

Grant Thornton Corporate Finance mergers & acquisitions

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Content

- Executive summary
- Industry overview
- M&A activity
- Valuation
- Conclusion

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Sporting goods

Unusual unions - Recent M&A market reflects surprises

Executive summary

In the past year, the mergers and acquisitions (M&A) market for sporting goods saw a flurry of unforeseen marriages. Beginning in mid-2006 when footwear juggernaut New Balance purchased Brine Inc., a lacrosse equipment manufacturer, more companies are entering markets outside their traditional lines of business or geographic markets.

Industry overview

- With overall industry sales totaling an estimated \$66.4 billion and growth of 5.8 percent in 2006, the segment is a mature market but is still growing. In fact, growth in sporting goods and apparel sales exceeded the U.S. gross domestic product (GDP) growth of 3.6 percent in 2006.¹
- Growth can be attributed to a strong 2006 performance from the sports apparel market, which saw an eight percent rise in sales. The athletic footwear and sports equipment markets followed with three percent and five percent increases in sales, respectively.²
- With an industry growth rate forecast of 5.9 percent in 2007, we believe the sporting goods segment will continue to attract interest. As the sports apparel and equipment segments remain extremely fragmented, strategic buyers will have an opportunity to enter the market through acquisitions.³

M&A activity

Historically, activity in the sporting goods M&A market has been characterized by larger companies gobbling up smaller companies within similar lines of business. However, a new trend has emerged, with unlikely firms acquiring sporting goods companies unrelated to their existing lines of business or geographic markets.

Interestingly, three of these unexpected recent transactions have ties to the lacrosse segment.
continued on page 3 >

¹SGMA 2007 Manufacturers Sales Report

²SGMA 2007 State of the Industry Report

³SGMA 2007 State of the Industry Report

Selected sporting goods and apparel transactions

Date	Target/Issuer	Buyers/Investors	Sub-industry
6/28/2007	Everlast Worldwide Inc. (NasdaqNM:EVST)	Sports Direct International Plc (LSE:SPD)	Boxing & Fitness
6/25/2007	World Industries, Inc.	i.e. distribution	Skateboard Equipment & Apparel
5/17/2007	BP International Inc. (OTCPK:BPIL)	DIY Shade, Inc.	Tennis Court & Field Equipment
4/24/2007	K2 Inc. (NYSE:KTO)	Jarden Corp. (NYSE:JAH)	Sports Equipment
4/12/2007	Cutter & Buck Inc.	New Wave Group AB (OM:NEWA B)	Golf Apparel
4/6/2007	Pure Fishing, Inc.	Jarden Corp. (NYSE:JAH)	Fishing
4/4/2007	RACI Holding, Inc - Remington Arms	Cerberus Capital Management, L.P.	Firearms
4/3/2007	Powers Embroidery/Chenille, Inc.	American Achievement Corp.	Personalized Logos
2/28/2007	Majestic Athletic, Ltd.	VF Imagewear, Inc.	Sports Apparel
2/21/2007	Danskin, Inc., Danskin Brand	Iconix Brand Group Inc. (NasdaqNM:ICON)	Sports Apparel
2/15/2007	Aviva Sports, LLC	ShoreMasters, Inc.	Inflatable Recreation Equipment
2/14/2007	Trophy Ridge LLC	Escalade, Inc.	Archery Accessories
2/8/2007	Fast Track Fitness, Inc.	Ladies Health and Fitness USA	Fitness Equipment
2/1/2007	Ocean Minded LLC	Crocs, Inc.	Footwear
1/29/2007	Eagle Creek, Inc.	VF Outdoor, Inc.	Adventure Travel Gear
1/12/2007	Igloo Vikski Inc.	Lanctôt Ltd.	Sportswear & Equipment
1/5/2007	Crosman Corporation	Wachovia Capital Partners	Firearms
12/20/2006	Women's Golf Unlimited, Inc.	Adams Golf, Inc.	Golf
11/30/2006	Chisco, Inc.	Chums, Inc.	Action Sport Accessories
11/30/2006	Etonic Worldwide LLC	Lotto Sport Italia SpA	Footwear
11/17/2006	Pursuit Marketing, Inc.	National Paint Supply	Paintball Products
11/6/2006	Ocean Pacific Apparel Corp.	Iconix Brand Group, Inc.	Sports Apparel
11/1/2006	Wakekite Sports, Inc.	HO Sports Company, Inc.	Water Sports Equipment
10/27/2006	Jazz Golf Equipment Inc. (CDNX:JZZ.H)	ENSIS Growth Fund, ENSIS Management Inc.	Golf
10/3/2006	Lendal Products Ltd.	Johnson Outdoors, Inc.	Paddles
10/1/2006	Fury, Inc.	CROCS Inc. (NasdaqNM:CROX)	Lacrosse Equipment
9/3/2006	Burton Golf Inc.	Forefront Holdings, Inc. (OTCPK:FOFH)	Golf
8/8/2006	Rusty Surfboards	Vegas Enterprises Pty. Ltd.	Surfboards & Apparel
8/8/2006	Brine, Inc.	New Balance Athletic Shoe, Inc.	Lacrosse Equipment
8/2/2006	Russell Corp	Berkshire Hathaway Inc - Spalding	Sports Equipment & Apparel
8/1/2006	Golfgear International Inc. (OTCPK:GEAR)	Redux Holdings, Inc. (OTCPK:RDXH)	Golf



In August 2006, New Balance acquired Brine Inc. to become the dominant equipment player in the small but rapidly growing lacrosse segment. In October 2006, Crocs Inc., the hot casual shoe brand, joined the hockey and lacrosse

equipment market through its acquisition of Fury Inc. Crocs had an interesting rationale for the deal: The company wanted to exploit synergies in plastics technology. Jarden Corp., the home products conglomerate, diversified its portfolio of niche consumer products through its acquisition of sporting goods equipment giant K2 Inc., which owns lacrosse brands deBeer and Gait. For a \$60 million market, lacrosse equipment saw significant activity in the past year.

