SPORTING GOODS INTELLIGENCE

News and analysis of the international market

December 4, 2020 • Vol. 37, No. 48

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E-mail Our Editors | E-mail Customer Service | Visit Our Website

John Horan, Publisher
Jon Bogert, Editor
Tel: (610) 459-4040 Fax: (610) 459-4010

Eugenio DiMaria, Publisher, European Edition
Tel: (33) 1-4983-8242 Fax: (33) 1-4983-8224

ISSN 1060-2550

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PRESIDENT ELECT BIDEN SAYS CHINA TARIFFS WILL REMAIN

Confirming widespread speculation about his approach to the Trump tariffs on Chinese made goods, President Elect Joe Biden confirmed in an interview with the *New York Times* that the tariffs on about half of Chinese made imports will remain in place for the time being as leverage to wring concessions from Beijing but, as expected, he also signaled that he would take a multi-lateral approach to China trade policy, enlisting key allies that have clashed with Trump over trade.

"The best China strategy, I think, is one which gets every one of our — or at least what used to be our — allies on the same page. It's going to be a major priority for me in the opening weeks of my presidency to try to get us back on the same page with our allies," he told columnist Thomas Friedman. The interview also made clear that getting stimulus relief for the economy, responding more effectively to the pandemic and restoring diplomatic treaties like the Paris Climate Accord and the Iran Nuclear Treaty are higher priorities. Biden added he expected to keep in place the trade deal Trump negotiated with China requiring stepped up purchases of American products.

Biden's approach to China will focus more on reforming the practices that have been at the heart of the trade war such as intellectual property protection and state subsidies to key industries, as opposed to the more transactional approach of Trump that mostly focused on the trade deficit between the two countries. The Trump tariffs did incent many sporting goods brands to shift production out of China where possible, but many categories were unable to make the transition because of long-term supply chain relationships and China still remains a major source for all sporting goods even with the tariffs. In Q3, China still accounted for 30.4% of athletic footwear imports, 33.4% of apparel imports and 48.8% of all equipment imports.

Biden has also endorsed a compromise $908 billion fiscal stimulus plan put forth by moderate senators of both parties, calling it a down payment that would get immediate aid to consumers and businesses. The plan has attracted strong support from various business groups but Senate Majority Leader Mitch McConnell continues to back a smaller plan that he says has Trump's support.

The Trump Administration fired one more salvo at China this week when it announced a ban on cotton imports from the Xinjiang Production and Construction Corps, which supplies 30% of China's cotton and has been credibly accused of using forced labor from relocated Muslim Uyghurs. China denies the charges. While apparel companies can identify cotton that comes directly from XPCC, much of the cotton bought from China is difficult to trace, presenting brands with considerable risk if U.S. Customs demands proof that they are not using cotton produced by the company. One cotton trader told *Reuters* that the ban would pretty much eliminate China as a source of cotton for U.S. companies. A group of major trade associations representing the apparel industry endorsed the

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intent of the ban but called for a more holistic approach enlisting other countries since the current approach applies only to U.S. companies.

Congress has been addressing the Xinjiang situation since last spring with the Uyghur Forced Labor Prevention Act, a bill which already passed the House by a 406 to 3 margin. The issue affects several large sporting goods companies, and Nike, Adidas and Patagonia, along with many other apparel and consumer goods brands, are linked either directly or indirectly to suppliers in the region. The Eager Beavertons and other companies have been lobbying Congress to effect changes in the Act the *New York Times* reported, attempting to temper its most stringent requirements, which could cause havoc in tightly integrated Chinese supply chains. Nike has spent $1.3 million so far in 2020 on internal and external lobbying, according to company disclosures, but there was no indication how much of that was related to this particular issue. The Act essentially imposes a requirement to prove a negative, with evidence from a country that certainly has little reason to cooperate. Nike has confirmed that suppliers were not using inputs from the affected regions, and directed its Qingdao factory not to hire any Uyghur workers from Xinjiang, according to the *Times*.

SPORTMAN'S WAREHOUSE GAINS ON SHOOTING AND OUTDOOR IN Q3

Third quarter net income nearly tripled to $30,482,000 from $10,493,000 on 59% higher revenues of $385,748,000, up from $242,466,000, that included a 40.9% increase in same store sales that continue to be led by hunting and shooting. On top of the bodacious comp, e-commerce sales were up 218% from Q3 '19, accounting for 10% to the top line, powered by an 84% increase in registered customers and an increase in loyalty program membership to nearly 2.6 million. BOPIS and ship-from-store also contributed, growing triple digits in the quarter.

Hunting and shooting led all categories, with firearms comping up 98% with both handguns and rifles selling well, and ammunition and gun parts sales up 53%. SPWH said it has gained share in both guns and ammo, helped by Walmart and Dick's pulling back in both categories. Its firearms unit sales shot up 134% in Q3 against 57% growth in NSSF-adjusted NICS checks, and hunting is growing faster than personal protection. Hunting participation has seen a big jump this year. Core states posted double- and even triple-digit increases in licenses, though wildfires hurt the western states. And guns and ammo sales in general got a big boost from the election cycle and continuing social unrest.

Elsewhere, camping and fishing were also strong categories, comping up 26% and 25%, respectively. Optics, electronics and accessories grew 26% led by optics and cutlery. Even softgoods benefitted, with apparel comping up 19% on strong camo and workwear sales, and functional and outdoor footwear sending the category up 8%. The retailer noted that supply trends improved through the quarter in all categories except shooting sports, though inventory is still down 5% year-over-year at $322.1 million. Inventory is at ideal levels in all categories except guns

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and ammo, it said.

