

# Sporting Goods

## Corporate Divestitures Drive Increased M&A Activity

### EXECUTIVE SUMMARY

Merger & Acquisition activity in the sporting goods sector increased markedly in the first quarter of 2010 driven by corporate divestitures of non-core assets. Several publicly held sporting goods companies took advantage of improving market conditions and shed unwanted divisions. These assets were primarily snapped up by strategic buyers, many of whom were international buyers, not financial buyers. Meanwhile, public sporting goods valuations skyrocketed off their record lows of 2009, indicating stronger forward earnings expectations. Recent M&A transaction valuations came in consistent with historical norms.

### INDUSTRY DYNAMICS

The \$74.3 billion U.S. sporting goods industry was deeply impacted by the recession, reversing a commonly held belief that sporting goods are immune to business cycles. After growing each year since 2003, sales of sporting goods fell 3.9% in 2008. The decline, however, was not due to a consumer change in attitudes toward fitness and healthy lifestyles, but to their shift to less expensive leisure activities utilizing the sporting goods they already own.

Of the three major segments (sports apparel, athletic footwear, and equipment), sports apparel has been the most resilient. Sales of sports apparel declined only 2.2% in 2008 to stand at \$28.9 billion in 2008. More importantly, the decline was caused by the consumer trading down to lower price point garments, rather than a significant reduction in items purchased. Sports apparel had been the rising star of both the sporting goods and apparel sectors for much of the decade as the consumer adopted sports apparel as weekend casual attire.

The athletic footwear segment declined 4.3% in 2008 to stand at \$12.4 billion. Hardest hit were basketball, walking, and casual/fashion departments, down 17.5%, 15.0% and 10.0%, respectively – all influenced more by fashion changes than changes in sports participation rates. Among those footwear departments showing healthy increases in 2008 were outdoor, sport sandals, tennis, and skate/surf - up 8.0%, 6.7%, 5.0%, and 4.5%, respectively.

*Source: SGMA Manufacturers Sales By Category - 2009*

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The sporting goods equipment segment declined 2.4% in 2008 to stand at \$20.8 billion. Hardest hit were more expensive leisure categories such as: pool/billiards (-22.5%), water skiing (-9.5%), scuba (-8.5%), golf (-7.6%), snow skiing (-7.4%), and water sports (-7.0%). Growth categories in 2008 were: firearms (up 10%), optical goods (up 7.5%), ice hockey (up 5.9%), and camping/outdoors (up 3.2%).

Sales of fitness equipment declined in 2008 for the first time in twenty years. Exercise equipment sales fell 10.1% to stand at \$4.2 billion, which was attributed directly to the consumer's unwillingness to spend on big ticket items in 2008 as well as the fall in housing starts.

Sales of licensed merchandise decreased nearly 10% from \$8.9 billion in 2007 to \$8.0 billion in 2008.

## M&A TRANSACTIONS

<b>Date</b>	<b>Target Company</b>	<b>Acquirer</b>	<b>Comments</b>
3/15/2010	Sport Supply Group, Inc	ONCAP Management	Financial, Cross Border
3/10/2010	Body Bar, Inc.	Craig Williams	Management Buy In
3/10/2010	Cobra Golf	Puma AG	Strategic, Corporate Divestiture, Cross Border
2/17/2010	Cloudveil Mountain Works, LLC	Windsong Brands LLC	Financial, Corporate Divestiture
2/8/2010	JT Sports, LLC	KEE Action Sports, LLC	Strategic, Corporate Divestiture
1/27/2010	Jock Plus Hockey, Inc.	Bauer Hockey Corp.	Strategic, Cross Border
1/18/2010	Merkel USA Inc.	Steyr Arms	Strategic, Cross Border
1/15/2010	Above The Rim brand	Collective Brands, Inc.	Strategic, Corporate Divestiture
1/11/2010	Talon Lacrosse, LLC	Easton-Bell Sports, Inc.	Strategic
1/11/2010	Juno Rising, Inc. d/b/a Isis for Women	Kellwood	Strategic, PEG exit
12/17/2009	Joystick Skiing, LLC	Surface Ski Collaboration LLC	Strategic, Cross Border
12/5/2009	certain assets of StairMaster and Schwinn Fitness for use in the commercial channel	Land America Health and Fitness Co., Ltd.	Strategic, Corporate Divestiture, Cross Border
11/23/2009	Swell, Inc.	Billabong International Ltd.	Strategic, Cross Border
11/17/2009	Rugged Shark Apparel LLC	S. Goldberg & Co., Inc.	Strategic, PEG exit
11/6/2009	Espresso Fitness Corporation	Interactive Fitness Holdings, LLC	Strategic, Bankruptcy Sale
11/3/2009	Sports Fan-Attic, Inc.	Hat World, Inc.	Strategic
9/1/2009	Van Dyke's Taxidermy Inc.	McKenzie Sports Products, Inc.	Strategic, Corporate Divestiture
8/20/2009	Rolf Prima, Inc.	Brian Roddy	Management Buy In
8/17/2009	5th & Ocean Clothing, Inc.	New Era Cap Company, Inc.	Strategic
7/15/2009	Iron Horse Bicycle Company, Inc.	Dorel Industries Inc.	Strategic, Bankruptcy Sale, Cross Border
5/18/2009	Forefront Holdings, Inc., Certain Assets	Dynamic Brands, Inc.	Strategic, Corporate Divestiture
4/30/2009	Terry Precision Bicycles for Women, Inc.	Elisabeth Robert	Management Buy In
4/29/2009	Triumph Apparel Corporation	KSL Ventures, LLC	Financial, Recapitalization
4/10/2009	Billiard Brands, Inc.	Management	Management Buyout, PEG exit

