

Sporting Goods

INDUSTRY OVERVIEW

Results at sporting goods retailers have varied by product category in recent months. While demand for firearms and ammunition has returned to more normalized levels, some retailers have reported soft hunting sales. Similarly, golf participation has been on the decline. Weather continues to impact sales of cold-weather attire, footwear, and gear, driven by participation in snow sports. This year, some areas of the country, such as the west coast, experienced warmer than average temperatures during key winter months. Conversely, the northeast, while starting off into winter slowly, got slammed with several feet of snow during late January and all of February.



TREND TRACKER

Three month NOLVs	Mixed ⇅
Sales Trends	Mixed ⇅
Gross Margin	Mixed ⇅
Discounting	Increasing ↑

NOLVs: NOLVs are mixed, with some remaining consistent to slightly increasing, while others have declined by up to 1.0 percentage point due to weak sales from the residual effects of normalizing gun sales.

Sales Trends: Sales trends for most sporting goods retailers have been mixed, with those that rely on firearms continuing to be negatively impacted, while companies that cater more toward ball sports improving.

Gross Margin and Discounting:

Gross margin has varied by company. Some have been able to hold margin consistent, while others have experienced declines as they increased discounts to sell through aged goods. Others have experienced increased gross margin due to a shift in the mix of sales to higher margin categories, resulting from a decrease in firearms sales, which typically achieve a lower gross margin.

KEY INDUSTRY DRIVERS

- **E-commerce:** Within the sporting goods industry, e-commerce is evolving. Several major retailers report that e-commerce continued to grow as a percentage of total sales during 2014. Dick's announced a positive quarter recently, driven mainly by strong e-commerce sales. Conversely, others reported less positive results from their online channel. Cabela's, for example, noted that revenue derived online in its most recent quarter was down due to its improved in-stock position of ammunition and related items in stores, which reduced the need for customers to go online for these items.
- **Firearms and ammunition:** Over the past six months, sales of firearms and ammunition have returned to more normalized levels, following significant increases in 2012, and a subsequent slowdown. While some retailers have reported weakness in categories such as hunting, overall, demand for firearms has returned to more normalized levels.
- **Apparel:** Sales of licensed sporting apparel related to the NFL, NBA, and MLB have been trending well, as customers support their favorite teams and players. However, traditional sporting goods retailers face a lot of external competition within this arena. In addition, one of the biggest trends in 2014 that has shown no signs of slowing in 2015 has been "athleisure," whereby clothing is designed to transition from workouts to everyday life, as it is both comfortable and fashionable. This sector has long been dominated by big names such as Under Armour, Lululemon, and Athleta; however, it has recently seen an influx of lines that are celebrity-endorsed, such as Kate Hudson's Fabletics line, and the recently announced CALIA line by Carrie Underwood, which will be available at Dick's.

SALES TRENDS

The following table illustrates comparable store sales trends for major public sporting good retailers (Represents the most recent fiscal quarter sales reported):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Dick's	3.4%	1.1%	3.2%	1.5%
Cabela's	(5.5%)	(11.2%)	(14.2%)	(21.7%)
Hibbett	5.4%	0.6%	0.1%	4.1%
Big 5	(0.5%)	1.0%	(4.9%)	(7.9%)

Note(s): Results for Dick's include Dick's Sporting Goods stores, Golf Galaxy, and the e-commerce business. The most recent quarter for Dick's and Hibbett ended January 31, 2015; the most recent quarter for Cabela's ended December 27, 2014; the most recent quarters for Big 5 ended December 28, 2014.

OUTLOOK

There have been some transactions within the sector, with Sport Chalet acquired by Versa, which already owns Bob's Stores and Eastern Mountain Sports. It was also rumored that Dick's would be taken private; however, that did not come to fruition. Going forward, further activity could be seen, as Sports Authority has reportedly had debt issues, which could result in future liquidity issues.

Experience

GA is one of the largest liquidators of retail inventory and has been involved in a variety of liquidations, ranging from the disposition of excess inventory and the closing of underperforming stores, to full-scale liquidations of national retailers with hundreds of stores. GA has experience with full and partial liquidations of companies throughout a variety of retail sectors, some of which are detailed below:

Target Canada	Cache	Office Depot/Max	Circuit City
Macy's	Fashion Bug	Mervyns	Tower Records
Fortunoff	Frederick's of Hollywood	Eddie Bauer	RadioShack
Linens 'N Things	Naartjie	Whitehall Jewelers	Borders
Jo-Ann Fabrics	Boot Town	A&P	Movie Gallery

These experiences, in addition to numerous others, provide GA with valuable insight into the market trends and the consumer response that can be expected in a liquidation. They give us an understanding as to recovery values that can be achieved for retailers within these industries. In addition to this liquidation experience, GA has worked with and appraised numerous retailers, including industry leaders within each sector. While our clients remain confidential, GA's extensive list of appraisal experience includes:

- Sporting goods retailers that specialize in a number of products, including those for outdoor sports, recreational ball sports, hunting, camping, and fishing, and a variety of other equipment for outdoor enthusiasts.
- Several e-commerce and multi-channel retailers, as well as flash sale websites and auction websites. In particular, GA has appraised 74 of the top 500 e-commerce companies as reported by *Internet Retailer*.
- Numerous retailers of apparel and accessories, including major department store retailers and a variety of specialty retailers that are found in malls throughout the country.
- Leading off-price retailers of apparel and accessories, including major national and regional chains.
- Retailers of consumer electronics, including smaller, more localized chains, as well as regional, national, and international retailers with close to 4,500 store locations.
- Many jewelry retailers, including one of the largest in the United States, with locations throughout the country and net sales exceeding \$1.4 billion annually.
- Major national and regional discount and dollar stores, including one of the country's largest chains, with over 10,000 stores.
- Major regional grocery store chains including one with a store base of close to 400 and net sales of nearly \$8.0 billion, as well as smaller local grocery store retailers and pharmacies.

In addition to our internal personnel, GA maintains contacts within the retail industry that we utilize for insight and perspective on recovery values.

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