Nov. sales were up over 70% for the month driven by increased foot traffic over Thanksgiving Weekend and online sales that were up triple digits, helped by more Holiday-focused shopping trends. SPWH was pleased to see sales broadening from shooting into other categories, a key to sustainable growth, it opines. Based on the solid Q4-to-date, SPWH is guiding for full-year revenues of $1,370 million to $1,400 million including a +42% to +46% comp. Net income is expected to come in between $79.0 million and $81.6 million, including $3.8 million net of taxes for Covid hazard pay, the Field & Stream acquisitions, and other one-time items.

Gross margin in Q3 narrowed by 90 basis points to 33.9%, including a 260 b.p. headwind from lower-margin gun and ammo sales and e-commerce fulfillment costs, offset by higher product margins overall and volume leverage. SG&A was up 35% in dollars on higher wages and store growth, but still leveraged 430 b.p. on the higher sales. SPWH ended the quarter with $19.3 million in cash, $8.0 million outstanding on a term loan, and a zero balance on its revolver, a huge improvement vs. net debt of $170.1 million a year ago. It ended the quarter with 111 locations, up nine since the start of the year. CapEx for the year of $17.0 to $19.0 million was mostly for new openings and IT investments.

SMITH & WESSON REPORTS BANG UP QUARTER

Net income was $49,118,000 compared to $343,000 for the second quarter ended Oct. 31 as sales leaped 119% to $248,729,000 from $113,717,000, both records driven by the red hot gun market which continues to see strong demand from both existing and new consumers. Adjusting for costs related to the spin-off of the outdoor business, net was $52,842,000 against $472,000. SWBI saw its gross margin soar to 40.6% this year against 28.4% last year.

The strong demand seems to be bumping up against SWBI's ability to increase supply at this point. After hiring 287 persons in Q2 and ramping up production to 626,000 units, an increase of 43,000, it plans to take a breather on further increases to allow the supply chain to stabilize. While it doesn't anticipate issues meeting its current forecast, it did reference some concerns about access to supplies, especially given the pandemic, and it also doesn't want to get too far ahead of itself on longer term commitments. More modestly, it instituted a 3% price increase in Nov. across the board.

Right now, it estimates that its customers have roughly a one week supply of inventory when the ideal level is eight weeks, suggesting a robust backlog. In its fiscal Q2, the gun maker said NICS checks for handguns were up 75.6% while its shipments rose 74.3% to 420,000 units as wholesale inventories declined 178,000 units. Long gun NICS checks grew 48.8% while SWBI shipments leaped 167.7% to 166,000 units with channel inventory down 30,000 units.

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SWBI also continues to remind investors that new buyers, more female and diverse, are entering the shooting sports market, noting that of the 19.2 million NICS checks through Nov., 40% were first time buyers, and one in four of those had already bought another gun, usually at the higher price points where its brands are positioned. Still, noting its supply chain pause and the unknown impact of the pandemic, it declined to give specific guidance.

DICK'S OUTLINES GROWTH PLANS, TAPS SPALETTO FOR PUBLIC LANDS

Soon-to-be CEO Lauren Hobart predicted that momentum in its core categories of apparel, footwear and golf would be sustained even after the pandemic is in the past and she told the Morgan Stanley investor conference she was confident of a strong rebound in 2021 in team sports, its other core category. Sustaining the surge in demand in smaller categories like bikes and fitness that propelled recent growth was less certain over the long-term.

Coming off of some strong results in the last two quarters, DKS made the case for continued success based on changed consumer behavior from the pandemic. A surge in golf participation, including new participants, is expected to fuel that category going forward while new work habits and a desire to stay fit will benefit the broader apparel and footwear businesses. The weakness in team sports in 2020 will benefit from pent-up demand in 2021 as young athletes replace worn out equipment and footwear.

Too, some of the new shopping patterns will stick, such as curbside pickup which boosts margins on digital sales. Another margin booster will be private label, 14% of sales last year, which is outperforming growth of national brands by 1,000 b.p. and exceeding 30%. Too, it expects less promotional pressure going forward, especially at opening price points as many department store competitors are being winnowed by national brands like Nike. The biggest caveat to operating margins will be wage pressure, it reiterated.

Hobart also briefly discussed the new bike & hike outdoor specialty chain, Public Lands, that will be tested this year and revealed a new experiential Eco System concept that adds features like a climbing wall, a wellness center and an outdoor playing field that can convert to an ice rink in cold weather climates. DKS sees the new chain as a destination with elevated equipment and soft goods, and there was also a suggestion that it was developing a marketplace strategy though that is down the road.

DKS has named long-time outdoor industry executive Todd Spaletto to lead Public Lands. Most recently, Spaletto headed the Michigan Group of Wolverine Worldwide which included all its outdoor brands and prior to that had been with The North Face, rising to global brand head. He will have the title of president at Public Lands and also be an SVP of Dick's. With a long history in the outdoor business, Spaletto's challenge

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will be getting support for the top products from key brands when there will certainly be push back from REI and the outdoor specialty channel. Many of those independents were certainly hit recently by the pandemic, especially since few of them had true omni-channel capabilities.

