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IMPORTS DOWN 15% IN Q3 WITH APPAREL STILL PLUMMETING

Led by yet another steep decline in apparel imports, overall imports of sporting goods fell to $3,910.0 million for the Jul.-Sep. period this year against $4,598.4 million last year, marking the fifth consecutive quarter when overall imports have fallen significantly and following two quarters when imports were essentially flat. Sneaker imports continued to hold up well with an 8% increase to $1,652.7 million from $1,532.6 million but apparel imports were down 86% to just $160.8 million from $1,132.4 million. Equipment imports rose 8% to $2,096.5 million from $1,933.4 million with strong recoveries in golf, team and exercise driving the improvement.

Our quarterly study of U.S. imports is drawn from the International Trade Commission's database on imports using proprietary queries developed by *SGI*. Dollar values are based on declared customs value and unit values are first unit of measurement, which can range from individual units to dozens. While customs classifications involving equipment are relatively straightforward and most athletic footwear is also relatively clearly defined, apparel classifications are a bit more subjective. Our queries in apparel focus on items where we can see some sport connection but as always we caution that we are understating the overall size of this category. Given the magnitude of the drops we are seeing in apparel in recent surveys, it is important to keep in mind just how specific the definition is as the market has certainly not contracted as much as our queries are saying, but we maintain the definition for now in the interests of consistency.

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Imports fall on weak apparel but footwear, equipment are recovering well.

Shiekh Shoes goes Chapter 11, sunk by missteps and Nike's demands.

Maurice SG files pre-packaged bankruptcy with PE firm taking over.

Genesco has huge loss on $182 million writedown of Lids.

Zumiez results gain on strong B-T-S and sees solid start to Holiday.

Tilly's results also improve, suggesting action sports market is turning upward.

Online sales are the highlight as Holiday season kicks off.

Boardriders makes offer for Billabong to consolidate action brands under Oaktree.

Puma is said to be leading bidder for Manchester City.

Nike will more than double its sponsorship deal with the Oregon Ducks.

Vista Outdoor looks to divest more brands in effort to deleverage.

Companies: Deckers, Niner, Inc., RG Barry, SIA.

Stocks & Earnings: Delta Apparel, Perry Ellis, Remington Arms, Samsonite.

Legal: Adidas, CPSC.

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The ongoing contraction of retail space coupled with the promotional free for all in apparel has led to a sustained contraction in import activity that has now lasted as long as the one suffered during the Great Recession. Retail space briefly contracted then as well but not by nearly as much as we are seeing now. In a clear sign of just how disruptive the recent market forces have been, it is noteworthy that during the Great Recession the entire economy was contracting whereas right now, the U.S., is enjoying a period of prolonged prosperity that is bypassing the domestic industry. Profits remain healthy overseas for many of the largest companies, particularly those tapping the Chinese market, but for those dependent on the U.S. market, especially the apparel market, the picture remains bleak.

The good news here is that, as we lap the liquidation sales of Sports Atrocity and the others as well as the last quarter of imports that was purchased with this floor space still presumed to be in the market, we are seeing a nice recovery in import activity outside of apparel. Sneaker imports have held up well throughout this contraction with only one modest decline over the last six quarters. Equipment imports, which were hit hardest by the recent spate of bankruptcies because of their dependence on big box stores, have been showing sequential improvement over the last four quarters and are now back in positive territory. They are back ahead of levels in 2015 in Q3 now as well. Only the outdoor sector remains really weak, but it is facing the challenge of the Gander liquidation and Bass Pro-Cabela's merger this year along with a sustained contraction in gun-related activity from the outcome of the 2016 election.

Sneaker imports showed a solid 7% increase in units for the quarter while average cost rose slightly to $17.57 from $17.44, up a bit under 1%. Imports from China were up 1% for the period to $611.7 million, the first time in the last six quarters that imports did not drop from there. Meanwhile, Vietnam imports continued to surge with a 20% increase to $718.9 million with Indonesia up 5% to $241.8 million. Vietnam accounted for 43% of the total imports while China was 37% and Indonesia 15%.

Meanwhile, apparel imports showed huge declines in both units and average cost as the former fell 64% to 3.3 million dozen and the latter declined 60% to $48.11 from $120.83. In a big seasonal quarter for outerwear, that category saw overall value fall 4% to $725.7 million from $757.3 million, mostly driven by a 3% decline in units to 8.4 million. Imports of fleece/sweaters were flat, as the market puts more emphasis on transitional merchandise for winter over traditional outer wear.

