Columbia Sportswear Company

FIN-498 Capstone Project

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FIN-498: Capstone
Dr. Park
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Engagement Letter

As of 12/31/2022, a full-scale valuation and analysis of Columbia Sportswear has been performed in accordance with the FIN-498 Capstone Project Instructions. Columbia Sportswear is one of the world's largest design and distribution companies of outdoor and active lifestyle apparel, footwear, equipment, and accessories. In order to determine the valuation of Columbia Sportswear, there has been a full analysis of key financial ratios, financial statements, market comparables, and discounted cash flows. As of April 25, 2023, Columbia Sportswear ($COLM) has a current stock price of $88.35, and the analysis determined the value of Columbia Sportswear to be $93.37.

Data is as of 12/31/2022, as we were limited with our data available. Data from 2017 was not available upon research.

Sensitivity analysis was instructed to not be completed due to a lack of class time to complete the following project.

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Part II: Company Overview

Columbia Sportswear is one of the world's largest design and distribution companies of outdoor and active lifestyle apparel, footwear, and equipment. Based out of Portland, Oregon, Columbia is also the owner of other small outdoor brands, such as SOREL, Mountain Hardwear, and prAna. Their products aim to have recognition for quality and performance. While Columbia's main products are apparel and equipment, their sister brands specialize in specific gear under different names. Columbia was founded back in 1938 by a man named Paul Lamfrom. The company started out as a hat distributor, and was given the name for being close to the nearby Columbia River. The company became publicly traded in March of 1998, opening with a share price of $18 under the ticker symbol COLM. Today, COLM has a share price of $87. According to Yahoo Finance, Columbia ranks 10th in the world in "19 largest Outdoor Brands and Companies." Columbia is currently under the CEO Timothy Boyle.

SOREL was acquired by Columbia Sportswear back in 2000. What started off as a men's brand that sold winter boots, they have evolved their boot line into women's fashion as well. Their boots now range from utility purposes all the way to every-day urban footwear. They have also included a youth boot line as well.

Mountain Hardwear was acquired back in 2003, as they also offer products similar to Columbia Sportswear. Their main products are apparel and equipment/accessories. The target market is for people who enjoy the outdoors, and even outdoor athletes.

PrAna was a company that was purchased by Columbia more recently, back in 2014. They offer more stylish outdoor apparel and accessories, as they are focused on product sustainability. The target market for prAna is aimed at but not limited to people who enjoy outdoor watersports, yoga, rock climbing, and hiking.

Columbia Sportswear has many competitors that hold a large share in the sportswear market. Some of the brand's major competitors include: Patagonia, The North

Face, L.L. Bean, Nike, Under Armour, Dick's Sporting Goods, Tilly's, Yeti, and Johnson Outdoors.

Now to analyze Columbia Sportswear using the PESTEL analysis. PESTEL can be used to analyze the following topics:

- Political
- Economic
- Sociocultural
- Technological
- Environmental
- Legal

Being in the textile/apparel scene, many political factors can impact Columbia's profitability. With Vietnam being Columbia's largest supplier and China being responsible for 25% of their footwear products, there are many things to consider. As the turmoil with China continues today, something to consider is political instability within China and potential trade wars.

The economic factors are not as serious as they once were for Columbia. The event that put a dampen on every industry was the global pandemic. It obviously affected all consumers and distributors. Also, we have the impact of rising inflation in the United States, and the oscillation of foreign exchange rates.

Social factors impact the way that marketers understand their consumers within their market. Social factors that Columbia faces are basic demographics (population), consumer attitudes, and basic interests. Demographics are people who they target in terms of age, sex, nationality, etc. Attitudes include outlooks on specific things such as environmental aspects, health aspects, etc. For example, Columbia can encourage environmental cleanliness by taking on green marketing or recycling old clothes.

Technology is an ever-growing piece of any industry. In the textile industry, there is heavy reliance on the use of technology to create new sustainable clothing. Not only that, but the use of technology for marketing as well. Columbia has adapted into social media marketing recently, which is one of the top ways to encourage new customers.

