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ANTA-LED GROUP MAKES FIRM OFFER FOR AMER SPORTS

The cash offer of €40 per share values the equity at €4.6 billion and Anta will also assume €1 billion in debt. The tender is expected to commence on Dec. 20 and last approximately 10 weeks and is subject to receiving 90% of the outstanding shares. It is not conditioned on financing, which is evidently already committed. Amer's board has unanimously endorsed the offer. Anta would control a 58% stake in Amer with Fountainvest owning 15.8%, Lululemon founder chip Wilson 20.7% and Chinese gaming giant Tencent 5.6%, according to the *Financial Times*. The consortium said it had received positive expressions of interest from about 12% of Amer's shares and has invited the current management under CEO Heikki Takala to continue running the business headquartered in Helsinki.

Anta is paying a very high price for the company, one that Amer would find hard to turn down. With 2017 EBITDA of €285 million and net income of €93 million, the €5.6 billion offer represents a multiple of 18X EBITDA and 56X net. It's hard to see how a great deal of value can be unlocked from the hard goods brands. There is certainly some upside for the winter sports market because of the support that the Chinese government will give it leading up to the 2022 Olympics in Beijing. Wilson could attack Yonex in badminton in China and an institutional fitness market could develop in China for Precor, but these are still pretty low margin businesses with limited upside elsewhere. Clearly, much of the success of this deal will depend on the leverage it can get from the soft goods side. Wilson's skills would seem to fit well with the ambitions that Amer has

December 7, 2018
Vol. 35, No. 48

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for Arc'Teryx. While Wilson certainly hit the ball out of the park with Lululemon, his next venture at Kit & Ace was a weak dribbler back to the mound in comparison and was sold to the new management in October. Peak Performance and Salomon soft goods have potential in China, but we have doubts about the upside of both in Europe and North America.

On the other side, the deal will launch Anta into the global market in a way that will certainly be the envy of its Chinese competitors like Li Ning. While Anta is extremely profitable in China, its brand is essentially unknown outside the country. It has made a few marketing investments in the NBA and Olympics but still sells virtually all of its products inside China. It has the rights to the Fila and Descente brands in China only, so the deal will finally give it a platform from which to build an international presence. Anta is also clearly betting on a big upside in China, referencing efforts to accelerate existing Amer projects and new investments there.

Including the debt assumption, the Anta-Amer deal will rank as the second biggest in sporting goods history behind the all-time champion Kering's purchase of Puma in 2007 for a valuation of $7.1 billion. The Anta deal eclipses the Bass Pro-Cabela's deal that totaled $5.5 billion on a gross basis. The only other multi-billion deal in sporting goods is the Adidas purchase of Reebok for $3.7 billion in 2005, the first mega-deal. One might also include the Newell purchase of Jarden, which included plenty of non-sporting goods brands but the sporting goods portion has been sold off in recent months for $1.9 billion and Newell still owns Coleman and Marmot, so at least in terms of valuation, this one would also count. The Anta deal ranks as the largest acquisition of a European company by a Chinese company this year.

A common thread in several of these deals is that there was intense buyers remorse. Kering never got close to realizing any value in Puma and ended up spinning it off to shareholders because, even after a remarkable turnaround, it still wouldn't fetch anything like the value Kering paid for it. Reebok has been on a revenue diet ever since it was bought by the Big a to the point where it is flirting with anorexia and remains a turnaround situation 13 years later. Newell's purchase of Jarden has been a disaster on many fronts, but it's clear from impairment charges and divestiture prices that Newell has taken a big haircut on its foray into the sector. Bass Pro-Cabela's appears to be on track so far, even as it operates in a sector that is challenging and seems likely to remain so barring a Democratic landslide in 2020.

IMPORTS UP 2.6% IN Q3, THREAT OF TARIFFS PROMPTS LITTLE CHANGE

Total sporting goods imports were $5,547.2 million compared to $5,408.2 billion last year in the Jul.-Sep. period with every category relatively even compared to the levels of last year. Interestingly, the threat of tariffs on Chinese made goods produced almost no difference in the percentage of imports represented by China, underscoring just how difficult it is to shift production to new countries and making it likely that, if the trade war continues after the 90-day negotiating period agreed to (See below), the industry will be forced to raise prices to consumers this Spring. China overall accounted for 52.3% of all imports in Q3 this year compared to 52.4% last year and no category had a significant shift out of China.

Our quarterly import chart this time involves some explanation as the queries we used have undergone significant revision. The ITC launched a new database recently that deleted all the saved queries, so we had to develop a completely new set that does not match the old ones. In some ways, this was a needed revision as many of the products we had formerly not been able to identify in the database can now be found with a much improved search engine. That enabled us to capture items like backpacks and lanterns that are not in sporting goods classifications. Also, some of the descriptions have been improved that allowed us to capture more apparel data than before. Anything labeled performance we included, which does not completely cover the category but presents a much clearer picture than before. Finally, we broke out winter sports and rackets from the Other category. We ran the queries back to 2015 so we will have some historical context. If you have interest in seeing the HTS codes we included for your category, we are happy to share them and consider any input you may have about items that should be included or excluded. email: jhoran@sginews.com. As always, we are reporting declared customs value and first units of measurement which vary from category to category.