In equipment, the golf market showed a remarkable recovery from recent quarters as it leaped 26% to $215.6 million from $171.3 million following seven consecutive quarters of declines. Units were up a healthy 7% in golf but the emergence of some new technology in drivers was the main factor as the average cost rose 21% to $19.29 from $15.99. The team sector also showed a nice gain of 13% to $212.4 million from $188.4 million with units up 7% to 28.7 million and average cost increasing 5%

U.S. Sports Apparel, Footwear and Equipment Imports

(Third Quarter; $000s, declared customs value)

	Q3 2017	Change vs. 2016	Q3 2016	Change vs. 2015	Q3 2015
Athletic FW	**1,652,732**	**7.8%**	**1,532,604**	**-5.8%**	**1,626,784**
Apparel	**160,797**	**-85.8%**	**1,132,384**	**-41.7%**	**1,940,939**
Golf	215,554	25.8%	171,318	-4.7%	179,828
Team	212,393	12.7%	188,380	-20.0%	235,507
Outdoor	281,990	-3.6%	292,463	-2.7%	300,481
Exercise	561,361	13.8%	493,224	5.5%	467,678
Other	825,186	4.7%	788,051	-5.5%	833,741
Equipment	**2,096,484**	**8.4%**	**1,933,436**	**-4.2%**	**2,017,235**
TOTAL	**3,910,013**	**-15.0%**	**4,598,424**	**-17.7%**	**5,584,958**

to $7.39 from $7.01. It was the second consecutive quarter of growth for team imports after six quarters of contraction. The exercise category was the other standout with a 14% increase to $561.4 million from $493.2 million. Units rose 16% to 579,000 while average cost fell 2% to $969.54.

In falling to $282.0 million from $292.5 million, the outdoor category showed a 12% increase in units to 13.6 million from 12.2 million but average cost declined 14% to $20.73 from $24.01. Data compiled by the National Shooting Sports Foundation confirms that much of this downturn is related specifically to guns with a 40% decline in handguns and rifles in August, for example, and a 31% decline in shotguns. Ammunition was down 44% for that month. That was a worsening of the Jul. imports, which showed handguns down 14%, rifles down 24% and shotguns down 10%. Ammo imports plunged 53% while shotgun cartidges rose 2%. The Other equipment category, which grew 5% to $825.2 million from $788.1 million, saw a 12% increase in units to 65.3 million from 58.2 million while average cost was off 7% to $12.63 from $13.54.

China's share of the import market in equipment continues to remain steady at about 56% of the total. The exception was the outdoor category where China grew its share to 41% from 39%. Equipment makers have historically had less flexibility in their sourcing structures, and so they have had to deal with the ever-increasing upward pressure on pricing of Chinese manufacturing while soft goods companies have moved to lower wage countries like Vietnam.

SHIEKH SHOES FILES BANKRUPTCY WITH PLAN TO REORGANIZE

The iconic CA-based inner city retailer listed $50-100 million in assets and liabilities in its Chapter 11 petition and indicated that it expected to emerge from bankruptcy a leaner organization as it closes 31 of its 124 stores with those liquidations scheduled to begin immediately and be completed by the end of Jan. Secured debt is $17.2 million while it has inventory of $65.9 million and cash of $4.9 million. It has shown declining revenues in recent years, partly from an earlier round of store closings in the Midwest. Revenues that peaked at $175 million for 2016 were down to $123 million for the trailing 112 months ended May. 31, with e-commerce representing about $19.2 million of that. A schedule of stores by state showed that the Northern CA stores were averaging about $1.6 million per unit and NV was at $1.3 million, but stores in AZ and outside of its core West market averaged $611,000 and $759,000, respectively.

The testimony in the filing shows just how strong the influence of Nike is on inner city merchants like Shiekh, but it also shows that some significant missteps by the merchant led to the filing. Shiekh's troubles began in 2014 when Nike insisted that it remodel 61 of its stores at a cost of $30 million. To finance the remodels, Shiekh personally advanced $15 million and took another $20 million loan from Alostar, its main lender. It also hired Eager Beaverton Matt Fine as COO to execute the remodels. Those remodels, of course, coincided exactly with the time that Nike's basketball products and later its Air Jordan product began to slow down in these markets as Adidas, Puma, Timberland, Vans and others began to make inroads. Its Nike and Jordan business in retail stores is down $3 million, while kids has declined $1.5 million, women's by $300,000 and accessories another $300,000. The offsets have been an increase in apparel sales of $1.6 million and an increase in e-commerce revenue of $1.5 million.