Environmental aspects are fairly straight forward for Columbia. They have taken action on creating the most sustainable environment through partnerships, and designing clothes that are environmentally friendly.

Lastly, we have legal information. With a majority of Columbia's products being made overseas, they are exposed to any potential tax laws or regulations. Alongside this, comes labor laws and Fair Trade laws.

The Porter's Five Forces model can be used to analyze the environment of competitive forces that help shape the industry. It can also be used to help determine strengths and weaknesses.

The first force we can look at is the threat of new entrants into the industry. Columbia can potentially combat new entrants by simply innovating new products and adding new services. Doing this can not only give them a competitive edge, but can also attract new customers, and give current customers a good reason to keep shopping with them. Another thing they could do as a company is to keep making new standards by adding more research and development on their products and services. This will drive new competition away because a new company will not want to battle with a big company if they keep setting new standards in the industry.

The next force is the bargaining power of suppliers. As mentioned before, Vietnam is Columbia's largest supplier. Columbia could potentially begin working with new suppliers and begin using different materials for their products, this way if the cost of one material increases, they could simply switch to a different one. However, only having one main supplier seems to be a weakness of Columbia.

Bargaining power of buyers can be analyzed next. Again, innovating new products will reduce disloyalty to the brand to its competition.

The threat of substitute products can be evaluated next. Columbia can simply understand which products are trending right now, and innovate those products. Also, they could add more services or rewards programs to encourage loyalty.

Lastly, we have the rivalry between existing competition. One thing that Columbia can do is maybe collaborate or cooperate with a company for a product, that way market share can be scattered across the companies. Columbia already owns three sister companies, which puts them in a good position right now.

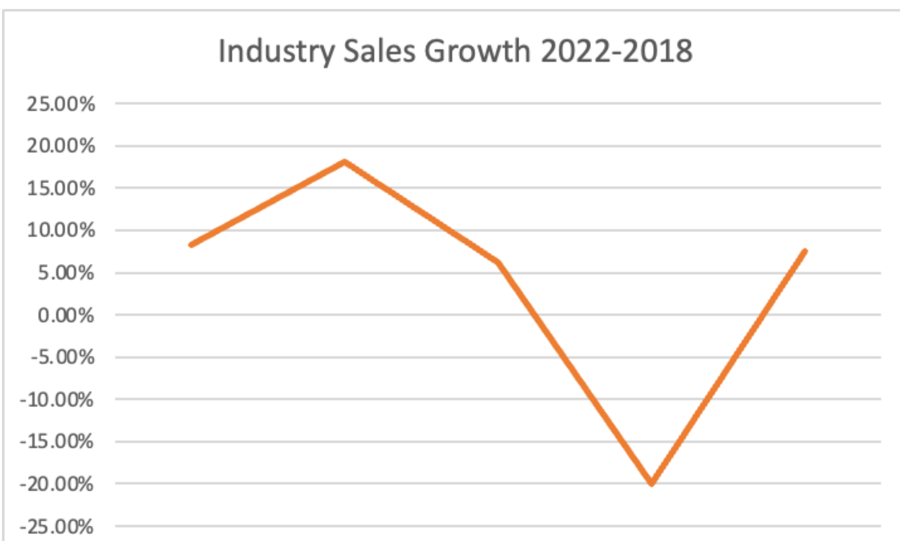
Part III: Financials

When performing a horizontal analysis for Columbia's income statement, it is to be noted that every single year from 2018 to 2022 had positive gains in revenue, except for 2019-2020. This was a result of the global pandemic, and the revenue loss was -17.78%. In 2019, Columbia had a total revenue of 3.042 million dollars, which dropped to 2.501 million dollars in 2020. However, since 2020 the company has seen nothing but positive revenue gains, seeing a 25% increase from 2020 to 2021. Net income has also posted nothing but positive numbers over the last five years. From 2018 to 2022, Columbia's total net income went from $268 million in 2018, to $311 million in 2022. The total percent change in net income was an increase of 16.04%. This lines up, as their revenue increased and expenses decreased.