JOURNEYS' IMPROVES FROM Q3, BUT SALES ARE STILL DOWN

Net income at parent Genesco tumbled 60% in the third quarter to $7,466,000 from $18,899,000 as a 10% dip from Journeys contributed to an 11% revenue decline overall to $479,280,000 from $537,263,000. Comparable sales were off 9%, including a 18% brick-and-mortar shortfall partially offset by a 62% jump in e-commerce to 21% of the top line, up from 11% last year. The bottom line decline includes a $3.9 million store and intangible asset impairment, net of tax, against a $0.8 million writedown last year. Stores were open for about 95% of the third quarter, a significant improvement from 70% in Q2, but traffic continues to be down double digits, though conversion has been strong. E-commerce was boosted by a nearly 40% increase in online visitors.

<u>Journeys' improved sequentially from Q2's 20% drop, but still slipped 10% year-on-year to $317.7 million including a -6% comp, lapping +4% last year</u>. E-commerce accounted for nearly 14% of sales this year up from 7% in Q3 '19, and gross margin improved on fewer markdowns. The disrupted Back-to-School season started with a double-digit decline in Aug., before improving in Sep. and Oct. to positive store comps on late B-T-S. Demand was heavily tilted towards online throughout. Sales were driven by comfort and casual styles, and boot demand was stronger—and started earlier—than in many years. Casual continued to make inroads, displacing fashion athletic especially with women's and kids'. Journeys' operating income was down 17% to $24.0 million, and the banner opened five doors and closed six, ending with 1,168.

<u>Schuh fared somewhat better with B-T-S at a normal cadence in the U.K., falling just 3% to $90.0 million and comping up 1%, while operating income was up 55% to $6.8 million helped by lower promotions</u>. Even with most stores remaining open, traffic was down, but e-commerce grew to 45% of sales. Door count was flat for the quarter with 127. The evaporation of men's dress shoe demand sent Johnston & Murphy sales down 45% to $39.7 million, including a -43% comp, resulting in a segment operating loss of $11.1 million against a profit last year. GCO has worked hard to make the banner less dressy, and casual and casual athletic style made up 60% of footwear sales in the past year. Two J&M's opened and one closed during Q3, ending with 181. One bright spot was the Licensed Brands group, where revenue jumped 91% to $31.9 million from the Togast acquisition in Q4 last year, generating a small profit of $0.8 million.

<u>The fourth quarter began with some store closures in North America and the U.K. due to the second coronavirus wave, but 97% of stores are currently open</u>. Black Friday traffic was disappointing, as expected, while e-commerce continues to outperform, but overall Nov. sales were

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described as in line with expectations. Almost all stores were closed on Thanksgiving. The rest of Q4 is likely to be strongly biased towards digital, and GCO is counting on its DCs and ship-from-store capability to be able to keep up. It noted that it does not foresee hitting any caps with FedEx, its contracted shipper. Final results for the quarter depend heavily on how "peaky" the seasonal demand peak gets, but the uncertainties around consumer behavior and possible pandemic-driven store closures led it to decline to provide any formal guidance for Q4 or the full year.

Overall gross margin narrowed by 210 basis points to 47.1%, driven by mix, increased markdowns and inventory reserves at J&M, and higher e-commerce shipping costs. SG&A was down 11% in dollars, and down 20 b.p. as a percent of sales, helped by rent abatements and government aid in the U.K., as well as reduced selling salaries and bonuses. Active negotiations are continuing with landlords over short- and longer-term rent reductions and shorter lease terms. Inventories decreased 22% to $370.7 million overall, and Journeys was down 28%, making room for fresh Holiday merchandise. GCO had $115.1 million in cash and cash equivalents at quarter end, after using $177.8 million in Q3 to pay down its revolver and $11.0 million for CapEx.

ZUMIEZ NET GROWS AS IT LAUNCHES DELIVERY PROGRAM

Net income jumped 52% to $29,139,000 from $19,179,000 in the third quarter ended Oct. 31, boosted by better margins and tightened spending on 3% higher sales of $270,952,000 up from $264,022,000. Stores were open for 95% of potential store-days in the quarter, and blended comps increased 8.1%, including a 39.6% jump in web sales and +2.2% in stores. Hardgoods was the strongest category driving sales in Q3, followed by solid gains from men's, accessories and women's, but footwear comped down. The lackluster Back-to-School season was a headwind to start the quarter, resulting in comps down every week in Aug. Comps turned positive in Sep. and Oct., driven by extended late season demand. North America was up 1% to $240.3 million, but Blue Tomato in Europe and Fast Times in Australia combined for 20% growth to $30.6 million, or +13% constant currency.

Zumiez revealed that it's been testing making its own last mile deliveries for web orders that would otherwise be shipped from the local store, and it rolled out the program in Oct. to cope with the shortage of carrier capacity. The plan, in development for over a year, dovetails nicely with ZUMZ' fully localized fulfillment strategy, allowing it to offer next day or even same day delivery at a considerable savings over shipping. While it's still in learning mode, the initial results have been promising, though the economics may change depending cost advantages from scale and of course carrier pricing. Currently, the program accounts for 25-30% of total orders at the 150 stores in 24 markets currently participating, with plans to aggressively expand.

Results slowed as Q4 began, however, with sales dropping 3.9% in

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Nov. and blended comps were off 1.7% including -7.8% store comps and a 16.7% increase in e-commerce. Footwear, men's and women's all declined, but hardgoods and accessories continued to do well. The first few weeks were strong, but Thanksgiving Weekend was softer than expected due to lower traffic and restrictions. Open store-days in the U.S. were down 2% in Nov. compared to last year due to local health orders, and many of the open stores had reduced hours and traffic metering that limited shopping. Europe has been hit harder, with 17% of store-days closed Q4 to date sending the top line down 30%, but Australia has outperformed. Recent virus flare-ups mean the restrictions are likely to fluctuate through Q4, ZUMZ opines, and it declined to provide any financial guidance other than saying it expects the quarter to improve from the slow start.

