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THE GROWING DEMAND FOR OUTDOOR RECREATION & SPORTING GOODS

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20 was an exceptional year of transformation for the Sporting Goods & Outdoor Recreation (SGOR) category. As the effects of COVID-19 disrupted the U.S. economy, leading states to enact stay-at-home orders and companies to adopt work-from-home (WFM) policies, the category flourished, with considerable increases in both new consumer entrants and spend. As we look to 2021 and beyond, we believe the category is primed to benefit from a large-scale shift in consumer behavior in a post-pandemic world. This shifting trend will drive a step-function change in participation and corresponding spend, setting the category on a renewed long-term trajectory of growth.

As we enter 2021, the U.S. SGOR category generates approximately \$220 billion in consumer spend, of which 55% (approximately \$120 billion) consists of athletic apparel and footwear with the balance comprised of durable sporting equipment and gear. This market expanded significantly in 2020, with 60%+ of industry participants anticipating continued growth in 2021.¹

**2020
GROWTH**

RETAIL SALES

+ 6%
sporting goods & hobby stores

ECOMMERCE

+ 65%
total sporting goods

CONSUMPTION

+ 18%
total sporting goods

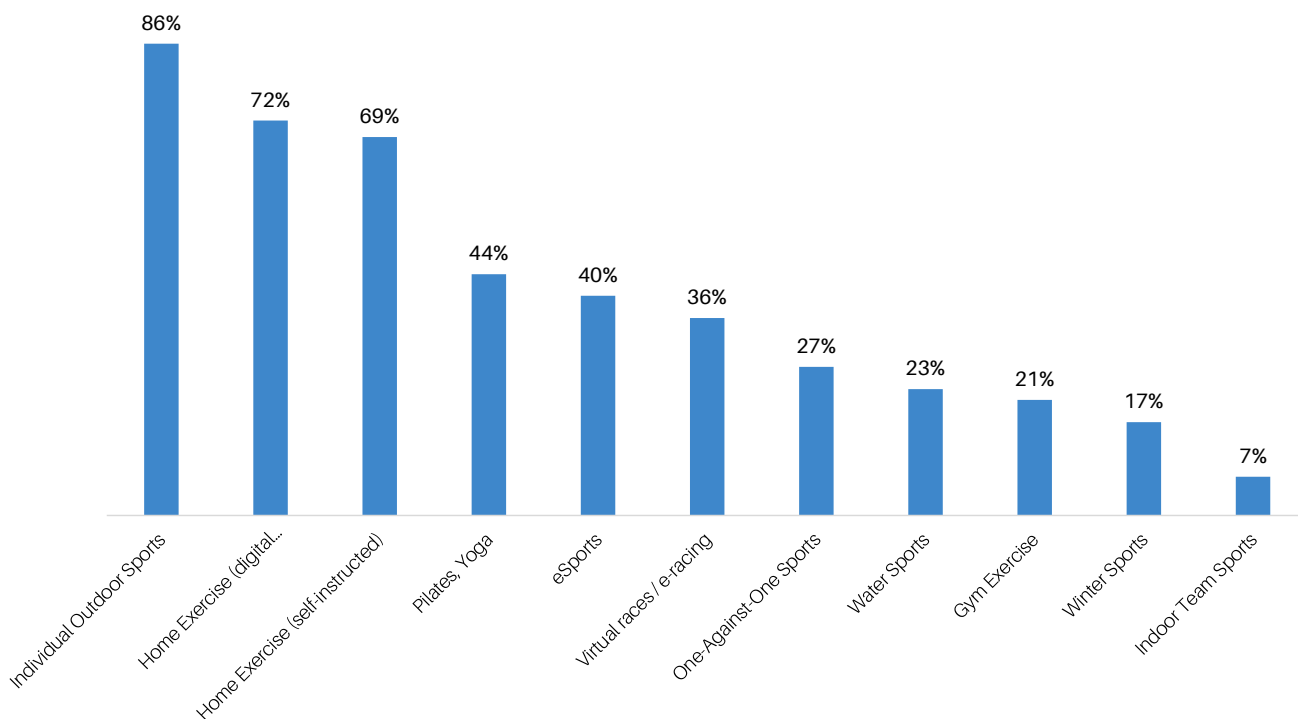
In this letter, we will review how emerging trends and a 'new normal' in consumer behavior could converge with longer term tailwinds to set the category on a renewed long-term trajectory of growth. We will also contemplate the impact this could have on M&A and why the category is likely in the early innings of consolidation.