Nike had also pushed back on Shiekh's 2012 purchase of 45 The Athlete's Foot stores from John Park in Chicago and Detroit. These had been highly successful inner city stores in their day but had been cut off by Nike. Shiekh bought 31 of the stores and began to remodel them to Nike's satisfaction, only to then be told by the E.B.'s that they would not reopen them in those locations. Shiekh ended up having to close the stores and has just four still open today. Too, it allows Shiekh to sell its products on line at just one of its sites, Shiekshoes.com, which accounts for just 12% of its e-commerce sales.

Then there was the Karmaloop acquisition which gave owner Greg Selkoe a $10 million preference liquidation and warrants for 4% of the company. In the transaction, Shiekh charges that the site represented that it had 6 million e-mail addresses with 3.7 million of those active accounts. After closing, it learned that 80% of those names were bad addresses and, after further investigation, it found out that Karmaloop had figured out a way to double count its traffic, according to its filing. Also, it had

turned over a nearly identical list to one of Shiekh's vendors to settle a lawsuit.

The deteriorating financials were, of course, no mystery to the E.B.s, who represented about 60% of its sales, a percentage not unusual for inner city stores. In Oct., with its Nike payables at $16 million, the E.B.s demanded payment in advance for shipments just before the Holiday season. Sheikh has now worked out an agreement with Nike that will mean that it can use its DIP financing facility to receive $3 million worth of inventory but it must pay down that entire amount plus an extra $1 million. The $16.0 million DIP from Alostar is critical to keep its flow of Nike merchandise going as well as to comply with state requirements on severance for employees who will be terminated by the store closings and to pay sales taxes in some jurisdictions.

Unsecured industry trade creditors are topped by Nike at $16.0 million, followed by Timberland ($1.0 mm), New World Creations ($834,000), Adidas ($674,000), Puma ($533,000), VF ($389,000), Converse ($295,000), Under Armour ($253,000), PF Flyer ($201,000), G-III ($122,000) and New Era ($119,000).

MAURICE BANKRUPTCY SALES DRAWS $39 MILLION BID

A letter of intent from Middleton Management Company proposes to pay $39 million in total for the assets of Maurice Sporting Goods as the stalking horse bidder in a bankruptcy auction. The bid will include some $3 million in cash and pay out the rest for inventory acquired. The deal excludes Maurice's current accounts receivable, which Middleton will collect and remit to the secured creditors minus a 5% collection fee. Most of the inventory will be acquired at 90% of seller's cost. In addition to the assets, the LOI will retain leases for distribution facilities and offices in FL, AR, MO, WA and China while evaluating whether to maintain, renegotiate or reject leases in GA and Ontario.

The bid procedures provide for a $500,000 breakup fee to Middleton if it is not the successful bidder and the initial overbid must be at least $1.5 million over its bid. Maurice had an earlier deal to sell the business to Peak Global Holdings, which was announced in Oct. but that bid fell through. While there was a planned bankruptcy filing with that bid, it was not mentioned in the release on the sale, Maurice clarified. Middleton had been involved in negotiations with Maurice along with Peak Global. An earlier version of our story had indicated that Maurice lost the Canadian Tire account based on a letter of intent from Middleton, but Maurice said Canadian Tire remains a customer although on a smaller basis.

GENESCO LOWERS GUIDANCE, TAKES HUGE LIDS WRITEDOWN

A $182 million goodwill impairment charge for Lids sent Genesco's bottom line deep into the red as it reported a net loss of $164,821,000 against income of $25,895,000 in the third quarter ended Oct. 28 on 1% higher sales at $716,759,000 vs. $710,822,000. The non-cash charge was triggered by the company's market value remaining below its book value for an extended time, and its lowered expectations for Lids. Excluding the writedown and other one-time items, adjusted net income was down 23% to $19.7 million from $25.5 million.

Comps were up 1% overall with a 2% decrease in same store sales more than offset by a 24% increase in e-commerce sales that now represent 10% of sales, up from 8% last year. As other retailers have reported, online traffic is increasing from mobile devices, but conversion is stronger from tablets and desktops. Consolidated gross margin decreased 60 basis points to 49.4% with more than half of that due to increased fulfillment costs for e-commerce sales.