Gross margin expanded 320 basis points to 39.0% including 170 b.p. of product margin on more full-price selling, 150 b.p. improvement in shrinkage (lower traffic has one benefit), and 30 b.p. of occupancy leverage, partially offset by 40 b.p. of additional e-commerce shipping. SG&A was down 3% in dollars and leveraged 150 b.p. as a percent of sales on 90 b.p. of store wages, with the rest in store and corporate costs, and a benefit from payroll credits. Inventory at quarter end was down 12% year-on-year to $161 million, and ZUMZ has been ramping up purchases after cancelling and delaying many earlier in the year. The company ended the quarter with $316.2 million in cash and marketable securities in its war chest, and no debt. It now expects to finish the year up 12 stores from last year, including three Zumiez, seven Blue Tomatoes and two Fast Times, and at quarter end, it operated 726 stores, including 608 in the U.S, 52 in Canada, 54 in Europe and 12 in Australia.

TILLY'S TRAFFIC TROUBLES PULL DOWN Q3

Net income fell 67% to $2,113,000 in Q3 from $6,388,000 on revenues that were down 9% to $140,275,000 from $154,780,000, suffering from delayed Back-to-School timing, closure of 33 CA stores by government mandate early in the quarter, and restrictions on store traffic. Comps fluctuated wildly, with a 35% decline in Aug. swinging to +22% in Sep. and then pulling back to +10% in Oct. E-commerce sales jumped 57% to $13 million, making up 26% of sales, up from the prior year's 15%, and posted marked product margin and profitability improvement. Brick-and-mortar sales fell 21% to $104.6 million as traffic fell 34%, partially offset by low-double-digit gains in conversion and high-single-digit gains in average transaction value.

Women's was the sole category to comp positive at a mid-single-digit increase, led by growth of the West of Melrose brand, while others sequentially improved over Q3 but comped down from 2019. Accessories felt the delayed B-T-S season as backpack sales were down, and the kids' category, particularly boys', continues to be the most challenged in the pandemic environment. Hardgoods benefited from new skateboards, bikes and roller skate introductions. Inventory at quarter end was down 7%, and is seen as well positioned heading into the Holiday season, with e-commerce fulfillment out of stores expected to balance

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any channel disparity during the season. Shipping delays have not caused any meaningful impact thus far.

The start of Q4 through Dec. 1 saw sales down 1% to $56 million, with e-commerce sales slightly under projections at a 42% gain to $19.3 million, while stores had a negative 14% comp to $36.7 million on traffic that was down 29%. Q4 sales are guided down with a flat comp. Black Friday saw comps down over 30%, while no stores opened Thanksgiving Day against last year when a majority of stores opened. Comps have been positive each day since Black Friday, aided by improved conversion and higher average transaction value. TLYS believes the Holiday season may see a lack of peak shopping days but more steady business across the remaining season.

Gross margin contracted 150 b.p. to 30.5% on higher e-commerce shipping costs and a 220 b.p. deleveraging of BD&O against lower total sales. These impacts were softened by boosted product margins on full price e-commerce selling and overall lower promo activity. SG&A was cut 6% in dollars while expanding as a percentage of sales by 100 b.p. to 26.5%. Store payroll dropped on store closures and reduced staffing upon reopening, and the company also benefitted from a $1.2 million payroll tax credit under the CARES Act during the quarter. Higher e-commerce marketing spend and fulfillment expenses of $2.3 million and a disputed $1.7 million sales tax assessment in CA relating to past years partially offset the cuts. Store count stood at 238 at the close of Q3 on one opening and closure, up from 229 in the prior year.

BLACK FRIDAY STORE TRAFFIC PLUNGES

Black Friday shopping was not immune from the Covid-19 challenged retail environment, posting down figures for brick-and-mortar and e-commerce gains falling slightly below expectations. The pandemic also led to an e-commerce boost from non-traditional necessities sales joining the usual Holiday shopping list items. Sensormatic Solutions data showed a 52% decline in store traffic for Black Friday from the prior year, along with a 45% dip in week-to-date traffic for Nov. 22-27. The latter number fell both on consumer behavior and many retailers deciding to shutter doors on Thanksgiving Day, reversing course on the last decades' trend toward Thanksgiving shopping that resulted in a 95% traffic drop.

RetailNext figures showed a strong intent to buy among shoppers who ventured out for Black Friday. While data showed a 48% decline in foot traffic and brick-and-mortar sales down 30%, the analytics firm's shopper yield metric (conversion times average transaction value) revealed a 36% gain over 2019. By category, jewelry had the worst sales decline at 54%, followed by footwear down 53%, apparel down 50%, and home down 39%.

Adobe Analytics reported a 22% gain to $9 billion in e-commerce sales on Black Friday, based on data from 80 of the top 100 U.S. e-retailers, but that fell short of their Oct. 29 predictions of a 39% increase to $10

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billion. The figure still brought Black Friday 2020 to rank second in largest online spending days in U.S. history behind Cyber Monday 2019. Adobe Digital Insights found Black Friday e-commerce spending boosted by categories like groceries, clothing and alcohol in the pandemic environment. Consumers spent an average of $27.50 per person. Smartphone shopping jumped 26% over 2019 to hit $3.6 billion and make up 40% of total e-commerce spending. Curbside pickup sales were up 52%. Thanksgiving Day e-commerce spending was up 22% to a record $5.1 billion, with nearly half of those sales made on a smartphone, according to Adobe.

