

EXODUS COMPLINK 
Plan Well ▶ Build Value ▶ Exit ▶ Enjoy

OPINION OF VALUE

Powered By:  RAINCATCHERSM



DISCLAIMER

The information contained herein has been obtained from sources believed to be reliable. However, Raincatcher, LLC. ("RC") has not, and will not, verify any of this information, nor has RC conducted, nor will it conduct, any investigation regarding these matters. RC makes no representations, guarantees or warranties of any nature about the accuracy or completeness of any information provided, including those of any nature, regarding the income, expenses, or value for this business nor the future financial performance of value of the business and the information is submitted subject to the possibility of errors, omissions or withdrawal without notice. This analysis is a subjective opinion at the time provided and is in no way a substitute for an appraisal, or any other official enforceable valuation.

Any reliance on this information is solely at your own risk. This analysis and the information contained herein is proprietary and strictly confidential, intended for use only by the party receiving it from RC. It should not be made available to any other person or entity without the express written consent of RC. All parties viewing this information should hire their own advisors to conduct a careful, independent investigation and verify all information.



THANK YOU

Dear Customer,

Thank you for your interest in the Raincatcher Opinion of Value. This document will take you through an in-depth analysis of your company and its value.

The Raincatcher Opinion of Value is a vital tool to help you understand the true value of your company, its place in its industry, and can highlight potential areas for improvement as you consider selling your company now or in the future.

At Raincatcher, our mission is to help entrepreneurs buy and sell remarkable companies. Our approach is different from the average business brokerage. We pride ourselves on servicing our clients with empathy and compassion as we partner alongside them on their value-building journey.

Our team is made up of accomplished small business owners who have experienced the challenges that small to mid-sized private companies face. This experience enables us to guide our clients with firsthand experience through all phases of the business selling and buying processes.

Simply put, we care. We care about your business, and we will work hard to help you understand its value. Even if you aren't quite ready to sell, we are still here for you and have many options to help you move forward as you plan for your future exit date.

Please let us know if you have any questions about this document, the valuation process, or any questions you may have about your business at all. We embrace the opportunity to partner with you alongside one of the biggest decisions of your life.

Sincerely,



Table of Contents

Exhibit [A](#) - Raincatcher's Valuation Worksheet

Exhibit [B](#) - Raincatcher Score Summary

Exhibit [C](#) - Raincatcher Factors

Exhibit [D](#) - ValueBuilder Score

Exhibit [E](#) - Verticle IQ Report

Raincatcher's Valuation Worksheet

ABC Co. - Preliminary Financial Recast

	2019	2020	2021
<i>Revenue Growth</i>		115%	-28%
Gross Revenue	\$937,617	\$2,017,426	\$1,453,964
Cost of Goods Sold	\$393,656	\$986,250	\$617,029
Gross Profit	\$543,961	\$1,031,176	\$836,935
<i>Gross Margin</i>	58%	51%	58%
Operating Expenses	\$515,550	\$570,794	\$640,540
Other Income/Expense	(\$7,690)	\$84,943	\$6,075
Net Income	\$20,721	\$545,325	\$202,470
EBITDA	\$53,670	\$565,821	\$223,233
Preliminary Addbacks	\$42,032	(\$1,138)	\$121,241
SDE	\$95,702	\$564,683	\$344,474
<i>SDE Margin</i>	10%	28%	24%

Raincatcher's Valuation Worksheet

Summary of Add-backs

	2019	2020	2021
Interest	7,690	2,075	-
Owner Taxes	608	484	471
Depreciation	13,851	7,137	9,492
Amortization	10,800	10,800	10,800
Officer Replacement Salary	38,065	59,016	96,539
Officer Payroll Tax Adjustment	2,360	3,659	5,985
Donations	1,607	300	2,252
Health Insurance	-	22,576	22,231
Auto	-	329	308
Other Income	-	(41,017)	-
Interest Income	-	(156)	(26)
PPP Loan Forgiveness	-	(45,845)	-
SBA EIDL NONTAXABLE	-	-	(6,048)
Total	\$ 74,981	\$19,358	\$ 142,004

Balance Sheet

	As of December 31, 2019	As of December 31, 2020	As of December 31, 2021
ASSETS			
Total Current Assets	\$206,184	\$631,155	\$473,293
Total Fixed Assets	\$12,637	\$8,368	\$5,151.45
Total Other Assets	\$72,500	\$61,700	\$50,900
Total Assets	\$291,321	\$701,223	\$529,344
LIABILITIES & EQUITY			
Total Current Liabilities	\$244,967	\$108,547	\$133,640
Total Long-Term Liabilities	\$0	\$0	\$0
Total Equity	\$46,353	\$592,676	\$395,704
Total Liabilities and Equity	\$291,321	\$701,223	\$529,344

Raincatcher's Valuation Worksheet

Valuation Data

NAICS Code 451110 – This industry comprises establishments primarily engaged in retailing new sporting goods, such as bicycles and bicycle parts; camping equipment; exercise and fitness equipment; athletic uniforms; specialty sports footwear; and other sporting goods, equipment, and accessories.

Search filters used: Sales less than \$1,000,000, sale date greater than 1/1/2016.

Valuation Summaries	SDE	Revenue	EBITDA
BRG	3.12	.42	4.73
Dealstats	2.8	0.58	4.7
ValueSource	2.6	0.51	
Raincatcher Multiple	2.6		

Market Value of ABC Co. - \$895,632

The Market Approach analyses market transactions involving sales of similar companies to determine the value of the subject firm. The market multiple is based on objective data observed in the marketplace between actual buyers and sellers. The multiples derived from these market transactions are applied to the subject company's discretionary earnings to derive its market value.