The 2.3% growth rate in Q3 is a slight acceleration from the 1.2% decline recorded in Q2 but slightly below the 3.7% in Q1. Year-to-date, imports are only up 3.0% with sneakers up 1.6% and apparel up 0.9%. Only golf showed a significant increase at 11.2%. Team was down 0.4%, outdoor up 3.4%, exercise up 5.4%, rackets up 3.9%, winter sports up 6.6% and Other up 2.9%. Inventory at both the retail and wholesale level is clearly in pretty good balance right now, judging from comments on recent calls and the general Holiday promotional environment so this rather flattish performance on imports suggests that it is matching demand rather well but it also suggests that growth is sluggish overall. By comparison, imports for all of 2017 grew 12.7% following 8.7% growth the prior year. Of course, both years had outside events affecting the numbers as 2016 was in the aftermath of the West Coast port slowdowns and then the bankruptcy epidemic broke out in 2016, carrying over to 2017.

Soft goods imports were essentially flat for the quarter with sneakers up 1.4% to $1,415.0 million against $1,395.0 million and apparel up 2.9% to $1,015.4 million against $986.6 million. China accounted for 37.1% of the total compared to 37.9% last year while it captured 38.2% of apparel imports compared to 38.5% prior. Vietnam sneaker imports rose just 1.8% to $646.8 million and represented 45.7% of the total while Indonesia imports gained 3.0% to $177.4 million and accounted for 12.5% of the total. Apparel imports from Vietnam declined 12.8% in the period to $83.0 million. The mean price of sneakers declined slightly to $14.85 from $14.92 as units grew 1.9% to 95.3 million pairs compared to 93.5 million. Apparel units, dozens or dozens of pairs, rose 5.0% to 65.9 million from 62.8 million with the mean cost falling 2.0% to $15.40 from $15.71.

Overall equipment imports rose 3.0% to $3,116.9 million from $3,026.6 million with outdoor and winter sports increasing; golf, exercise, rackets and Other essentially flat; and team down somewhat. China was the source for 63.7% of all equipment imports this year compared to 63.6% last year with most categories showing a shift of well under 1%. The biggest shift was in winter sports where the percentage dropped to 24.6% from 27.9%, but as that clearly indicates, the winter sports business doesn't rely on China for very much of its sourcing. Every other equipment category except golf at 57.8% was over 60% dependent on China, and Exercise was over 70%.

As for the details in equipment, Golf showed a strong 7.0% increase in average value to $19.99 from $18.68, offset by a 6.3% decline in units to 10.3 million from 11.0 million. Team mean cost was flat at $7.05 with units down 5.0% to 31.3 million from 33.0 million. Outdoor was also flat at $4.31 against $4.30 although units rose 8.9% to 261.2 million from

U.S. Sports Apparel, Footwear and Equipment Imports

(Third Quarter; declared customs value in dollars)

	Q3 2018	Change vs. 2017	Q3 2017
Athletic FW	**1,414,954,102**	**1.4%**	**1,395,005,767**
Apparel	**1,015,358,036**	**2.9%**	**986,573,856**
Golf	206,505,369	0.2%	206,018,287
Team	220,847,689	-5.0%	232,564,509
Outdoor	1,124,499,283	9.2%	1,030,112,687
Exercise	1,106,999,536	-0.6%	1,114,097,396
Rackets	31,797,861	-1.9%	32,427,148
Winter Sports	174,298,973	6.7%	163,338,134
Other	251,934,766	1.6%	248,039,715
Equipment	**3,116,883,477**	**3.0%**	**3,026,597,876**
TOTAL	**5,547,195,615**	**2.6%**	**5,408,177,499**

239.7 million. The mean value in Exercise dipped 7.0% to $894.71 from $962.17, partially offset by a 6.9% increase in units to 1.24 million against 1.16 million. Rackets, evidently heavily influenced by balls and string, saw its average unit cost increase to $0.81 compared to $0.77 with units off 6.9% to 39.3 million vs. 42.3 million. Winter sports average cost increased 6.4% to $143.85 compared to $135.21. The Other category, mostly water sports and assorted lawn and indoor games, saw the mean cost decline 2.7% to $41.03 from $42.16 with units up 4.4% to 6.1 million from 5.9 million.

U.S. AND CHINA BACK OFF ON TRADE WAR, BUT SITUATION STILL TENSE

With both sides facing increasing political pressure and risking damage to their economies, the two sides worked out an agreement at the G-20 meeting that will delay imposition of new tariffs and a planned Jan. 1 increase on $200 billion worth of Chinese goods to 25% from 10% in hopes that a permanent arrangement can be made within a set 90-day period. China, in return, said it would resume buying American agricultural and other products in excess of the $70 billion that was promised in June if the U.S. didn't impose tariffs.

The recent thawing was dealt a setback by the arrest of Huawei CFO Meng Wanzhou in Vancouver. Huawei, a Chinese telecom giant that has close ties with that country's government and military, is being investigated by the Justice Department for violating Iran sanctions and money laundering. China has asked American and Canadian officials to release Ms. Meng, according to the *New York Times*, and one state affiliated Chinese media outlet referred to the arrest as a "declaration of war." The effect on trade negotiations remains to be seen, but one encouraging sign was that China's statement specifically said that talks should continue.