Despite the disappointing retail traffic, Cyber Monday was the largest online shopping day ever, as shoppers spent $10.8 billion, a 15% increase over last year, according to Adobe Analytics. But the banner results still underperformed Adobe's forecast for sales of $12.7 billion, following the weaker than expected results from Thanksgiving weekend. Many consumers started Holiday shopping earlier than ever and some retailers launched promotions as early as Oct. this year to capture those dollars. Based on the results to date, Adobe lowered its online sales forecast for the entire season to $184 billion, still a 30% increase from last year, but down from its initial expectation of $189 billion.

Total unique shoppers over the Thanksgiving holiday weekend were 186.4 million, down from 189.6 million last year, according to an NRF and Prosper Insights & Analytics survey of consumers. In line with the other sources, the NRF survey found that brick-and-mortar traffic plunged, declining 55% on Thanksgiving Day and 37% on Black Friday, while online-only shoppers increased 44% to a total of 95.7 million, or about half of the total. Total online shoppers grew 8% to over 100 million on Black Friday, and were up 17% on Saturday. Average spend for all shoppers over the weekend was down 14% year-over-year to $311.75 from 2019's record $361.90, however, but was comparable to 2018's $313.29.

CROCS GROWTH IN SANDALS AND CHINA TO POWER 2021

Crocs told the KeyBanc investor conference that its brand is well positioned for a post-Covid marketplace even if the ongoing casualization trend reverses, and it is here to stay if dress trends rebound as consumers return to offices. With no direct competitor in the clog market, a shift in focus to growth in sandals will benefit from a much larger marketplace without a clear leader. Jibbitz charms, which have doubled in sales this year in the U.S., are set for growth in the EMEA and Asia regions over 2021 and 2022.

Crocs still sees Asia as its biggest long term opportunity, led by China, Japan and South Korea. China accounted for 5% of total business in 2019, and the company plans to take advantage of that long runway by duplicating its U.S. digital marketing and celebrity collaboration playbook. Compared to U.S. success with outlet stores, brand showcase stores are on the slate for DTC retail in China. The global store fleet is

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not expected to see major changes in 2021, with comp growth largely healthy in the U.S. and a few underperforming EMEA and U.S. stores set to close. Expansion will be focused on Asia. The Southeast Asia distributor business, which took the largest pandemic-related wholesale hit from down Chinese tourism, is expected to recover in 2021.

CROX looks to leverage the combination of brand heat and clean inventories it established this year to drive full price sales for 2021, helped by the wholesale expansion into Footlocker and Finish Line this year, though no new partnerships are currently in the pipeline. The new Dayton, OH, DC has now eliminated any shipping constraints, having doubled e-commerce capacity. Inbound Asian shipping and domestic carrier delays are both on the radar but not expected to cause significant near term issues. Black Friday and Cyber Monday results were in line with expectations, with brick-and-mortar retail traffic down but offset by strong conversion and higher average ticket prices.

SHOE CARNIVAL PLANS 2021 EXPANSION

Shoe Carnival said it will begin growing its store fleet next year, after efforts to trim underperforming stores over the last three years brought the door count down from 417 to 383, in a discussion at the Morgan Stanley conference. Store growth is essential to achieving its long term goal of hitting 6% operating margin and opening a runway for underserved markets. Plans are to backfill the PA, TX and IL markets before spreading northeast and eventually to the west. SCVL sees the pandemic fulfilling an overdue clean up of an over-retailed landscape, believing weaker players will get weaker with the largest impacts yet to be seen. Bankruptcies of TX-based Stage Stores and the northeast's Modell's were cited as a preamble for what may come, along with pending store closures for JC Penney, Macy's and Belk. Refreshing front-of-house at Shoe Carnival is also on the slate ahead of store expansion.

The company cited CRM investments over the past two years in fueling performance during Q2 and Q3, calling it the most important decision it's made for driving volume and profitability. With e-commerce hitting mid- to high-teens as a percentage of total sales for 2020, the company is three years ahead of 20% penetration goal set last year. Website traffic spiked 550% during store closures, setting up 25% of volume during June and early July coming from new customers gained from marketing to lookalikes based on CRM data. The company saw unprecedented conversion rates on stores reopening, believed to be from customers' online product research. The ensuing decision to cut promotional activity and drive full price selling on popular brands in Q2 and Q3 is now planned to continue in coming years. Looking at Q4, the company expects a delay in Holiday store traffic with numbers picking up closer to Christmas on late brick-and-mortar purchases after the pull forward on e-commerce purchases.

RETAIL

CALERES elevated former division president of Caleres' Brand Port-

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folio, Jay Schmidt, to president. He will now lead the entire company, including Famous Footwear and CAL's many brands, reporting to CEO Diane Sullivan. CAL has suffered during the pandemic from its fashion focus, and has committed to pivoting towards soaring consumer demand for more casual and athleisure footwear. Schmidt joined the company in 2009, with prior experience at Nine West, Lord & Taylor, May, and Macy's. Elsewhere, Lydia Park Luis joins Caleres as president of the Brand Portfolio-New York group, and Keith Duplain was promoted to president, Brand Portfolio-St. Louis group. Two weeks ago, CAL named Michael Edwards president of Famous. Separately, the company's SVP and CIO, Willis Hill, has been tasked with assembling a core digital team, and formulating a strategy to grow e-commerce.