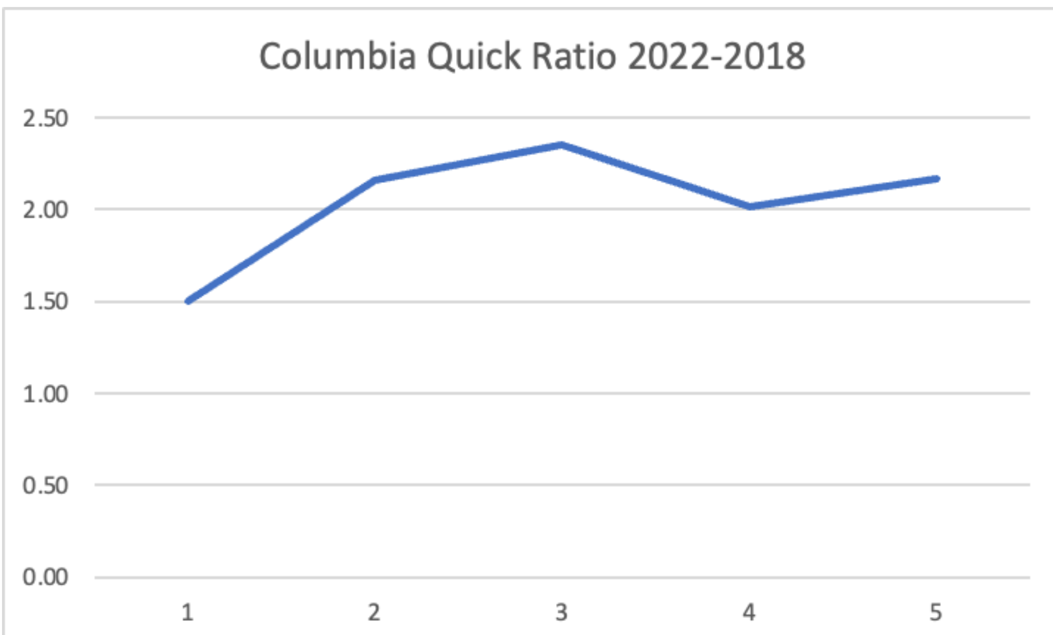
Taking a look at the vertical analysis for the balance sheet, Columbia's assets have continued to grow since 2018, which was totaled at 2,368.72. In 2022, their total assets were up to 3,051.55, which is a 28.8% increase over the last five years. Columbia's total liabilities also increased from 2018 to 2022, going from 572 to 738, which is a total increase of 64.45%. However, their assets are significantly higher than their liabilities.

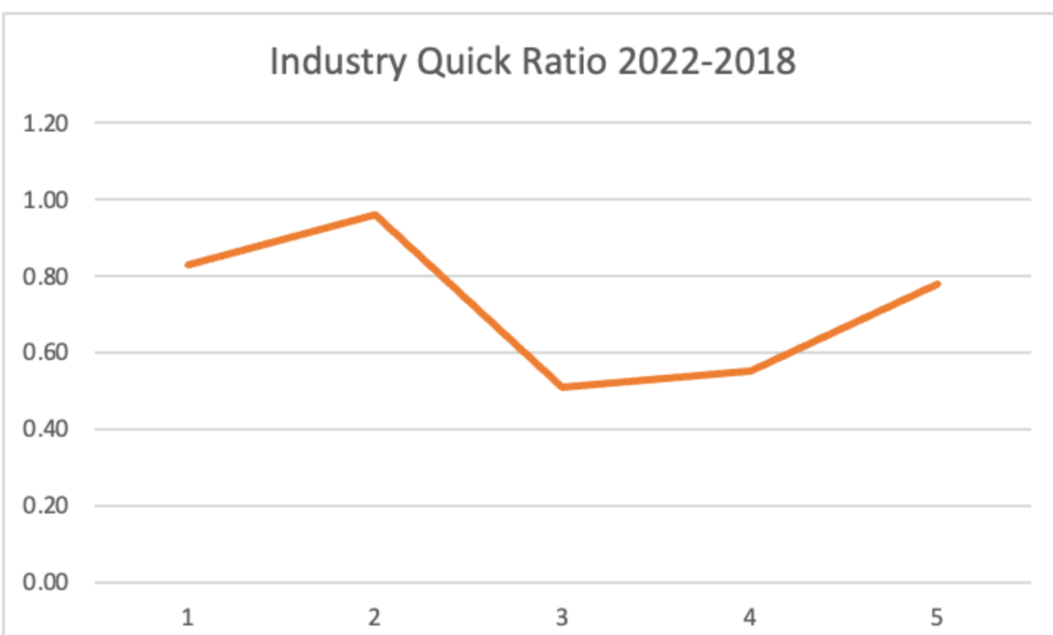
Next, we can take a look at the key financial ratios which include growth ratios (sales growth), liquidity ratios (current and quick), asset management ratios (asset turnover, inventory turnover), and profitability ratios (profit margin, ROA, ROE), and compare them to the apparel, footwear, and accessories industry. Compared to the total industry, the sales growth of Columbia has been greater than the industry average consistently for the last five years. Again with the pandemic in 2020, Columbia specifically saw a loss of -17.78%, while the industry remained positive and posted a 6.20% growth. Did we know a pandemic was going to hit our country as hard as it did?

