89
20 Day Average Volume (sh)	510,805
Market Cap	\$4.9 B
YTD Price Change	-27.2%
Beta	0.57
Dividend / Div Yld	\$1.04 / 1.4%
Industry	Textile - Apparel
Zacks Industry Rank	Bottom 33% (169 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.6%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	-2.6%
Expected Report Date	04/23/2020
Earnings ESP	-1.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	725 E	586 E	1,032 E	1,090 E	3,425 E
2020	651 E	541 E	953 E	1,022 E	3,168 E
2019	655 A	526 A	907 A	955 A	3,042 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.01 E	\$0.01 E	\$2.26 E	\$2.12 E	\$5.33 E
2020	\$0.81 E	-\$0.05 E	\$1.97 E	\$2.02 E	\$4.74 E
2019	\$1.07 A	\$0.23 A	\$1.75 A	\$1.67 A	\$4.83 A

*Quarterly figures may not add up to annual.

P/E TTM	15.5
P/E F1	15.4
PEG F1	1.7
P/S TTM	1.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/09/2020. The reports text is as of 03/10/2020.

Overview

Headquartered in Portland, OR, **Columbia Sportswear Company** engages in the sourcing, marketing and distribution of outdoor and active lifestyle apparel, footwear, accessories and equipment in the U.S. and internationally.

The company offers products under four well-established brands – Columbia, Sorel, Mountain Hardwear and prAna. Amongst other brands, The OutDry and The Pacific Trail are worth mentioning.

The high quality products manufactured by the company under different banners makes them ideal for a range of sporting activities. The company also engages in innovation, in order to match consumers changing preferences, especially in relation with outdoor activities.

The company distributes its products through a mix of wholesale distribution channels, own direct-to-consumer ("DTC") channels (retail stores and e-commerce), independent international distributors, as well as licensees.

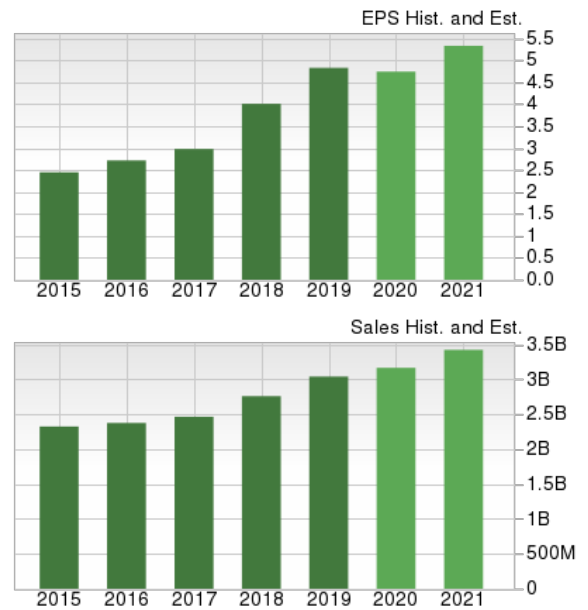
In 2019, the company's products were sold across 90 countries. Majority of the company's products are manufactured by contract manufacturers located outside the United States.

Columbia reports its operating results under two major segments:

Apparel, accessories and equipment segment: This segment designs, develops, markets and distributes apparel, accessories and equipment for men and women under its Columbia, Sorel, Mountain Hardwear and prAna brands, and for youth under the Columbia and Mountain Hardwear brand.

Footwear segment: The segment designs, develops, markets and distributes footwear products for men, women and youth under its Columbia and Sorel brands.

The company operates in four geographic regions: The United States, Canada, Latin America and Asia Pacific (LAAP), and Europe, Middle East and Africa (EMEA).



Reasons To Sell:

▼ **High SG&A Costs Hurt Stock:** Shares of Columbia Sportswear have declined 29.1% in the past year, compared with the industry's decline of 24.2%. The company has been grappling with high SG&A expenses, which increased 6% year over year in the fourth quarter of 2019 following a 14% increase in the third quarter. Also, the metric increased 9% during 2019. The upside can be attributed to high investments to improve global DTC operations. This apart, higher personnel, demand creation and technology expenses caused the downside. In fact, management expects SG&A expenses as a percentage of sales to increase by 40 to 50 basis points (bps) in 2020.

Moreover, operating margin declined 210 bps to 14.5% in fourth quarter. For 2020 management projects the metric to be in the range of 12.6-12.8%, which suggests 20-40 bps decline year over year.