JD SPORTS' tortuous battle against the U.K.'s Competition and Markets Authority has taken another strange turn, with the CMA vowing to appeal the Competition Appeal Tribunal's ruling on JD's earlier appeal. As we reported at the time, the Tribunal ruled in favor of JD, finding that the CMA did not adequately account for the Covid pandemic's impact on the retail sneaker market, and ordering it to reconsider the case. JD acquired the struggling Footasylum sneaker chain for £90 million in the summer of 2019, but the CMA challenged the deal, and its investigation found evidence that the two retailers were primary competitors in the minds of consumers. JD fought back, noting in particular the unique dynamics of the sneaker market, where brands are often the strongest competitors against their retailer customers. Of course, the coronavirus added an additional dimension, making it likely that a forced divestiture would be the end of Footasylum, JD said. The CMA has asked the Tribunal for permission to appeal its ruling.

NICS FBI background checks, as adjusted by the NSSF, jumped 65.2% to 123,797 on Cyber Monday, up from 74,926 in 2019, contributing to a 45.2% increase in Nov. to 1,949,141 from 1,342,155. NSSF's adjusted NICS checks back out background checks for concealed carry weapons permits and checks from active CCW permit databases to more accurately reflect gun sales. Sales gains on Thanksgiving Weekend as a whole were muted, increasing just 4.2% to 417,465 versus 400,681 in 2019, and Black Friday actually posted a decline. In past years, a concentration of promotions on Black Friday slowed down the NICS system's ability to process checks. Given the sustained firearms demand this year, retailers had little reason to offer huge discounts, and likely even less inventory to back them up. Year-to-date adjusted checks are up 64.7% to 19,176,727 from 11,645,207. Unadjusted NICS checks were up 40.5% in Nov. to 3,602,296 from 2,545,863 last year.

SOULCYCLE appointed Evelyn Webster as its new CEO, filling a year-long vacancy after Melanie Welan resigned from the top job there. Webster has a background in media, and was most recently CEO of Guardian News and Media's international operations, with stints at Time Inc. and IPC Media before that. In addition to navigating the difficulties presented by the pandemic that have affected gyms and in-person fitness venues, Webster will be running a new Peloton competitor. The cycling studio operator launched its $2,500 in-home stationary bike in

Oct., which uses Equinox's Variis digital streaming platform for cycling and other aerobic workouts, as well as yoga. Variis membership costs $40 per month, about the same as PTON.

ON THE MOVE:. **StockX** opened new authentication centers in Hong Kong and Toronto, bringing it to nine centers now open globally.++++**Foot Locker** EVP and CFO Lauren Peters is planning to retire, effective Apr. 2021, after 23 years at Big Foot. FL's board is conducting a search for her successor in the mean time.++++**Genesco** hired former Deckers and Oakley CFO, Tom George, as SVP finance and interim chief financial officer. He succeeds Mel Tucker, whose resignation was effective Nov. 27.++++**Fanatics** signed on to manage Japanese soccer club Shimizu S-Pulse's licensed merchandise sourcing and distribution in a 10-year deal.++++**Stio** will open a new Mountain Studio retail store on Pearl Street in Boulder, CO, this coming spring, its fourth location.

COMPANIES

BURTON is selling Channel Islands Surfboards to a management group. Britt Merrick, who is the son of founder Al Merrick, is buying back the 51-year-old surf brand from Burton, along with its general manager Scott Anderson and other members of the management team. The price was reported by *Stab* magazine to be in the neighborhood of $6 million. Burton acquired Channel Islands in 2006, and the brand is reportedly having a very strong year as the Covid pandemic has boosted surfing participation along with other outdoor sports and activities. The company will retain all current employees and distribution arrangements under the new ownership.

G.I. SPORTZ majority shareholder Fulcrum Capital Partners has completed its restructuring of the paintball manufacturer with a sale to Kore Outdoor, a newly established entity owned by Fulcrum, members of management and former CEO Richmond Italia. Kore will continue to operate a portfolio of paintball brands which includes G.I. Sportz, Empire, Tippman, Spyder, JT and VForce. Existing G.I. Sportz management will remain in place led by CEO Billy Ceranski, SVP and CFO Paul Antoniadis, and COO Dave "Opie" Thomas.

NIKE, along with L.L. Bean and several large retailers, are facing a slowdown in UPS shipping. The shipping giant ordered its drivers to stop picking up packages from a number of shippers that had exceeded their volume agreements, according to an internal memo that was first reported by the *Wall Street Journal*, with Nike, Gap and Bean among those affected. The throttling began on Cyber Monday, which set a new record this year with over $10 billion in online orders. Both UPS and Fedex warned earlier in the season that the huge surge in online sales expected during the 2020 Holiday period were likely to overwhelm their capacity. The shipping companies raised peak season prices and promised to strictly enforce the quantities specified in contracts with customers to meter the flow of packages into their systems. UPS said that pickups are resuming as capacity at its facilities becomes available,

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and both Nike and Bean commented that, while they had seen delays, they expected to meet estimated delivery dates on most orders.

SEQUENTIAL BRANDS GROUP's board of directors has hired Stifel to advise the licensing company on a strategy to maximize value, including a possible sale of the company or disposal of more brands. SQBG has been looking at strategic alternatives for a while, but turned its recent attention to excising Martha Stewart and Emeril Lagasse and putting more emphasis on its active brands And1, Avia, Gaiam and Heelys. Now that it's completed the divestitures and trimmed down related stranded costs, it is re-focusing on a long-term solution. After the recent departure of CEO David Conn, SQBG is being helmed by chairman William Sweedler, and it has warned that it expects to be out of compliance with credit agreement covenants in the coming year. SQBG shares were up over 20% on the announcement.