¹ McKinsey, Euromonitor and PJ SOLOMON estimates.

The SGOR user demographic is expansive and has continued to evolve, with the majority of new consumers now younger, more ethnically diverse and more gender proportional than ever before. Historically a highly resilient category, SGOR has demonstrated consistent growth in both spend and participation since the Great Recession. In fact, since 2000, SGOR spend has outpaced GDP growth and delivered positive year-over-year performance in 18 of the 20 years measured (2008 and 2009 were the only exceptions). This consistency can be attributed to the category's alignment with numerous secular trends, including:

- **Renewed focus on health and wellness**, driven in part by heightened rates of obesity and diabetes and rising healthcare costs leading to an increase in consumption of SGOR product
- **Behavioral shifts**, such as commuters choosing to walk or cycle to work over public transportation
- **Personal Fitness**, with pre-pandemic popularity of boutique fitness giving way to at-home workouts utilizing home equipment and digital content
- **Continued growth in the athleisure category** as consumers opt to wear sports and athletic-inspired clothing for a wider range of occasions
- **Increased demand for sustainable products** with recycled materials accounting for 20% of activewear styles in 2020, double the level in 2019
- **Digital and online taking center stage** as consumers integrate digital solutions / apps / tools into their fitness routines and major manufacturers and retailers shift their business models toward DTC / eCommerce shopping
- **Reconnection with the outdoors** in response to the fatigue of constantly being "plugged-in" in an increasingly digital and virtual world – and further accelerated by the stress of WFH

EXPECTED % INCREASE IN PARTICIPATION IN 2021 VS PRE-COVID-19



2020 TRENDS OBSERVED - USHERING IN A 'NEW NORMAL'

The global response to the COVID-19 pandemic, including mass shutdowns and work-from-home mandates, led to a broad shift in consumer behavior, reversing the course of many established secular trends defining the past 20+ years. While anticipated widespread availability of a vaccine by 2H 2021 should lead to a partial return to certain pre-COVID behavior, it is likely that some degree of recent trend changes are here to stay.

1. REVERSE URBANIZATION DRIVING GROWTH IN SGOR CONSUMPTION

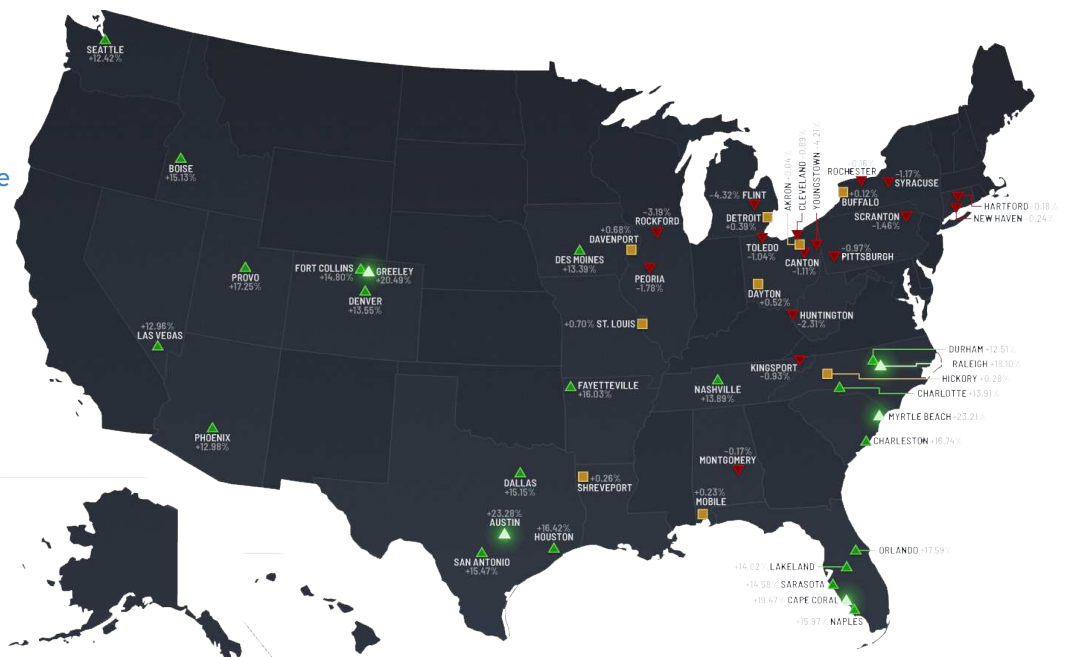
As the consumer has embraced the concept of WFH, the need to live near one's employer has diminished, leading to an accelerated suburbanization trend projected over the next 3 to 5 years. In data published by North American Van Lines and Allied Van lines, two of the largest moving companies in the U.S., migration patterns indicate that movement out of population centers (LA, Chicago, NYC) to less densely populated states such as Florida, Texas and Idaho has accelerated in recent months.