SDE	Raincatcher Multiple	Enterprise Value
\$344,474	2.6	\$895,632

Raincatcher Score Summary

RAINCATCHER SCORE



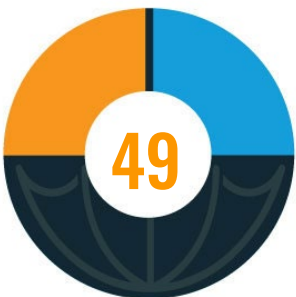
We've combined the Raincatcher Factors, Value Builder, and ProfitCents scores to create the Raincatcher Score. This score incorporates every aspect of your business, from financial to operational, providing the overall performance of your business. The score is based on a possible 100 points and is an average of the three scores shown below. If your score isn't where you'd like it to be, we'd love to discuss Raincatcher's Value Building offering and its potential impact on your business!

RAINCATCHER FACTORS



The Value Builder and ProfitCents scores provide valuable insight into the sellability of a company. Raincatcher takes these scores into account when assessing your business and goes a step further to highlight areas not captured by those scores. We take a holistic view of your business, utilizing information you have provided, our company's insight gained through selling similar companies, and looking at the company through a buyer's lens. The score is made up of up to thirteen factors (depending on their relevance to your industry) and scored on past and expected future performance. To determine your score for each of the Raincatcher Factors, we leverage our experience in working with buyers and sellers alike and knowledge of current industry and economic trends that might impact the value of your business.

VALUEBUILDER SCORE



Your Value Builder score was determined by your answers to the Sellability Assessment. It is calculated through an analysis of your business' performance on eight attributes proven to increase or decrease the value of a business as a potential acquisition target. Your Value Builder score is derived from these eight individual scores using a proprietary weighting model that has been validated and adjusted based on the real-time feedback from tens of thousands of users.

Raincatcher Factors

AGE OF BUSINESS



A measure of the number of years in business. The minimum score is 1 for 0-1 years, the maximum score of 10 for 1-10 years. **Your score: 10**

Buyers see older, more established businesses as less risky.

STABILITY OF CUSTOMERS



A measure of returning customers and revenue. This is broken down into two categories of how often customers turnover as well as the percentage of recurring revenue. This category is broken down into two categories, Customer Contracts and Recurring Revenue. The minimum score for Customer Contracts is 1 point for frequent turnover, the maximum score is 5 for turnover is rare. The minimum score for Recurring Revenue is 1 for 0-25%, the maximum score is 5 for 76-100%. **Your score: 7**

Buyers see lower levels of customer turnover/more recurring revenue as less risky.

STABILITY OF VENDORS



A measure of vendor relationships and the ease to replace them. This is broken down into two categories, how often vendor contracts turnover and the ease of replacing a vendor. This category is broken down into three categories, Vendor Contracts, Vendor Replaceability and Transferrable Contracts. The minimum score for Vendor Contracts is 1 for frequent turnover, the maximum score is 3 for turnover is rare. The minimum score for Vendor Replaceability is 1 for 1-2 vendors, the maximum score is 3 for 6+ vendors. The minimum score for Transferrable Contracts is 0 for no, the maximum score is 4 for yes. **Your score: 10**

Buyers see lower levels of vendor turnover and the ability to easily replace and assume contracts as less risky.

RECENT GROWTH



A measure of the average percentage change in growth for the last three to five years. The minimum score is 1 for -10% or worse, the maximum score is 10 for 21%+. **Your score: 1**

Buyers analyze the average historical performance of the business, and companies with solid, reliable growth are seen as less risky.

Raincatcher Factors

INDUSTRY DESIRABILITY



A measure of the condition of the industry based on data from market reports to measure the industry risk and growth. This is broken down into two categories, Industry Risk Rating and Industry Growth. The minimum score for each is 0, the maximum score is 5 for each based on data received from VerticalIQ Industry Reports. **Your score: 5**

Buyers assess the risk involved and growth prospects of the industry, and industries with less risk and greater growth potential are seen favorably.

GROWTH POTENTIAL



A measure of the growth potential of the company in the next twelve months. The minimum score is 1 for -10% or worse, the maximum score is 10 for 21%+. **Your score: 7**

Buyers analyze the expected future performance of the business; different buyers are looking for different growth rates.

PRODUCT DIVERSIFICATION

N/A

Not factored into your score

A measure of the percentage of revenue from the highest selling product. The minimum score is 1 for 90%+, the maximum score is 10 for less than 30%.

Buyers prefer to see a varied source of income, so businesses that rely on one product for revenue are considered more risky.

REPUTATION



A measure of customer sentiment based on online customer feedback, with a minimum of 10 reviews needed. The minimum score is 1 for 0-1 star average, the maximum score is 10 for 4.5+. **Your score: 10**

Buyers see how the business is perceived by its customers through these reviews - businesses with solid reviews are seen as more reliable.

COMPETITIVE ADVANTAGE

N/A

Not factored into your score

A measure of copyrights, trademarks, trade secrets, permits, and patents that are transferable to a new owner. Companies are scored by one point each for copyrights, trademarks, trade secrets and permits. Three points are assigned for patents and transferability each. The minimum score is 0, the maximum score is 10.

Buyers see that the company is protecting its intellectual property, which provides less potential for infringement and legal protection.

Raincatcher Factors

EASE OF TRANSITION

N/A

Not factored into your score

A measure of the components in place to ensure an easy transition to the new buyer. This is scored by two points each for business model/documented procedures, mission statement/values, owner involvement, financials are tracked and maintained, and Management and Employees having a long tenure. The minimum score is 0, the maximum score is 10.

Buyers look for components in place for an easier handover and less disruption to the processes of the business.