Absolutely not. However, Columbia came back from that deficit and posted a 25% growth the following year in 2021 like mentioned earlier, so their ability to recoup from losses is very strong. Columbia's (blue) sales growth can be represented in the chart on the next page, alongside with the industry's (orange) sales growth chart.

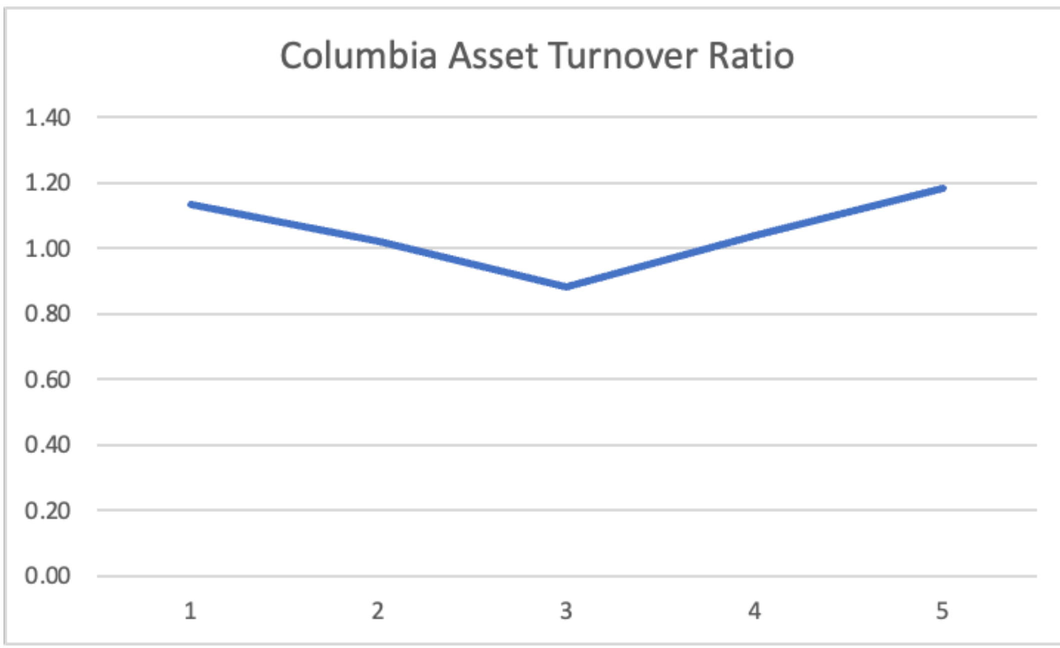


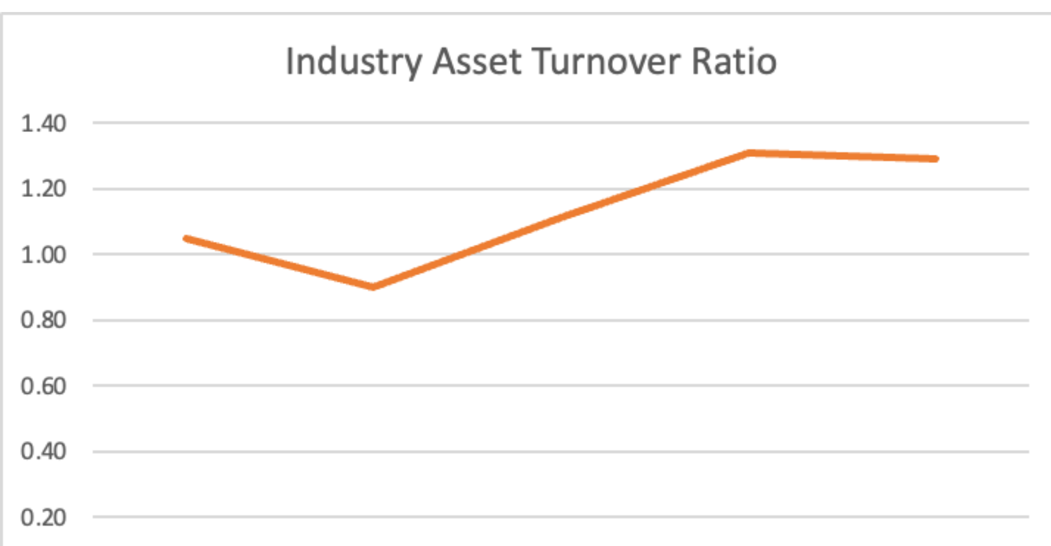
Next, we can compare the quick ratio of Columbia vs. the industry. Generally speaking, a higher quick ratio would be more ideal. A higher quick ratio, the more quickly the company can generate cash in times when it is most necessary. Over the last five years, Columbia has posted a quick ratio greater than 1 with an average of 2.04. The industry has not posted a quick ratio greater than 1 in the last 5 years, and has an average quick ratio of 0.73. With