UNDER ARMOUR made the rumors from earlier this fall official, with the announcement of a new Curry line of apparel and footwear launching in Dec. Carving out the name and image of Warriors star and long time UA endorser Steph Curry will hopefully bring the company some of the same magic that the Eager Beavertons found with Michael Jordan and the Jordan brand. Curry, whose contract with the company is worth a reported $20 million per year, will be involved in product development and grassroots initiatives on behalf of Under Armour, as well as being the face of the new brand. The initial assortment will include products for basketball, golf and general lifestyle, with a new Curry basketball shoe release set for Dec. 11. Women's products and other sports such as running will follow.

STOCKS & EARNINGS

CHINA DONGXIANG tallied over RMB 1.3 billion in financial and other gains in the fiscal first half ended Sep. 30, sending net income attributable to shareholders up six fold to RMB 1,116,183,000 from RMB 188,107,000 last year. Merchandise sales at the Chinese footwear and apparel brand were flat at RMB 898,957,000 ($130.0 mm) against RMB 899,318,000, and gross margin narrowed by 530 basis points to 60.1%. SG&A was up significantly, including a 15% increase in distribution expenses and a 23% jump in administrative expenses. The other income consisted of a RMB 946 million gain in valuation of financial instruments, with the rest mostly made up of income from investments and asset sales, including the Japanese Kappa trademark sale reported earlier. The strategic decision to pull back from the Japanese market and focus on the Kappa brand in China affected the results in both countries. Chinese sales grew 9% in the first half to RMB 815 million, including a 12% improvement in apparel to RMB 560 million and an 18% gain in footwear to RMB 169 million. Accessories sales were up 6% to RMB 19 million, but kids' apparel slipped 12% to RMB 46 million, and the small international business fell 42% to RMB 21 million. Sales in Japan plunged 44% to RMB 84 million, with both Kappa and Phenix brands declining. Going forward, the Phenix brand is being licensed to franchised operators there.

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HONMA GOLF net losses mounted in the fiscal first half ended Sep. 30 to ¥803.5 million ($7.6 mm) from a loss of ¥51.2 million last year, on 15% lower revenues of ¥9,053.0 million ($85.3 mm) down from ¥10,591.0 million. Gross margin expanded 150 basis points to 51.2%, but SG&A deleveraged on the lower top line, with selling and distribution expenses up 400 b.p. and administrative expenses up 270 b.p. as a percent of sales. Golf club sales declined 13% to ¥7,039.6 million, balls were down 6% to ¥928.2 million, apparel was off 5% to ¥501.1 million, and accessories tumbled 41% to ¥584.1 million. The lower club sales were from Covid-19 related supply chain issues, as well as lower retail demand in Japan and North America, which also pulled down balls and other sales. The home Japanese market was hardest hit, dropping 60% to ¥1,855.8 million, while North America slid 37% to ¥305.2 million ($3 mm) and Europe was off 19% to ¥410.0 million. But China's fast recovery from the pandemic helped sales there gain 52% to ¥2,353.4 million, and the important Korean market was up 17% to ¥3,115.9 million.

KATHMANDU total group sales up 72% in the fiscal first quarter ended Oct. 31 helped by the addition of Rip Curl revenues, and EBITDA was said to be in line with last year. But on a pro forma basis, with pre-acquisition Rip Curl sales added in, the results were not as good. Wholesale sales dropped 14%, as many partner retailers were hit by mandatory closures in Australia due to the pandemic. The shutdowns affected owned stores as well, with 60 Melbourne area stores and 14 Auckland stores closed for most of the period. Airport locations and Rip Curl stores in Hawaii and Europe were also heavily impacted. Direct-to-consumer was down 24% overall in the quarter, with Rip Curl down 2% and Kathmandu off 38%, but e-commerce was a bright spot, improving 37% in the sixteen weeks ended Nov. 15. Oboz sales have been strong, with key accounts buying and the forward order book tracking above pre-Covid levels. Looking ahead, KMD is counting on strong Holiday sales buoying H1 results, but is cautious due to the resurgence of virus outbreaks as well as the impact on consumer sentiment. Meanwhile, Kathmandu CEO Xavier Simonet is resigning from the company after five and a half years to become chief executive officer of the Australian Trade and Investment Commission. He will continue as KMD chief executive through his six-month notice period, while the board conducts a search for his successor.

KINGMAKER swung to a HK$65,564,000 ($8.5 mm) profit in the first half ended Sep. 30 from a loss of HK$32,382,000 last year, helped by a HK$119.9 million gain from its property investments that more than offset a decline in its manufacturing business. Revenues from footwear production were down 28% to HK$391,565,000 ($50.5 mm) from HK$541,184,000, and gross margin was just 5.4%, down 160 basis points from last year's already slim 6.9%. Pairs declined 31.9%, but a focus on higher-value products and growth brands resulted in a 10.9% improvement in ASP. Footwear segment loss was HK$31,383,000 against a loss of HK$42,887,000 in H1 '19. At this point, Kingmaker's manufacturing is entirely in Vietnam (74.3%) and Cambodia (25.7%), with the Zhuhai, PRC, facility now exclusively used for R&D. The company's largest customers in the period were Asics, Clarks, Timberland, Dr. Martens and Wolverine, accounting for 93.3% of total turnover.

