

Global Sportswear Sector

M&A update

Spring 2014



Fragmented sector creating M&A opportunities

Favorable trends continue to drive substantial growth in the global sportswear sector, which captures performance, outdoor and sports-inspired clothing and footwear. A highly fragmented market supports broader consolidation, where niche players and iconic brands represent prime acquisition targets for both financial sponsors and strategic acquirers alike.

The key observations from our research:

■ Sector growth is strong

Rising levels of health and wellness awareness globally and increased sports participation rates, as well as product innovations (such as lightweight, breathable micro fibers) are driving substantial growth in the sector.

■ Acquirers have a diverse set of objectives

M&A activity is cross-border and is being driven by a number of factors including acquirers' desire to procure new technologies, capture growth opportunities in developed and emerging markets and expand into new product categories.

■ Strategic M&A outlook is favorable

Niche players and iconic brands are prime acquisition targets for strategic players, which can provide strong marketing and distribution expertise to increase scale and drive higher margins.

■ Private equity (PE) sponsors are active industry participants

PE continues to target the sportswear industry due to the favorable outlook for the sector, as well as generally constrained capital for smaller players where increased financial resources can lead to substantial growth opportunities both organically and through roll-up strategies. Sponsor exit activity through initial public offerings (IPOs) and M&A has also gained momentum as valuations have rebounded.



“The sports apparel market continues to evolve and companies that wish to maintain or grow share need to lead with innovation. Consumers are demanding functional apparel that has a combination of performance, fit and fashion. The sports apparel market now accounts for approximately 25% of the overall clothing market in the US and most industry leaders believe the trend of men and women increasingly wearing athletic apparel in casual settings is a permanent shift in the broad appeal of functional apparel.”

William Harrison
Managing Director
Head of Consumer Investment Banking
Headwaters MB

Increasing consumer base is supporting growth globally

Long-term trends driving global sportswear growth

The global sportswear market is showing clear and powerful underlying trends, which over time have provided strong tailwinds for sector growth. While the US market remains the most important sportswear market by size, sportswear is increasingly becoming a global, emerging markets story with growth in such regions expected to reach high-single to mid double-digit pace over the next few years. Major trends in the industry include:

■ **Rising health and wellness awareness globally**

Consumers are trying to lead more active lifestyles and becoming increasingly focused on healthy living, embracing health and wellness as an important part of their routine. This trend is also supported by the increasing influence of businesses and organizations including employers, insurers and retailers that continue to institute health and wellness programs to encourage better health.

■ **Increasing active sports participation rates**

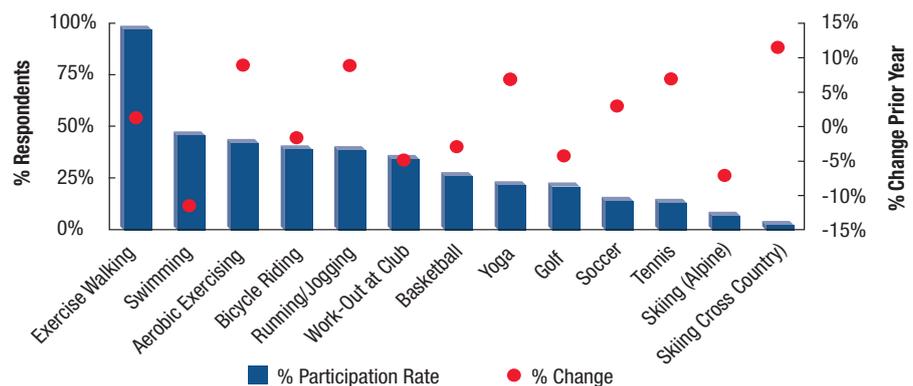
Sports participation rates are increasing, driven by the rising health consciousness of consumers (see Figure 1). The dramatic surge of female

athletes into playing fields and the associated opportunities have continued to shift market dynamics. Increased participation have allowed key industry players and new entrants (such as athletic apparel specialist Lululemon) to capture significant market share in the women's segment of the sportswear market. According to the National Sporting Goods Association (NSGA), increased participation rates were largely driven by females with 40 of the 47 activities tracked having increased female participation, compared to only 11 activities tracked showing increased male participation.