Columbia's quick ratio average being slightly above 2, it has the ability to satisfy short-term obligations when necessary. Columbia's (blue) quick ratio can be displayed in the chart below, along with the industry's (orange) quick ratio chart.





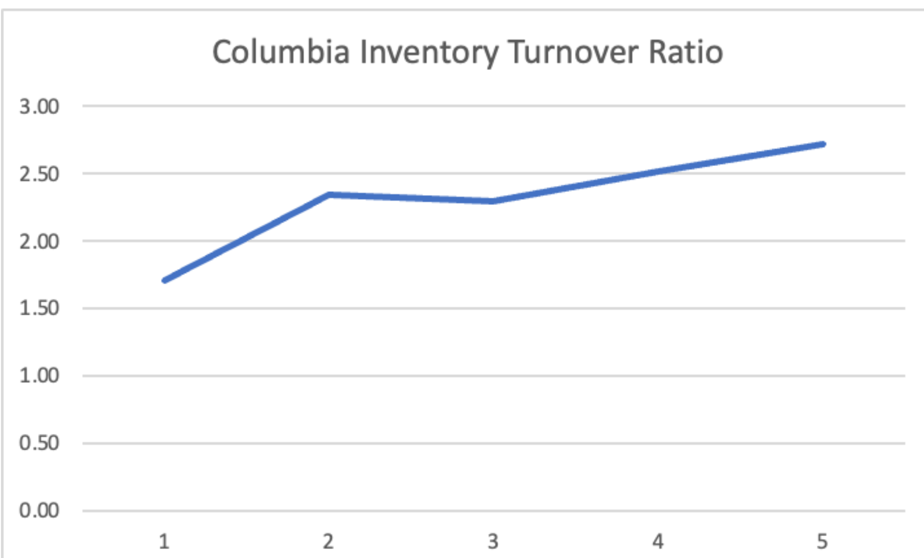
Asset turnover ratio is to be looked at when determining if a company is performing efficiently or not. That being said, a high asset turnover ratio would mean they are, and a low asset turnover ratio would mean they are not performing as efficiently when looking at revenue/dollar of assets. Columbia has done generally well with their asset turnover ratio performance in the last five years, as they average about 1.05. However, the industry has them beat, with an average of 1.13. The asset turnover ratios can be seen in the charts below between Columbia (blue) and the industry (orange).

