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# SPORTING GOODS<sup>®</sup> INTELLIGENCE

News and analysis of the international market

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## SPORTING GOODS STOCKS JUMP DOUBLE DIGITS IN 2017

Industry stocks leaped 19.3% higher in local currencies last year with all segments and regions posting gains, rebounding strongly from a flat performance in 2016 and buoyed by exuberant stock markets around the globe. In dollars, the total market capitalization of the 81 companies we tracked rose 12.4% to \$364,253 million.

Our methodology for this study compares the market capitalization of all companies in local currencies to arrive at a percentage change for each stock. The data is then converted into US\$ at the exchange rate on the last trading day of the year, and weighted by market capitalization to allow aggregation for the purpose of comparison. Companies are classified by their principal business for categories and by the location of their headquarters for regions.

The largest companies performed best overall, with eight of the top 10 posting gains, and those top companies growing an average of 24.3% in local currencies. Nike accounted for a substantial share of the total as it represents 29% of the overall market value, and its 22.7% rebound from a 23.6% decline in 2016 was a huge tailwind. Outside the top 10, less than half of the companies on the list had market cap increases for the year. As is often the case, the stock price performance in 2017 didn't bear much relation to the industry's financial performance for the year, as our Scorecard shows that industry profits were down 3.0% on a 4.7% sales increase for the trailing 12 months ended Q3 2017.

The Global Dow was up 21.9% in 2017, outpacing

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**Industry Stocks** rebounded in 2017, led by large cap companies.

**Camping World** buys Erehwon, plans to open 69 Ganders by May.

**Bass Pro** starts to detail who stays and who goes from Cabela's.

**Sheikh Shoes** wants approval for new financing arrangement.

**Boardriders** will take over Billabong, putting Oaktree in charge.

**Maurice Sporting Goods** is sold to Middleton at auction.

**Nike** factory outlet store pricing case dismissed, but more may be coming.

**Adidas** takes a position in printing technology company.

**Iconix** will take a massive \$625.5 million impairment charge in Q3.

**Hoopgate** defendant Jim Gatto asks court to dismiss charges.

**Retail:** FBI, Grass Roots Alliance, Himaraya, Mastercard, Zumiez.

**Companies:** Adidas, Alphabroder, Amer Sports, Gildan, Remington, SFIA.

**Legal:** Brooks, CPSC recalls, Riddell.

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## Warning

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sporting goods industry gains slightly for the second year in a row. In the U.S., the S&P 500 was up 19.4% for the year, the Dow Jones was up 24.4% and the Russell 1000 was up 21.7% compared to a 19.5% gain for sporting goods stocks in the region. Broadly higher prices for the largest companies were pulled down by weakness from Under Armour, Foot Locker and Dick's. In Asia, the Hang Seng jumped 36.0% while the Nikkei was up 17.6%, both outperforming the 15.9% increase in industry stocks with declines at Japanese brands Shimano and Asics holding back big gains from Chinese companies led by Anta and Li Ning. Europe saw sporting goods stocks beat the market with a 20.7% gain led by standouts Adidas, Moncler, Puma and Sports Direct, against the FTSE 100 which increased just 7.6%, the DAX at +12.5% and the CAC 40 increasing 9.3%.

By sector, footwear stocks performed best at +23.9% overall, largely from Nike's recovery even as Adidas (+12.6%) slowed after a huge gain in 2016. Anta and Puma increased 64.4% and 45.4%, respectively, to drive sector gains, helped by Skechers (+30.6%) and Wolverine World Wide (+40.8%) farther down the list. Apparel was just behind with a 21.0% increase due to VF Corp., which is almost half the total sector market cap and gained 32.5%. Moncler helped out with a 58.0% increase but Under Armour's chronic troubles during the year pulled its market cap down 45.0%. Licensing companies Sequential Brands and Iconix both had a terrible year, down 85.9% and 61.5%, respectively. The equipment sector struggled to a 3.2% increase, with widely varying results from Garmin (+22.8%), Thule (+32.2%) and Fox Factory (+42.6%) to the good, but Shimano (-14.0%), Amer (-10.0%) and Fitbit (-17.6%) posting declines. They were joined by Vista (-60.5%), American Outdoor Brands (-41.5%) and Sturm, Ruger (-2.7%) which had exposure to the plunging gun market.

The retail sector was certainly expecting to build on the 17.4% gain it notched in 2016, but could only post a 14.9% increase last year, despite the benefit of 25 million fewer square feet in the U.S. market thanks to the 2016 retail bankruptcies. Lower traffic in brick-and-mortar stores combined with pressure online from Amazon's increasing traction in sporting goods and apparel and competition from brands' own DTC operations. Results in the U.S. were all over the map, with Lululemon (+10.8%) and Camping World (+41.3%) coming out as winners, but almost

everyone else here saw their market cap decline. Up north, Canadian Tire had a huge 65.8% increase in 2017, while the U.K.'s Sports Direct's had a 46.6% gain and JD Sports posted a 5.7% increase. Looking ahead to 2018, U.S. retailers stand to gain the most from the Trump administration's tax cuts, assuming they can make a profit in a market that is likely to remain challenging in the new year.