■ **Development of innovative and technically advanced products**

There is growing awareness and increasing levels of consumer attention on the technology used in sportswear, where performance fabrics such as lightweight, breathable micro fibers have gained attention among consumers. Consumers have shown a willingness to pay more for performance characteristics such as temperature control, friction regulation, moisture management and water resistance to reduce the potential for injury and discomfort.

Figure 1: US sports participation and growth



Source: NSGA

Convergence of casual design with athletic performance

The connection between sportswear and fashion is steadily obscuring the difference between casual and active sports apparel. Women in particular have demonstrated an appetite for fashionable workout wear. Increased emphasis on versatility, convenience, fashion, comfort and style have created a strong demand for sports and fitness apparel that offer both functional performance and style appeal. As a result, sports apparel manufacturers are capitalizing on the trend by developing styles conducive to both athletic activity and general wear that allow manufacturers and retailers to charge significantly higher prices.

“When I was running Reebok, we were aware of Under Armour but did not think they had a huge competitive advantage. What we underestimated was athletes' need for even a slight competitive advantage and their willingness to pay a premium for those products. Now Under Armour is worth over \$10 billion because they listen to their customer and develop amazing products. It is exciting to know that the next Under Armour or Nike is probably being developed in some enthusiasts garage right now.”

Jay Margolis
Former President and COO of Reebok

Demand from lifestyle consumers is rising

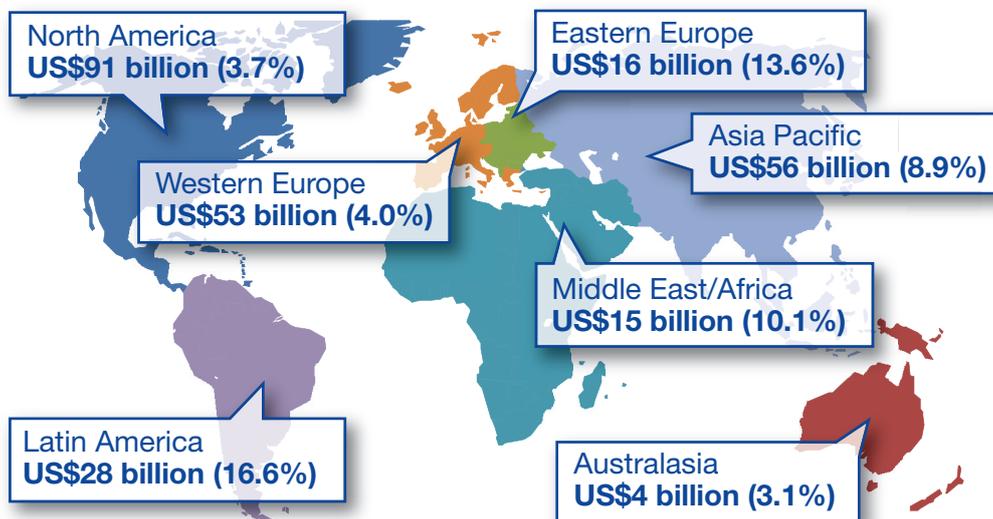
Globalisation supporting strong growth

With functionality and versatility paramount, vendors have responded with stylish clothing for both men and women to go from the gym to the streets. The expansion of overall usage contributes to increasing spending on fitness products, while the amplified focus on style necessary to captivate the target audience generates higher margins.

At US\$263 billion in global retail sales in 2013, sportswear sales constitute 15.3% of

the overall clothing market. Sportswear sales are estimated to have grown by 6.9% from 2012 to 2013, significantly outpacing overall apparel sales growth of 5.1% over the same time period. Compared to the global apparel market, which is projected to grow at a respectable 6.1% CAGR from 2013 through 2017, the growth prospects in the global sportswear market are slightly more favorable – projected to grow at a 7.5% CAGR through 2017 (see Figure 2).