Adverse impacts from unfavourable currency rates as well as rising SG&A costs are headwinds for Columbia.

▼ **Currency Headwinds:** Due to exposure in international markets, Columbia Sportswear is prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside the United States. Increase in prices may have adverse impact on demands for the products. Therefore, unfavourable currency movements remain a threat to the company's profitability.

▼ **Tariffs May Hit in the Long Run:** Columbia Sportswear has significant operations overseas, with China being a significant market for both production and sales. Further, the company intends to maintain its ties with its Chinese partners, given the hurdles related to local manufacturing. Thus, any adverse tariff impacts, stemming from the trade war, are likely to have a detrimental impact on Columbia Sportswear's business, vendors and consumers in future. Nonetheless, the company is taking steps to mitigate the impact of same.

▼ **Volatile Product Costs:** Columbia Sportswear remains prone to volatility in the prices of several raw materials in the commodity market, such as oil, leather and cotton among others. The company's product costs depend largely on these prices, along with quality and availability of raw materials; labor market fluctuations that impact wage rates; transportation costs and general economic conditions like inflation. Thus, any major changes in these factors can impact the company's production cost, which can hurt profitability.

▼ **Risk Related to Contract Manufacturers:** Columbia Sportswear mainly procures its products through contract manufacturers. The order commitments of the company with such contract manufacturers are not long term in nature, thus posing the risk of meeting production needs timely and adequately on the event of any lags from the manufacturers end.

Risks

- **Stellar Top-line Trend:** The company has delivered positive sales surprise in all the four quarters of 2019. The company reported fourth-quarter 2019 results, with the top line continuing to improve year over year. Growth witnessed across various geographic segments, channels and product categories contributed to the company's results. Further, growth was backed by strength in the Columbia, Sorel and Mountain Hardwear brands.

For 2020, net sales are expected in the range of \$3.18-\$3.23 billion. The top-line view indicates growth of nearly 4.5-6% year over year.

- **Project CONNECT to Drive Growth:** Columbia Sportswear is progressing well with its Project CONNECT program, which is aimed toward driving sales and earnings along with strengthening the company's financial position. Project CONNECT focuses on connecting consumers, wholesale customers and international distributors with its manufacturing partners and employees around the globe. Markedly, the program comprises design to value, assortment optimization and manufacturing efficiency endeavors. During the fourth quarter, Project CONNECT boosted the company's gross margin performance. Also, management highlighted that it is optimistic about generating positive impacts on gross margin, which is anticipated to improve approximately 30 bps to 50.1% in 2020.
- **Strong International Presence:** Columbia has a solid international presence and sells its products in approximately 90 countries. The widespread global reach provides the company a solid business foundation and enables it to seek new opportunities to enhance profitability. Net sales outside the United States increased 5% in 2019. In Japan, net sales rose in mid-single digit percentage in 2019. The company expects sales in the region to grow low single-digit percentage in 2020. In Europe, direct net sales rose in mid-single digit percentage in 2019. Going into 2020, management envisions similar growth trend in direct net sales in Europe. In Canada, net sales rose 8% in 2019. Additionally, Columbia anticipates sales in Canada to rise in high single-digit percentage for 2020. Although sales in Korea were flat in 2019, management expects low single-digit percentage growth for 2020.
- **Direct-to-Consumer Business – A Major Driver:** Columbia Sportswear remains committed toward expanding and enhancing its global direct-to-consumer (DTC) business, through accelerated investments. During the fourth quarter of 2019, DTC channels depicted sales growth of 4% (also at constant currency). Within the DTC business, both the brick-and-mortar and e-commerce businesses have been strong. Management expects this channel to continue performing well in the forthcoming periods.
- **Brand Enhancing Initiatives:** Columbia Sportswear undertakes brand-enhancing and unique marketing initiatives that further strengthen its presence in the apparel industry. We note that the company's Columbia brand has been steadily gaining traction. Further, the company expects continued growth from its SOREL brand through constant upgrade and effective strategies. Driven by such efforts, the Columbia and SOREL brands registered 3% to \$751.1 million and 13% to \$143.5 million, respectively. Moreover, net sales in Mountain Hardwear brands increased 4% to \$27.2 million.

On the technology front, the company is focused on enhancing "Consumer First" retail platform or C1 at its North America stores. These outlets now comprise improved point of sale systems including mobile checkout, access to loyalty programs as well as improved merchandising and pricing functionality. Moreover, Columbia has made investments to upgrade its in-store consumer-facing technology systems to better address consumer demands in China. Also, the company has been on track with executing new mobile platform experience first or X1 across North America.