## CAMPING WORLD ADDS EREHWON TO OUTDOOR STRATEGY

It marks the sixth acquisition in the outdoor space for Camping World and the second that has a decent online business in the Nuts and Berries segment carrying most of the major brands online. In addition to Erehwon, a four-store chain in the Midwest, CWH late last year acquired Uncle Dan's, a Chicago-based competitor of Erehwon. Of course, its major thrust was the purchase of Gander Mountain assets in a bankruptcy auction which included Overtons. Other specialty purchases included TheHouse.com, an online bike and action sports retailer, and W82, also in action sports. Terms of the Erehwon deal were not disclosed.

Meanwhile, Gander Outdoors will re-open 69 locations by the one-year anniversary after Camping World purchased the assets of Gander Mountain in a bankruptcy auction, according to a release from the company. The locations are mostly in its Midwest and Southeast strongholds with particular strength in the Upper Midwest where it is based. The list includes two in AL, one in CO, four in FL, one in GA, one in IA, four in IL, three in IN, one in KS, two in KY, eight in MI, five in MN, one in MO, six in NC, three in NY, two in OH, six in PA, one in SC, one in TN, four in TX, two in VA and 11 in WI. CWH added that it expected to announce additional locations to open this year but didn't specify an exact number.

The exact number of locations that CWH was going to keep open was fluid, to say the least, as a financially solvent company extracted concessions from landlords in an extremely soft commercial real estate market. As recently as Nov., CWH said it would have about 15 stores ready to go by the end of Q1 and another 40 stores in Q2 and Q3, so the actual pace by the end of Q2 seems somewhat accelerated from that projection. CWH has said that number could be

## Global Industry Stock Market Performers

| Company             | Exchange  | Currency | Market Capitalization in Millions |            |            | Change Local |
|---------------------|-----------|----------|-----------------------------------|------------|------------|--------------|
|                     |           |          | 2017 US\$                         | 2017 Local | 2016 Local |              |
| Nike                | NYSE      | US\$     | 103,889                           | 103,889    | 84,652     | 22.7%        |
| Adidas Group        | Frankfurt | Euro     | 41,032                            | 34,139     | 30,307     | 12.6%        |
| VF Corp             | NYSE      | US\$     | 29,237                            | 29,237     | 22,071     | 32.5%        |
| Shimano             | Tokyo     | JPY      | 12,971                            | 1,461,879  | 1,700,118  | -14.0%       |
| Canadian Tire       | Toronto   | CAD      | 12,480                            | 15,600     | 9,410      | 65.8%        |
| Anta Sports         | HKEX      | HK\$     | 12,185                            | 95,166     | 57,875     | 64.4%        |
| Garmin              | Nasdaq    | US\$     | 11,800                            | 11,800     | 9,605      | 22.8%        |
| lululemon           | Nasdaq    | US\$     | 9,871                             | 9,871      | 8,909      | 10.8%        |
| Moncler             | Milan     | Euro     | 7,984                             | 6,643      | 4,204      | 58.0%        |
| Hanesbrands         | NYSE      | US\$     | 7,623                             | 7,623      | 8,152      | -6.5%        |
| Gildan Activewear   | NYSE      | US\$     | 7,436                             | 7,436      | 5,881      | 26.4%        |
| Puma AG             | Frankfurt | Euro     | 6,527                             | 5,430      | 3,734      | 45.4%        |
| Under Armour        | NYSE      | US\$     | 6,424                             | 6,424      | 11,690     | -45.0%       |
| Yue Yuen            | HKEX      | HK\$     | 6,407                             | 50,041     | 46,448     | 7.7%         |
| Foot Locker         | NYSE      | US\$     | 5,682                             | 5,682      | 9,383      | -39.4%       |
| Skechers            | NYSE      | US\$     | 5,068                             | 5,068      | 3,881      | 30.6%        |
| Columbia Sportswear | Nasdaq    | US\$     | 5,023                             | 5,023      | 4,069      | 23.4%        |
| Brunswick           | NYSE      | US\$     | 4,842                             | 4,842      | 4,892      | -1.0%        |
| JD Sports Fashion   | London    | GBP      | 4,419                             | 3,270      | 3,095      | 5.7%         |
| Camping World       | NYSE      | US\$     | 3,956                             | 3,956      | 2,801      | 41.3%        |
| Sports Direct Int'l | London    | GBP      | 3,264                             | 2,415      | 1,647      | 46.6%        |
| Asics               | Tokyo     | JPY      | 3,165                             | 356,729    | 443,230    | -19.5%       |
| Amer Sports         | Nordic    | Euro     | 3,156                             | 2,626      | 2,917      | -10.0%       |
| Dick's SG           | NYSE      | US\$     | 3,086                             | 3,086      | 5,982      | -48.4%       |
| Wolverine WW        | NYSE      | US\$     | 3,050                             | 3,050      | 2,166      | 40.8%        |
| Feng Tay            | Taiwan    | TW\$     | 3,047                             | 90,506     | 80,487     | 12.4%        |
| Deckers             | Nasdaq    | US\$     | 2,565                             | 2,565      | 1,777      | 44.3%        |
| Thule               | Stockholm | SEK      | 2,307                             | 18,873     | 14,277     | 32.2%        |
| G-III Apparel       | Nasdaq    | US\$     | 1,811                             | 1,811      | 1,438      | 25.9%        |
| Li Ning             | HKEX      | HK\$     | 1,767                             | 13,799     | 9,789      | 41.0%        |
| Acushnet Holdings   | Nasdaq    | US\$     | 1,570                             | 1,570      | 1,460      | 7.5%         |
| DSW Shoe Whse       | NYSE      | US\$     | 1,547                             | 1,547      | 1,813      | -14.7%       |
| Fox Factory         | Nasdaq    | US\$     | 1,458                             | 1,458      | 1,023      | 42.6%        |
| XXL                 | Oslo      | NOK      | 1,439                             | 11,773     | 13,712     | -14.1%       |
| Caleres             | NYSE      | US\$     | 1,439                             | 1,439      | 1,409      | 2.1%         |
| Fitbit              | NYSE      | US\$     | 1,350                             | 1,350      | 1,638      | -17.6%       |
| Callaway            | NYSE      | US\$     | 1,317                             | 1,317      | 1,031      | 27.7%        |
| Alpargatas (S.P.)   | Brazil    | Real     | 1,244                             | 4,117      | 2,145      | 91.9%        |
| Stella Holdings     | HKEX      | HK\$     | 1,198                             | 9,353      | 9,930      | -5.8%        |
| GoPro               | Nasdaq    | US\$     | 1,105                             | 1,105      | 1,224      | -9.7%        |
| China Dongxiang     | HKEX      | HK\$     | 1,053                             | 8,222      | 7,756      | 6.0%         |
| Compass Diversified | NYSE      | US\$     | 1,015                             | 1,015      | 972        | 4.5%         |
| Sturm, Ruger        | NYSE      | US\$     | 973                               | 973        | 1,000      | -2.7%        |