EQUIPMENT

N/A

Not factored into your score

A measure of the life expectancy and ownership of the equipment. This category is broken down into two categories, whether the equipment is owned or leased and the time to replacement. The minimum score is 1 for owned, the maximum score is 2 for leased. The minimum score for replacement is 2 for within a year, the maximum is 8 for 6+ years.

Buyers see the life expectancy of equipment and method of ownership - knowing there is time before a new purchase, lease, or repairs provides peace of mind.

BUYER POOL



A measure of the number of potential buyers looking for a business in your industry, size range, and earnings range. The minimum score is 1 for 1-10, the maximum score is 10 for 91+. The size of the buyer pool is determined from Raincatcher's database of buyers. **Your score: 5**

With a large number of potential buyers, there should be more competition to buy your business which will drive up its value.

CUSTOMER RETENTION

N/A

Not factored into your score

A measure of the incentives and methods in place to retain customers. Two points are assigned each for having a loyalty program, free trials/samples, thank you gifts, follow ups with customers, and mailing list. The minimum score is 0, the maximum score is 10.

Buyers see businesses that reward customers and have strong outreach programs to ensure more loyal customers as more reliable.

ValueBuilder™ Score

FINANCIAL PERFORMANCE



Your history of producing revenue and profit combined with the professionalism of your record keeping.

Buyers analyze the size of revenue along with past and expected profitability - a financial acquirer sees buying a business as paying today for a stream of profits in the future, which is why companies are generally bought and sold using a multiple of earnings.

GROWTH POTENTIAL



The extent to which you think your business can grow in the future by selling more products and services to your existing customers or by acquiring new customers quickly.

Many buyers prioritize businesses with the potential to grow significantly in a short period of time.

SWITZERLAND STRUCTURE



How dependent your business is on any one employee, customer, or supplier.

Buyers see businesses that are too dependent on an individual employee, customer, and/or supplier as risky, since a loss could result in a significant negative impact on the future potential earnings.

VALUATION TEETER-TOTTER



The impact your cash flow, gross margin and profitability have on the value of your company - whether your business is a cash suck or a cash spigot.

Buyers analyze how much cash they will likely have to inject into the company after purchase - the less cash your acquirer must deposit into your business, the higher the price he or she will pay.

ValueBuilder™ Score

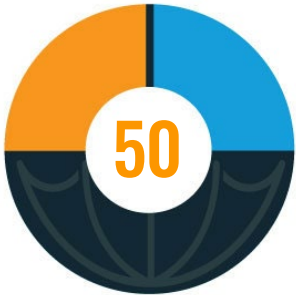
RECURRING REVENUE



The proportion and quality of automatic, recurring revenue you collect each month.

One of the biggest factors in determining the value of your company is the extent to which an acquirer can see where your sales will come from in the future - buyers see businesses with more recurring revenue as less risky.

MONOPOLY CONTROL



How differentiated your business is from competitors in your industry - an enduring competitive advantage gives an owner more control over pricing, which increases both profitability and cash flow.

Buyers see businesses with significant competitive advantages as less risky.

CUSTOMER SATISFACTION



The extent to which your customers are satisfied and your ability to assess customer satisfaction in a consistent and rigorous way, which is very important to acquirers.

Buyers analyze how well a company is serving its customers and thus how likely they are to repurchase and refer additional business.

HUB AND SPOKE



The extent to which your business can thrive without you.

The vast majority of buyers look for businesses that can operate independently of its owner and continue to succeed and grow.



Sporting Goods Stores

NAICS: 451110

SIC: 5941

prepared January 18th, 2022

Industry Trends

Trends are affected by the COVID-19 pandemic.

Changes in revenue, employment, business practices, trade and forecasts are occurring rapidly and data reporting by the government lags the changes. We are tracking changes in the “Coronavirus Update” chapter for those industries most affected and on our [Covid-19 Updates Webpage](#).

Sporting Goods Sales Decline Reverses

Sales for the sporting goods industry were on a downturn in recent years, due in part to strong competition within the industry and from mass merchandisers and online retailers. Retail sporting goods sales fell 4.6% in 2017, 2.8% in 2018 and 0.1% in 2019 before jumping 16.6% in 2020. Consumers purchased more sporting goods in 2020 to remain active during the pandemic. Strong competition has pressured retailers to lower prices of sporting goods in general. Prices declined annually in 2013-2017, were flat in 2018 and rose 1.2% in 2019 and 2020.

Shifting Participation In Sports

Changes in consumer preferences is shifting the mix of sports activity and sporting goods sales in the US. School sports with growing participation in 2018-2019 included lacrosse, golf, soccer, rugby, wrestling and volleyball, according to the National Federation of State High School Athletics Association. Participation declined in tennis and football. The number of students participating in sports increased for 29 consecutive years, but fell a slight 0.5% in 2018-2019. Participation in school sports was limited in 2020 by the Covid-19 pandemic.

Integration of Electronics Technology

The convergence of consumer electronics with fitness is generating the next major shift in activity formats for fitness. Adidas, in cooperation with Samsung, developed miCoach, the first major fitness-training app to be developed for mobile platforms. Microsoft's Kinect adds an infrared camera to Xbox consoles that allows body movement to control video gaming. According to the Consumer Technology Association, a majority of US online consumers use fitness technology. At the 2015 Consumer Electronics Show (CES), space dedicated to digital fitness exhibits nearly doubled from a year earlier and was 21% larger at the 2018 CES compared to the previous year and almost 9% larger in 2019. The North American wearable fitness tracker market is forecast to grow 17% annually through 2023, according to KBV Research.