Journeys' recovery continued with sales increasing 6% to $333,506,000 from $314,159,000 including a +4% comp with both store comps and e-commerce positive and strong momentum from Back-to-School continuing through the quarter. Retro athletic and progressive athletic styles drove sales and management believes it now has its assortment well-optimized and on trend, but comparisons were eased by last year's fashion miss which sent comps down 8%. Higher traffic, conversion and average ticket all contributed to the gains, and both units and ASPs were up. Journeys' comps accelerated into the first month of Q4 as weather cooled in the U.S. Gross margin was down 60 b.p. and operating income in

Q3 was off 5% to $24,283,000 from $25,656,000. Lids' sales dipped 9% to $181,347,000 from $200,279,000 with comp store sales down 6% as MLB sales lapped the boost provided by strong playoff team sales and the Cubs' World Series victory last year. Beyond that, NFL merchandise was lower than expected, blamed on the various controversies surrounding the league this year, NHL sales were disrupted by the vendor transition, and NCAA was off on poor performances from key schools. Q4 trends so far are even worse, comping against the Cubs' Black Friday sales and with increased discounting by competitors facing the same headwinds trying to clear inventory. Traffic in stores declined double digits with no clear hat fashion trend to spur sales, but e-commerce sales were up strong-double digits. Operating income at Lids plunged 76% to $1,991,000 from $8,173,000 with gross margin down 110 b.p.

Elsewhere, Schuh sales increased 13% to 101,489,000 on a +4% comp driven by strong BTS sales of athletic styles, but warm weather in Oct. delayed seasonal sales demand for cold weather footwear. That trend continued into Nov., but a big Black Friday weekend brought Q4-to-date comps back into "nicely positive" territory. Schuh operating income was up 7% to $7,054,000. Johnston & Murphy revenues gained 3% to $74,132,000 from new stores and higher wholesale sales, but comps were down 1%. Cooler Nov. weather and lapping last year's post-election malaise have comps gaining again. Operating income rose 7% to $5,287,000. Licensed Brands sales dropped 23% to $26,208,000 with operating income down 57% to $1,153,000, and Little Burgundy was also down.

While Lids' challenges show no sign of abating, the solid trend in footwear comps at Journeys and Schuh continued through Q4 with online footwear sales up 70% on Black Friday weekend alone. But the negatives outweigh the positives, resulting in GCO lowering its full-year earnings guidance again to $3.05 to $3.35 per share ($62 million) down from previous guidance of $3.35 to $3.65 per share excluding the goodwill charge. It expects full-year consolidated comp store sales of between -1% and 1% and total sales flat to up 1%. By the end of the year, GCO will have opened 76 new stores, mostly Journeys Kids', in Canada and in the U.K., and closed over 150 stores.

ZUMIEZ HAS STRONG BACK-TO-SCHOOL AND START TO HOLIDAY

The action sports chain reported net income rose 11% to $11,922,000 from $10,695,000 for the three months ended Oct. 28 as sales improved 11% to $245,756,000 from $221,391,000 with the aid of a 7.9% comp store increase in the period and the addition of six more stores globally. Men's sales continued to drive the improvement followed by juniors, while accessories remained its weakest department but hard goods and footwear were also down. The strength seems to be primarily in North America, which accounted for $223.1 million of the sales while international was $22.7 million as ZUMZ has been cleaning up inventory in Europe.

Much the same trend is expected for the Holiday season, when ZUMZ said it raises its outlook to a comp gain of 3-5% following a strong Black Friday that pushed up month-to-date comps 7.8% against 5.7% last year and overall sales up 11% to $77.1 million. With some 20-50 b.p. of gross margin on sales of $291-297 million, ZUMZ sees Q4 EPS of $0.78-84 ($20.3 mm). However, the extra week in Q4 will account for $9 million in sales and a $0.05 per share boost. It attributed the somewhat flattish adjusted outlook given the sales performance to higher incentive compensation which will be especially weighted to Q4 as well as some operational issues it is working to correct.

ZUMZ clearly thinks it has tuned its merchandise assortments much better as the stores produced a mid-single-digit comp while e-commerce penetration increased to 14.5% of sales from 12.8% last year, an indicated increase of 26%. It notes that it has introduced 100 new brands this year, three of which have made a significant contribution, while its top 20 brands continue to improve as well and increase their share. It also notes that its new customer suite has been put in 30% of the North American stores that has allowed for more localized assortments. Gross margin in the period was down 50 b.p. to 33.9% as 80 b.p. of shrink and 40 b.p. of merchandise margin on the European clearance more than offset occupancy leverage. SG&A leveraged 60 b.p. to 26.2% on the sales increase.