<u>Rather than put some points on the board after a rocky November at the polls and in the court room, the Administration decided to call a timeout</u>. While the agreement is certainly a positive development, it is clear that the two sides remain far apart on many substantive issues and it seems unlikely that these can all be resolved in 90 days given the fact that many of these issues have been on the table since China joined the WTO in 2001. That certainly leaves open the possibility that when this agreement expires Mar. 1, the situation could mirror the one facing the two countries last week with both sides threatening to escalate the trade war. Much will depend on the Chinese satisfying the Administration that it will undertake meaningful reforms on intellectual property, cyber warfare and market access, a question that is likely to divide the hard liners and moderates in the Administration.

As it stands now, the impact on sporting goods has been relatively limited. Categories such as hats, bags, backpacks, sports gloves, camping furniture and kayaks have been caught in the second round of $200 billion in tariffs but those tariffs will stay at 10% rather than increase to 25% Jan. 1. That still leaves the industry with considerable exposure on Mar. 1 if the two sides do not reach an a permanent agreement, as detailed above.

Industry groups quickly praised the agreement. "SFIA sees this action as a positive step toward resolving our trade issues with China. We are hopeful this 90-day period will lead to an agreement that does not rely on punitive tariffs to achieve our policy objectives," CEO Tom Cove said. Amy Roberts, executive director OIA, said her organization "will continue to press the case that thousands of large and small retailers and manufacturers of outdoor products play a significant role in bolstering the U.S. economy and that U.S. trade policies should serve to help them continue to innovate and prosper."

STILL NO CEILING FOR LULULEMON AS SALES, NET SOAR AGAIN

Net income leaped 60% to $94,413,000 from $58,944,000 for the quarter ended Oct. 28 with net revenue expanding 21% to $747,655,000 from $619,018,000 and comp store sales jumping 17%, including a 6% gain for the stores and a 44% hike in the digital business to $189.4 million, or 25.2% of total sales. The lulunatics modestly exceeded Wall Street forecasts, but a somewhat restrained forecast on Q4, despite a strong start over Thanksgiving, muted investor response as shares dipped 5% on the news. LULU guided to a top line of $1.115-1.125 billion in Q4 with EPS of $1.64-1.67 ($221.8 million). For the FY, revenue is forecast at $3.235-3.245 billion with EPS of $3.61-3.64 ($485.8 mm).

Investor expectations aside, it's clear the lulunatics are still seeing enviable momentum in the market place, especially in their digital business which looks on track to hit its 2020 target of 25% penetration two years ahead of schedule. Traffic was up more than 35% in the period with conversion up high-single digits. Its recent investments in AI to automate and personalize e-mail marketing as well as new product offerings that are resonating are credited with the surge in e-commerce and the lulunatics were forced to admit that they will have to take up their targets here, noting that right now they see no barriers to further penetration, especially since digital is by far their more profitable channel and even online returns are not much different from returns on store purchases. It also notes that the present mix is almost entirely reflective of North America as it is just now making the infrastructure investments needed to really accelerate digital in Asia and Europe.

Another reason to suspect that LULU's momentum isn't flagging is that it is successfully testing a fee-based membership program that it plans to continue tinkering with next year. In addition to a bottom, the $128 fee brings access to classes, special product collections and shipment benefits. Response was termed very strong, and LULU hints that its fee might have been too low. Product extensions are also looking promising and showing evidence that there is plenty of white space. The big ones on the table now are outerwear and bras, with outerwear at price points up to $500, a value relative to Canada Goose which is after the same customer. It will make a big effort in running next year with cooling yarns and has also tested a small package of self care products in a few markets that it believes has great potential. Too, it is eyeing more wear-to-work ideas that are doing well. Regionally, Asia and Europe both saw sales increases over 50%, led by China with a 76% gain.

It's also clear that LULU is doing a good job bringing those sales gains to the bottom line, even as it continues to invest heavily in future growth with some SG&A deleverage. Gross margin was up another 240 b.p. to 54.4% with merchandise margin jumping 280 b.p. on lower markdowns, lower product costs and an improved mix. And while the lulunatics have produced a 700 b.p. improvement in gross margin over the past two years, they see meaningful expansion, particularly in product margin, as they improve sourcing. Investments in new product and upgrading the DCs somewhat offset the merchandise margin improvement. SG&A deleveraged 140 b.p. to 36.2% on investments in IT, data analytics and seasonal store openings. Despite the momentum in digital, LULU makes clear that it still plans to invest in stores, growing floor space 14% in the last year with 38 new stores net. It also is growing its co-located men's and women's stores and experiential stores. While much of the store expansion is focused on international, LULU said North America is its biggest near-term opportunity in brick-and-mortar, noting that it opened 43 seasonal stores in Q3 and plans another six in Q4. Some 40% of the customers in these seasonal stores are new to LULU.

JOURNEYS, J&M DRIVE Q3 PROFITS FOR GENESCO

Net income was $14,387,000 for the third quarter ended Nov. 3, lapping a $164,821,000 loss last year that included a $182.2 million goodwill impairment, as sales slipped 1% to $713,069,000 from $716,759,000. Missing a week of Back-to-School sales this year due to the calendar shift cost the top line about $20 million. Excluding the impairment and other one-time charges, adjusted earnings were $18,663,000 against $19,701,000 last year. Total blended comp sales were up 4% compared to +1% last year, with brick-and-mortar comps +4% against -2% and direct comps +9%, down from +24% last year. DTC sales were 10.6% of the total for the quarter, compared to 9.9% last year.