  

| Company                 | Exchange | Currency | Market Capitalization in Millions |                |            | Change Local |
|-------------------------|----------|----------|-----------------------------------|----------------|------------|--------------|
|                         |          |          | 2017 US\$                         | 2017 Local     | 2016 Local |              |
| Fila Korea              | Korea    | KRW      | 934                               | 997,152        | 808,969    | 23.3%        |
| Cross                   | Nasdaq   | US\$     | 881                               | 881            | 505        | 74.4%        |
| Xtep Int'l              | HKEX     | HK\$     | 867                               | 6,771          | 7,215      | -6.2%        |
| Vista Outdoor           | NYSE     | US\$     | 835                               | 835            | 2,170      | -61.5%       |
| Dorel Industries        | Toronto  | CAD      | 813                               | 1,016          | 1,093      | -7.0%        |
| Mizuno                  | Tokyo    | JPY      | 783                               | 88,246         | 71,899     | 22.7%        |
| Accell Group            | Amstrdm  | Euro     | 727                               | 605            | 573        | 5.6%         |
| 361 Degrees             | HKEX     | HK\$     | 716                               | 5,589          | 6,213      | -10.0%       |
| American Outdoor Brands | Nasdaq   | US\$     | 695                               | 695            | 1,187      | -41.5%       |
| Genesco                 | NYSE     | US\$     | 647                               | 647            | 1,234      | -47.6%       |
| Johnson Outdtrs         | Nasdaq   | US\$     | 621                               | 621            | 397        | 56.4%        |
| Finish Line             | Nasdaq   | US\$     | 584                               | 584            | 763        | -23.5%       |
| Zumiez                  | Nasdaq   | US\$     | 526                               | 526            | 544        | -3.3%        |
| Shoe Carnival           | Nasdaq   | US\$     | 453                               | 453            | 497        | -8.8%        |
| Tilly's                 | NYSE     | US\$     | 426                               | 426            | 377        | 13.0%        |
| Nautilus Group          | NYSE     | US\$     | 410                               | 410            | 576        | -28.8%       |
| Perry Ellis             | Nasdaq   | US\$     | 392                               | 392            | 386        | 1.7%         |
| Hibbett SG              | Nasdaq   | US\$     | 389                               | 389            | 819        | -52.4%       |
| Symphony                | HKEX     | HK\$     | 371                               | 2,901          | 1,951      | 48.7%        |
| Johnson Health Tech     | Taiwan   | TW\$     | 366                               | 10,869         | 14,080     | -22.8%       |
| Sportsman's Whse        | Nasdaq   | US\$     | 281                               | 281            | 397        | -29.1%       |
| Netshoes                | NYSE     | US\$     | 245                               | 245            | 500        | -50.9%       |
| BasicNet                | Milan    | Euro     | 243                               | 202            | 194        | 4.3%         |
| Clarus                  | Nasdaq   | US\$     | 236                               | 236            | 161        | 46.5%        |
| Kingmaker               | HKEX     | HK\$     | 222                               | 1,732          | 1,723      | 0.5%         |
| Eagle Nice              | HKEX     | HK\$     | 219                               | 1,714          | 1,094      | 56.7%        |
| Latuma                  | Paris    | Euro     | 195                               | 162            | 146        | 11.0%        |
| Escalade                | NYSE     | US\$     | 177                               | 177            | 189        | -6.5%        |
| Big 5 SG                | Nasdaq   | US\$     | 163                               | 163            | 380        | -57.1%       |
| Rapala                  | Nordic   | Euro     | 153                               | 128            | 161        | -20.7%       |
| Billabong               | ASX      | A\$      | 153                               | 196            | 248        | -21.1%       |
| Delta Apparel           | AMEX     | US\$     | 147                               | 147            | 157        | -6.5%        |
| Rocky Brands            | Nasdaq   | US\$     | 140                               | 140            | 86         | 62.4%        |
| Sequential Brands       | Nasdaq   | US\$     | 112                               | 112            | 292        | -61.5%       |
| Daphne Int'l            | HKEX     | HK\$     | 102                               | 800            | 1,287      | -37.8%       |
| Pegasus Intl.           | HKEX     | HK\$     | 98                                | 767            | 913        | -16.0%       |
| Mainland Headwear       | HKEX     | HK\$     | 75                                | 587            | 701        | -16.2%       |
| Iconix Brand Group      | Nasdaq   | US\$     | 74                                | 74             | 524        | -85.9%       |
|                         |          |          | 364,253                           | Average Change |            | 19.3%        |

