

Sporting Goods Retailers

Spring 2015



Favourable trends continue to drive substantial growth in the sporting goods retailing sector and foster M&A transactions

Over the past 24 months, M&A activity has been intense for sporting goods retailers, both for trade buyers and private equity houses. Following a standstill period after the economic downturn and the drop in consumption, market players are now entering a tremendous period of growth, in which M&A and financing will be keys to success.

We expect M&A activity to remain very active as the sector remains very fragmented: the 50 largest players represent circa one third of the total market. Those players will continue to consolidate their positions and acquire niche players like etailers.

Key observations from our research:

- The sporting goods retail market increased by 5% in 2013 and reached €277bn. The 50 largest companies are growing even faster with a 7.2% growth in revenues in 2013, thanks to both organic and external growth.
- As expected in our previous note, e-commerce has driven the M&A market and represents nearly half of our selected transactions over the last 18 months. Specialist players have also raised interests as they offer a strong expertise and a loyal customer base.
- Valuations remain very buoyant: double-digit EBITDA multiples become the standard and attractive assets' valuations reach records (e.g. 15x EBITDA for XXL Sports' IPO). E-commerce transactions drive up average multiples of our selection to 11x EBITDA.
- **Cross-channel strategy is expanding:**
 - Online players are opening their own stores to offer complementary services including advice, animations, tests, showroom, etc.
 - Traditional players are seeking to expand their e-commerce platforms, mostly through acquisitions.
 - The ability for customers to change from channel during the purchasing decision process is a key differentiating factor.
- **Private equity houses are active sector participants and are not only motivated by takeover, but also by growth capital and minority stake holdings.** The demand for equity financing has risen as retailers need to invest to gain scale and geographical coverage.



"We foresee that transaction activity and multiples will remain high over the next few years as the market will continue to outperform the global economy."

Alexandre Ebin
Partner - Capitalmind

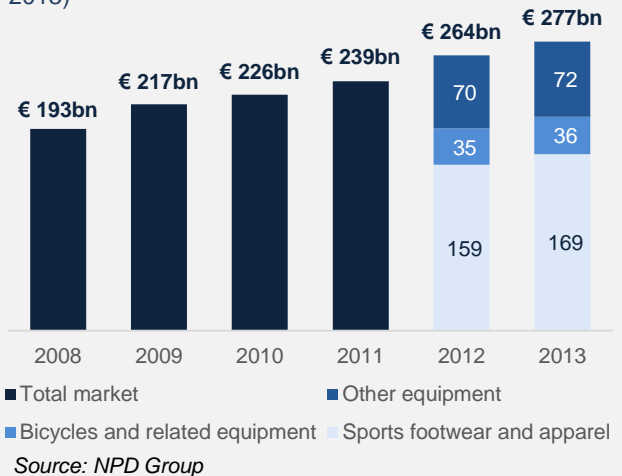
Sporting goods market

Sporting goods sector continues to outperform the global economy

The worldwide sporting goods distribution market grew by 5% in 2013 to reach €277 billion (including sales taxes)

- After an above-average growth in 2012 (+8%) mainly related to the Olympic Games in London and a strong performance in emerging countries, the sporting goods sector has returned to its global long-term annual growth trend (between 4 and 5 percent).
- The United States remains the undisputed largest market accounting for 27% of the global market, ahead of China and Japan. In 2013, Japan suffered from a sluggish and deflationary market combined with the depreciation of the yen.

Figure 1: Sporting goods retail market evolution (2008 – 2013)



The top 50 largest sporting goods retailers contributes to 30% of the global market with total revenues of \$114bn

- Top 50 largest sporting goods retailers usually outperform the market. This trend has been confirmed over the past 2 years: while the market has grown by 8% and 5% in 2012 and 2013 respectively, the top 50 has reported 11% and 7% growth rate. This superior growth is mainly explained by external growth and a strong exposure to emerging markets.
- While Intersport and Decathlon are the undisputed largest sport-focused retailers, a strong battle is taking place for the last podium spot between Sport 2000 International, Foot Locker and Dick’s Sporting Goods. Generalist retailers like Wal-Mart or Metro Kaufhof are losing ground against sport-focused retailers as they experienced below market average growth in 2013 with the exception of online players like Amazon which achieved a 22% global growth.