Growth In Fitness Equipment

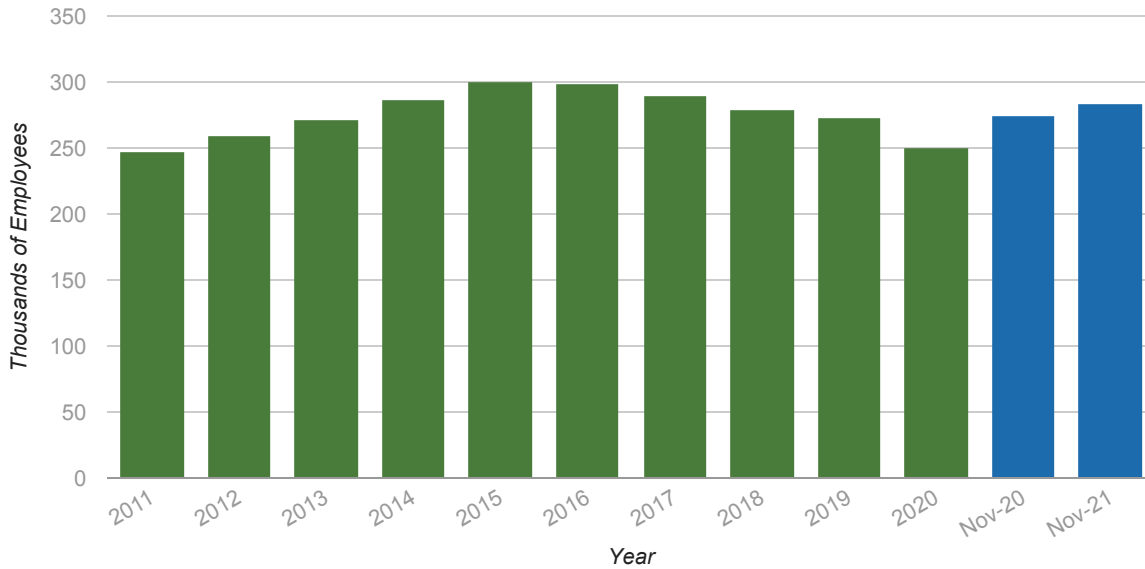
Fitness is the largest and fastest growing product category in the sporting and athletic goods industry. This growth has largely been driven by an increased awareness of the benefits of exercise and the dangers of sedentary lifestyles. The US Surgeon General's office has consistently issued reports urging Americans to become more physically active, and many have listened. Many consumers, wanting to spend more time at home with family, are also interested in looking and feeling better and are working out more at home. Women, in particular, have embraced the “exercise at home” concept. In 2020, sales of treadmills climbed 135% and sales of stationary bikes almost tripled, according to NPD. Use of fitness apps in conjunction with home equipment is escalating. Demographics are also expected to favor the fitness industry over the long run. Americans aged 55 and older have come to enjoy exercise (or at least participate in it) in extraordinary numbers, and are one of the fastest-growing segments of new health-club membership. Older adults also tend to have more time and disposable income to spend on fitness equipment for at-home use.

Employment and Wage Trends

Employment by sporting goods stores increases

Overall employment by sporting goods stores changed 3.2% in November compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

Sporting Goods Stores Employment

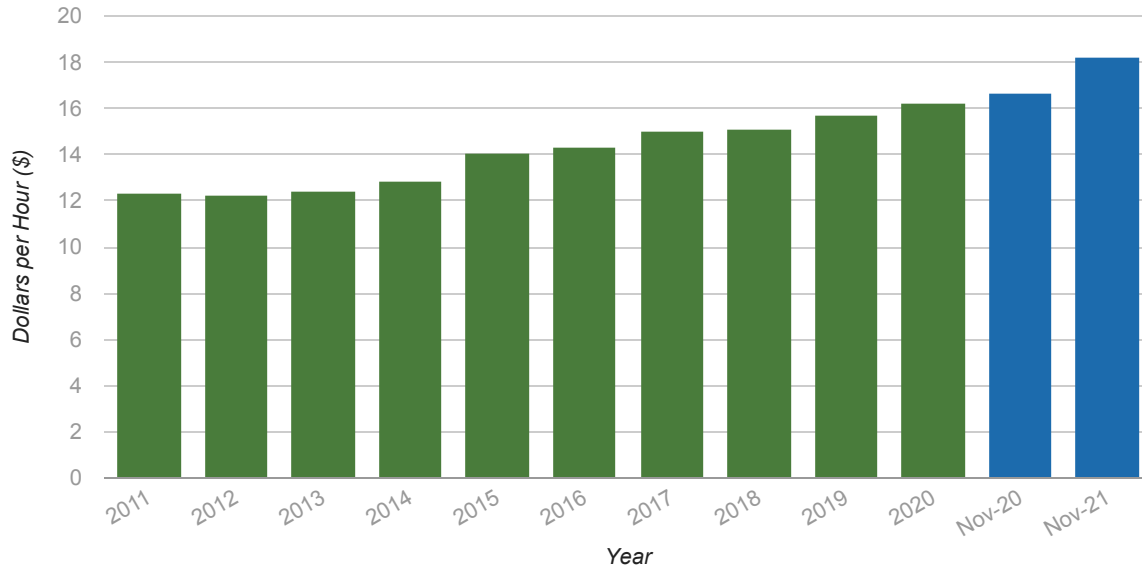


Source: Bureau of Labor Statistics

Wages at sporting goods stores rise

Average wages for nonsupervisory employees at sporting goods stores were \$18.16 per hour in November, a 9.1% change compared to a year ago.