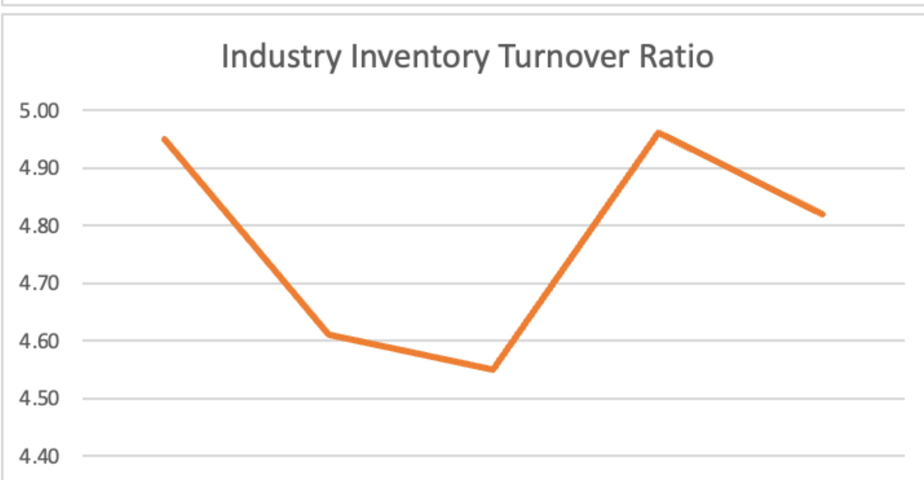




Inventory turnover ratio will tell us how quickly a company can sell its inventory. Calculated by dividing cost of goods sold by average inventory, a high asset turnover ratio will indicate that a company has an efficient inventory management, while a low inventory turnover ratio will tell the contrary. Columbia has an average inventory turnover ratio of 2.32, while the industry has an average of 4.78. While Columbia's average is lower, they may optimize this by potentially lowering costs, or changing the price of their goods. The charts comparing the two can be seen below.

Overall, Columbia has posted strong and positive numbers for their financial status. Other than the global pandemic in 2020 that shocked almost every industry causing them to post negative numbers, Columbia has managed to rebound from their losses in a very strong manner. With assets and revenue increasing strongly every year, Columbia has shown their ability to grow rather quickly, and not struggle with loss.





Part IV: Market Comparables

Below, you can see a valuation of market comparables. This is done by comparing similar companies within the industry, and that are listed as publicly traded companies. These companies were selected specifically to provide different ranges of the entire industry. Tilly's, for example, is a smaller firm within the industry with a much smaller market capitalization and enterprise value. Although they do not show as strong of numbers as Columbia, they are listed as a top competitor and should be included for comparison due to relatively high P/E, EV/EBIT, and EV/EBITDA ratios. The following numbers were sourced from Yahoo Finance.

Company Name	Market Cap	EV	EV/Sales	EV/EBITDA	EV/EBIT	P/E	P/Book	Sales
Dicks Sporting Goods (DKS)	$12,618	$14,019	1.15	7.79	9.49	13.63	4.72	
The North Face (VFC)	$8,912	$15,054	1.33	18.44	25.82	21.3	2.6	
Columbia Sportswear (COLM)	$5,570	$5,046	1.58	10	11.79	18.06	2.85	$3,464.15
Under Armour (UAA)	$3,836	$4,055	0.79	8.07	9.59	18.7	2.23	
YETI Holdings (YETI)	$3,384	$3,031	2.08	20.63	25.26	38.79	6.42	
Johnson Outdoors (JOUT)	$617	$573	0.75	8.54	11.02	15.57	1.25	
Tillys Inc (TLYS)	$224	$362	0.54	14.17	32.91	24.13	1.32	

In the compared companies listed above, we can take a look at their P/E ratios. Typically, a low P/E ratio can be either good or bad when looking at a company's financials. It can indicate that a company is undervalued, however it can also indicate that a company is not expected to grow significantly in the future. However, it is noted that investors see a lower P/E ratio as attractive because you are paying less for every earning you make. As seen above, Columbia has the third lowest P/E ratio when compared to its competitors (18.06). The average P/E ratio for these firms is 23.3.