Source: Capital IQ, Tully & Holland Analysis

Merger & acquisition activity in the sporting goods sector increased markedly in the first quarter of 2010, largely driven by corporate divestitures of non-core assets. Call it spring cleaning, but a host of sporting goods players took advantage of improving market conditions to find adoptive parents for their corporate orphans. Common to most transactions was a streamlining of brand portfolios to weed out underperforming or low growth business units. Perhaps most fascinating, the majority of targets were snapped up by strategic buyers, and many were international buyers. Acquisition rationales ranged from boosting market share and expanding into adjoining product lines to accessing new distribution channels. Largely absent from the market were private equity investors, who were constrained by tight debt markets and continued issues in their portfolios. Among those recent high profile divestitures were the following:

- **Fortune Brands divested its Cobra Golf business to Puma AG.** As its rationale for the sale, Fortune Brands classified its Cobra business as non-core in favor of its Titleist, Pinnacle, and Foot Joy brands which have leading market share positions. Notably, golf has been a declining category overall and for Fortune Brands specifically (down 11% in 2009). Fortune Brands will utilize the proceeds to deleverage its balance sheet (its debt to EBITDA is approximately 4.5x). For Germany-based Puma, the acquisition strengthens its existing golf business, currently confined to footwear and apparel, by expanding its product line into golf equipment.
- **Spyder divested its Cloudveil brand to private equity group Windsong Brands.** Ski Apparel Company Spyder divested Cloudveil, the outdoor and mountaineering apparel company, to Windsong Brands, a private equity group focused on consumer investments. Again, Spyder, which had only acquired Cloudveil two years ago to “own the mountain”, stated it will focus its resources on growing its Spyder brand. Spyder is owned by private equity group Apax.
- **K2 (Jarden) divested its JT Sports paintball business to KEE Action Sports.** K2, once the most acquisitive company in the sporting goods sector before its acquisition by Jarden, exited its JT Sports paintball business. JT Sports (f/k/a Brass Eagle) was acquired by competitor KEE Action Sports (f/k/a Pursuit Marketing) forming the 800-lb. gorilla of paintball. The paintball sector has been in decline for years and this unit unfortunately lacked interest and investment from Jarden.
- **Reebok (Adidas) divested its *Above the Rim* brand to Collective Brands.** Reebok, which has been losing market share since its acquisition and repositioning by adidas in 2006, cast off its non-core *Above the Rim* brand operating in the basketball category. The buyer was Collective Licensing International, a unit of Collective Brands, Inc. that focuses on acquiring, licensing and managing youthful lifestyle brands including Airwalk, Vision Street Wear, Sims, Lamar, Hind and Spot Bilt. Collective Brands is better known for its Payless ShoeSource and Stride Rite businesses.
- **Nautilus divested select assets to Land America Health and Fitness.** Nautilus, maker of fitness equipment products under the Bowflex, Nautilus, Schwinn Fitness, and Universal brand names, sold its Stairmaster and Schwinn Fitness lines for use in the commercial channel to Land America Health and Fitness, a China-based manufacturer of fitness equipment.

## VALUATION

While most recent sporting goods deals have been private transactions and thus have not publicized valuation metrics – we note that Sport Supply Group sold to ONCAP Management for a multiple of 7.6x EBITDA or 0.7x Revenues, consistent with historical sporting goods valuation norms.

Beyond precedent transactions, we look to the equity markets to provide additional guidance. As of 4/1/2010, fifteen public sporting goods companies traded at a median Enterprise Value multiple of 10.8x EBITDA, up from only 5.4x one year ago.

**Public Sporting Goods Companies**  
TEV/LTM EBITDA



Source: Capital IQ, Tully & Holland Analysis

## CONCLUSION

A sudden spike in corporate divestitures reinvigorated the sporting goods M&A market. Strategic buyers dominated the landscape, with private equity groups remaining on the side lines. Valuations ballooned back to historical norms, based on data from public comparables and M&A transactions. M&A activity will see further growth with ongoing healing in the economy and availability of debt.

## ABOUT TULLY & HOLLAND

### INVESTMENT BANKING SOLUTIONS FOR CONSUMER PRODUCT COMPANIES

Founded in 1992, Tully & Holland, Inc. is a leading US investment bank that provides merger & acquisition advisory services and private placements to consumer companies with special emphasis on food companies, multi-channel marketers, consumer product manufacturers/distributors, and retailers.

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