Last Earnings Report

Columbia Sportswear Beats Earnings Estimates in Q4

Columbia Sportswear Company reported fourth-quarter 2019 results, with the top and bottom lines surpassing their respective Zacks Consensus Estimate. Also, the top line improved year over year.

Q4 in Detail

Earnings of this designer, marketer and distributor of outdoor and active lifestyle apparel, footwear and accessories came in at \$1.67 per share, which beat the Zacks Consensus Estimate by a penny. Further, adjusted earnings were \$1.68 in the year-ago quarter.

Net sales advanced 4% to \$954.9 million. The top line surpassed the consensus mark of \$951.5 million. This can be attributed to strength in the Columbia, Sorel and Mountain Hardwear brands.

In the reported quarter, DTC channels displayed sales growth of 4% (up 4% at cc) and wholesale net sales advanced 4% (up 5% at cc).

Gross profit inched up 0.9% to \$478.7 million, whereas gross margin declined 160 basis points (bps) to 50.1%. Margin fell due to increased sales of closeout products in wholesale that generate lower gross margin. Also, unfavorable DTC product margins that reflect improved promotional activity and shifts in product mix acted as deterrent. Nevertheless, these downsides were partially offset by Project CONNECT benefits. Operating income amounted to \$138.6 million, down 9% year over year. Operating margin also declined 210 bps to 14.5%.

Regional Segments

United States: Net sales increased 8% to \$634 million, owing to growth across the DTC and wholesale businesses.

Latin America/Asia Pacific (LAAP): Net sales fell 4% to \$171.6 million.

Europe/Middle East/Africa (EMEA): Net sales rose 7% (up 10% at cc) to \$99.8 million. Growth in Europe direct sales was primarily driven by favorable DTC performance along with higher closeout sales in wholesale during the quarter.

Canada: Net sales were down 10% to \$49.5 million mainly due to shift in timing of 2019 fall shipments.

Sales by Product Category & Brand

Net sales in the Apparel, Accessories and Equipment category inched up 1% to \$698.3 million, while the same for Footwear rallied 12% to \$256.6 million.

Further, the Columbia and SOREL brands registered growth of 3% to \$751.1 million and 13% to \$143.5 million, respectively. Moreover, net sales in Mountain Hardwear brands increased 4% to \$27.2 million. However, net sales in the prAna brand declined 10% to \$33.1 million.

Other Financial Updates

Columbia Sportswear ended the quarter with cash and cash equivalents of \$686 million and total equity of \$1,849.4 million. During 2019, the company generated cash from operating activities of \$285.5 million, while it incurred capital expenditures of \$123.5 million. In 2019, the company repurchased 1,243,872 shares for an aggregate of \$121.2.2 million.

Guidance

Management intends to continue with its investments to create demand, drive brand awareness and enhance digital capabilities. It will also continue exploring growth opportunities in DTC business and improve support processes. However, the company is cautious about the recent outbreak of coronavirus although it has not been factored in the 2020 guidance.

For 2020, net sales are expected in the range of \$3.18-\$3.23 billion. The top-line view depicts growth of nearly 4.5-6% year over year. Further, gross margin is anticipated to improve approximately 30 bps to 50.1% in the same period. Operating income is estimated in the band of \$399-\$412 million in 2020. However, operating margin is projected in the range of 12.6-12.8%, which suggests 20-40 bps decline year over year.

Management expects earnings per share for 2020 to be \$4.75-\$4.90. The company had reported earnings of \$4.83 per share in 2019.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	0.35%
EPS Surprise	0.60%
Quarterly EPS	1.67
Annual EPS (TTM)	4.72

Valuation

Columbia Sportswear's shares are down 27.2% in the year-to-date period and 29.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary are down 31.3% and 21.2%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry and the sector were down 24.2% and 12%, respectively.

The S&P 500 index is down 14.8% in the year-to-date period and 2.4% in the past year.

The stock is currently trading at 15.02X forward 12-month earnings, which compares to 12.58X for the Zacks sub-industry, 16.22X for the Zacks sector and 15.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.69X and as low as 15.02X, with a 5-year median of 20.93X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$62 price target reflects 12.77X forward 12-month earnings.