Q4 is off to a solid start, as Nov. comps accelerated slightly from Q3 levels, powered by strong footwear sales over the Thanksgiving weekend. GCO narrowed its guidance for the full year and now expects comp stores sales up 2% to 3% and adjusted earnings in the range of $3.10 to $3.40 per share ($63.3 million). Revenues are still expected to be ±1% compared to last year, but gross margins are now seen as coming in at +20 basis points rather than +30 b.p. due to additional promotional activity.

The search for a buyer for Lids has taken longer than GCO expected, and it said that in the event it can't sell the chain, it will take additional unspecified steps to achieve profitability in the near term. Lids sales dipped 4% to $173,241,000 from $181,347,000 and comps improved to -2% compared to -6% comps last year as the lack of a strong headwear trend has continued to hurt traffic. Sales from the Red Sox-Dodgers World Series did not match last year's seven-game Astros-Dodgers series and the MLB playoffs were also disappointing. But NBA and NFL merchandise sales were up slightly in Q3, and NFL improved even more in Nov. Nike has tightened up NBA distribution, which was also a benefit for Lids. Lids gross margin was up 10 b.p. despite heavier promotions this year in a bid for more traffic. Operating loss was $388,000 compared to income of $1,991,000 last year.

Fashion athletic and casual footwear continue to drive sales at Journeys, and boot sales picked up as weather turned colder at the end of the quarter. Revenue at the chain climbed 4% to $345,702,000 from $333,506,000, including a 9% comp sales gain against 4% last year that improved through the quarter. Future comparisons get much more difficult, however, as Journeys had mostly rectified its assortment issues by Q4 last year. Traffic increased mid-single digits and conversions and average ticket were both higher, with footwear units and ASPs both contributing. E-commerce comps increased double digits, benefitting from an upgraded call center and the investments in increasing speed and efficiency at its distribution center. Operating income was also up 4% to $25,232,000 from $24,283,000.

Elsewhere, Schuh sales declined 6% to $95,567,000 from $101,489,000 on -4% comps in what remains a very sale-driven environment in the U.K., facing headwinds from Brexit anxiety. Schuh has ramped up promotional activity to compete, and that has helped traffic, but resulted in operating income dropping 40% to $4,207,000 from $7,054,000. The trend is expected to continue through Holiday. At Johnston & Murphy, sales surged 8% to $79,736,000 from $74,132,000 with comps up 10% on strength in sport casual and lifestyle footwear and apparel. But J&M's wholesale business declined in comparison to some large orders last year that did not recur. Operating income was off 1% to $5,215,000 from $5,287,000. Licensed Brands revenue declined 28% to $18,757,000 from $26,208,000, generating an operating loss of $189,000 against income of $1,153,000.

Gross margin edged up 10 basis points to 49.5% with higher merchandise margins, but also higher DC and fulfillment costs for direct orders. SG&A was up 90 basis points to 45.9% of sales from higher bonus accruals and a shift in catalog expenses, partially offset by lower rent and selling salaries. Inventory was down 5% overall and levels are said to be in good shape, with Journeys inventory down 5%, Lids down 5%, J&M up 7%, and Schuh down 8%.

ZUMIEZ GROWS IN Q3 AND HAS STRONG START TO Q4

Net income increased 16% to $13,823,000 from $11,922,000 in the third quarter ended Nov. 3 and sales inched up 1% to $248,795,000 from $245,756,000 despite the loss of a high-volume week from the retail calendar shift that cost the top line about $9.6 million. Comp store sales expanded 4.8%, lapping a 7.9% increase last year. Aug. started strong at +9.5%, but then Sep. weakened to +1.2% and Oct. came in at +1.6%. E-commerce comps were ahead of brick-and-mortar comps, but were not specified.

Footwear was the strongest growth category in Q3, and men's, women's and accessories also comped positively, but hardgoods was down. North American sales increased 1.5% to $226.5 million, while international sales, consisting of Europe's Blue Tomato and Australia's Fast Times, decreased 1.8% to $22.3 million, but were slightly positive constant currency. Zumiez has opened 12 stores this year, including five in North America and seven in Europe, for a total of 708, and plans to open one more store in Q4. CapEx for the year will be about $20 million, largely from store openings and remodels.

The fourth quarter started strong with a 9% increase in Nov. sales to $84.4 million from $77.1 million, including +2.3% comps against +7.8%. Thanksgiving weekend and Cyber Monday comped 4.1% higher and footwear was again the strongest category, followed by men's, women's and accessories. ZUMZ expects Q4 sales of $295 to $301 million with flat to +2% comps on a difficult comparison, resulting in net income of $1.02 to $1.08 per share ($26.5 million), despite missing the 53rd week from fiscal 2017. For the full year, ZUMZ expects mid-single digit comp sales growth, operating profit growth in the mid- to high-teens, and net income between $1.64 and $1.70 per share ($42.2 million).

Gross margin improved 100 basis points to 34.9%

in Q3, including 70 b.p. of product margin and 70 b.p. improvement in inventory shrinkage, partially offset by higher shipping and fulfillment costs. SG&A was up $3.9 million, or 130 b.p. as a percent of sales, caused by deleverage from the calendar shift. At quarter end, inventories were up 19% to $186.9 million due to planned early shipments from suppliers for the Holiday season. ZUMZ expects the level will be back down by year end. Lower taxes from the Tax Act also helped the bottom line, with an effective rate of 26.5% this year compared to 35.9% last year.

