SPORTING GOODS

CURRENT TRENDS

- Sporting goods companies reported gains in 2021 as the COVID-19 pandemic continues to increase sports participation rates.
- Annual sales for sporting goods retailers rose 24.7% in 2021 over 2020.
- The sporting goods industry made a digital shift with online shopping outpacing brick-and-mortar sporting goods stores.
- Up to 85% of consumers plan to continue online fitness and exercise programs in 2022 driven by a preference for continued physical distancing.
- In the short term, the retail sector may be under pressure as economic uncertainty weighs on domestic and international markets.

PROJECTED VALUES
(12-MONTH OUTLOOK)

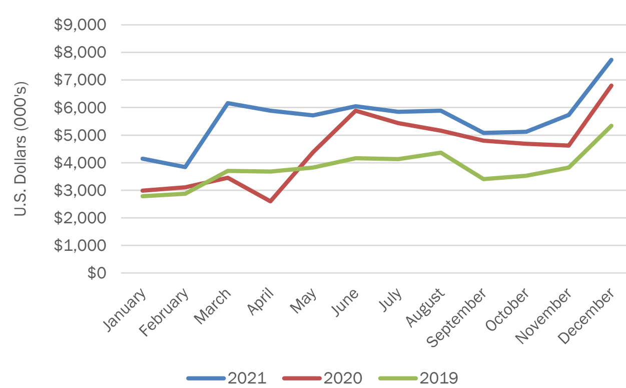
APPROXIMATE NET RECOVERY ON COST

70%-95%
national chain

55%-85%
category specialist

50%-75%
local operator

SPORTING GOODS - RETAIL STORE SALES



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COVID-19 PANDEMIC DRIVES DEMAND: Sporting goods clothing and equipment sales have increased during the pandemic as consumers spend more time outdoors. U.S. sporting goods stores reported increased revenue every month in 2021 over 2020. Annual sales for retail stores rose 24.7% to $67.2 billion in 2021 compared with $53.9 billion in 2020, according to the U.S. Census Bureau.

The industry may experience additional growth with increased sports participation rates, which experts anticipate will grow at an annualized rate of 1.2% through 2026, according to research firm IBISWorld. Data suggests the global sportswear market could grow 8% to 10% per year through 2025, increasing from $337 billion in 2021 to $452 billion in 2025, according to consulting firm McKinsey & Company.

Athleisure continues to gain ground with consumers working from home and evolving attitudes toward work apparel. Increased health awareness, new perspectives on sports and fitness and the rising popularity of digital forms of exercise and physical activity have created new growth opportunities for sporting goods companies.

Top sporting goods companies performed well in 2021, including Dick's Sporting Goods, the largest omni-channel sporting goods retailer in the U.S. The company ended 2021 with annual consolidated comparable store sales growth of 26.5% compared to 9.9% for 2020, reflecting the ongoing demand for outdoor and fitness products. Despite higher supply chain costs, the sales growth coupled with fewer markdowns boosted the company's EBITDA margin to 19.2% for 2021, compared to 11.2% in 2020 and 8.7% in 2019. Additionally, the company's e-commerce sales penetration grew from 16% of total net sales in 2019 to 21% in 2021, following a pandemic-driven surge of 30% penetration in 2020.
Adidas reported currency-neutral revenue growth of 16% in 2021, driven by growth in all markets despite external factors weighing on supply and demand, according to the company's annual report. The company's e-commerce revenue increased 4% for the year on top of the exceptionally high growth of over 50% in 2020.

Nike reported revenues of $11.4 billion for its second quarter ended November 2021, an increase of 1% year over year. Direct sales increased 9% to $4.7 billion and digital sales increased 12%, driven by 40% growth in North America. The company's gross margin increased 280 basis points to 45.9%.

Under Armour's year-over-year revenue rose 9% to $1.5 billion in the fourth quarter of 2021. Wholesale revenue increased 16% to $768 million and direct-to-consumer revenue increased 10% to $720 million, driven by a strong performance in owned and operated stores, according to the company. Growth was also aided by a 4% growth in e-commerce, which represented 42% of the total direct-to-consumer business during the quarter. North America revenue increased 15% to $1.1 billion.