The table below shows summary valuation data for COLM

Valuation Multiples - COLM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.02	12.58	16.22	15.75
	5-Year High	28.69	23.06	23.23	19.34
	5-Year Low	15.02	12.58	16.15	15.18
	5-Year Median	20.93	17.99	19.88	17.42
P/S F12M	Current	1.53	1.67	1.82	2.91
	5-Year High	2.46	2.58	3.19	3.44
	5-Year Low	1.25	1.55	1.81	2.54
	5-Year Median	1.81	2.05	2.53	3
EV/EBITDA F12M	Current	9.42	14.35	9.94	12.34
	5-Year High	14.95	19.11	12.69	14.18
	5-Year Low	8.86	11.74	8.56	9.08
	5-Year Median	11.94	14.69	10.78	10.82

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (169 out of 253)



Top Peers

G-III Apparel Group, LTD. (GIII)	Outperform
Ralph Lauren Corporation (RL)	Outperform
Guess?, Inc. (GES)	Neutral
lululemon athletica inc. (LULU)	Neutral
Under Armour, Inc. (UAA)	Neutral
V.F. Corporation (VFC)	Neutral
Delta Apparel, Inc. (DLA)	Underperform
PVH Corp. (PVH)	Underperform

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	COLM Underperform	X Industry	S&P 500	GES Neutral	GIII Outperform	LULU Neutral
VGM Score	B	-	-	C	C	F
Market Cap	4.92 B	820.67 M	19.13 B	813.92 M	827.42 M	26.03 B
# of Analysts	6	4	13	4	6	16
Dividend Yield	1.43%	0.00%	2.26%	3.63%	0.00%	0.00%
Value Score	B	-	-	C	B	F
Cash/Price	0.13	0.12	0.05	0.12	0.06	0.02
EV/EBITDA	8.72	8.59	11.99	14.55	6.40	31.04
PEG Ratio	1.75	1.47	1.68	0.43	0.49	1.85
Price/Book (P/B)	2.66	1.22	2.64	1.39	0.66	15.79
Price/Cash Flow (P/CF)	11.07	6.82	10.70	6.75	4.69	41.06
P/E (F1)	15.63	11.16	15.44	7.60	5.57	34.77
Price/Sales (P/S)	1.62	0.59	2.05	0.30	0.26	6.94
Earnings Yield	6.50%	8.98%	6.47%	13.15%	17.95%	2.87%
Debt/Equity	0.20	0.65	0.70	1.74	0.74	0.34
Cash Flow (\$/share)	6.59	2.04	7.01	1.84	3.70	4.87
Growth Score	A	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	19.86%	2.34%	10.85%	-1.48%	3.67%	22.60%
Proj. EPS Growth (F1/F0)	-1.80%	2.15%	6.25%	20.04%	-0.43%	15.78%
Curr. Cash Flow Growth	30.70%	9.60%	6.09%	21.93%	55.48%	38.28%
Hist. Cash Flow Growth (3-5 yrs)	17.53%	4.12%	8.52%	-9.92%	14.76%	14.16%
Current Ratio	2.97	1.82	1.24	1.52	2.36	2.53
Debt/Capital	16.73%	39.94%	42.57%	63.63%	42.58%	25.49%
Net Margin	10.86%	3.43%	11.69%	1.48%	4.50%	15.10%
Return on Equity	18.53%	11.24%	16.74%	12.56%	12.27%	39.71%
Sales/Assets	1.11	1.14	0.54	1.21	1.23	1.49
Proj. Sales Growth (F1/F0)	4.11%	0.00%	3.76%	1.98%	5.13%	15.32%
Momentum Score	F	-	-	A	B	F
Daily Price Chg	-7.47%	-8.84%	-7.65%	-13.89%	-9.74%	-8.59%
1 Week Price Chg	-3.06%	-3.06%	-0.67%	-11.11%	-14.13%	0.52%
4 Week Price Chg	-18.82%	-21.11%	-19.26%	-42.88%	-36.68%	-19.62%
12 Week Price Chg	-22.64%	-24.23%	-17.26%	-37.12%	-46.56%	-11.35%
52 Week Price Chg	-29.05%	-41.26%	-6.83%	-45.16%	-51.89%	37.50%
20 Day Average Volume	510,805	108,743	2,684,709	1,133,874	572,569	1,723,324
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-3.83%	0.00%	-0.08%
(F1) EPS Est 4 week change	-2.55%	-2.53%	-0.06%	-6.00%	0.86%	-0.05%
(F1) EPS Est 12 week change	-7.61%	-2.53%	-0.46%	-5.09%	1.23%	2.49%
(Q1) EPS Est Mthly Chg	-4.51%	-9.62%	-0.40%	-9.62%	2.56%	-0.86%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.