BIG 5 ACTIVISTS NAME BOARD CANDIDATES

The Concerned Shareholders of Big 5 Group, which is backed by securities litigation firm Johnson Fistel, has proposed former Wal-Mart SVP Mel Redman and former Vans EVP Jeff Moore to fill the two vacant seats on the BGFV board. CSB5's efforts to shake up the moribund retailer began in May when it approached Big 5's board with a number of changes that it says would improve performance. Now it is seeking an individual or institutional investor to help the group get its board candidates on the ballot, who meets BGFV nominating requirements of holding 5% or more of its stock for at least three years. The Big 5 board has so far resisted meeting with CSB5 and has not agreed to even consider its candidates, the group said in a release. The group's original letter to the board didn't reveal the names of Redman and Moore.

CSB5 wants the retailer to make significant changes to its traditional operating model, not least of which is to make some efforts towards implementing e-commerce sales, where it has lagged far behind its rivals. The group wants BGFV to make critical changes in several key areas: adjust its marketing strategy to emphasize that it is an off-price retailer; reduce its dependence on print circulars for advertising; place greater emphasis on the sneaker category; eliminate its $12 million annual dividend and reinvest that money in the company; and stop carrying over unsold seasonal inventory. Finally it wants to replace the senior management, where six of the seven top executives have remained in place since the company went public in 2002.

BGFV was targeted in 2015 by Stadium Capital which proposed a slate of directors and demanded reforms in corporate governance. That battle was ultimately settled with some of Stadium's nominees winning seats and some changes to its rules for voting on directors that made it easier to remove directors. That battle preceded Dick's biggest expansion into BGFV's markets following the exit of Sports Atrocity and Sport Chalet, which gave BGFV something of a tailwind in 2017 that seems to have reversed again with weak sales.

THE ATHLETE'S FOOT BOOMING AFTER TURNAROUND

The athletic footwear franchisor now has over 520 stores in 32 countries, and generated total sales of $417 million last year after a tumultuous six-year transition in which more than 300 stores were closed and the same number were either opened or refitted. Buying group Intersport International acquired TAF at the end of 2012 after several changes of ownership and bankruptcy proceedings, and installed PVH veteran Ingmar Kraak to implement the turnaround. The strategy was to reposition TAF as a cool banner for lifestyle sports-inspired footwear, addressing young consumers and competing against the likes of Foot Locker, JD Sports Fashion and Courir. Intersport's market power certainly helped ensure support from key brands like Nike, Adidas, Puma, Asics, New Balance and Vans.

After Kraak came on board with a fresh perspective, more than half of TAF's U.S. stores were closed down, focusing on the southeastern part of the country and on fashion-conscious African-American customers. As a result, with 46 stores left in the country, TAF is generating more sales in the U.S. now than at the time of its takeover, according to Intersport, which claims increases of 30% or more per store, with some reaching 100%. The company's net retail sales have grown at an average annual compound rate of 5.6% since the acquisition. Kraak will leave TAF in Apr. 2019 in a planned departure, and has agreed to help in the transition until his successor is found.

Further south in Mexico, The Athlete's Foot grew from 89 stores to 128, offering an expanded range of products including apparel and accessories. Elsewhere, Australia has 129 stores, and the banner is also strong in the Philippines (20 stores) and

Indonesia. It enjoys a prominent position in other countries such as Kuwait. There is still potential for further growth in Europe, where several Intersport franchisees have started to open TAF shops. Before the acquisition, TAF had 18 stores in all of Europe (16 in Portugal and two in Denmark). The European total now stands at 136, spread among 15 countries, including 56 stores in the Netherlands alone.

PERFORMANCE BICYCLE TO CLOSE ALL STORES

Performance Bicycle filed an amended store closing plan with the bankruptcy court for its remaining 62 stores in addition to the 40 stores on its initial list. Clearance sales have been ongoing at the initial 40 stores since early Nov., with a targeted end date of Jan. 27, and the second batch will see GOB sales begin as soon as possible and run through the end of Feb. Gordon Brothers will conduct the second group of sales on the same terms as the first. That would essentially turn it into a wholesaler with the licenses for brands like Kestrel, Fuji and Breezer which it has licensed outside the U.S. to Ideal, a supplier to it of those brands in the U.S. as well. It is asking the bankruptcy court to allow it to reject that licensing deal.

The Taiwanese bicycle manufacturer vehemently opposed Performance Bicycle's motion because it paid $6 million in licensing fees upfront a year ago for a five-year term and Performance's motion now seeks to prevent Ideal from selling any of the bikes it made in inventory, including parts, with a value of $7.8 million. Moreover, Ideal has a trade claim of $12 million for bikes it already shipped to PB. Ideal makes the argument that the Lubrizol decision used by PB to justify the termination has been contradicted by other courts and is going before the Supreme Court, likely to be rejected. Rejecting a contract relieves the debtor of its obligations but doesn't necessarily terminate the rights of the licensee, it opines. Moreover, the licensing in Lubrizol was the debtor's only significant asset whereas PB earlier stated that its business model is sound and it has substantial assets in its retail business that can be used to mitigate claims. Further, PB provides no evidence that the contract is really burdensome, so Ideal should be able to litigate the issue before the court makes a decision.