(Local Market Cap - Weighted)

Share price and currency conversion rates are as of Dec 29, 2017 and Dec 30, 2016  
For companies that went public in 2017, 2016 number reflects market cap at IPO.

as low as 40 and as high as 70 at various times. This forecast also closely aligned with projections that CWH made in its recent secondary offering. Only two stores are open now, both in MN in Dec., but initial projections had 15-20 open by Nov. In any event, it will be a considerably smaller footprint than the 160-store chain that went into bankruptcy, and the format has been described by CWH as a smaller 40,000-sq.-ft. store than the original stores with more of a hard goods focus.

A common thread in all of CWH's outdoor deals is having an online presence, which it believes it can build using its database from its existing RV-based business that numbers about 3.5 million active customers. That was significantly supplemented by the addition of the Gander database of 2.5 million more unique customers who are expected to yield 0.7-1.5 million more active customers over time. In addition to selling RVs and related products, a key strategy has been cross selling these consumers services related to RVs such as roadside assistance policies through its Good Sam division. CWH, in its release, suggests that it is looking to cross sell the Nuts and Berries market with Good Sam as well, though it doesn't seem like there would be much overlap unless there are plans to extend Good Sam into services like adventure travel. Erehwon does have a fairly robust selection of branded product on its website, including TNF, Patagonia, Arc'teryx and Keen. Likely, CWH would like to see if RV customers have any interest in those brands.

It does seem clear that CWH is looking to create a considerably bigger brand for itself, taking out sponsorships with major college football bowl games recently and giving the Overton's brand national TV advertising exposure. The Overton's brand has just two retail locations at this point, both in NC, so national advertising would make little sense without some kind of digital play in mind. Gander has more of a national footprint, but it still is essentially located in the Midwest and it is just now reopening stores under the new Gander Outdoors brand. Its new logo has drawn a legal challenge already from The North Face, which argues that the logo is confusingly similar to its Summit trademark.

Still, the whole approach here seems to be a bet that a fairly tradition-bound market can be up-ended

with a few key acquisitions that will give CWH an online window from outdoor brands to its largely Baby Boomer audience. How that will fit in with the key brands' own online strategy will be interesting to see. They are all clearly working first on elevating their own DTC digital efforts. After that, they are quick to acknowledge that Amazon and a handful of other dedicated e-commerce sites have attracted key Millennial eyeballs. There are also a few big companies that have already staked out some turf in the area where CWH is aiming, such as Walmart's Jet.com buying Moosejaw and TJX acquiring Sierra Trading Post. Both outdoor stores are considerably bigger outlets for these brands online than either of the two stores CWH acquired and backed by formidable retailers.

The history of cross-selling in the outdoor market doesn't give much encouragement. Years ago, Jarden bought K2 Corp. and immediately began talking up the idea of cross-selling playing cards and food storage devices to Coleman's camping customers. Those successes remain untraceable. More recently, Vista Outdoor had similar thoughts about cross selling from the Cast & Blast outdoor business to the Nuts & Berries market and vice versa. Now VSTO is in the process of unwinding at least some of this diversification, and again the cross-selling didn't seem to move the needle. The reality is that, while both segments of the outdoor market have a love of the outdoors in common, their interpretations of that interest are different and their brand loyalties are also distinct.

Moreover, it would seem that by far the most important factor in CWH's success in the outdoor market will be determined by how well it executes the Gander re-launch. That re-launch is complicated by the dreary state of the firearms market, which is taking longer to recover than initially expected. Two of the market's biggest vendors, Vista Outdoor and Remington, are seriously weakened, which could cause further disruption down the road. And the question of Academy's refinancing also looms over this market. CWH has ambitious plans with Gander and probably more revenue synergies than are available in the Nuts & Berries market. A few forays into outdoor specialty retailing would seem like more of a distraction than anything else.



## BASS PRO PLANS LAYOFFS AT CABELA'S BUT KEEPS PARTS GOING

An 11-page letter from Bass Pro chief Johnny Morris said it is still evaluating exactly how much of the Sydney, NE operation will be retained, but the full 125-person IT operation will remain and other “significant” accounting operations will be retained. However, the letter also said that Cabela’s “has been operating under the weight of an extremely heavy corporate payroll that is over two times greater than that of Bass Pro Shops to conduct relatively the same volume of business.” The letter was first reported by the *Omaha World Herald*.

All the Cabela’s stores in NE, located in Sydney, Kearney and La Vista, will remain open as well as the DC in Sydney. Bass Pro agreed to keep the credit card operation in Lincoln open as part of the merger agreement, and it will also retain call centers in Grand Island, Kearney, North Platte and Lincoln, NE that employ about 350. The exact number of employees that will be affected wasn’t disclosed, but it does say that the remaining employees will be downsized to a single building with the remaining buildings on the campus leased to the city for \$1 per year to any qualified business that wants to start a business there.

