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Sporting Goods

Frenzied Deal Activity Continues Amid Economic Storm

EXECUTIVE SUMMARY

Someone must have forgotten to inform the sporting goods sector of the consumer downturn. Not only were merchandise sales remarkably strong in 2007, but M&A activity continued at a hyperactive pace. In fact, record deal activity occurred in the first quarter of 2008. Sporting goods valuations have in large part held up, unlike other consumer discretionary sectors, and both private equity firms and strategic acquirers remained active buyers. What has changed, however, is the typical profile of sellers, recently comprised largely of corporations divesting non-core assets and private equity groups seeking exits.

INDUSTRY DYNAMICS

Total sales of sporting goods merchandise (wholesale) in the U.S. were approximately \$75.0 billion in 2007.¹ Surprisingly, despite the sharp decline in consumer confidence that began in August, sales of sporting goods actually grew 3.3% for the year, outpacing GDP growth for non-durable goods of 2.2%.

Still, there is no denying that consumer economic woes have had some impact on sporting goods. According to SGMA, industry sales had been running at a 6% growth rate through the 3rd quarter of 2007, before softening in the 4th quarter. Nonetheless, due to the consumer's growing interest in wellness and heightened national awareness around the problem of obesity, we remain optimistic that the consumer will continue to spend on sports and fitness products throughout this cycle.

While most sporting goods segments produced modest sales increases in 2007, the stand-out growth merchandise categories were snowboarding (up 15%), martial arts (up 12%), licensed merchandise (up 8%), tennis (up 7%), volleyball (up 6%), athletic footwear (up 5%), fishing and firearms (up 5%), fitness apparel (up 5%), and lacrosse (up 5%).

Among those merchandise categories in decline were paintball (down 19%), billiards (down 3%), and bowling (down 3%). We have also witnessed a bit of a mixed message in the exercise equipment category. Sales of home exercise equipment remained flat in 2007, while sales of institutional exercise equipment increased 3%. The emergence and growth of non-traditional fitness centers (such as Planet Fitness, Curves, etc.) helped to spur institutional equipment sales. Conversely, tighter consumer spending curtailed big-ticket home gym purchases.

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M&A ACTIVITY

Sporting goods M&A accelerated over the last six months, even while deals slowed in other consumer discretionary sectors. Sporting goods deal activity increased 55% and 44% in the 4th quarter of 2007 and 1st quarter of 2008, respectively. Of the three basic sub-groups (equipment, footwear, and apparel), apparel has recently seen the most activity.

Announced Date	Target	Category	Buyers/Investors
4/14/08	Extreme Fitness, Inc. (OTCPK:EXTF)	Exercise-Institutional	Planet Nutrition Holdings, Inc.
4/03/08	Shock Doctor, Inc.	Protection	Norwest Equity Partners
3/14/08	Native Eyewear, Inc.	Optical Goods	AT Cross Co. (AMEX:ATX)
3/11/08	City Sports, Inc.	Various	Highland Capital Partners
2/26/08	Hayes Brothers Snowboard Company	Snowboarding	Ault Glazer & Co., Inc. (OTCPK:AULT)
2/21/08	Nike Bauer Hockey, Inc.	Hockey	Kohlberg & Company, L.L.C.
2/19/08	Chlorophyll Inc.	Performance Apparel	Management (L. Tremblay and D. Lemay)
2/15/08	Pearl Izumi USA, Inc.	Performance Apparel	Shimano American Corporation
2/14/08	WHAM-O, Inc.	n/a	Grand Toys International Ltd.
2/05/08	Cloudveil Mountain Works, LLC	Performance Apparel	Spyder Active Sports, Inc.
2/04/08	Cannondale Corp. (OTCPK:BIKE.Q)	Bicycles	Dorel Industries Inc. (TSX:DII.B)
2/01/08	prAna	Active Apparel	Steelpoint Capital Partners, LP
2/01/08	Backwoods, Inc.	Active Apparel	Nitches
1/09/08	Correction Products Ltd.	Protection	Virtual Media Holdings Inc.
1/04/08	Ground Max Hunting Blinds	Hunting & Fishing	Primos, Inc.
1/04/08	Augusta Sportswear, Inc.	Licensed Apparel	Quad-C Management, Inc.
12/31/07	ForeFront Holdings, Inc., Golf division	Golf	Stanford Venture Capital Holdings, Inc.
12/21/07	Marlin Firearms	Hunting & Fishing	Remington Arms
12/20/07	Sport Helmets, Inc.	Lacrosse	North Castle Partners, LLC
12/07/07	Vital Apparel Group, Inc.	Active Apparel	New Balance Athletic Shoe, Inc.
11/30/07	Double Bull Archery Inc.	Hunting & Fishing	Primos, Inc.
11/15/07	Exeter Brands Group LLC, Starter Brand	Licensed Apparel	Iconix
11/09/07	Mitchell & Ness Nostalgia Company	Licensed Apparel	Adidas AG (DB:ADS)
10/30/07	Cleveland Golf Company, Inc.	Golf	SRI Sports Ltd. (TSE:7825)
10/23/07	Umbro Plc	Soccer	Nike Inc. (NYSE:NKE)
10/22/07	MacGregor Golf Company	Golf	Sankaty Advisors, LLC et al
10/17/07	Big Rock Sports LLC	Hunting & Fishing	Bison Capital Asset Management
10/09/07	Valeo, Inc.	Exercise - Consumer	E&B Brands
10/08/07	Bowtech Archery	Archery	Savage Sports Corporation
10/03/07	The Danielson Co. Inc.	Hunting & Fishing	Maurice Sporting Goods, Inc.

