

Sporting Goods

INDUSTRY OVERVIEW

Sporting goods retailers, particularly those that sell firearms and ammunition, have most recently faced a softening of sales. While demand for firearms remains high, sales are compared to extremely high levels last year. In addition, some sporting goods retailers have also reported soft sales in golf categories, due to a general decline in participation in the sport. Participation has been waning as the sport is both time-consuming and expensive. Conversely, strong sales of both footwear and branded apparel drove sales increases for some sporting goods retailers in the most recent quarters.



TREND TRACKER

Three month NOLVs	Mixed ↕
Sales Trends	Decreasing ↓
Gross Margin	Mixed ↕
Discounting	Increasing ↑

NOLVs: NOLVs have ranged from down 1.5 percentage points to up 0.5 percentage points, depending on sales and gross margin results.

Sales Trends: Sales trends for most sporting goods retailers have been decreasing, with those that rely on firearms particularly hard hit compared to the huge gains last year. Companies that are not as heavily reliant on firearms have exhibited positive sales.

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. Firearms typically achieve a lower gross margin.

KEY INDUSTRY DRIVERS

- **Firearms and ammunition:** In recent years, sales at sporting goods retailers had boomed as gun sales skyrocketed – especially in 2012, as President Obama’s re-election and numerous high-profile gun-related crimes led many to fear stricter gun-control laws. As a result, top sporting goods retailers experienced strong sales of firearms and ammunition. However, the gun craze slowed down since 2013, leaving many retailers with flat sales trends; management at many sporting goods retailers attributed double-digit comparable store declines primarily to this trend. Despite the return to more normalized levels, demand for firearms remains strong, as background checks for firearms are only approximately 5% lower than during the surge.
- **Weather:** Some meteorologists are predicting that this coming winter will be similar to last year, which was particularly cold and snowy in many parts of the country. This would positively impact sales of winter weather attire, footwear, and gear, and will also benefit participation in snow sports, as conditions at mountains for skiing and snowboarding will be ideal. Sales of related merchandise could once again reap the rewards.
- **Licensed apparel:** Sales of licensed sporting apparel related to the NFL, NBA, and MLB are often driven by jersey sales and championship gear, which customers typically purchase to support their favorite teams and players. With the recent onslaught of high-profile players facing charges and allegations of severe misconduct, sales of jerseys and other merchandise may suffer.

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	3.2%	1.5%	7.0%	3.3%
Cabela’s	(14.2%)	(21.7%)	(10.1%)	3.9%
Hibbett	0.1%	4.1%	1.7%	4.8%
Big 5	(4.9%)	(7.9%)	(0.5%)	1.4%
Sport Chalet	(0.3%)	(3.1%)	(1.3%)	(2.5%)

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 August 2, 2014; the most recent quarter for Cabela’s ended June 28, 2014, will report third quarter results on October 23, 2014; the most recent quarters for Big 5 and Sport Chalet ended June 29, 2014. Sport Chalet was recently acquired and will no longer be reporting comparable store sales; its prior quarter represents full year.

OUTLOOK

Going into the winter season, retailers will continue to feel pressure to discount, as competition within the industry remains strong. Categories such as yoga and fitness are expected to drive apparel and footwear sales, and there is optimism for strong sales of seasonal items if winter weather arrives true to form. Mother Nature is unpredictable, and climate could vary by region.

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:

Eddie Bauer	Linens 'N Things	Circuit City	Tower Records
Fortunoff	Fashion Bug	Mervyns	Payless Shoe Source
Jo-Ann Fabrics	Borders	Whitehall Jewelers	A&P
Ritz Camera	Boot Town	Movie Gallery	Macy's

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 73 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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About Great American Group

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. GA also offers the *UK Retail Monitor* via its subsidiary, GA Europe Valuations Limited.

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