As for the senior management, the letter said that Ralph Castner who had been CFO of Cabela’s, will serve as CFO for the combined companies. Also, Sarah Kaiser, who worked in human resources, will become SVP of human resources for the combined company and Sheila Dormann will become VP finance for White River Marine, a Bass Pro subsidiary.

Bass Pro has allocated \$10 million to extend benefits and pay for employees who will be laid off. It also has hired Career Arc, an outplacement firm, to assist affected employees. “One of our biggest priorities is to be as thoughtful to Cabela’s outfitters and the City of Sydney as we possibly can, and go above and beyond what is required to be fair and supportive.” Still, it added, Bass Pro needed to acknowledge “the realities of a competitive retail market and challenging outdoor/hunting segment.”

At its peak, Cabela’s employed about 2,000 in a city of 6,800, and there was a chronic housing shortage as the city was bursting at the seams to accom-

modate its biggest employer’s growth, but since activist investor Elliot Partners took a stake in the company and demanded change, there have been layoffs and the local housing market has crashed. A large development underway to house Cabela’s employees has already been halted.

## SHEIKH SEEKS APPROVAL FOR NEW LOAN FACILITY

The bankrupt CA-based inner city store has asked the court to replace its existing DIP facility from State Bank, which has declared a default and is now charging 11.5% interest on the loan. A new loan of \$5 million would come from Anjum Sheikh, brother of the store’s principal, Sheikh S. Ellahi. Sheikh would then seek an additional \$10 million in financing secured by a Malibu residence jointly owned by the brothers that they value at \$30 million with just a \$3.7 million mortgage on it. The new financing would pay off the \$4.0 million in outstanding obligations to State Bank with the \$5 million loan and, with existing cash, enable the chain to continue operating until it can secure the second loan. It also may seek other financing sources for the second loan. Sheikh has closed 31 stores since going into bankruptcy, which has reduced expenses.

It also said it has been negotiating with Karmaloop about a \$10 million liquidation preference it agreed to as part of its deal to buy Karmaloop but is preparing to file suit in order to get this claim disallowed. Sheikh alleges the e-tailer represented that it had 6 million e-mail addresses with 3.7 million active accounts, but after closing, it found that 80% of those e-mail addresses were bad and that Karmaloop had double counted its traffic.

Sheikh still has in place a critical vendor agreement with Nike, to whom it owes \$24.7 million. Under terms of that deal, already approved by the court, Sheikh must pay the Eager Beavertons \$4 million for every \$3 million in merchandise that is shipped. Its approach is in stark contrast with that of Sport Zone, another urban retailer that had a preferential credit agreement with the E.B.s prior to its bankruptcy filing. Sport Zone has a buyer that wants to rebuild the chain without the Nike brand, and wants that preferential credit deal overturned so that it can treat Nike and the other unsecured creditors equally in terms of recovery percentages.

Both chains looked to expand their business aggressively during the basketball boom when the E.B.s were demanding that their independent urban accounts invest heavily in brand presentation. With Nike typically accounting for 60% or more of their business, this was an offer they couldn't refuse. But as Nike's hoops business softened, the retailers' ability to support these investments diminished. They were in a position where they had to make the investments, but there were no guarantees from Nike that they would support them. In the case of Sheikh, they even nixed approving locations on some Midwest Athletes Foot stores that it acquired.

## BOARDRIDERS TO TAKE OVER BILLABONG

The deal values Billabong at \$A197.7 million (\$155 mm) at A\$1 per share and represents a 28% premium over the recent trading price. While Boardriders has been recovering in a somewhat better action sports market, Billabong still struggled. It lost A\$77.1 million last year and was still carrying \$177.1 million in debt from its 2013 rescue by Oaktree Capital and Centrebridge. Oaktree owned about 19% of Billabong as well and made the offer through the former Quiksilver, in which it holds an 85% stake. The merger had been rumored for some time.

The combination will create a significant action sports company with key brands such as Quiksilver, Roxy and DC from Boardriders and Billabong, RCVA, Element and Von Zipper from Billabong. There are likely to be some obvious cost savings in the merger in back end synergies at the least. It also appears that the action sports retail market in the U.S. is starting to turn the corner with both Zumiez and Tilly's recently turning in much stronger financial performances. However, the action sports market has yet to recover in the Pacific, where fast fashion has established a strong position.

## SALE OF MAURICE TO MIDDLETON CLOSES

The sale to the stalking horse bidder closed on substantially the same terms as the original bid, with Middleton agreeing to pay \$3 million up front in cash and liquidate the remaining inventory for an estimated \$36 million. The asset purchase agreement believes Middleton will recover \$5 million from New

Inventory, \$21 million for Current Inventory and \$10 million from Non-current Inventory. The deal also calls for Middleton to negotiate an asset-based revolving line of credit of \$40 million.

Sportsman's Supply had made an offer of \$3.5 million in cash up front plus \$40-42 million for acquiring the existing inventory at 95% of cost after the Middleton stalking horse bid, but evidently no higher offers appeared at the actual auction, which was held on Dec. 27. As the stalking horse bidder, Middleton was able to keep intact its \$500,000 breakup fee after negotiations with the U.S. trustee, but agreed to lower the initial bid over its offer to \$750,000 from \$1.5 million with \$100,000 increments after that at the hearing to approve bid procedures. Earlier, Maurice had entered an agreement with Peak Global Holdings that was also a pre-packaged Chapter 11.