AMERICAN OUTDOOR BRANDS DOUBLES PROFITS IN FQ2

Net income more than doubled to $6,665,000 from $3,234,000 in the fiscal second quarter ended Oct. 31 on 9% higher revenues of $161,703,000 vs. $148,427,000 with growth from both firearms and outdoor products. Gross margin expanded 70 basis points to 34.9% and SG&A increased $2.3 million, but leveraged 100 basis points as a percent of sales. AOBC raised its full-year guidance after the strong quarterly result, and now expects revenue of $625 to $635 million, up from $620 to $630 million, and net income of $0.38 to $0.42 per share ($22 million), up from $0.32 to $0.36 guided previously. AOBC shares jumped 15% on the quarterly performance and increased guidance.

Firearms segment sales were up 10% with improved gross margin driven by shipments of "bundle" promotions, which pair guns with compatible accessories, that were booked earlier in the year. New products accounted for 27% of firearm sales, led by the M&P Shield 380 EZ pistol, which launched in Feb. NSSF-adjusted NICS background checks declined 8.8% for handguns and 11.2% for long guns in the quarter, but AOBC's handgun unit shipments declined just 1.9% and long gun shipments jumped 14.1%, suggesting market share gains in both categories. Nov. NICS checks were down, but reflected a seasonal rhythm, management opined, and Black Friday was the fourth highest day for NICS checks ever. Distributor inventories decreased sequentially to 135,000 units at the end of the quarter from 145,000 at the end of FQ1 and down from the bloated 213,000 units this time last year.

The Outdoor Products & Accessories segment grew 10% and accounted for about one-third of revenues, with sales gains coming from an expanded Crimson Trace product line including new riflescopes and red dot sights. Sales gains were broad-based across the Hunting & Shooting, and Cutlery & Tool categories, with particular strength in sales to online retailers. Outdoor segment gross margin was 45%. The new 632,000-sq.-ft. Missouri distribution and customer services facility for the Outdoor segment will also house the marketing, product development and engineering groups and encourage collaborations and rapid product prototyping. Building construction is complete and the facility is planned to open in early 2019.

CROCS WILL BUY BACK BLACKSTONE'S PREFERRED SHARES

The company will pay $183.7 million, or $26.64 per share, for half of Blackstone's shares, and the PE fund will convert its remaining preferred shares into approximately 6.9 million shares of CROX common stock. Crocs will pay Blackstone a $15 million fee for the privilege. CROX shares were around $15 at the time of the 2014 Blackstone investments, and are trading at almost twice that price presently, benefitting from the company's efforts to overhaul its global distribution and cut SG&A. Blackstone got two seats on the Crocs board as part of the original deal, but going forward the right to nominate future directors will be reduced to one. Blackstone also agreed to a nine-month lockup on the 6.9 million shares it is retaining.

Eliminating the 6% dividend the preferred shares paid would have increased pro forma earnings per share by about 30% for the first nine months of 2018. To account for the transaction, the company will take a one-time charge of $101.0 million in the fourth quarter, including an $83.7 million accounting charge for the difference between the $183.7 million preferred share repurchase price and the $100 million face amount. The rest is a cash charge for the $15 million fee plus expenses. While the transaction did not affect Crocs' full-year expectations of 4-5% top line growth, 51.5% gross margin, and operating income of slightly less that $60 million, the 2018 bottom line will definitely be red from the charges. The repurchase will be financed from cash on hand, with the balance from its revolving credit facility.

ALPARGATAS SALES DECLINE IN Q3

Net income jumped 71% to R$119.8 million ($31.3 mm) in the third quarter, but this was partly due to non-recurring items, on 2% lower revenues of R$930.7 million ($243.2 mm). Excluding one-time benefits, the Brazilian group's EBITDA margin fell by 1.3% points to 12.3%. Gross margin declined 10 basis points to 43.4%, partly due to the higher cost of rubber. While Alpargatas has stopped breaking down its sales of sports products, which now consist mainly of its Mizuno license for Brazil and Argentina, it did say that sports shoes sales were up 17% in volume during the quarter, driven by basic items and new medium priced products in a very promotional environment. It opened the first two Mizuno factory outlet stores in Brazil in Q3.

The sandal business, represented mainly by Havaianas, grew by 35% to R$146.8 million ($38.4 mm), largely because of the devaluation of the Brazilian currency against the euro and the U.S. dollar. Margin improved by 140 b.p. to 68.6%, but its operating losses increased because of big investments for its future development, especially in Asia. Havaianas recorded sales increases in local currencies in Europe and the Middle East, and revenues from the Asia-Pacific region rose by 43%, partly because of late invoicing of previous shipments. The first six Havaianas stores in India were opened during the quarter.

Meanwhile, CEO Márcio Utsch is leaving the company, reportedly because of differences of opinion with the investment funds who took control last year. He'll be replaced by Roberto Funari, a former manager of Reckitt Benckiser and current Alpargatas' director. Also, the company's divestiture of its Topper sporting goods business is proceeding, with a 20% stake going to Sforza, which also bought the Rainha brand of sports shoes from Alpargatas. Sforza has a 15-year license for Topper in the U.S. and other countries.

RETAIL

FANATICS is partnering with Overwatch League owner Blizzard Entertainment as the exclusive provider of jerseys, fan gear, headwear, and hard goods. Fanatics will also handle global e-commerce for the Esports league with a mobile shopping platform and will operate on-site retail at Blizzard Arena in Los Angeles and at other league events. The new deal will be implemented prior to the Feb. 14 start of the 2019 Overwatch League season, in which 20 teams from six countries will compete.