Ranked #53, Sao-Paulo based company Netshoes stands out as the largest sport-focused online retailer with sales of €338m, but is not turn a profit yet with a net loss of €25m in 2013.

- XXL Sport, Sport Direct International and Nike enjoyed the strongest growth in 2013. While XXL Sport’s growth is exclusively organic through retail network expansion, SDI’s strong growth is largely due to its acquisition of Sportland International in the Baltic countries and Sport Eybl & Sports Experts. Nike’s growth is due to a strong performance of the e-commerce platform (+42% in revenues) – which represented 15% of total Nike Brand Direct-to-Consumers operations – the opening of new stores and a 10% growth in comparable store sales.

Top 3 companies within our ranking based on 2013 growth rate



Table 1: Top 50 sport retailers (excluding generalist retailers)

Rank 2013	Retailer	Headquarters	Category	Revenues in millions US \$		Change Local curr.
				2013	2012	
1 →	Intersport Intl	Switzerland	🏠	13 680	13 115	1,0 %
2 →	Décathlon	France	🏠	9 828	9 001	5,7 %
3 →	Sport 2000 Intl	Germany	🏠	6 774	6 558	-
4 →	Foot Locker	USA	🏠	6 505	6 182	5,2 %
5 →	Dick's Sporting Goods	USA	🏠	6 213	5 836	6,5 %
6 ↗+1	Nike (7) (8)	USA	🏠	5 304	4 326	22,6 %
7 ↘-1	Adidas (8)	Germany	🏠	4 577	4 337	2,2 %
8 →	Bass Pro Shops	USA	🏠	3 950	3 830	3,1 %
9 ↗+1	Academy Sports	USA	🏠	3 695	3 340	10,6 %
10 ↗+1	Sports Direct Intl. (sport retail only) - rest.	UK	🏠	3 558	2 905	24,1 %
11 ↘-2	The Sports Authority	USA	🏠	3 500	3 350	4,5 %
12 →	Cabela's	USA	🏠	3 206	2 779	15,4 %
13 ↗+3	Belle International (sportswear only)	China	🏠	2 711	2 220	19,0 %
14 ↗+1	VF Corp (8)	USA	🏠	2 558	2 285	12,0 %
15 ↗+3	Sportmaster	Russia	🏠	2 174	1 875	19,0 %
16 ↘-2	Xebio (incl. Victoria)	Japan	🏠	2 100	2 415	6,3 %
17 ↘-4	Alpen	Japan	🏠	2 079	2 446	3,9 %
18 ↘-1	R.E.I.	USA	🏠	2 018	1 931	4,5 %
19 →	Pou Sheng	China	🏠	1 703	1 600	6,4 %
20 ↗+3	The Finish Line	USA	🏠	1 670	1 443	15,7 %
21 →	JD Sports Fashion (1)	UK	🏠	1 654	1 545	8,4 %
22 ↘-2	Canadian Tire/Forzani (1)	Canada	🏠	1 609	1 551	6,9 %
23 ↘-1	L.L. Bean	USA	🏠	1 560	1 520	2,6 %
24 →	Lululemon	Canada	🏠	1 544	1 371	16,1 %
25 ↗+1	Gander Mountain	USA	🏠	1 300	1 155	12,6 %
26 ↘-1	Super Retail Group (form. Ascendia)	Australia	🏠	1 245	1 270	5,0 %
27 →	Journeys	USA	🏠	1 082	1 112	(2,7)%
28 →	Big 5 Sporting Goods	USA	🏠	993	941	5,5 %
29 ↗+6	Fanatics	USA	🏠	950	800	18,8 %
30 ↘-1	Groupe Go Sport (2)	France	🏠	853	869	(5,0)%
31 →+1	Hibbett (B)	USA	🏠	852	819	4,0 %
32 ↗+2	Puma (8)	Germany	🏠	828	802	(0,1)%
33 ↗+3	Lids Sports Group	USA	🏠	821	791	3,8 %
34 ↘-3	Vestis Retail Group (3)	USA	🏠	806	820	(1,7)%
35 ↘-2	Pacific Sunwear	USA	🏠	798	803	(0,6)%
36 ↗+1	Grupo SBF (Centauro etc.)	Brazil	🏠	798	738	19,4 %
37 ↗+4	Stadium	Sw eden	🏠	743	686	4,3 %
38 →	Gresvig (A)	Nor way	🏠	741	734	2,0 %
39 ↗+3	Zumiez	USA	🏠	724	669	8,2 %
40 ↘-1	Modell's (B)	USA	🏠	705	705	-
41 ↗+5	XXL Sport	Nor way	🏠	682	533	29,3 %
42 ↘12	Himaraya (4)	Japan	🏠	708	828	4,6 %
43 ↘-3	Karstadt Sport (1) - rest.	Germany	🏠	653	687	(7,9)%
44 ↗+3	Sportsman's Warehouse	USA	🏠	643	527	22,0 %
45 ↘-2	Ochsner/Doesnbach (1)	Sw itzerland	🏠	598	596	(0,9)%
46 ↗+4	Dunham's (B) - est.	USA	🏠	570	500	14,0 %
47 ↘-3	Hervis Sport	Austria	🏠	563	567	(3,9)%
48 →	El Corte Inglés (1)	Spain	🏠	529	519	(1,5)%
49 →	Quicksilver (8)	USA	🏠	525	505	4,0 %
50 ↗+1	Sw ire Group (1)	UK	🏠	511	474	7,8 %