Store openings remain on track with 12 to date in North America bringing the total to 659 but the

pace is expected to moderate. Meanwhile, Europe opened five Blue Tomato stores, bringing the total to 34, and Fast Times added two in Australia and now totals seven.

TILLY'S NET JUMPS IN Q3, WILL OPEN 10-15 STORES NEXT YEAR

Net income surged 36% to $8,757,000 from $6,417,000 in the third quarter ended Oct. 28 driven by +1.5% comp store sales including e-commerce, lapping a 4.4% increase in Q3 last year, as total sales inched up to $152,824,000 from $152,106,000. Store comps were up low-single digits with traffic continuing to improve, but online sales were just above flat as the web site shifted to a new back end. Through Cyber Monday, Q4 comps are up low-dingle digits and TLYS expects comps to maintain that pace through the quarter driving net income of $0.22 to $0.26 per share ($7 million).

Despite some teething problems with the launch of its Demandware website platform, which was completed in early Nov., the new Aptos integrated POS, order management and CRM system is now in all stores and running smoothly. An enhanced mobile app and ship-to-store program will launch in H1 '18. The marketing spend has been reallocated to social, both online and in-store, and successful tests of scavenger hunts and augmented reality hint at future programs to drive traffic.

Men's apparel comped up high-single digits; boys' gained mid-single digits; accessories, women's and footwear were all flat to down slightly; but girls' dropped mid-single digits with weakness in fashion tops and dresses. Gross margin expanded 130 basis points to 32.8% with 100 b.p. from a reduction in buying, distribution and occupancy costs, and 30 b.p. better product margins due to reduced markdowns. SG&A was down $1.3 million or 100 b.p. as a percentage of sales on reduced marketing spend and lower payroll. Inventory at quarter end was down 2% to $62.2 million, with more current aging than last year.

After a year-and-a-half of focusing on tuning existing stores, TLYS is in store growth mode again, opening two doors in Q4 and planning 10-15 new Tilly's stores for 2018 along with a handful of RSQ denim popup stores. Reducing occupancy costs by renegotiating rents on the 120 leases that expire in 2018-19 is still a priority, of course. At the end of Q3, it operated 220 doors, down from 225 a year ago, but no store closings are currently planned.

ONLINE SALES BOOM ON BLACK FRIDAY

A double-digit surge in online spending over the Thanksgiving holiday drove new records in e-commerce sales, with an increasing share of those sales placed from phones. Adobe Systems research said Black Friday online spending jumped 50% to $5 billion, and was up 18% to $7.9 billion including Thanksgiving. Salesforce's retail intelligence unit reported digital sales grew 24%, or 26% if you include Thanksgiving day, with traffic up 19% overall and mobile orders accounting for 42% of all orders, up from 34% last year. Discounted orders were up slightly to 28% of all orders from 27% in 2016, and free shipping continues to be a near-mandatory feature, now applying to 85% of orders up from 84% last year. Adobe expects Cyber Monday will set more records, predicting sales will gain 17% to $6.6 billion.

Meanwhile, total e-commerce sales hit $6.59 billion, up 16.8% from last year, and following record online sales of $2.87 billion on Thanksgiving Day and $5.03 billion on Black Friday. Top sellers were electronics, games and toys, and discounts were common, with toys selling for an average 18.8% off, TVs discounted 21.1% and computers 14.7%. As expected, mobile commerce was the big story, driving 47.4% of traffic (39.9% from smartphones, 7.6% from tablets) and 33.1% of revenue (24.1% smartphones, 9.0% tablets). Adobe predicts there will be 13 more $2 billion e-commerce days bringing the total to 18 days of $2 billion-plus online orders this holiday season, more that twice as many as last year.

Brick-and-mortar stores did not fare so well, as foot traffic was down 1.6% on Thanksgiving and Black Friday, according to preliminary estimates from ShopperTrak. RetailNext was even more pessimistic, estimating that traffic fell 4% from last year. The weather largely cooperated on the warmest Black Friday weekend since 2001, with record high temperatures in the West but cold in the Mid- and South-Atlantic, Planalytics reported.

More high-traffic days for traditional shopping are still ahead, and ShopperTrak is predicting that Super Saturday, Dec. 23 this year, and Dec. 16 will be the second- and third-busiest shopping days of the season, and eight of the 10 busiest shopping days of the year will be in December. NPD said that sales of sneakers for the third weak of Nov. were up more than 5%, although overall sales were down for the week leading into Thanksgiving.