Source: Capital IQ

The motivations of both buyers and sellers in this market warrant particular commentary. From the sellers view, strategic divestitures and private equity exits, which together accounted for nearly 70% of the market in the 1st quarter of 2008, drove transactions. This is in stark contrast to earlier in 2007, when most sellers were entrepreneurs or their descendants.

Several of yesterday's most active acquirers have gone through a review process of their product and brand portfolios. As a result, Nike, Liz Claiborne, Nautilus, Rossignol have all divested recently acquired brands such as Bauer, Starter, PrAna, Pearl Izumi and Cleveland. Still, private equity exits motivated other transactions. Seacoast Capital,

Pegasus, Linsalata and Mustang Management exited portfolio companies City Sports, Cannondale, Augusta Sportswear, and Cascade. As would be expected, these exits trailed the initial investments in stints ranging from 3 to 6 years.

From the buyer's standpoint, the split between strategic transactions and financial transactions has been consistently 60%/40% in each of the last three quarters. Thus, despite the well-publicized credit crunch, we have not seen private equity buyers pull back from attractive deals in the middle market. From the strategic buyer point of view, product line extension, which indicates growth not consolidation, motivated most transactions.

VALUATION

Most recent sporting goods deals have been private transactions or below public materiality disclosure, and thus have not publicized valuation metrics. However, the fifteen most recent sporting goods transactions disclosing price closed at median Enterprise Value multiples of 9.0x EBITDA and 0.9x Revenue. We look to the equity markets to provide additional valuation guidance. As of 5/29/2008, select public sporting goods companies traded at median Enterprise Value multiples of 8.1x EBITDA and 0.8x revenues.

Sporting Goods > Comparable Company Analysis > Public Sporting Goods (\$ in millions, except per share data)						
Company Name	Market Cap	TEV	TEV/LTM Total Rev	TEV/LTM EBITDA	TEV/LTM EBIT	
Adidas AG (DB:ADS)	14,549.0	17,785.8	1.1x	9.6x	11.7x	
Callaway Golf Co. (NYSE:ELY)	849.0	966.7	0.8x	6.7x	8.9x	
Columbia Sportswear Company (NasdaqNM:COLM)	1,523.4	1,245.3	0.9x	5.6x	6.6x	
Delta Apparel Inc. (AMEX:DLA)	25.1	121.9	0.4x	7.5x	11.8x	
Escalade Inc. (NasdaqNM:ESCA)	78.2	115.3	0.6x	6.5x	10.0x	
Jarden Corp. (NYSE:JAH)	1,459.3	4,057.5	0.8x	7.7x	9.7x	
K-Swiss Inc. (NasdaqNM:KSWS)	565.0	291.2	0.7x	14.7x	17.1x	
Nautilus Inc. (NYSE:NLS)	209.5	262.4	0.5x	NM	NM	
Nike Inc. (NYSE:NKE)	33,696.4	31,428.7	1.8x	11.3x	12.9x	
Quiksilver Inc. (NYSE:ZQK)	1,085.0	2,041.7	0.8x	10.8x	17.1x	
VF Corp. (NYSE:VFC)	8,430.4	9,621.0	1.3x	8.4x	9.7x	
Mean			0.9x	8.9x	11.5x	
Median			0.8x	8.1x	10.8x	
Market Cap data as of 5/29/2008						

Source: Capital IQ

CONCLUSION

Unlike many other consumer sectors, the sporting goods M&A market continues to be robust, providing opportunities for both entrepreneurs and private equity groups to achieve liquidity. Those candidates with strong brands in higher growth activities, such as snowboarding, will attract the most robust valuations. For acquirers, the best opportunities to find value probably rest in apparel, which have lower relative valuations than equipment.

REFERENCES

¹Sporting Goods Manufacturers Association

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