Key market players

Notes: data for FY closest to Dec 31, 2013

- (1) Sporting goods sales only
- (2) Groupe Go Sport includes Go Sport, Courir, Moviesport
- (3) Includes Bob's stores, Eastern Mtn. Sports, Sport Chalet
- (4) For FY ended Aug. 31, 2014
- (5) For 12 months ended Jan. 31, 2014
- (6) Includes Roger Dunn The Golf Mart, Van's Golf Shops, Golfer's Whse, etc.
- (7) For 12 months ended May. 31, 2014
- (8) Only direct-to-consumer sales considered
- (A) Member Intersport Buying Group
- (B) Member Nation's Best Sports Buying Group

M&A trends

After a strong growth in transactions volume in 2014, we expect M&A activity to continue at its current high level for the next few years

- **E-commerce drives buoyant M&A activity: among our selection of M&A transactions completed over the last 18 months, nearly half of them relate to etailers. This M&A surge is both explained by the interests of large corporates and private equity houses.**

Large corporates are looking to acquire e-commerce platforms to access company's capabilities and customer base rather than launch and develop them in-house.

A serie of successful exits in the sporting goods online retailing market, combined with favourable outlook for the sector, is giving investors confidence and encouraging new investment into this sub-segment.

The interest in e-commerce platforms has been further fostered by the increase of sporting goods online sales in proportion of total sales. Furthermore, those platforms have the potential to be scaled very quickly. This, combined with the ability to use them as a buy and build vehicle, is very attractive to PE.

- **Given the attractiveness of this sector, the multiples being paid are high. In both the corporate and private equity arena, double digit EBITDA multiples are increasingly prevalent.**

Valuation of etailers offers on average a premium compared to traditional players mainly due to higher growth outlook, less investments with asset light platforms and a higher strategic value. The premium will be even higher when the company has proven its ability to deliver sustainable profitability.

Alongside etailers, specialised retailers are keenly fought for by both financial sponsors and strategic acquirers alike. Those players benefit from a strong and loyal customer base as well as valuable expertise in their respective field.