Meanwhile, firearms retailers hit a new single day record for gun purchases, as the FBI processed 203,086 NICS check requests, eclipsing the previous record of 185,713 on Black Friday last year. Note that these are raw stats, not adjusted by the NSSF to exclude non-firearms checks. Aggressive promotions by retailers and manufacturers helped drive sales, including rebates and bundling ammunition with promoted guns. But gun enthusiasts may also be acting on concerns that Attorney General Jeff Sessions ordered a review of the NICS system following the Texas church shooting last month. The shooter passed NICS checks before purchasing two guns at an Academy Sports store, despite being convicted in a court martial for spousal abuse that should have prevented the transaction, because the relevant data was not reported to the FBI by the Air Force.

BOARDRIDERS MAKES OFFER FOR BILLABONG

Billabong confirmed to Reuters that it has received a proposal from the privately-held parent of Quiksilver, Roxy and DC Shoes for A$198 million ($150 mm). The A$1 per share offer would represent a 28% premium to the trading price of BBG. Oaktree Capital Management has a 19% interest in Boardriders and is a senior lender to the company while it also controls privately-held Boardriders. BBG agreed to let Boardriders conduct due diligence so the deal can go forward.

Both companies were on the verge of a wipeout, and Quiksilver, the predecessor of Boardriders, did file for bankruptcy with Oaktree as the largest holder of its debt at the time of the filing and emerging as its largest shareholder in the reorganization. Meanwhile, Oaktree had also taken an interest in Billabong, which was struggling from a series of poor acquisition choices, especially in North American retail. This all happened at a time when the action sports market was going through a significant downturn as teen customers turned to either fast fashion retailers in the malls or athletic specialists like Foot Locker. Multi-brand action sports stores all struggled to offer value and newness in this environment. However, as recent results at Zumiez and Tilly's demonstrate, the action sports market is reviving a bit, in part because major vendors like Boardriders and Billabong have stabilized but also because of adaptations made by the key retailers in the sector.

PUMA TO SCORE MANCHESTER CITY SPONSORSHIP

The Big Cat will take over the top Premier League team's kit sponsorship for about £50 million ($66 mm) per year starting with the 2018/19 season, the *Daily Mail* reported. The new deal is a big step up from the £20 million-a-year Nike contract that expires at the end of 2017/18, and puts City much closer to rivals Manchester United (Adidas, £75 million a year) and Chelsea (Nike, £60 million). But the sum still pales next to Barcelona's €155 million ($184 mm) per year Nike deal that begins next year.

The deal is Puma's second with a top-tier European soccer club this month, after its signed AC Milan for the relative bargain price of €12 million ($14 mm) a year over five years. The brand's rapid sales growth in recent quarters has depended heavily on women's and retro lifestyle sneakers, with fashion-forward collabs with celebrities leading its focus. The two kit sponsorships signal a move towards performance for Puma in its largest market.

Shoring up its performance footwear credentials in the American market with some top athlete endorsements is surely on the horizon. A start is the signing of Jozy Altidore, the Toronto FC forward and USMNT member who will be the face of North American soccer for Puma. Terms of the long-term contract were not disclosed, but he will be featured in soccer footwear marketing campaigns and other initiatives, in line with Puma's "Forever Faster" messaging.

Under Armour was thought to be an early front runner for Manchester City, but its recent financial struggles have led it to pull back from splashy, high-dollar sponsorship investments. In the meantime, resurgent

Puma is making it known that it will be heard from when these top deals come up now, which will further complicate Under Dog's international efforts. Puma has the built in advantage of an existing distribution network to leverage these recent investments whereas Under Dog's is still being built. Puma also can leverage its investments against a larger footwear business while boosting its apparel sales that have lagged its success in footwear. With The Big Cat getting more involved, it presents another hurdle for Under Dog besides Nike and Adidas in its efforts to build a global apparel business. Nike's promotional war with Under Dog in the U.S. may have wounded its foe enough that the catch-up for Under Dog is further in the future than it was.

NIKE WILL MORE THAN DOUBLE DEAL WITH OREGON

The Eager Beavertons are proposing a new $88 million, 11-year deal with the alma mater of co-founder Phil Knight that would be worth $2-2.5 million per year in cash with uniforms worth $5-6 million per year as well. That compares to the present deal when Oregon receives about $750,000 per year and $2.5 million worth of uniforms, according to the *Oregonian.* It also would sweeten the royalty rate on apparel sales to 15% from 12% now but maintain the footwear royalty at 5%.