Figure 2: Global sportswear market by region – 2013 sales and 2013-2017 forecast CAGR



Source: Euromonitor. 2013 sales estimated

Product innovation is key to maintaining demand

Industry is fragmented

Despite the presence of a handful of large international and regional players, the sportswear market generally remains relatively fragmented in key regions of the world.

Significant players in the industry (total revenue greater than US\$2 billion) include Nike, Adidas, V.F. Corporation, Puma, Amer Sports and Under Armour (see Figure 3). The remainder of the market is primarily comprised of smaller firms with strong local brand recognition, but with limited resources to develop a broader market presence.

Niche players and iconic brands, such as cold weather outerwear specialist Canada Goose, which was acquired by Bain Capital in December 2013, are prime acquisition targets for financial sponsors and strategic players that can provide strong marketing and distribution expertise, as well as the requisite financial resources to grow the business.

Prior to the global financial crisis, the sportswear sector experienced a relatively healthy acquisition pace in both the hard

and soft goods categories. Subsequently, the larger players have shifted to more of an internal focus with organic growth driving expansion across international markets and new product categories. The larger industry players have also shown an increased focus on profitability and cost efficiency, which has included implementing strategies to optimize the supply chain, improve inventory management, reduce lead times and improve product quality. Scale matters and the large brands are focused on chasing growth in emerging markets by building out their delivery platforms in high growth markets and selectively pursuing acquisitions that fill a gap in either technology or a product category.

Long-term success in the sportswear industry will be driven by product innovation, where companies have focused on providing technical advancements balanced by aesthetic design to drive brand recognition, revenue growth and higher gross margins. Smaller industry players with innovative designs and niche brands, but which lack the financial resources to expand, have a history of being acquired.

Figure 3: Top global sportswear companies by revenue

Company	Headquarters	Market Capitalization (US\$m)	Total Revenue (US\$m)	EBITDA (US\$m)	EBITDA Margin %	TEV/LTM EBITDA	Geographic Segments	Number of Acquisitions (past 5 years)
Nike	US	62,515	26,286	4,093	15.6	14.3x	Global	-
Adidas	Germany	23,503	19,465	1,864	9.6	12.6	Global	4
V.F. Corporation	US	24,653	11,163	1,872	16.8	14.1	US/West Euro	3
PUMA	Germany	4,201	4,185	148	3.55	25.6	Global	4
Amer Sports	Finland	2,405	2,942	271	9.23	11.2	Global	3
Under Armour	US	11,078	2,332	316	13.5	34.4	US	1
Lululemon Athletica	Canada	6,456	1,556	456	29.3	13.0	North America	1
ANTA Sports	China	3,408	1,149	245	21.3	11.1	China	2
Li Ning	China	1,061	943	(268)	(28.4)	-	China	1
Geox	Italy	1,084	995	41	4.1	26.7	Western Europe	-
Xtep International	China	1,091	821	159	19.4	4.4	China	-
Moncler	Italy	5,033	751	241	32.1	22.3	Global	-
361 Degrees	China	541	664	88	13.3	1.9	China	-

Source: Capital IQ, HWMB analysis

Diverse M&A objectives across the sportswear sector

Merger and acquisition activity is occurring at a modest pace, is cross-border and is being driven by a number of factors.

Buyers are using acquisitions to diversify both product and geography business mix, add higher margin products to their portfolio and leverage established platforms to deepen their position in the global market.

■ Acquire new technical innovations and R&D capabilities

Niche players, including those companies that have made key technological innovations, are a focus of leading players in the sportswear industry.

In 2013, US-based Under Armour acquired MapMyFitness, which utilizes GPS and other advanced technologies to provide users with the ability to map, record and share their workouts. The US\$150 million acquisition uniquely positions Under Armour at the forefront of sports and technology to deliver game-changing solutions for how athletes train and perform. The technology will deepen Under Armour's digital capability, offering athletes an elevated training experience through new digital products and platforms.

