

Columbia Sportswear (COLM)

\$72.44 (As of 04/17/20)

Price Target (6-12 Months): **\$61.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/11/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: D

Summary

Although shares of Columbia Sportswear have outpaced the industry in the past three months it is likely to derail in the near term. The company's stores across Europe and North America remain temporarily closed amid coronavirus. Also, given the coronavirus outbreak and its impact on revenues and costs, management has withdrawn its first half and full year 2020 view. Apart from these, the company is bearing the brunt of high SG&A costs, which lingered in fourth-quarter 2019. Also, international presence exposes the company to volatile currency movements and tariff-related concerns. Nonetheless, Columbia Sportswear has been undertaking various financial measures amid the coronavirus crisis. Apart from this, growth in various product categories and investments in DTC business bode well.

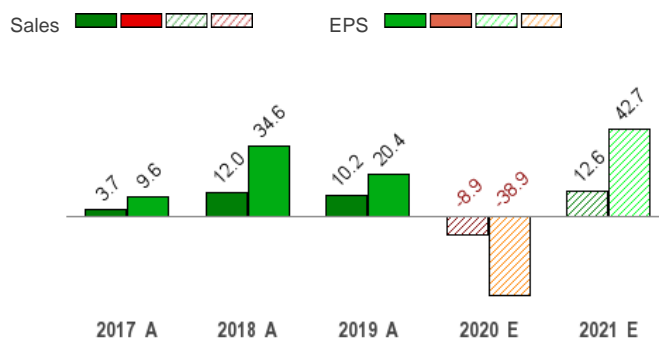
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$109.44 - \$51.82
20 Day Average Volume (sh)	360,672
Market Cap	\$4.9 B
YTD Price Change	-27.7%
Beta	0.70
Dividend / Div Yld	\$1.04 / 1.4%
Industry	Textile - Apparel
Zacks Industry Rank	Bottom 5% (240 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	-39.0%
Expected Report Date	04/23/2020
Earnings ESP	-13.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	574 E	367 E	901 E	1,031 E	3,121 E
2020	602 E	383 E	826 E	961 E	2,772 E
2019	655 A	526 A	907 A	955 A	3,042 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.36 E	-\$0.58 E	\$1.94 E	\$2.29 E	\$4.21 E
2020	\$0.41 E	-\$0.69 E	\$1.37 E	\$1.77 E	\$2.95 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	15.4
P/E F1	24.6
PEG F1	2.8
P/S TTM	1.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/17/2020. The reports text is as of 04/20/2020.

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.

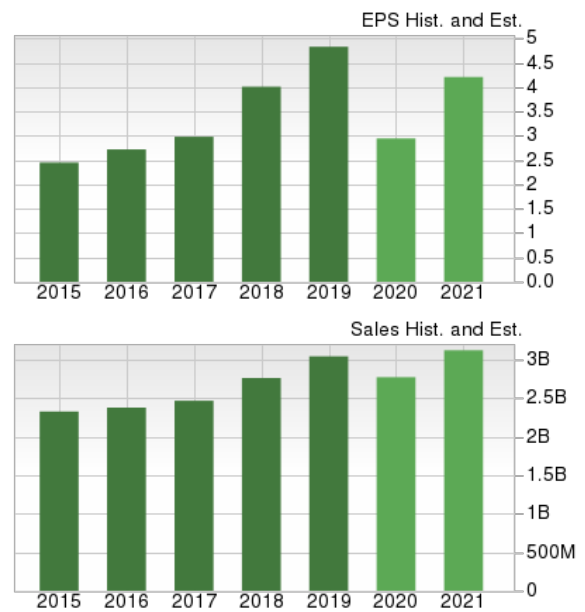
In 2019, the company's products were sold across 90 countries. Majority of the company's products are manufactured by contract manufacturers located outside the United States.

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:

▼ **Coronavirus Update, View Withdrawn:** Although shares of Columbia Sportswear have outpaced the industry in the past three months it is likely to derail in the near term. The stock has lost 25.6% during the last three months, while the industry declined 34.4%. The company recently provided an update on coronavirus. It informed that all company stores across Europe and North America remain shut until it is safe to reopen them amid the coronavirus crisis. Also, U.S. retail store operations staffs have been partially furloughed through May 1. Similar moves to furlough workers have been taken in the company's distribution centers and corporate offices.

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

Also, given the coronavirus outbreak and its impact on revenues and costs, management has withdrawn its first half and full year 2020 financial outlook, which was issued along with its fourth-quarter results on Feb 7.

▼ **High SG&A Costs:** 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. Moreover, operating margin declined 210 bps to 14.5% in fourth quarter.

▼ **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.
- **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.
- **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. In Europe, direct net sales rose in mid-single digit percentage in 2019. In Canada, net sales rose 8% in 2019.
- **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

Recent News

Columbia Sportswear Withdraws View, Keeps Stores Closed Amid Coronavirus – Apr 17, 2020

Columbia Sportswear provides an update on the coronavirus outbreak. The company's stores across North America and Europe remain shut until it is safe to reopen them amid the coronavirus crisis. Also, U.S. retail store operations staffs have been partially furloughed through May 1. Similar moves to furlough workers have been taken in the company's distribution centers and corporate offices.

Although, most stores in China and Korea have opened again, majority of these stores are still operating with reduced store hours. Also, retail traffic in these reopened stores are seeing some improvements but it stands well below pre-pandemic levels. Meanwhile, the company's online business has largely been operational amid the coronavirus crisis.