Enterprise value (EV) is a measure of a company's total value, taking into consideration its market capitalization, cash holdings, and debt. A high enterprise value may indicate that the company is succeeding, however it could indicate that they are overvalued. Low enterprise value may mean the contrary. Enterprise value provides a more clear picture of a company's value than market capitalization alone. As you can see, Columbia's enterprise value is currently $5.046 billion.

High			$107.77	$173.23	$218.73	$184.51	$193.92
Average			$53.38	$105.50	$122.80	$101.09	$88.95
Median			$45.75	$91.55	$116.76	$91.04	$67.67
Low			$21.72	$60.15	$57.03	$59.35	$30.95

Here, you can find a table that represents the equity values as they were calculated. The calculated range of the value is from $98.92 to $112.74. These numbers were calculated by multiplying the average multiples by sales, then dividing by total shares outstanding (62 million currently). Once all of those numbers were generated, the averages of each set of numbers was taken, providing a range. Equity values are able to show the value of a company that is available to shareholders. Available to each shareholder will range anywhere from $98.92 to $112.74.

Part V: Discounted Cash Flows

The discounted cash flow model is used to value an investment. To do this, we were instructed to estimate the future cash flows the company can generate, then discount them back to their present value. Some advantages of using the discounted cash flows model (DCF), include:

- It considers the time value of money
- Considers future cash flows
- Can be used to compare investment opportunities.

In order to calculate, we had to consider the following numbers:

- Tax Rate (28%)
- Risk-Free Rate (3.72%)
- Market Beta (0.95)
- Market Risk Premium (5.50%)
- WACC (8.24%)
- Growth Rate (2.0%)

We selected a forecast period from 2023 to 2027 in order to project company numbers to influence decision making. The Exit Multiple method was selected in order to calculate a Terminal Value, which is the estimated value of Columbia at the end of a specific time period. Below, you can see a table which represents the Exit Multiple method.

	2023	2024	2025	2026	2027
EBITDA	$52.5	$53.6	$54.6	$55.7	$56.8
Less: Depreciation & Amortization	$12.0	$12.2	$12.5	$12.7	$13.0
EBIT	$40.5	$41.3	$42.2	$43.0	$43.9
Less: Taxes @ 28%	$11.3	$11.6	$11.8	$12.0	$12.3
Net Income	$29.2	$29.8	$30.4	$31.0	$31.6
Plus: Depreciation & Amortization	$41.2	$42.0	$42.8	$43.7	$44.6
Less: CAPEX	$7.3	$7.4	$7.6	$8.6	$8.7
Less: change in NWC	$28.1	$28.7	$29.2	$29.8	$30.4
Unlevered CF	**$5.7**	**$5.9**	**$5.9**	**$5.3**	**$5.4**
Industry Exit Multiple	**8.6 x**				
Terminal Value at 2027	**$488.81**				

The Industry Exit multiple of 8.6x was selected. Doing research, we were able to take the average EV/EBITDA from firms of the industry, and calculate this number.