- **After several years of slowdown in IPO volumes on the sporting goods market, sponsor exit activity through initial public offerings (IPOs) has gained momentum thanks to a global positive M&A environment.**

After having acquired a majority stake from Øivind Tidemandsen in 2010, the Swedish fund EQT has partially exited XXL, the largest sporting goods retailer in the Nordic region with nearly €650m revenues, through an IPO in October 2014. XXL has been valued at €1.1bn, corresponding to a 12.5x EBITDA_{2014e} multiple.

Billabong decided to divest its stake in Surfstitch, a €130m online action sports and youth apparel retailer, which has been listed on the Australian Securities Exchange in December 2014, shortly after having acquired its direct UK competitor Surfdomo from Quicksilver.

After contemplating an IPO, Lion Capital finally sold AS Adventure, the €360m Belgian outdoor goods retailer with 151 stores in the Benelux, France and the UK, to another private equity fund, PAI Partners for c. 400 M€ (12.5x EBITDA₂₀₁₃).

We foresee several other IPO in 2015 in the sporting goods sector. For instance, shareholders of Wiggle or Netshoes will look after liquidity, but those online players may be too large for strategic acquirers to offer a high valuation while IPO could.

Table 2: Selection of recent M&A transactions

Date	Target	Country	Business description	Rev. (€m)	Acquirer	Category
Feb-15	AS Adventure	Belgium	European retailer of outdoor equipment	360	PAI Partners	PE
Jan-15	Unisport	Sweden	E-commerce platform specialised in football related products and contents	28	Nordic Capital	PE @
Jan-15	Dressage Extensions	USA	Specialty retailer in the equestrian dressage market	n.a.	Dover Saddlery	PE
Jan-15	Planet Sports	Germany	Online retailer of sporting goods which has opened 12 stores in Germany	80	21sportsgroup	PE @
Jan-15	I-Run	France	Online retailer of sport accessories related to running activities	28	Ixo PE, Bpifrance	PE @
Jan-15	Tennispro Distribution	France	Online retailer of sport accessories related to tennis activities	4	Alsace Capital	PE @
Jan-15	Bike24	Germany	Online retailer of bicycles and related accessories	34	Riverside	PE @
Jan-15	Triathlon Consultants	UK	Retailer of sporting goods mainly oriented toward triathlon	n.a.	2XU	PE
Dec-14	SurfStich Pty Ltd	Australia	Online retailer of action sports products	131	Public	IPO @
Dec-14	Team Sportia (68% stake)	Sweden	Retailer of sporting goods with 155 stores in Sweden and Finland	278	SGN Group	PE
Nov-14	Frilufts AB	Sweden	Joint Venture between Fenix Outdoor's retail operations in Sweden and Finland and Globetrotter Ausrüstung	260	Fenix Out. 60%, Globetrotter 40%	PE
Nov-14	Surfdome Shop Limited	UK	UK-based online retailer of action sports products	49	SurfStich Pty Ltd	PE @
Nov-14	Just4sport AB	Sweden	Company engaged in retailing of sports goods	n.a.	Sportringen	PE
Nov-14	Sportshop.fr (50,1% stake)	France	Online retailer of sport shoes and clothes	12	Attractive Sport	PE @
Oct-14	Jersey City Canada	Canada	Company engaged in distributing sports apparel, headwear, and novelty through stores	n.a.	The Lids Sports Group	PE
Oct-14	XXL Sport & Villmark	Norway	Leading sporting goods retailer in the Nordics	641	Public	IPO
Oct-14	Tomasoni Topsail S.p.a.	Italy	Company engaged in retail of sportswear and nautical equipment	n.a.	North Sail Group / Oakley Capital	PE
Sep-14	Loplabbet Sverige AB	Sweden	Retail of sports equipment and apparels	12	Intersport	PE
Sep-14	Coach	Netherlands	Retailing of sneakers	n.a.	Intersport	PE
Aug-14	Sport Chalet Inc.	USA	Specialty sporting goods retailer featuring sports brands in apparel, footwear, and sports equipment	249	Vestis Retail Group	PE
Aug-14	Karstadt Warenhaus GmbH	Germany	Chain of department and sports stores	2 673	Signa Holding GmbH	PE
Aug-14	21sportgroup (venture loan)	Germany	Multi-canal retailer of sporting goods operating several e-commerce platforms	30	Boost & Co	PE @
Aug-14	Twinner and Les Pros du Sport	France	Franchise network of 153 sporting goods shops	171	Go Sport	PE
May-14	Netshoes (minority stake)	Brazil	Largest worldwide online retailer of sporting goods with a strong footprint in South America	311	Sovereign wealth fund of Singapore	PE @
May-14	SmartPak Equine (60% stake)	USA	Leading online retailer of equine supplements and horse supplies in the US	68	Henry Schein	PE @
Apr-14	Sport Eybl & Sports Experts	Austria	Retailer of sporting goods	323	Sport Direct Intl.	PE
Mar-14	Rutland Cycling (minority stake)	UK	Retailer of bicycles operating an e-commerce platform and 5 stores in the UK	13	Business Growth Fund	PE @
Mar-14	Minerva Holdings (PTO - 44% stake)	Japan	Online fishing and outdoor activities products retailer	39	Decathlon Oxylane (Soparja)	PE @
Mar-14	Elverys Sports Limited	Ireland	Retailer of sports goods	n.a.	Management	PE
Feb-14	Bern Woick	Germany	Outdoor clothing and equipment retailer	13	Globetrotter	PE
Feb-14	Sportpursuit (fundraising)	UK	E-commerce platform operating 'flash sales' of high-end sporting goods for its members (>1.5m members)	n.a.	DFJ Esprit & angel investors	PE @
Jan-14	Globetrotter Ausrüstung (20%)	Germany	One of the largest sporting goods retailer in Europe (ranks #66 in the 2013 worldwide ranking)	230	Fenix Outdoor	PE
Jan-14	Alltricks.fr (Avanis)	France	Online retail of bicycle spare parts and other sporting goods (running, triathlon, etc.)	20	Partech Ventures	PE @
Dec-13	2XU Pty Ltd	Australia	Manufacture and supply of sports apparel	35	L Capital Asia	PE