Average Wages for Nonsupervisory Employees



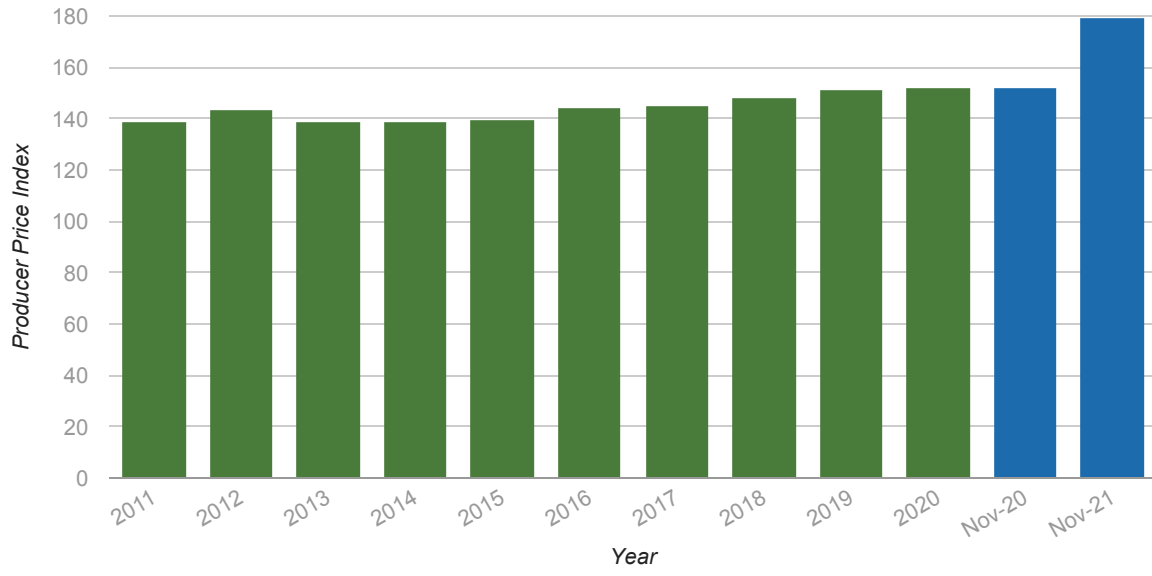
Source: Bureau of Labor Statistics

Price Trends

Producer Prices for sporting goods stores rise

The Producer Price Index for sporting goods stores changed 17.82% in November compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

Producer Price Index for sporting goods stores



Source: Bureau of Labor Statistics

Credit Underwriting and Risks



Business Exit Rates:	3.5	Lower than US average for all businesses
Cyclical Sensitivity:	4.5	Moderate Sensitivity
Barriers to Entry:	5.5	Moderate initial capital; moderate regulatory/technical barriers; high concentration
External Risk:	6.1	High external risk
Industry Outlook:	6.0	Lower than GDP; some cyclical risk
Financial Summary:	5.8	Very low margins; very high liquidity; moderate leverage

Key Metrics

METRIC	VALUE	COMPARISON
Performance During 2007–2009 Recession	3.5%	0.0% GDP
Business Exit Rate 2019–2020	7.22%	9.0% All Industries
Compound Annual Growth Forecast (2020–2025)	0.13%	6.1% GDP
SBA 7(a) Default Rate by Number of Loans (2010–2019)	7.07%	3.82% All Industries
SBA 7(a) Default Rate by Gross Loan Amount (2010–2019)	2.86%	1.21% All Industries

Underwriting Considerations

- Inventory days tend to be long. A Field Exam is recommended with a focus on stale inventory.
- How many SKU's does the company manage? What inventory manage system does the company use?
- Inventory is a primary collateral source for a working capital line. What advance rates does the company expect to use? The Field Exam will help with this decision.
- This is a Cyclical industry and as such, it is recommended that the company have a sound balance sheet with lower leverage and higher liquidity to better manage through the economic turns.
- This is a very competitive industry. What type of brand following does the company have? Look at revenue and margin trends.

Industry Risks

Dependence On Economic Conditions

Sales of sporting goods can be greatly affected by general economic conditions, and in particular, changes in consumer discretionary spending. In general, consumer purchases of discretionary items decline during periods when disposable income is lower, when prices increase in response to rising costs, or in periods of actual or perceived unfavorable economic conditions. Many sporting goods stores experienced reduced sales during the recent economic recession, and some stores actually incurred losses during this period. Weakness in general economic conditions or the deterioration of consumer spending can have a very harmful impact to a sporting goods store's profitability.

Intense Competition Creates Challenges

Sporting goods stores face intense competition from large chains, mass merchandisers, catalogs, and Internet retailers. 82% of all sporting goods stores have fewer than 10 employees, yet the largest 17% of stores command 60% of total industry sales. Large format

stores offer products for nearly all sporting venues, mass merchants market a limited number of popular sport's products at a discount, traditional and specialty sporting goods stores typically have a greater selection of products and often higher quality products, while catalog and Internet sporting goods retailers usually compete on some combination of low product pricing and purchasing convenience.

Changing Consumer Preferences

A sporting goods store's success depends in large part on their ability to anticipate changing consumer demand and preferences for sporting goods products. Consumer preferences are often difficult to predict and can be subject to rapid change. Stores often make commitments to purchase products from vendors several months in advance of the selling season. Likewise, extended lead times for many products make it difficult for a store to respond quickly to new or changing product trends. If a store misjudges product demand, they may overstock unpopular products and be forced to take significant inventory markdowns or miss opportunities to market other more popular products, both of which could have a negative impact on their profitability. Conversely, shortages of items that prove popular could result in significant lost sales and damaged customer relations.

Complying With Government Regulations

Sporting goods stores are subject to numerous federal, state, and local laws covering the sale, advertising, labeling, safety, transportation and use of many of the products they sell. The sale of firearms and ammunition are subject to particularly stringent laws and regulations. These laws and regulations require a store to ensure that all purchasers of firearms undergo a pre-sale background check, record and maintain details of each firearm sale on appropriate government-issued forms, and to respond timely to tracing requests of firearms by law enforcement agencies. Failure to comply with the laws and regulations relating to the purchase and sale of firearms and ammunition could result in the revocation or suspension of a store's authority to sell these products. Sporting goods stores are also subject to many other laws and regulations, such as those governing the advertisement of products, and labor and employment laws, such as minimum wage laws.