## FACTORY OUTLET PRICING CASE AGAINST NIKE DISMISSED

The Monika Taylor case against the Eager Beavertons has been dismissed with prejudice as far as the plaintiff was concerned and was dismissed without prejudice as far as the class action plaintiffs are concerned. Both sides are paying their own costs. That agreement would not necessarily preclude attorneys fighting the pricing policies from re-filing a new suit against Nike but it could not include Taylor.

Nike lawyers had won a number of key decisions along the way. It convinced the court not to enjoin it from continuing its existing pricing policies, arguing that Taylor could not prove any future harm would come since she was aware of the allegedly deceptive practices. The court ordered plaintiffs to re-file their charges with more specifics twice but the plaintiffs made relatively few changes, arguing that to be more specific, they needed to conduct discovery into whether Nike's Suggested Retail Price/Our Price labeling in its outlet stores actually represented a bona fide retail price as defined by CA law.

Nike may not be out of the woods yet, as the Ninth Circuit which has jurisdiction over CA, ruled last May that a jury must decide whether a Suggested Retail Price is deceptive. That came in a case filed against Neiman Marcus and plaintiff's attorneys argued that Nike, which had strenuously argued

that Suggested Retail Price does not imply that an item was actually sold at that price, now faced “an entirely different legal landscape” as a result of the Ninth Circuit ruling.

Meanwhile, Sloane Stephens, the reigning U.S. Open women’s champion, switches allegiance to the Swoosh as her contract with Under Armour, which has had her as an athlete for seven years, expired. The E.B.s outbid Under Dog, Adidas and Uniqlo. In addition to 22-time Grand Slam champion Serena Williams, Stephens will join Madison Keys as one of the U.S.’s up and coming champions on the Nike roster. The third American in this year’s U.S. Open semi finals is Coco Vandeweghe, an Asics athlete, and the last is Venus Williams who wears her own apparel.

The move is not surprising as Under Dog is said to be pulling back from the tennis category as part of its new “we can do anything but we can’t do everything” mantra. It is still saddled with a four-year \$25 million contract with British star Andy Murray, who like most of the top players, is battling injuries and is not expected to play in the Australian Open.

## ADIDAS JOINS ROUND OF FINANCING FOR 3D PRINTER

The technology that produced the first Adidas Futurecraft running shoe will see the Big a become a part of the \$200 million Series D funding for startup Carbon, which placed a \$1.7 billion valuation on the company. Other investors in the round include Fidelity Management, Baillie Gifford, ARCHina Capital, Hydra Venture and Emerson Elemental. That is larger than the valuations of the two largest 3D public companies, 3D Systems and Stratasys, both at about \$1.1 billion. Past investors in Carbon have included GE, JSR Corp., Google, BMW, Nikon, Sequoia Capital and Silver Lake.

Carbon’s Digital Light Synthesis technology is said to be 25 to 100 times faster than conventional 3D printing and is also more versatile in terms of materials. Adidas released about 5,000 pairs of its first running shoe using its Primeknit upper and a Carbon made outsole in Dec. More releases are planned for early in 2018. The outsole is a matrix of open cells that is said to give a feel similar to its Boost technology.

## ICONIX, REVENUES DROPPING, TAKES \$625.5 MILLION CHARGE

The charges, triggered by the loss of some major licensing deals with Walmart, will see the goodwill in the women’s segment written down by \$227.6 million, \$135.9 million in men’s, \$69.5 million in home furnishings and \$88.7 million in international. As a result, it reported a \$552,701,000 loss for the third quarter ended Sep. 30 compared to income of \$15,216,000 which takes into account minority interests and a loss of \$2,130,000 from discontinued operations this year against income of \$2,734,000. Sales declined 12% to \$53,165,000 compared to \$60,457,000, with women’s down 13% to \$21,043,000; men’s off 5% to \$11,393,000; home down 6% to \$7,515,000; and international up 4% to \$13,214,000.

While saying its was still within its guidance, it now expects its FY revenues to come in at the low end of its \$225-235 million range with EPS now forecasted at a loss of \$9.79 to \$9.89 (\$562.7 million), implying about a \$49.4 million loss for Q4. Adjusted for the impairment charges, discontinued operations and other one-time charges, total adjusted operating income was up 10% to \$31.6 million, mostly on a reduction of corporate expenses. Free cash flow is now forecast at the lower end of the \$65-82 million guidance.

## EX-ADIDAS EXEC ASKS COURT TO DISMISS CHARGES

Jim Gatto, at the center of the FBI probe into payments to high school athletes to attend certain colleges, asked the court to dismiss charges, pleading that the indictment fails to allege a scheme to defraud Louisville or Miami universities because the payments were intended to help the colleges. It also said there is no wire fraud conspiracy because the scheme didn’t take money from either college and also that it doesn’t allege that the defendants made false statements. Attorneys for co-defendants Merl Code and Christian Dawkins also asked the court to dismiss the charges. The government’s case charges that the payments defrauded the universities because those payments to the players and their families rendered them ineligible to play under NCAA regulations after they had been granted athletic scholarships.