Case study:
i-Run.fr
fundraising

i-Run, French leading online retailer of running, trail and fitness equipment, completes a fundraising underwritten by iXO PE and Bpifrance

- Founded in 2006 and based in southern France (Toulouse area), i-Run is the French leading online retailer of running, trail and fitness equipment (shoes, apparels, electronics, accessories, nutrition, etc.). i-Run is a €30m company enjoying a outstanding growth (sales x6 over the past 3 years). iXO PE and Bpifrance investment will contribute to consolidate its leading position on the French market and to fuel its growth with an ambitious 5-year strategy.
- Capitalmind acted as exclusive financial advisor of i-Run in the preparation, execution and completion of the fundraising.

3 questions to
Emmanuel
Vidal

Capitalmind: What is your perception of the running market?

Emmanuel Vidal: The French running market enjoys rapid growth (+25% p.a.), driven by the increase in number of practitioners. Accessible to everyone (limited initial expenses, no training prerequisite), running is a popular sport, less affected by the star-system, where everyone can identify. For a decade, brands have innovated and developed new product ranges improving performance and runners' comfort. New product development combined with supply-side marketing contributes to support ongoing growth. Online distribution outperforms the market and enjoys growth of over 50% a year.

CM: Why does a online pure player such as i-Run start to open physical stores?

EV: Customers expect retailers to adapt to their lifestyle by combining in a coherent manner all retail channels. For instance, a buyer should be able to gather information and compare products on the Internet, test them and be advised in a shop, and finalise the purchase on their smartphones. Cross-channel offering becomes therefore a prerequisite for customers. Moreover, running is a fantastic playing field for marketing: customers are increasingly expecting to live a unique experience during their purchase decision process. In this way, product staging and the creation of a unique point-of-sale environment are crucial.

CM: What are your conclusions on the fundraising process and what would you recommend?