LEGAL

CPSC RECALLS: Santa Cruz is recalling about 3,116 model year 2020 Santa Cruz and Juliana bicycles with aluminum frames, because the frame pieces could have experienced thermal damage during a paint stripping operation and can bend or buckle. The bikes were sold through IBDs nationwide and online from June 2019 through Oct. 2020 for about $2,000 for frames sold separately and about $3,500 to $4,300 for complete bikes.++++**Any Volume** is recalling about 660 adult bike helmets because they do not comply with the U.S. CPSC federal safety standard. The helmets were sold online through eBay from May through Oct. 2020 for about $15.

SIG SAUER, the Newington, NH-based gun maker is conducting a safety recall for its Cross model bolt-action rifle, because an example it tested exhibited a delayed discharge after the trigger was pulled. It will modify the firing action of the guns to correct the issue. The recall is being managed by the company directly, without the CPSC, and it did not disclose the number of firearms affected or other details.

UNDER ARMOUR says that Exclusive Innovations is infringing on its trademarks by selling supplements and fitness apparel under the Life's Armour name and mark, in a suit filed in MD federal court. The defendant is also using a font that is similar to Under Armour's and a shield logo that looks like the letters UA, according to the complaint. The two parties have had discussions over the past two years, the suit says, and Life's Armour deactivated its web site for a time, but has now reactivated it, selling apparel as well as supplements. Under Armour wants findings of trademark infringement and other Lanham Act violations, an injunction, damages and fees.

YETI is teaming up with Amazon to sue Michael and Karen White, who operate several marketplace storefronts on the e-commerce giant, in Seattle federal court. Yeti participates in several of AMZN's anti-counterfeiting measures, including its Brand Registry, Transparency product serialization service, and Project Zero counterfeit listing removal tool. According to the complaint, the defendants have been importing and selling fake Yeti drinkware consisting mostly of knockoffs of the Rambler and accessories such as lids. The suit seeks findings of trademark infringement and counterfeiting, false designation of origin, and other charges. While the marketplace sites have already been shut down by Amazon, the suit is asking for an injunction against the defendants, damages and fees.

OBITUARIES

PATRICIA DORAN, without a doubt the first lady of sports fashion, passed away. Pat began her sports fashion career at *Ski Magazine* and joined *SportStyle* as its fashion editor when it was founded in 1978. She was truly the inspiration of the magazine that made it an enormous

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success. Pat was fond of writing memos in her staccato style, some of which her editor tactfully placed in his desk drawer only to be read several months later and have the editor realize that she was right about everything that was in the memo. Pat seemed to know just about everyone in the industry and was admired by all for her sense of style, professionalism and dedication. Pat also had a great sense of humor and was the life of the party, many of which she hosted. She spent most of her later years in Mexico, living with friends, but spent her final time back in New York with her sons. She is survived by her sons, Michael and Patrick.

TONY HSIEH, the founder and CEO of Zappos who pioneered footwear e-commerce during the '90s dotcom boom, died in New London, CT, on Nov. 27 from injuries sustained in a house fire. He was 46. Zappos was not Hsieh's first venture, having co-founded online advertising network LinkExchange in 1996 after graduating from Harvard, which he subsequently sold to Microsoft for $265 million. He then invested $500,000 in ShoeSite.com, which later became Zappos. Hsieh was known for his relentless focus on customer satisfaction, and the now commonplace free shipping and returns policies that he offered were revolutionary at the time. Zappos was sold to Amazon in 2009 for $1.2 billion in stock, but Hsieh stayed on to run the business for its new owner. Later, Hsieh also was heavily involved with efforts to revitalize Las Vegas, where Zappos was headquartered. He created and funded the Downtown Project, which worked to make downtown Las Vegas more walkable with community spaces and public art. Hsieh never married, and had no children.

SHORT STOPS

ZipFit hired Chris Dominick as managing director and head of North American sales and Thomas May as director of operations and international sales, both reporting to company founder and president, Sven Coomer.++++**Adidas** signed Sergio Ramos to wear their soccer boots, winning out over Under Armor, Puma and New Balance, after the Real Madrid captain and center-back left ended his 10-year relationship with Nike.++++**Tecnica Group NA** named former president of Blizzard Tecnica, Sam Cook, to VP & chief commercial officer for its Alpine and footwear business units, a newly created role.++++**SFIA**'s annual Start-Up Challenge is moving to a virtual platform for the 2021 contest, and is now accepting applications at www.sfiastartupchallenge.org.++++**Wolverine Worldwide** appointed New Balance veteran Jennifer Lynch as VP of global product for its Keds brand.++++**Revo** signed World Cup champion and Olympic medalist skier Bode Miller as its new global brand ambassador of winter sports.++++**Summit Outdoors** is acquiring Marietta, OH-based Ghost Blind Industries, and will add its hunting blinds to an existing portfolio of brands in the segment.++++**ZAG Skis**, the Chamonix-based specialty ski brand, tapped Global Sales Guys to rep its products in the U.S.++++**New Balance** signed on as kit supplier for Japanese J League soccer team FC Tokyo in a multi-year sponsorship deal that starts with the 2021 season.++++**Spyder** is partnering with Authentic Brands Group's Footwear Unlimited to launch a line of outdoor, hike, trail, Après Ski, and lifestyle footwear, priced at $90 to $300, available next fall.++++**GSM Outdoors** acquired Cold Steel, adding the knife maker to its large and growing portfolio of outdoor and shooting brands.++++**Smith & Wesson** promoted Corey Beaudreau to be its new media relations manager.++++**Primary Arms Optics** elevated Terry Mears to director of product marketing.

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