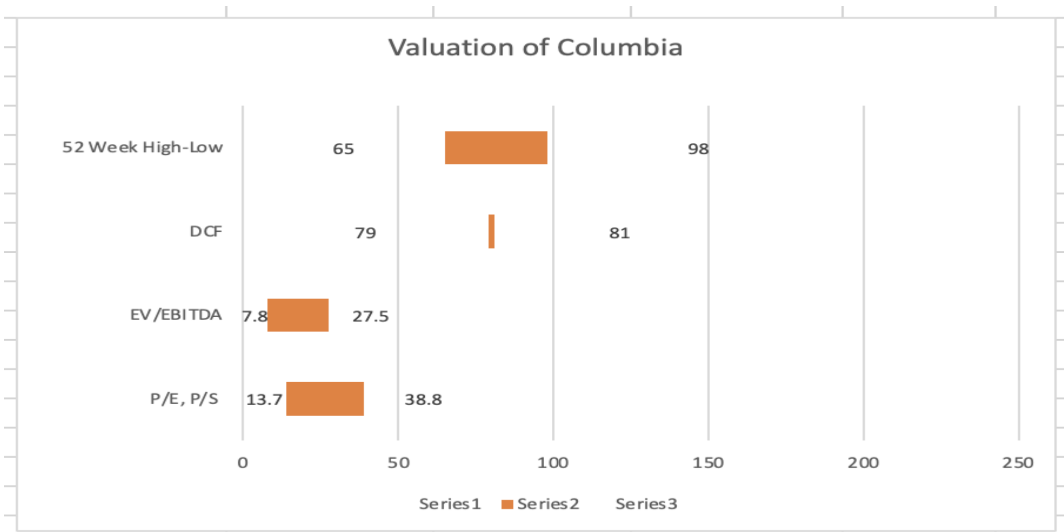
Next, we can show you our table which includes the Perpetuity Growth model and the Exit Multiple method to explain how we came up with an implied share price for Columbia.

	Gordon Growth Method		Exit Multiple Method
Cumulative Present Value of FCF	$ 1,308,542.21	Cumulative Present Value of FCF	1,308,542.21
Terminal Value		**Terminal Value**	
Terminal Year Free Cash Flow	251,750.40	Terminal Year EBITDA	525,106.20
Perpetuity Growth Rate	2.00%	Exit Multiple	8.6x
Terminal Value	4,441,590.49	**Terminal Value**	4,515,913.32
Discount Factor	1.02	Discount Factor	1.02
Present Value of Terminal Value	4,354,500.48	**Present Value of Terminal Value**	4,427,366.00
% of Enterprise Value	*94.64%*	% of Enterprise Value	94.32%
Enterprise Value	4,601,314.60	Enterprise Value	4,693,758.97
	Implied EV and Share Price		Implied EV and Share Price
Enterprise Value	4,601,314.60	Enterprise Value	4,693,758.97
Less: Total Debt	(37,931.00)	Less: Total Debt	(37,931.00)
Less: Preferred Stock	-	Less: Preferred Stock	-
Less: Noncontrolling Interest	-	Less: Noncontrolling Interest	-
Plus: Cash and Cash Equivalents	430,960	Plus: Cash and Cash Equivalents	430,960
Implied Equity Value	4,994,343.60	**Implied Equity Value**	5,086,787.97
Fully Diluted Shares Outstanding	62,500	Fully Diluted Shares Outstanding	62,500
Implied Share Price	79.91	**Implied Share Price**	81.39

The Perpetuity Growth model uses the calculated terminal value of the company to assume Columbia implied share price ($79.91), then discounting it back to its present value. Using that and the Exit Multiple method, we were able to calculate another implied share price of $81.39. Based on its current financial information, the implied share price at which the shares should be trading for (actual share price at close was ($80).

Part VI: Football Field Chart/Investment Recommendations

A football field chart can be used here to explain the valuation analysis and provide you with an idea of the company's value. We took numbers from the Market Comparables page, such as P/E, EV/EBITDA, the implied share prices from the DCF models, and Columbia's 52 week high-low from Yahoo Finance. It can be represented below:



Lastly, we have our investment recommendations based off of the following table. We used thing such as P/E, P/B, EV/Sales, EV/EBITDA, and the implied share price from the Exit Multiple method to determine a total. Once given a total, weights of each of these numbers were taken, along with weighted values. Adding the weighted values together, we concluded that the valued share price of Columbia Sportswear to be $93.37. This is 14% above their current share price, which means this would be a great entry point into their company. Alongside strong ratios and overall healthy company numbers, We do believe Columbia to be a good investment.

Method	Valuation	Weight	Weighted Value
P/E	$ 105.96	0.24	$ 25.43
P/B	$ 81.96	0.19	$ 15.22
EV/Sales	$ 55.80	0.13	$ 7.05
EV/EBITDA	$ 116.34	0.26	$ 30.66
DCF	$ 81.39	0.18	$ 15.01
Total	$ 441.45	1.00	$ 93.37

<u>Citations:</u>

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