EV: The fundraising is an excellent way to boost the development of a company but the process is complex and time-consuming. My recommendations for a successful fundraising would be:

- *A meticulous preparation before contacting the Private Equity funds is key. This preparation helps to make the project more attractive and enhance its value, to anticipate any potential difficulty and to save time during the phase of discussions with the investors. Time spent on preparation is more than offset by time saved during the phase of discussions and the optimisation of the investment terms.*
- *In my view, bringing in expert advisors in this type of transactions is essential to optimise the execution, timing, and financial and legal terms.*



Emmanuel VIDAL
i-Run's founder

“Retail has to adapt to the changes of the European running market. It has to be connected and close to the customers: retail shops, E-Commerce websites and mobile interfaces perfectly complement one another. Market environment is changing and new companies emerge by offering innovative retail concepts.”

Contact Us

Capitalmind has built a solid reputation on the retail and consumer goods industries by advising leading groups and midcaps. Capitalmind’s team have developed a strong expertise on the sporting goods sector. The team of experts focusing on retail and consumer goods is led by Alexandre Ebin and Bart Jonkman. They both have completed over 60 transactions in this sector.

If you would like to discuss this report in more detail or opportunities for your business, call:



Alexandre EBIN
Partner – France
Head of Sector Coverage

+33 148 24 61 40
alexandre.ebin@capitalmind.com

Alexandre has over 17 years of experience in M&A, Private Equity and financial audit. Before joining Capital Partner, Alexandre was head of M&A at Decathlon Group with a strong focus on emerging markets (India, China, Brazil, ...). He started his career working as an auditor for Arthur Andersen. Then he became head of M&A at Genairgy, a family-owned financial investor founded by Decathlon Group founding shareholders, focused on Sports, Media, Leisure & Retail.



Bart JONKMAN
Managing Partner – Benelux
Head of Sector Coverage

+31 73 623 8774
bart.jonkman@capitalmind.com

Bart has almost 25 years experience in M&A and banking. He founded Capitalmind Benelux in 1999 and has a background in banking at ING Barings (Amsterdam, Eastern Europe and China) and M&A at Baker & McKenzie (Amsterdam and Hong Kong). His team was awarded 'Worlds best Structured Commodity Financier' in 1997 and 1998 by the leading business magazine Trade Finance. He has been in the Board of Mergers Alliance since 2009 and is now Co-Chairman. Bart has been involved in various funding and M&A transactions in the Consumer sector.

Selected Capitalmind deals in the retail and consumer goods industries

Fundraising underwritten by

Online sporting goods retailers

completed a fund raising underwritten by

Art photography gallery network

was sold by its founder to the private equity fund

Network of second-hand product stores

was sold through a LMBI

Manufacturer of world-class ski socks

Sold to

Leading e-commerce company in luxury consumer goods

Sold to

Innovative optical retail chain in the Netherlands, Belgium and Germany

Merged with

Developer of mobile applications incl. consumer loyalty solutions

Investment in

by

Developer of high quality "bean bags"

Award winning international corporate finance advice

Australia
Belgium
Brazil
Canada
China
Columbia
Denmark

Finland
France
Germany
Hong Kong
India
Italy
Japan

Luxembourg
Mexico
The Netherlands
Norway
Poland
Russia
Singapore

South Africa
Sweden
Spain
Turkey
UAE
UK
USA

Capitalmind advises mid-market companies, corporates, entrepreneurs and (PE) investors on selling and buying businesses, MBO, growth capital and debt finance.

- Independent Corporate Finance Advisory since 1999, with a focus on mid-market deals up to EUR 200 million
- European team strong of 30 experienced professionals
- 4 offices across Europe:
 - France: Paris, Lyon
 - The Netherlands: 's-Hertogenbosch, Amsterdam (Hilversum)
- Award winning: 150 deals completed over the past 5 years
- Core sectors: Business services, Consumer incl. Food, Industrials, TMT and Healthcare
- Truly international access to worldwide strategic and financial players through Mergers Alliance with more than 350 professionals worldwide