Further, management has temporarily suspended its quarterly dividend as well as share buyback plans. Moreover, the company has been undertaking measures to control its capital expenditures among other moves to improve liquidity amid coronavirus crisis. Apart from these, the Company has taken other moves including amending and restating its domestic credit agreement to improve its financial position amid the crisis. In this regard, it has drawn down \$325 million under its domestic credit agreement since Mar 27.

Also, given the coronavirus outbreak and its impact on revenues and costs, management has withdrawn its first half and full year 2020 financial outlook, which was issued along with its fourth-quarter results on Feb 7.

Valuation

Columbia Sportswear's shares are down 27.7% in the year-to-date period and 28.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary are down 35.7% and 21.3%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry and the sector were down 34% and 16.5%, respectively.

The S&P 500 index is down 10.9% in the year-to-date period and 1.7% in the past year.

The stock is currently trading at 21.78X forward 12-month earnings, which compares to 16.94X for the Zacks sub-industry, 20.8X for the Zacks sector and 19.53X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.69X and as low as 12.18X, with a 5-year median of 20.85X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$61 price target reflects 18.34X 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	21.78	16.94	20.8	19.53
	5-Year High	28.69	23.06	23.23	19.53
	5-Year Low	12.18	12.9	16.15	15.19
	5-Year Median	20.85	17.85	19.89	17.45
P/S F12M	Current	1.51	1.69	1.89	3.2
	5-Year High	2.46	2.58	3.19	3.44
	5-Year Low	1.24	1.43	1.67	2.54
	5-Year Median	1.81	2.04	2.52	3.01
EV/EBITDA F12M	Current	8.3	15.91	10.46	12.29
	5-Year High	14.91	19.11	12.52	12.65
	5-Year Low	8.05	11.66	8.57	9.09
	5-Year Median	11.51	14.4	10.76	10.82

As of 04/17/2020

Industry Analysis Zacks Industry Rank: Bottom 5% (240 out of 253)



Top Peers

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

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	COLM Underperform	X Industry	S&P 500	GES Underperform	GIII Neutral	LULU Neutral
VGM Score	C	-	-	A	A	C
Market Cap	4.88 B	448.40 M	19.60 B	530.53 M	448.40 M	29.40 B
# of Analysts	5	4.5	14	4	7	16
Dividend Yield	1.44%	0.00%	2.17%	0.00%	0.00%	0.00%
Value Score	D	-	-	A	A	F
Cash/Price	0.14	0.14	0.06	0.50	0.40	0.04
EV/EBITDA	8.66	7.45	11.73	5.62	3.38	27.30
PEG Ratio	2.71	1.89	2.19	NA	0.83	2.96
Price/Book (P/B)	2.64	1.33	2.67	0.80	0.35	15.08
Price/Cash Flow (P/CF)	11.00	4.13	10.55	2.84	2.29	36.46
P/E (F1)	24.20	13.06	18.18	12.75	9.46	49.00
Price/Sales (P/S)	1.60	0.44	2.08	0.20	0.14	7.39
Earnings Yield	4.07%	6.17%	5.38%	7.85%	10.60%	2.04%
Debt/Equity	0.20	0.65	0.70	1.50	0.50	0.31
Cash Flow (\$/share)	6.59	2.16	7.01	2.83	4.08	6.20
Growth Score	B	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	19.86%	4.12%	10.92%	4.98%	6.78%	25.21%
Proj. EPS Growth (F1/F0)	-39.01%	-38.96%	-3.36%	-56.55%	-69.06%	-6.50%
Curr. Cash Flow Growth	30.70%	8.09%	5.93%	24.83%	6.85%	26.75%
Hist. Cash Flow Growth (3-5 yrs)	17.53%	4.10%	8.55%	0.67%	9.97%	19.56%
Current Ratio	2.97	1.66	1.24	1.67	2.23	2.91
Debt/Capital	16.73%	39.71%	42.78%	60.17%	33.35%	23.85%
Net Margin	10.86%	3.79%	11.64%	3.58%	4.55%	16.22%
Return on Equity	18.53%	12.14%	16.74%	17.62%	12.74%	39.88%
Sales/Assets	1.11	1.13	0.54	1.12	1.19	1.41
Proj. Sales Growth (F1/F0)	-8.89%	-3.87%	-0.14%	-14.98%	-16.40%	4.68%
Momentum Score	D	-	-	F	A	F
Daily Price Chg	2.32%	3.75%	4.04%	11.99%	4.77%	7.97%
1 Week Price Chg	14.79%	20.52%	16.01%	42.22%	82.22%	12.28%
4 Week Price Chg	14.17%	14.17%	18.93%	-8.75%	22.73%	45.85%
12 Week Price Chg	-24.31%	-43.33%	-19.39%	-64.66%	-68.73%	-7.08%
52 Week Price Chg	-29.79%	-54.28%	-11.34%	-52.99%	-77.96%	30.32%
20 Day Average Volume	360,672	54,719	3,220,598	2,410,093	1,809,426	2,442,675
(F1) EPS Est 1 week change	-21.51%	0.00%	0.00%	0.00%	-0.58%	0.00%
(F1) EPS Est 4 week change	-39.04%	-39.04%	-7.09%	-41.51%	-67.85%	-19.26%
(F1) EPS Est 12 week change	-44.01%	-44.01%	-9.32%	-56.38%	-67.72%	-19.90%
(Q1) EPS Est Mthly Chg	-1,286.67%	-91.74%	-10.68%	-115.79%	-329.25%	-64.61%

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	D
Growth Score	B
Momentum Score	D
VGM Score	C

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.

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