The deal is well below the levels of the $280 million deal that Under Armour signed with UCLA, even taking into account the considerably larger footprint of UCLA in the market. On one hand, it's inconceivable that Oregon would sign with another brand, given the massive donations Knight has made to the school's athletic and academic programs. Oregon has also been very pliable when it comes to the E.B.s putting silly duck wings on football uniforms, making them an ideal partner for Nike. Still, the scale of this deal does suggest that this latest round of escalation in rights fees for colleges may be running out of gas. Adidas has saved its biggest money offers for European football clubs and Under Dog has admitted that its appetite for new properties is sated for now.

VISTA OUTDOOR STRATEGIC REVIEW AIMED AT FIXING BALANCE SHEET

The outcome of newly appointed CEO Chris Metz' 100-day review of the company's strategy will likely include more divestitures of smaller brands, VSTO told a BofA conference. Moody's recently put VSTO debt under review for a possible downgrade, and the company's declining EBITDA has raised its leverage ratio from 3.6x to 3.95x at the end of FQ2, but still well short of the maximum of 4.75x specified in its credit agreement. Non-core assets will be on the chopping block, starting with the already announced intent to sell eyewear brands Bollé, Serengeti and Cébé. Otherwise, the priority will be on generating as much cash as possible from its continuing operations in the firearms and outdoor businesses.

Vista, along with the rest of the firearms market, has been surprised by the persistence of the ammunition destocking trend in both the retail distribution chain, which it now thinks will finally be worked through by Mar. 2018, and from consumers' own stockpiles, which could take much longer. But the long term trend is in its favor given the recent shift away from core hunting towards casual target and recreational shooting driven by "the Xbox generation." Vista thinks its good, better, best product strategy spread over nine ammunition brands will allow it to capture more low-priced target ammo sales without cannibalizing its premium brands, as its competitors are doing. VSTO says it's taken share from Remington and Winchester, and noted that all ammo makers have announced 2018 price increases hopefully signaling a return to a less promotional environment and more normal margins.

The outdoor market has grown at around a 4% rate over the past decade, but demographic trends are shifting towards casual participants who spend less. Too, the recent bankruptcies and general retail malaise have hit this market hard, but e-commerce sales through traditional retailer.com sites and of course Amazon have taken up some of the slack and now account for about 20% of the sales to consumers of VSTO's outdoor products. Vista plans to capture more of those sales going forward with its own brands' DTC websites.

Vista is also committed to bringing product development in-house where it was previously either neglected by PE brand owners, or farmed out to suppliers. It noted that, for example, CamelBak missed the stainless tumbler trend completely, which

should have been a natural brand extension. Vista wants to own its IP, which besides the competitive advantages will also give it the ability to shop suppliers. It's planning R&D spending of $30 million a year going forward on the effort. The first fruits of this strategy will be a new line of optics products.

COMPANIES

DECKERS said it would add two new independent directors, replacing two retiring directors on the board as it continued to disparage Marcato's motives and shareholder communications as misleading. Marcato scornfully called the DECK board's decision an admission that it has not provided effective leadership for the company as it reiterated its demand to replace the entire board. It also noted that former CEO Angel Martinez sold nearly half his stock when he retired, calling that a vote of no confidence in the current board.

NINER INC. filed for Chapter 11 protection with a plan in place to sell the CO-based company to Columbia Basin Partners, a local investment group. The plan listed $9,844,955 in assets against $7,980,990 in liabilities which included $5,829,980 in secured debt and the balance in non-priority unsecured claims totaling $2,151,010. The filing said it expected there to be a distribution to unsecured creditors but didn't go beyond that. Among the major unsecured claims are $316,576 to SRAM, $273,576 to Very Impressive in Vietnam, Willing Industry in Taiwan, $105,477 to Astro Engineering and $77,507 to Fox Factory. Among its assets were $97,450 in cash, $1,531,494 in receivables and $4,143,182 in inventory as well as $2,858,139 in machinery and equipment.

RG BARRY, the lifestyle footwear maker, appointed 20-year footwear industry veteran Bob Mullaney as president and CEO. Most recently he was president and COO of Shoes.com, which was acquired by Walmart subsidiary ShoeBuy after its parent declared bankruptcy earlier this year. Previously, he held senior roles at Rockport, Brown Shoe, Vida Group and Stride Rite.