NICS background checks, as adjusted by the NSSF, had another month of year-over-year declines, falling 9.8% to 1,314,193 from 1,457,103 in Nov., a seasonally busy month. Year-to-date, adjusted NICS checks are down 5.9% to 11,621,918 from 12,346,617. The NSSF backs out background checks for concealed carry weapons permits and checks from active CCW permit databases to more accurately reflect gun sales. Unadjusted NICS checks slipped 0.4% to 2,363,705 from 2,372,888 for the month.

TILLY'S revised Q3 results because accounting for inventory under the retail method resulted in a $1.1 million reduction in net income in the third quarter ended Nov. 3. The revised profit was $5,355,000 rather than $6,448,000, reflecting the after tax effect of a $2.1 million charge to cost of goods sold that was partially offset by a $0.6 million reduction in SG&A for previously recorded corporate bonus accruals. Gross margin was 29.7%, down from 31.2% reported previously. TLYS shares, already beaten down after the company's Q4 earnings guidance was lower than expected, dipped another 5% on the news.

COMPANIES

DAKINE is sold to Marquee Brands, the parent of Body Glove, and has signed a long-term operating agreement with JR286, a licensee of Nike accessories, to develop the brand. Terms of the deal and the seller weren't disclosed but Dakine was sold to Altamonte for A$70 million by Billabong in 2013 after Altamonte and VF made a failed attempt to acquire the entire Billabong business. It installed Leslie Lane as CEO at the time, later replaced by Ken Meidell who will become part of Marquee. Marquee, which also owns Bruno Magli, Ben Sherman and BCB, is backed by Neuberger Berman's private equity group and says it has retail equivalent sales of over $1.5 billion.

NIKE gave Heidi O'Neill responsibility for all digital products and member experiences, in addition to being president of Nike direct over all brick-and-mortar and Nike.com DTC operations. O'Neill has been at Nike in various senior roles for the last 20 years, including head of U.S. apparel and head of Nike women's. Prior, she had been at Levi Strauss and Foote Cone & Belding.

OUTDOOR RETAILER shows will all now span three days, with Summer Market in June and Winter Market in November going from four days to three, aligning with the current three-day format for January's Snow Show. The 2019 dates are Snow Show: Jan. 30-Feb. 1; Summer Market: Jun. 18-20 with the Demo Experience on Jun. 17; Winter Market: November 5-7. The three shows will all be held at the Colorado Convention Center in Denver.

UNDER ARMOUR dropped Kareem Hunt, last year's rushing champion, after he was released by the Kansas City Chiefs Nov. 30 when a video surfaced that showed him kicking a woman. The Chiefs said he lied to them when asked about the incident but after TMZ posted a video of the incident, he was immediately released. Nike had an endorsement deal with Ray Rice, the Baltimore Raven who in 2014 was seen in a video assaulting his then fiancée and now wife. Rice was reinstated by the league after initially being released by the Ravens but was immediately dropped by Nike from his endorsement deal and has not played football since the incident, making it clear by both the league and brands that this is a line that cannot be crossed.

STOCKS & EARNINGS

CALLAWAY sees Moody's assign a Ba3 rating and an SGL-2 speculative grade liquidity rating to its proposed $480 million senior secured term loan which will be used to finance the purchase of Jack Wolfskin. It also assigned a Ba3 corporate family rating and Ba3-PD probability of default rating to the company, with a stable outlook. Positives were Callaway's leading market position and strong brand name in the golf industry, modest financial leverage at around 3.0x, and solid scale with pro forma revenue around $1.6 billion. Negatives include entering an apparel industry with different competitive dynamics than the golf business, as well as integration risks for the acquisition and ELY's inexperience with operating with financial leverage.

G-III net income increased 15% to $94,025,000 from $81,625,000 in the seasonally important fiscal third quarter ended Oct. 31 on 5 % higher revenues of $1,072,982,000 up from $1,024,993,000, driven by DKNY and Tommy Hilfiger and solid outerwear sales. Gross margin contracted 250 basis points to 35.6% from an unfavorable product mix and the reclassification of some advertising from SG&A to cost of goods. SG&A decreased 210 b.p. as a percent of sales. GIII's effective tax rate was 26.5% against 36.2% last year, adding $12.5 million to the bottom line. Management noted that tariffs have only affected handbags and leather goods so far, about 7% of revenues, but it said it has been diversifying sourcing away from China.

NEWELL, flush from the sale of Pure Fishing and Jostens, is seeking to buy back about $1.5 billion of its outstanding notes through two tender offers. It wants to repurchase all of its $350 million of 3.150% notes due 2021, and the rest in a waterfall offer that gives first priority to its $1.75 billion of 5.500% notes due 2046 with four other tranches of debt at lower acceptance priority levels. Newell will pay a 5% early tender premium for all repurchased notes. Pure Fishing was sold to Sycamore Partners last month for about $1.3 billion, and Jostens fetched a similar price from Platinum Equity.