So far, eight defendants charged, including the three above and others who were assistant college coaches, have pleaded not guilty to the charges. Two other defendants, Munish Sood and Jonathan Augustine, have not entered pleas because they are

said to be negotiating plea deals. At this point, no other companies are named in the probe, but that could certainly change as the practices that Gatto and the others are accused of are widespread.

## RETAIL

FBI NICS background checks as adjusted by the NSSF fell 12% to 1,621,261 in the final month of 2017 down from 1,845,847 last year marking the 13th straight month of declines. For the full year, adjusted NICS checks were down 9% to 25,164,216 from 27,489,829 as the firearms industry tries to fight its way out of an inventory glut brought on by the slump in demand after the 2016 election. Gun makers note that they see a more historically normal market going forward buoyed by positive participation trends, and that the pre-election demand in 2016 was an anomaly brought on by fear of more gun control.

GRASS ROOTS ALLIANCE will move its bi-annual show this Fall to the Denver Convention Center immediately preceding the Outdoor Retailer Show. The Nov. show will be 4-7, prior to the 8-11 show dates.

HIMARAYA comprehensive net loss narrowed to ¥48 million (\$0.43 million) from a loss of ¥295 million in the fiscal first quarter ended Nov. 30 as revenues slipped 3% to ¥15,384 million (\$138.6 million) from ¥15,935 million. Gross margins inched up 30 basis points to 36.1% on improvements in purchasing and inventory management. Sportswear sales were steady, driven by a 7% gain in sweats and cold weather apparel helped by early cold weather, but team and racket sports were down 4% as was golf which continues to suffer from an extremely promotional market in clubs. The Japanese retailer opened two Himaraya banners and one Biando store

in the quarter ending with 112 and 28, respectively.

MASTERCARD says Holiday sales advanced 4.9%, the strongest performance since 2011, covering the period from Nov. 1 to Dec. 24. The data includes the credit card company's own transaction history supplemented by surveys on cash and check transactions. Predictably, online shopping was the strongest gainer, up 18.1%. Strongest categories were electronics (up 7.5%), jewelry (up 5.9%) home furnishings and home improvement (both up 5.1%). Department and specialty stores saw moderate improvement.

ZUMIEZ Dec. comps were up 7.9% against a positive 3.4% comp in Dec. 2016 and total sales for the month were up 11.4% to \$160 million from \$143.6 million in 2016 with men's, women's and footwear all positive, but hardgoods and accessories down. Transactions increased, but dollars per transaction declined on lower units per transaction but higher AURs. ZUMZ raised its Q4 guidance and now expects comp store sales growth of about 7%, up from 3% to 5% guided previously, with earnings now expected at \$0.88 to \$0.90 per share compared to \$0.78 to \$0.84 prior guidance driven by better-than-expected product margins. Shares jumped 10% after hours on the news.

ON THE MOVE: **Moncler** opens a 307-sq.-m. (3,300-sq.-ft.) store in Stockholm.++++**Alps & Meters** opened a seasonal store inside the St. Regis Deer Valley Resort in Park City, UT.

## COMPANIES

ADIDAS signed Sergio Garcia, the PGA #11 men's player and current Masters' champion, for apparel and footwear, but he will play Callaway woods, irons and wedges, an Odyssey putter and a Chrome Soft ball going forward. Garcia dropped TaylorMade in Oct. after the Big a closed its di-

vestiture of the hardgoods brand to KPS Capital. Adidas also re-signed Xander Schauffele and added world #16 Tyrrell Hatton to apparel and footwear deals. Meanwhile, Nike signed PGA and European tour golfers Patrick Reed, Cameron Champ, Chris Wood, Jimmy Stanger and Alex Noren to apparel and

footwear deals, and Si Woo Kim and Lee Westwood to wear Nike footwear on course.

ALPHABRODER is acquiring Bridgeport, CT-based Prime Line, which specializes in imprinted hardgoods. Terms were not disclosed, but Prime Line had annual sales of \$116 million last year. Alphabroder, formerly Broder Bros., was taken private by PE firm Littlejohn & Co. in 2013 and subsequently acquired Bodek and Rhodes in 2015 and Ash City in 2014, both promotional apparel companies. It sells over 40 brands of apparel including Under Armour, Adidas, Columbia, Marmot and Gildan and has sales of \$1.1 billion.

AMER SPORTS, while it looks forward to benefitting from the U.S. federal tax rate reduction to 21% from 35%, will take a \$13 million charge in 2017 to write down its \$40 million deferred tax asset here. We expect to see a flurry of writedown announcements in the coming weeks, since the lower tax rate going forward will change the value of deferred tax assets and liabilities, and the adjustments must be made in 2017 since the tax bill was signed into law last year.

GILDAN names an all-female team to lead the American Apparel revival. The new face of the brand, which was often under fire for its sexually suggestive advertising and saw its founder pushed out over sexual misconduct, will attempt to execute a 180 degree turn in its image going forward. The new image uses ordinary people of all backgrounds instead of models, according to *Adweek*. Gildan, which bought the company in a bankruptcy auction, also closed down a dyeing operation in MA and moved the jobs to Central America, laying off 90

persons, according to the *Boston Business Journal*.