■ Expand into new product categories

Larger acquirers are focusing on companies with a deep category understanding, enabling a larger acquirer to leverage established platforms to grow the topline, while instituting more efficient expense management systems and supply chain capabilities to reduce operating and sourcing costs.

In 2013, US-based Authentic Brands Group (ABG) announced the acquisition of US-based Spyder, an outdoor ski and snow brand. Spyder represented the first outdoor and winter sports brand in ABG's portfolio. ABG's focus of the transaction is to initiate global growth while ensuring that the domestic

business is further cultivated in the US. The acquisition will allow ABG to streamline Spyder's current business while expanding the brands into new markets.

■ Strengthen capabilities in existing categories

Traditional sportswear companies have been active in acquisitions of lifestyle type brands, expanding beyond sporting goods and sportswear where popular consumer appeal drives higher margins.

In 2011, Finnish company Amer Sports acquired Iceland-based Nikita for US\$10 million, a snowboarding inspired action sports apparel brand which focuses on female consumers. The acquisition was in line with Amer Sports' strategic priority to grow faster in soft goods and has allowed the company to expand its presence in the action sports category. While Nikita's sales are mostly in Europe, Amer has leveraged the scale of its brands in design and go-to-market activities to grow the category and increase market share amongst its female consumers.

■ Acquire niche products with proven brands

Activity is focused on leading, iconic brands where larger marketing spend and wider distribution channels can expand a target's business, while still preserving the brand's unique culture and positioning in the market.

In 2012, US-based Polaris Industries announced the US\$46 million acquisition of Teton Outfitters, an American company that engages in design, development and manufacturing of motor sports apparel for the snowmobile and motorcycle riders under the KLIM brand. Polaris will maintain the KLIM brand, whose strengths are expected to complement Polaris' existing business and provide a more complete apparel line-up to flourish in the global market.

M&A by large corporates has a strategic focus

Record valuations are supporting further M&A

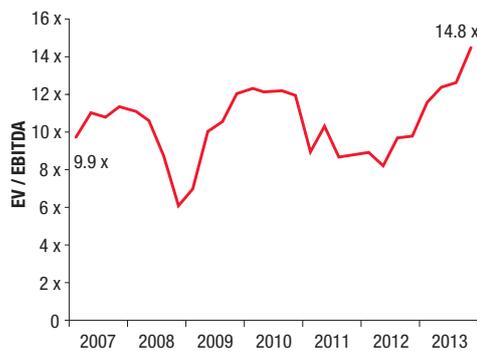
Outlook suggests M&A will continue

M&A activity will continue to increase as large companies target technical innovators, leverage established platforms to grow smaller brands and chase growth in emerging markets.

Such a trend is supported by a sizeable universe of attractive smaller assets that fulfill the diverse acquisition objectives of larger industry players. Record high

valuations in the sportswear industry provide a strong acquisition currency and may induce sellers to pursue strategic alternatives (see Figure 4). The substantial presence of smaller players in the industry should also prompt consolidation as they lack the financial resources and economies of scale necessary to compete with the larger industry players.

Figure 4: Global composite sportswear EV/EBITDA multiples



Source: Capital IQ

“The consumer continues to seek sport-specific functional apparel that allows the user to optimize their experience and performance. Design and functionality continues to improve and consumer expectations are at a high level due to great products being produced by both large and niche players.”