Reliance On Imports

A significant portion of the products that sporting goods stores purchase for resale, including those purchased from domestic suppliers, are manufactured abroad in countries such as China, Taiwan and Malaysia. Foreign manufactured products are typically subject to more risks than domestically manufactured products, including foreign currency fluctuations, greater political or economic turmoil, sudden restrictions on imports, loss of "most favored nation" trading status with the United States, delays in shipment, and unexpected freight cost increases. In addition, foreign manufacturers may have quality control standards, labor policies or other practices that vary from those legally mandated or commonly accepted in the United States, such as the high lead content found in several products manufactured abroad during the past few years. Any of these or other factors could cause a disruption in a sporting goods store's supply of product, resulting in a decline in sales and profitability.

Company Risks

Distributor Or Vendor Failure

Sporting goods stores purchase nearly all of their merchandise from sporting goods distributors or manufacturers. Although large sporting goods stores typically buy from numerous vendors, they often rely on a few vendors for a substantial portion of their goods. Smaller sporting goods stores, particularly specialty sporting goods stores, often have even greater reliance on a limited number of suppliers. Usually sporting goods stores have no contractual arrangements with vendors for continued supply of merchandise, and vendors may discontinue selling to them at any time. Furthermore, a store's ability to develop relationships with new vendors quickly may be difficult, or the substitute merchandise may be of a lesser quality or more expensive.

Fourth Quarter Sales Interruptions

Sporting goods stores, like most retailers, generate the majority of their sales and profits in the fourth quarter of the year during the holiday buying season. A miscalculation of the demand for products or product mix during this critical time period could be devastating to a sporting goods store's revenue and profitability. Specialty sporting goods stores may also experience seasonal fluctuations in revenue and operating results, following the sporting season of the merchandise they specialize in. Abnormal weather patterns can be

particularly disruptive to a store's revenue. For example, unusually mild winter weather or delays in the onset of winter weather can be particularly damaging to the sales and profitability of stores that specialize in winter sports merchandise, like snow skis, snowboards and cold weather apparel. Likewise inclement weather can reduce store traffic, or sometime lead to temporary store closings if severe. Weather related interruptions can be very damaging to all sporting goods stores' merchandizing or store operations at any time of the year, but particularly during the fourth quarter.

New Store Challenges

Sporting goods stores ability to grow and expand is often dependent on identifying suitable locations having the appropriate customer demographics and demand, successfully entering into purchase or lease agreements, securing the required governmental permits and approvals for operation, and sometimes negotiating and obtaining economic development packages with local and state governments. Competition among sporting goods stores for prime locations is often fierce. In addition, new store expansions may create added strain on its distribution center and management information systems, as well as diversion of management attention from existing operations. Lastly, stores face additional challenges in entering totally new markets, including lack of store name awareness, different consumer preferences than the current store merchandise selection, and sometimes different responsiveness to advertising than existing markets.

Attracting And Retaining Experienced Sales Staff

Most sporting goods stores seek to hire knowledgeable sales associates who have experience or qualifications in a specific sport, or ideally, a professional certification in a given sport. Competition for non-entry level personnel, particularly associates with retail experience, is intense. Often a store's ability to deliver experienced, high-quality product knowledge and customer service is key to differentiating themselves from competition and driving sales. Nevertheless, many store-level associates are in entry-level or part-time positions that help a store reduce labor costs, but have less product knowledge and historically high rates of turnover.

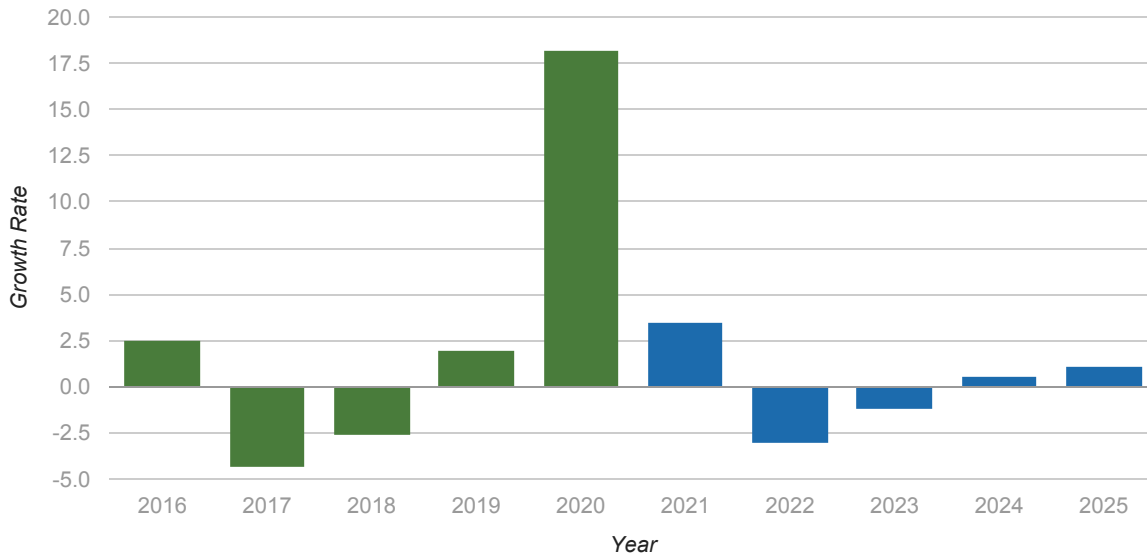
Industry Forecast

Sales for the US sporting goods stores industry are forecast to grow at a 0.13% compounded annual rate from 2020 to 2025, slower than the growth of the overall economy.