REMINGTON'S Caa credit rating was taken down another notch by Moody's to Caa3 from Caa2, at the lower end of a rating category that is defined as "speculative of poor standing and ... subject to very high credit risk." The rating agency said the downgrade reflected the company's weak operating performance and liquidity pressure from approaching maturities in April, 2019 coupled with an unsustainable capital structure. The secured term loan was taken down two notches to Caa3 from Caa1 and the secured notes due May, 2020 were lowered to a C rating which is defined as "highly speculative and are likely in, or very near, default with some prospect of recovery of principal and interest." The ratings outlook remains negative based on doubt that the company can refinance its debt on acceptable terms and quickly execute a turnaround.

SFIA elects Chris Clausen, former president of Life Fitness, to serve his third one-year term as chairman. SFIA also announced five new directors, Mike Dowse (Wilson), Jared Drinkwater (BSN), John Graham (Speedo), Fouzan Mansuri (Amazon), and Matt Stanton (Under Armour). Re-elected to the board are Kurt Tandan (Adidas) and Mike Zlaket (Rawlings). Also on the board are Jennifer Bendall (Nike), Mike Savage (Empower Fitness), Dan Arment (Riddell), Melissa Dawson (Molten), Rawleigh Grove (Ping), Brian Jennings (NHL), Sal LaRocca (NBA), Gene McCarthy (Asics), Scott McDonald (Body-Solid), Neil Morton (ATA International), Jeff Padovan (Bite Tech), Jonathan Ram (New Balance), Jim Weber (Brooks) and Marco Zambianchi (Technogym).

## LEGAL

BROOKS has appealed the USPTO's dismissal of its opposition to the registration of Anta's logo, which it says is confusingly similar to its registered Path and Heritage chevron marks. The \$2 billion Chinese sports brand originally filed to register its mark in the U.S. in May 2014 for all types of footwear and apparel, and Brooks' opposition was ultimately rejected in Oct. 2017. Brooks is asking the U.S. District Court in Ea. VA to overturn the PTO's Trademark Trial and Appeal Board decision and direct it to refuse Anta's registration.

CPSC RECALLS: **Brompton** is recalling about 8,400 folding bikes because the bottom bracket can break during use. The recalled bikes were manufactured between Apr. 2014 and May 2017. They were sold at specialty stores for \$1,200-3,000 and



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consumers are advised not to use the bikes and take them to a Brompton dealer for a new bottom bracket cartridge. No injuries were reported.++++**Rocky Mountain Bicycles** is recalling about 3,100 2018 Altitude, Instinct and Pipeline mountain bikes for repairs because the brake cable housing was not secured properly during manufacturing. The bikes were sold at Rocky Mountain bicycle dealers from Jun. through Nov. 2017 for between \$2,600 and \$7,300.

RIDDELL is sued by Kevin Burnett, who played linebacker for the Cowboys, Chargers, Dolphins and Raiders over eight years in the NFL, alleging that he suffered a severe concussion from a blow to the head in a game in Dec. 2013. He's suing Riddell for negligent misrepresentation, strict liability and failure to warn, claiming its helmets were defective in design and did not provide the protection advertised. Also, the suit alleges that Riddell conspired with the NFL by participating in the Mild Traumatic Brain Injury Committee research which underplayed the dangers of brain injuries. Burnett, who had just signed a \$5.25 million contract extension with the Raiders at the time of his injury, is seeking actual and punitive damages and fees.

## SHORT STOPS

**Cherokee Brands** appointed former Quiksilver CFO Steven Brink as its new CFO, replacing Jason Boling who has resigned.++++**Puma** re-signs the Senegalese Football Federation for a four-year term at a reported €2.5 million (\$3 mm) a year.++++**Umbro** signs a kit deal with the Jamaica Football Federation to supply uniforms to the Reggae Boyz through the 2022 World Cup. The sponsorship will pay \$4 million

according to the *Jamaica Observer*.++++**Adidas** signs the Austrian Football Association to a three-year ball sponsorship deal starting with the 2018/19 season.++++**Ultimate Direction** hired Morgan Newlon as its new sales manager and Craig Randall as marketing manager.++++**Hillsound Equipment** signs on as product sponsor for the 9th annual Winter Wild race series in New England.++++**Adidas** signed Nashville Predators' defenseman and 2-time NHL All-Star P.K. Subban to an endorsement deal for hockey and training products.++++**Wilson** opened its new, 90,000-sq.-ft. global headquarters in downtown Chicago.++++**Hydro Flask** appointed Surf Composites as its Australian distributor.++++**Eastpak** will be distributed in the U.S. and Canada by ZoneTwo USA starting in 2018, with a re-launch planned for January.++++**G3** hired Steve Ingold as customer service manager and retained the All Mountain Group as its sales agent in the Mid-Atlantic and Northeastern U.S.++++**Axe Bat** licensed Chandler Bats to make baseball bats with the patented Axe Handle and sell them to professional players.++++**Columbia** appoints former Credit Suisse research director Christian Buss as director of investor relations.++++**Simms Fishing** appointed former Patagonia fishing director Bart Bonime VP of product design & merchandising.++++**Flowfold** taps The Taku Agency as its sales rep for the East Coast.++++**Le Bent** taps Global Sales Guys to manage U.S. sales and Maro LaBlance to lead PR here.++++**Garmin** signed pro fisherman Jason Christie to an endorsement contract.++++**PXG** signed LPGA golfers Anna Nordqvist and Katherine Kirk to its roster of tour players.++++**Umbro** will replace Adidas as kit sponsor for Newell's Old Boys, an Argentinian soccer team, in a three year deal.

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