Surprises have also come from abroad. About one of every five transactions in the past year has involved a firm outside the United States., signaling that international companies have become increasingly interested in the U.S. sporting goods industry. The most notable of the new deals was New Wave Group AB's \$156.5 million purchase of Cutter & Buck Inc. The Swedish company, which produces golf apparel for the European corporate and consumer markets, intends to use this acquisition to expand the distribution of its existing brands into the United States. Another significant cross-border transaction

was the purchase of the boxing brand Everlast Worldwide Inc. by Sports Direct International plc, the leading sporting goods retailer in the United Kingdom. Interestingly, Sports Direct International has been quietly acquiring various sports, leisure and fashion brands around the globe. The retailer now owns Antigua, Carlton, Donnay, Dunlop, Kangol, Karrimor, LA Gear, Lillywhites, Lonsdale, No Fear, Slazenger and Voodoo Dolls. And in the footwear sector, Lotto Sport Italia SpA, the Italian soccer and tennis shoe company, acquired U.S.-based Etonic, best known for its golf and bowling footwear.

Valuation

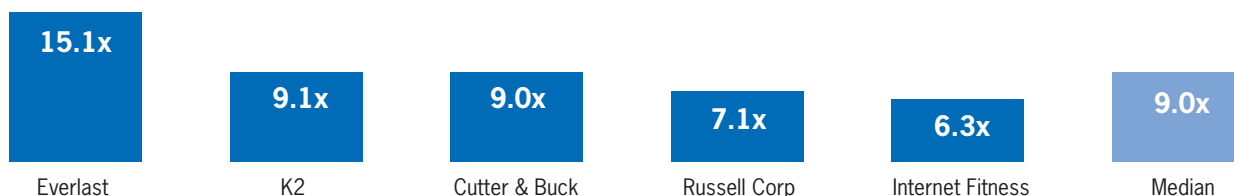
Precedent transactions

Although the majority of sporting goods deals were private transactions with undisclosed valuations, eight recent transactions have occurred with a median EBITDA multiple of 9.1x. Most notable were the recent purchases of Puma AG Rudolf Dassler and Everlast Worldwide Inc. for EBITDA multiples of 11.6x and 15.1x, respectively. The favorable valuation attributes of these targets included size, brand name, recent growth and specific synergies.

Public company comparables

The industry is often divided into three overlapping classifications: athletic footwear, sports apparel and sports equipment. This past year, each sub-sector surpassed valuation multiples from previous years. Overall, the median sporting goods valuation multiples have jumped from 7.7x EBITDA in 2005 to 10.7x EBITDA in 2007. >

Sporting goods recent transactions TEV/EBITDA multiples



Sporting goods and apparel public comparables

Company name	Market cap (\$mm)	Enterprise value (\$mm)	EV/TTM	
			Revenue	EBITDA
Footwear				
Nike Inc.	\$29,839	\$27,534	1.7x	11.4x
Adidas AG	€ 9,120	€ 11,648	1.1x	10.8x
K-Swiss Inc.	\$967	\$703	1.5x	7.9x
		Mean	1.4x	10.0x
		Median	1.5x	10.8x
Sports apparel				
VF Corp.	\$10,187	\$11,035	1.7x	10.9x
Quiksilver Inc.	\$1,707	\$2,650	1.1x	10.9x
Under Armour Inc.	\$2,733	\$2,682	5.7x	37.0x
Columbia Sportswear Co.	\$2,459	\$2,199	1.7x	9.9x
Oakley Inc.	\$1,957	\$2,120	2.6x	17.2x
Delta Apparel Inc.	\$153	\$231	303.1x	8.6x
		Mean	52.7x	15.7x
		Median	2.2x	10.9x
Sports equipment				
Callaway Golf Co.	\$1,345	\$1,467	1.4x	14.3x
Nautilus Inc.	\$303	\$350	0.6x	4.7x
Escalade Inc.	\$123	\$154	0.8x	7.5x
Adams Golf Inc.	\$52	\$48	0.6x	11.2x
		Mean	0.8x	9.4x
		Median	0.7x	9.4x
As of 7/19/2007		Overall	18.3x	11.7x
		Median	1.4x	10.3x

Conclusion

The sporting goods M&A market continues to attract both buyers and sellers. Buyers have been drawn by the market's steady growth rates and abundance of privately owned sports apparel and equipment brands. With valuations at the highest recorded levels

in years, many smaller participants are taking advantage of today's favorable market conditions. However, in order to maximize valuation, the prevalence of out-of-the-box buyers in the market suggests that sellers should use a broader auction approach that would include international acquirers.

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Grant Thornton Corporate Finance provides boutique investment banking services to privately held middle-market businesses in the United States and around the world. As a recognized advisor on middle-market mergers and acquisitions, we offer a range of investment banking services including sell side advisory, buy side advisory, management buyouts, restructurings and capital raising. Grant Thornton LLP provides investment banking services through its wholly owned broker-dealer subsidiary Grant Thornton Corporate Finance LLC.

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