Vertical IQ forecasts are based on the Inforum inter-industry economic model of the US economy. Inforum forecasts were prepared by the Interindustry Economic Research Fund, Inc.

Last Update: August 2021

Sporting Goods Stores Industry Growth



Source: Interindustry Economic Research Fund, Inc.

Working Capital

Sell and invoice

Sporting goods stores sell a wide range of sporting and athletic products to recreational enthusiasts and the general public. Products typically fall into three broad categories: apparel, footwear, or hardline merchandise. Most products are brand name goods, but some larger sporting goods stores may own and market private label merchandise. Sporting goods stores that own their own private label brands usually price them at a discount to similar nationally branded products, but typically earn higher margins on private label products. Some sporting goods stores generate revenue by offering services, like equipment repair and maintenance, and may employ certified or professional athletic product representatives for custom equipment fitting, lessons, or simply as sales consultants. Many sporting goods stores have customer loyalty programs that offer product discounts and other incentives to encourage frequent customer purchases. A few larger sporting goods stores even issue their own branded credit cards to further drive customer loyalty and product sales, as well as generate financing revenue. Internet sales are an increasing percentage of nearly all sporting goods store sales, and some establishments now sell only through the Internet.

82% of miscellaneous retailers said they go to their accountant or bookkeeper for cash flow advice, while 46% turn to their banker and 15% do not seek advice, according to a survey of small businesses by Barlow Research Associates.

Source: Barlow Research Associates.

Collect

Most purchases of sporting goods are made by credit card, cash or personal check. Credit card transactions are usually settled within about 7 days of sale, and retailers pay a credit card processing fee to the card issuer of 1-3.5% of the transaction amount. Collection periods average 7 to 12 days.

Manage Cash

The sales cycle is usually quite seasonal, following the holiday buying season and seasons for particular sports. Most sporting goods stores earn 40% or more of their annual profits during their fourth quarter holiday selling season. Sporting goods stores have large investments in inventory (143 to 156 days sales). However, month-to-month inventory levels can vary significantly, consistent with the seasonality of sales. Oftentimes a sporting goods store is required to commit to seasonal inventory purchases six or more months in advance of sales. Anticipating consumer preferences and accurately forecasting product demand can be challenging. Underestimating demand can result in lost sales and damaged customer relations, but overstocking inventory can lead to pricing markdowns, inventory clearance problems, and complete inventory write-offs.

Pay

Payroll costs are usually a sporting goods store's largest operating expense, averaging about 13-14% of sales. Part-time seasonal workers are usually hired during the peak holiday sales season. Rent or depreciation expense can also be significant, depending on whether a store owns or leases its facilities. Most sporting goods stores purchase merchandise inventories under short-term buying arrangements, with terms varying widely from 30-150 days, depending on the strength of a store's negotiating position, time of the year, and a product's expected sell-through period. Accounts payable are settled on average in 58 to 65 days.

Report

Retailers usually report their results on a 52-53 week fiscal year basis, ending on last Saturday or Sunday in January, to make period-to-period financial comparisons as consistent as possible. Likewise, they often focus on "trailing 12" results (capturing a full 12 months performance at any month-end), and "same store" results (including only stores open a full 12 months), all designed to enhance comparability of operating results. Cost of sales typically averages about 59-62% of sales, and sporting goods stores on average earn

after-tax net profit of around 2-3% of sales. Key performance metrics include same store sales, sales per selling square footage, payroll-to-sales ratios, customer counts, and the dollar value of each sales transaction.

Cash Management Challenges

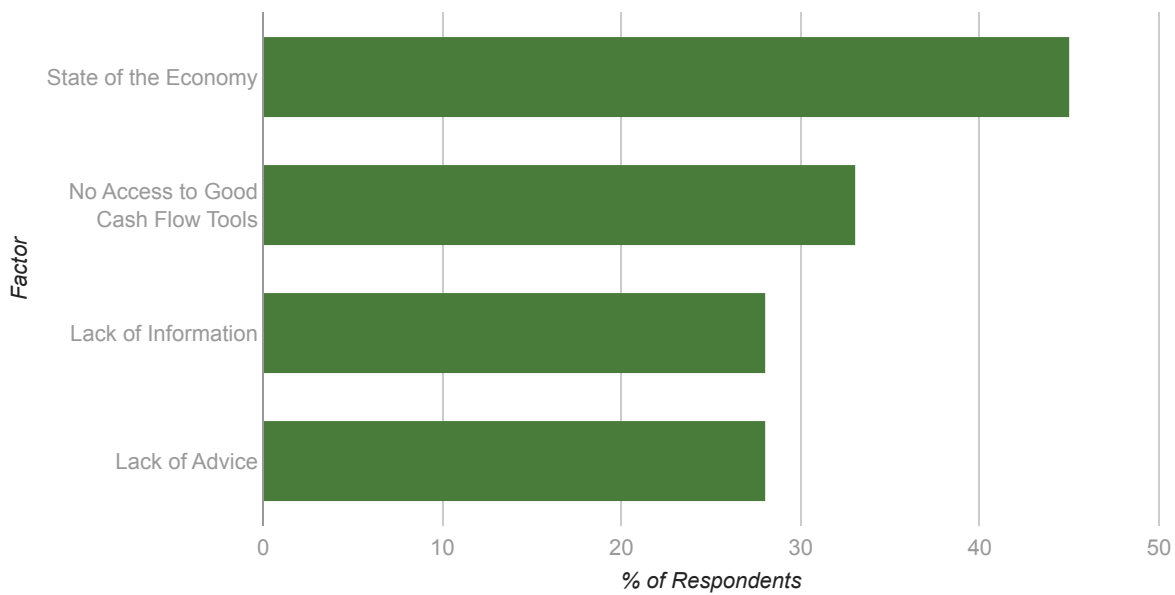
Seasonal Demand

Demand for sporting goods stores is variable, with peaks during the winter holidays due to gift-giving and during other seasons for particular sports. Stores specializing in a particular sport, such as golf or skiing, typically see a sharp drop in sales during the off-season. Stores selling a wide range of sporting goods have to adjust their inventory to match the peaks and valleys of individual sports. Stores may experience cash shortfalls prior to peak selling seasons, due to reduced demand and the need to build inventories in advance.