Gary Kiedaisch
Former CEO of Coleman and Bauer Nike

Figure 5: Selected sportswear M&A transactions

Announced	Target	Target Country	Acquirer	Acquirer Country	Deal Value (US\$m)	Deal Type
Dec-13	Canada Goose	Canada	Bain Capital	USA	-	Private Equity
Nov-13	MapMyFitness	USA	Under Armour	USA	150	Strategic
Aug-13	SPYDER	USA	Authentic Brands Group	USA	-	Strategic
Jul-13	DAKINE	Australia	Altamont Capital Partners	USA	65	Private Equity
Dec-12	Teton Outfitters	USA	Polaris Industries	USA	46	Strategic
Jul-12	Helly Hansen	Norway	Teachers' Private Capital	Canada	328	Private Equity
May-12	inov-8 Ltd	UK	ISIS Equity Partners	UK	n/d	Private Equity
Jan-12	Li Ning	China	TPG Capital	USA	-	Private Equity
Dec-11	Nikita	Iceland	Amer Sports	Finland	10	Strategic
Dec-11	Wiggle Ltd	UK	Bridgepoint Capital Group Ltd	UK	314	Private Equity
Dec-11	Paris Glove of Canada Ltd	Canada	New Wave Group AB	Sweden	16	Strategic
Nov-11	Five Ten U.S.	USA	Adidas AG	Germany	38	Strategic
Jun-11	Timberland	USA	V.F. Corporation	USA	2,226	Strategic
Jun-11	Moncler	Italy	Eurazeo	France	1,371	Private Equity
Jul-10	HAGLÖFS	Sweden	ASICS	Japan	133	Strategic
May-10	New Harbour Yoga	Australia	Lululemon Athletica	USA	-	Strategic

Source: Capital IQ, HWMB analysis

Private equity provides capital and operational expertise

PE attracted to platform investments

PE activity is modest and focused on acquiring iconic brands where international expansion opportunities are favorable.

- Bain Capital purchased Canada Goose in 2013 in order to help its further develop in international markets and provide the necessary capital to fund its continued expansion.
- Also in 2013, Altamont Capital Partners purchased outdoor clothing specialist DAKINE, attracted to its quality brand and strong track record. Altamont also participated in the simultaneous recapitalization transaction of Billabong, from which DAKINE was purchased. Altamont is also invested in Mervin, a leading producer of snowboarding equipment, a carve-out from Quiksilver.
- TPG invested in Li Ning in 2012, providing much needed capital to Li Ning and gaining access to middle class consumption in China. At the time of the

investment, Li Ning indicated it would use the money to develop brands, roll out new stores and support working capital. Subsequent to the initial transaction, TPG has restructured the management team and improved operations against a difficult operating environment for Li Ning.

- The sportswear industry's fragmented structure and smaller niche operators offer a target rich environment for platform acquisitions. PE is focused on providing operational and financial support to further assist in the execution of organic growth strategies, especially targeting expansion in high growth emerging markets.
- There have been a handful of successful recent PE backed exits. Eurazeo's partial exit in December of Moncler was one of the best performing IPOs of 2013, which was priced at the top of the range and advanced 47% on its initial day of trading.

CASE STUDY: Ariat sale to the Fisher family

In 2012 Ariat International was sold to management and the Fisher family, the founders of Gap. The sale was an exit for LNK Partners and Brentwood Associates (terms were not disclosed).

Deal background

- Ariat has grown rapidly since its origins to the early 1990s by leading the industry in continuous product innovation and delivering high-quality products with differentiated performance characteristics.
- Ariat has diversified from its base in Western and English boots into related footwear and extended its brand into denim, apparel and accessories.
- By building on its market leadership in the US, Ariat has expanded into key international markets and established itself as one of the fastest-growing equestrian brands in Europe, the UK and Australia.



- Ariat's iconic brand, significant growth trajectory and leading position in the global equestrian market presented the Fisher family with an extremely attractive opportunity to deepen further their partnership.
- Ariat's expanded partnership with the Fisher family, who have deep apparel industry experience, will provide a strong strategic foundation for Ariat's long-term expansion plans.

Ariat's successful transition into crossover apparel and accessory lines highlights the increasing trend of sportswear participants to capitalize on consumer preferences to wear fitness products outside of their traditional domain. In partnership with the Fisher family, Ariat will continue to innovate and expand into new markets.

Selected Mergers Alliance deals



Recapitalized by





Sold to





Management buy-out from




Management buy-out

Contacts Specialist advice on call... For information on sportive apparel sector trends



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Join the mergers and acquisitions discussion

With a global sportswear sector team, the Mergers Alliance partners are expertly placed to offer advice. In particular, we offer:

- Advice on structuring and completing deals in the global sportswear market
- Identifying acquisition opportunities around the world
- Information on sector trends and valuations
- Access to corporate decision-makers and owners