VISTA OUTDOORS' speculative grade liquidity rating was raised to SGL-2 from SGL-3 by Moody's after it closed on its new $600 million senior secured credit facility, but the rating outlook remains negative. Moody's said Vista's ongoing transformation plan to sell parts of its business has continuing risks, and there is also uncertainty over when gun and ammunition demand trends will stabilize. The rating reflects a high debt/EBITDA ration of over 5.5x, weak operating performance and gun industry uncertainty. It maintained Vista's B1 corporate family rating, B1-PD probability of default rating and B3 senior unsecured rating. The new asset-based facility includes a $450 million revolving credit agreement, a $109.3 million term loan, and a $40 million junior term loan, all maturing on Nov. 19, 2023.

VULCABRAS net income dropped to R$39.5 million ($9.1 mm) from R$65.9 million in the third quarter at the parent company of Olympikus and Azaleia on a 6% decline in revenues to R$322.1 million ($84.2 mm), just as it is gearing up to take over the distribution of Under Armour in Brazil. Gross margin contracted 280 basis points to 36.6%, and marketing and advertising expenses jumped 21%, or 4.6% of sales. The group's sales of athletic footwear declined by 5% to 3.8 million pairs, leading to an 11% increase in segment revenues to R$243.6 million and represents 79% of the total turnover. Conversely, women's shoe unit sales went up by 15% to 1.8 million pairs, and their sales gained 14% to R$54.9 million.

TRADE & SOURCING

KNOW THE CHAIN, a group that monitors corporate policies on forced labor, gave Adidas a score of 92 out of 100 and Lululemon 89, topping all soft goods brands by a comfortable margin. VF (65), Nike (63) and Puma (61) also had relatively high scores. At the bottom of the scale, Foot Locker (12), Skechers (7), Pou Chen (6) and Yue Yuen (1) scored poorly. Of course, factories like Pou Chen and Yue Yuen are major suppliers to Adidas, Nike and Puma, so it's a bit incongruous that they would have such low scores. The report was funded by Humanity United, a foundation set up by the billionaire founder of eBay, Pierre Omidyar, and his wife Pam. The report focuses mostly on the procedures and practices in place by brands for monitoring and preventing forced labor. It does no actual monitoring and makes no claims that it found forced labor violations at any of the companies studied. It positions itself as a benchmark study for companies looking at the issue.

LEGAL

ADIDAS has taken Barcelona midfielder Rafinha to court in Amsterdam, and is demanding that he pay a €100,000 penalty for each day he doesn't wear Adidas footwear, *The Mirror* reported. The endorsement contract requires that he wear Adidas footwear on the field, and Adidas apparel at all media appearances. Rafael Alcântara (Rafinha's real name) claims that his Three Stripes sponsorship deal expired on July 1, and he has been playing this season in blacked-out Mizuno boots. Adidas says that Alcântara did not respond to its extension requests, which allowed them to automatically extend the contract until March 2023.

OREGON BREWING CO., which has a registered trademark for Rogue on beer, spirits, T-shirts, sweatshirts, hats and similar apparel categories, has sued Rogue Apparel for selling T-shirts and hats bearing the Rogue name in Manhattan federal court. OBC in Jul. won a Second Circuit decision that gave it the rights to the Rogue trademark for T-shirts and hats but left the Rogue mark for leather apparel to a third company, Excelled, which was using the Rogue mark on those products. Excelled was then bought by Rogue apparel and started selling T-shirts, sweatshirts and hats using the Rogue mark, the complaint charges. OBC is asking for a willful infringement finding. It further asks the court to cancel the Excelled marks on the grounds that it made false statements to the USPTO by concealing the terms of a settlement between OBC and Excelled in 2007.

NIKE counterfeits that would have had a retail value of $1,695,600 if authentic were seized by Customs and Border Protection. The shipment of 9,024 pairs, which arrived from Dongguan City, China, in Sep., was seized in Newark, NJ. They were destined for an address in Chino, CA, which CBP is continuing to investigate.

YETI is sued by two disgruntled Rambler Colster owners, Lance Peroutka and Otis Fung, who are seeking class certification for their suit in E. NY District Court. The suit accuses Yeti of falsely advertising that its design secures drinks in place and fits cans and bottles "like a glove," citing many one-star customer reviews on its website, and noting that seven of the 10 largest market share beer bottles do not fit securely. The plaintiffs are seeking findings of false advertising, breach of warranty and violations of several NY statutes. They want an injunction against Yeti and, of course, damages and lawyers' fees.

SHORT STOPS

Nike wins *Ad Age*'s 2018 Marketer of the Year award, citing its Colin Kaepernick ad as "as a textbook example of how a marketer can change the conversation."++++**Rawlings** signs on as exclusive equipment supplier to Softball Canada's men's and women's national teams.++++**Nike** opened its 35,400-sq.-ft. Dubai flagship store in the Dubai Mall that features NikePlus enhancements, customization facilities and a small basketball court.++++**Icebreaker** opened a new Touch Lab store at Bellevue Square Shopping Center in Bellevue, WA, and re-opened its Portland, OR, flagship store. The apparel brand now has four U.S. stores and eight in Canada.++++**Johnson Outdoors** names former Nike and SC Johnson and Son CEO Bill Perez to its board of directors.++++**ISA TanTec** is expanding its tannery in Vietnam's Binh Duong province to increase its leather production capacity to more than 6 million square feet per month. TanTec also opened a new 600-sq.-ft. showroom in Saigon.

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Sporting Goods Intelligence is available only by subscription. *SGI* is published 50 times per year, weekly except in December and July.

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