Managing Inventory Levels

Inventory levels for sporting goods stores fluctuate from month-to-month due to seasonal demand. Long lead times for merchandise, particularly imported goods, require stores to anticipate the level and mix of customer demand several months in advance of the selling season. Inaccurate forecasts can lead to lost sales due to product shortages or overstocks that cause price reductions or write-offs. Stores rely on inventory management systems tied to POS systems that allow them to accurately track and analyze sales trends for individual items in order to improve their forecast accuracy.

Factors Causing Cash Flow Stress: Miscellaneous Retailers



Source: Barlow Research Associates

Quarterly Insight

4th Quarter 2021

Smaller Holiday Discounts Expected

Holiday discounts are unlikely to be as steep in 2021 as in years past, according to Adobe Digital Insights, which studies one trillion retail industry data points and surveys 400 US retailers. Shoppers typically expect discounts of 10% to 30% starting the week of Thanksgiving, but Adobe Digital Insights expects 5% to 25% discounts this year. Whether shopping online or in the store, holiday shoppers are also likely to find fewer products. "We're seeing out-of-stock notification rates up 172% relative to pre-pandemic norms," a company spokesperson said. Products most likely to be out of stock include apparel, sporting goods, baby products, and electronics.

3rd Quarter 2021

Sporting Goods Manufacturer Launches Retail Operation

Sporting and athletic goods manufacturer Wilson Sporting Goods opened its first retail store in July in Chicago's Gold Coast neighborhood. The opening follows the launch of Wilson's first ever Sportswear line earlier this summer. The company has also launched an e-commerce site, and additional bricks-and-mortar locations are reportedly in the planning stages.

2nd Quarter 2021

Adidas Bets Heavily on E-commerce

Sportswear company Adidas aims to double its e-commerce sales by 2025 as part of a five-year plan to lift profitability closer to that of rival Nike. CEO Kasper Rorsted said e-commerce would account for more than 40% of the industry's sales by 2025, with online growing three times faster than offline. Adidas will invest more than 1 billion euros in its digital transformation by 2025, including making its supply chain more agile to better deliver online orders quickly. Sporting goods stores are likely to be negatively impacted by heavy investment by such a large supplier in e-commerce.

1st Quarter 2021

Under Armour Starts Shift to Direct Sales

Sporting goods manufacturer Under Armour plans to stop working with some retailers, primarily in North America, starting in the second half of 2021. The company plans to break with 2,000 to 3,000 partner stores as it attempts to increase direct sales to consumers. Under Armour's merchandise is sold in several US department stores, specialty sporting goods stores, off-price retail locations, and independent businesses. Under Armour would still have partnerships with 10,000 stores by the end of 2022.

4th Quarter 2020

Lower Holiday Sales Growth Expected

Total US holiday sales will increase 2% year-over-year, according to the "2020 Holiday Shopping Outlook" from management consultancy Bain & Company. That is less than the 10-year average year-over-year holiday sales gain of 3.5% recorded by Bain between 2010 and 2019. Bain also surveyed consumers about their holiday shopping plans. About 51% plan to spend less on holiday shopping this year compared to last year. Some 47% will do most or all of their holiday shopping online, with 46% of online holiday shoppers doing so for the first time. About 37% will shift more of their holiday shopping to online with delivery, and 23% will shift more of their holiday shopping to curbside or in-store pickup.

3rd Quarter 2020

Demand for Bikes, Paddlesports, Golf, and Camping Products Surges

Sales in the cycling category increased 63% in June 2020 versus year-ago, according to NPD. Growth continued to accelerate from strength seen since March at unprecedented rates. Classified as essential, many bike shops across the US have experienced a rise in demand, as Americans look for socially distanced recreation and an alternative to public transportation. Other categories that enjoyed exceptional sales growth in June 2020 versus year-ago included paddle sports (up 56%), golf (up 51%), camping (up 31%), and binoculars (up 22%), according to NPD.

2nd Quarter 2020

Youth Sports in Jeopardy, Sales Fall

Youth sports leagues, which consist of both independent for-profit and non-profit organizations, canceled seasons and tournaments across the country because of COVID-19. A soccer coaching organization estimated that by the time it's safe to resume play, as many as 25% to 30% of youth soccer clubs in the US could have folded, according to the Wall Street Journal. Industry advocates are concerned that record unemployment will affect participation even after stay-at-home orders are lifted because many leagues are highly dependent on player registration fees, which families may not be able to afford. Retail sales in sporting goods, hobby, book, and music stores fell 38.9% between March 2020 and April 2020 and dropped 48.9% versus year-ago. Dick's Sporting Goods furloughed 40,000 workers and informed landlords that the company would either reduce or not pay rent, citing "force majeure."

1st Quarter 2020

Target Launches Athleisure Line

General merchandise retail chain Target has launched a private-label athleisure line. The All in Motion brand includes hoodies, leggings, tops, and sports bras, with most items costing under \$40. Some industry experts say the line is primarily targeted at Generation Z due to their interest in sustainable products and increasing concerns about climate change.