Amid this growth, industry competition remains strong. Large chains like Walmart can use its economy of size to secure low-cost sporting goods from manufacturers in bulk. Specialty stores struggle to compete with the price and convenience of such large product offerings.

THE DIGITAL SHIFT AND RISE OF ATHLEISURE: Shifting consumer behaviors both before and during the pandemic have driven an increased preference for online shopping. As of 2021, over 80% of consumers use online channels to shop for sporting goods, and about 45% of U.S. sporting goods sales following pandemic lockdowns and closures were made using online channels . Additionally, 70% to 85% of consumers plan to continue online fitness and exercise programs in 2022, driven by a preference for continued physical distancing.

Sporting goods retailers and brands have turned to social media to increase exposure, enlisting athletes and influencers to promote products and apparel. Global media company SportsPro ranked Nike the world's most marketable company based on data analytics firm Hookit's social media analysis. More than 30,000 sports organizations and athletes posted promotional content for over 8,000 brands on social media platforms between August 2020 and August 2021, according to Hookit. Nike earned more than 8.77 billion engagements on social media posts promoting its brand during the same period , generating a total sponsorship value worth $616.5 million, which topped rival Adidas' $270 million.

The athleisure segment benefited from stay-at-home and work-from-home orders during the pandemic, and experts anticipate its popularity will continue to grow. Data suggests 20% of U.S. consumers buy activewear for casual, nonathletic purposes, according to research firm Mintel Group. Athleisure is the fastest growing clothing segment, according to marketing firm Linchpin SEO. The firm projects the worldwide market value will increase at an annual growth rate of 8.1% to over $517 billion in 2022.

The comfort, durability and flexibility of the cutting-edge textiles used in athleisure apparel production has driven its global popularity. For example, products were originally manufactured with polyester blends but now feature more durable fabrics with anti-microbial, moisture-wicking and high-evaporation technology. Developing more advanced fabrics and styles is one of the most important opportunities for the segment.

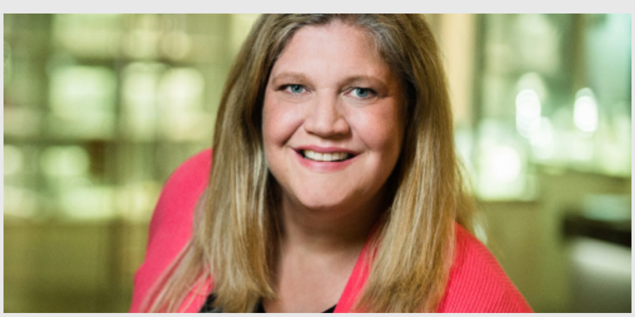
VALUATION OUTLOOK: Gordon Brothers believes appraisal values should remain relatively stable for s porting goods given the sector's ongoing recovery from the pandemic. It is likely the digital sales share will remain strong as consumers have become increasingly accustomed to online shopping online as a result of the pandemic.

Given the sales increases generated by majors and others in 2021, it is important to note consumer sentiment remained at its lowest level in 10 years as of February 2022, which the University of Michigan's Survey of Consumers attributes to a decline in sentiment among households with incomes of $100,000 or more.

While the sporting goods segment offers a range of products and price points, rising fuel and food prices resulting driven by inflation will affect consumers across demographics. In the short term, the retail industry may be under pressure as economic uncertainty weighs on domestic and international markets, especially for consumers with lower levels of disposable income.

Assets appraised in 2021 should be reappraised in 2022 as sales and four-wall expenses normalize. Lenders should remain cognizant of retailers' control and leverage over variable and fixed expenses amid ongoing challenges like inflation, labor shortages and employee retention.

The Expert: Becky Goldfarb



Bringing over 20 years of experience in the disposition and valuation of retail and consumer products, Becky Goldfarb oversees all aspects of retail asset valuations for Gordon Brothers. Prior to joining valuations, Becky was responsible for the financial analysis of retail dispositions across all sectors. Read her full bio here.

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