ROCKY BRANDS is selling lifestyle sneaker brand Creative Recreation to Global Investment Group, a private equity firm. Terms were not disclosed. Rocky bought the brand in 2013 for $11 million in an effort to diversify its base beyond the work boot and military business, but now says it wants to concentrate all its efforts on those markets.

SIA publishes its Snow Sports Industry Insights report with market and participation data, including demographics. It is available at the trade group's website.

STOCKS & EARNINGS

DELTA APPAREL net income fell 9% to $2,099,000 from $2,305,000 in the fiscal fourth quarter ended Sep. 30 on 20% lower sales at $91,327,000 from $114,366,000 which suffered from the hurricanes and a comparison with last year that included $17 million in sales from the since-divested Junkfood brand. Gross margin declined 270 basis points to 18.2% on a higher mix of Basics sales. Despite the missing Junkfood sales, full-year 2017 net income was 17% higher at $10,511,000 compared to $8,964,000 on a 9% sales decline to $385,082,000 vs. $425,249,000. Profitability benefitted from a 50 b.p., or $9.1 million reduction in SG&A for the year despite a 100 b.p. lower gross margin. Inventory was up 6% to $174.6 million due primarily to higher cotton prices and sales lost to weather.

PERRY ELLIS net income was $3,215,000 against a loss of $5,165,000 in the third quarter ended Oct. 28 on a 3% sales increase to $198,838,000 from $193,959,000 driven by an 8% increase in the core Perry Ellis, Golf, Nike and Original Penguin brands. Last year's loss included an $8.3 million charge for a pension settlement that did not recur. Also helping profitability was a 60 basis point gross margin expansion to 37.3% on a better mix of higher-margin core brand sales. Golf revenues increased

low-double digits with gains across all brands and channels. Callaway in particular shot up high-double digits on expanded distribution in high-end specialty retail. Nike swim revenues were up 40%. For the FY18, PERY still expects $870 to $880 million in sales and EPS of $2.07 to $2.17 ($33 mm).

REMINGTON, in the wake of reporting weak Q3 results, sees Moody's lower the gunmaker's credit rating to B3 from B2 on its $580 million secured term loan due in Apr., 2019 and lowering its rating on the $250 million secured notes to Caa2 from Caa1. The downgrades reflect Moody's belief that the company's weak operating performance and high leverage are unlikely to meaningfully improve over the next two years but it also doesn't expect further deterioration in the near-term. Besides the high leverage, Moody's expressed concern about the volatile demand in the gun market and Remington's exposure to commodity prices such as copper and lead.

SAMSONITE's Gregory Mountain Products pack brand saw sales jump 16% to $15.1 million in the third quarter, with North America and Asia both posting double-digit growth. But sales at its less-technical backpack brand High Sierra declined by 19% to $13.9 million, blamed on a lower B2B business and the timing of Back-to-School shipments to online retailers in North America. Samsonite, which has acquired Tumi and eBags in the past year, saw net income jump 23% to $140.0 million in Q3 on a 27% sales gain to $2,501.7 million.

LEGAL

ADIDAS, citing some pretty clear language in the endorsement agreement between them that relegates all disputes to arbitration in Oregon and, failing that, binding arbitration in Oregon, asked a Kentucky court to dismiss fired Louisville coach Rick Pitino's claim that he has suffered emotional damages from the unfolding basketball scandal. The endorsement agreement does permit Adidas to terminate the deal in the event he is dismissed from his job. In addition to the arbitration clause, Adidas also argues that the "outrageous conduct" tort claim Pitino is citing is inapplicable because the harm in the federal government's case is to the University of Louisville, not Pitino, and in any event the alleged conduct of Adidas does not meet the high standard required for outrageous conduct.

CPSC RECALL: Omega Pacific is recalling about 1,900 G-FIRST series aluminum carabiners because they can break while in use. They were sold at specialty stores and online from Feb. 2017 through Oct. 2017 for between $31 and $51.

SHORT STOPS

Sparx Hockey appointed Steve Jones VP of marketing and customer acquisition, and Mike Carpenter as VP of finance and administration.++++**Adidas** signs a seven year sponsorship deal with the University of North Dakota.++++**Canada Goose** names Rick Wood, who has 20 years of experience in various VF divisions, as chief commercial officer over wholesale and retail.++++**Majola** enters the U.S. market with Upper Hollow Partners in New England and Mid Atlantic, Alpine Sports Marketing in NV and CA and Sould in the Woods, for the NW and Rockies.++++**Darn Tough Vermont** names Decker & Associates to rep it in the Southeast.

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