THE FASTEST- AND SLOWEST-GROWING METROPOLITAN AREAS IN THE US

Data over the last 10 years demonstrates consistent growth in less densely populated, more outdoor friendly areas of the country. Anecdotal data indicates an acceleration of these trends through lifestyle changes brought about by the pandemic.

TOP 25 METROPOLITAN AREAS	BOTTOM 25 METROPOLITAN AREAS
RAPIDLY GROWING	HARDLY GROWING
SUPER RAPIDLY GROWING (TOP 5)	SHRINKING

Metropolitan areas with fewer than 300,000 residents are excluded from the map. Source: Vivid Maps.



As large numbers of Americans migrate out of denser and higher cost of living urban locations and into more affordable, suburban areas, we are witnessing a strong increase in SGOR consumption.

This correlation makes sense on several levels. First, residential and suburban communities are closer in proximity to many outdoor recreational facilities – golf courses, parks, public grounds for fishing and hunting, etc. – removing significant barriers to entry. There is also more infrastructure to facilitate individual and

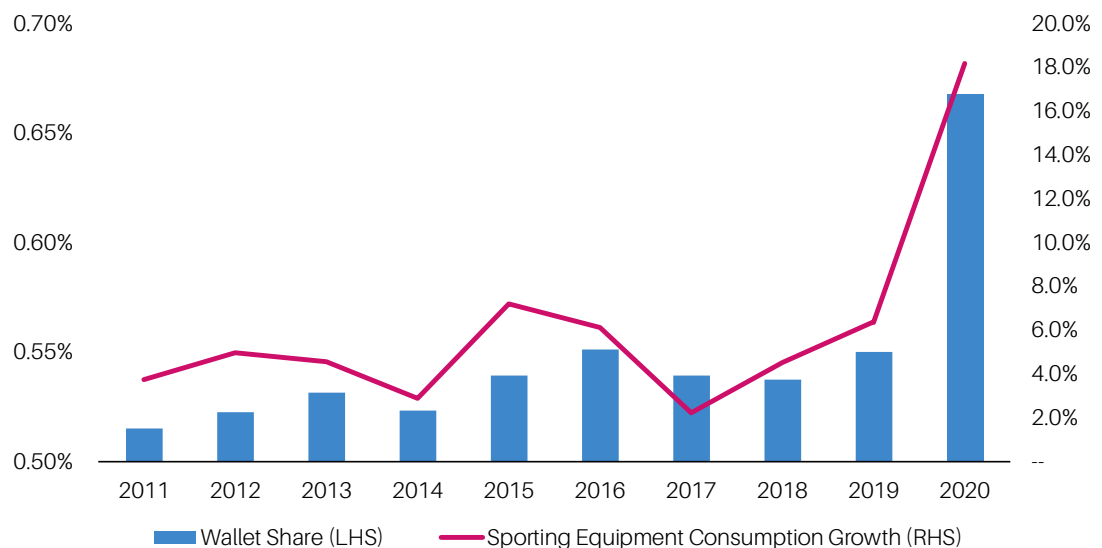
team sports activities at lower cost to the consumer compared with dense urban areas where scarce infrastructure limits supply and drives participation cost higher. Second, a comparatively lower cost-of-living and a lower density service industry (bars, restaurants, entertainment) frees up discretionary income. This combined with more favorable dynamics around access and cost leads to increased participation and allocation of dollars (covered in greater detail in the next section). Lastly, deurbanization has a higher correlation with automobile and recreational vehicle (RV, marine, powersports) ownership which further supports participation in outdoor activities (camping, hiking, watersports, etc.).

2. RE-ALLOCATION OF DISCRETIONARY SPEND TOWARD 'THINGS' VS. 'SERVICE EXPERIENCES'

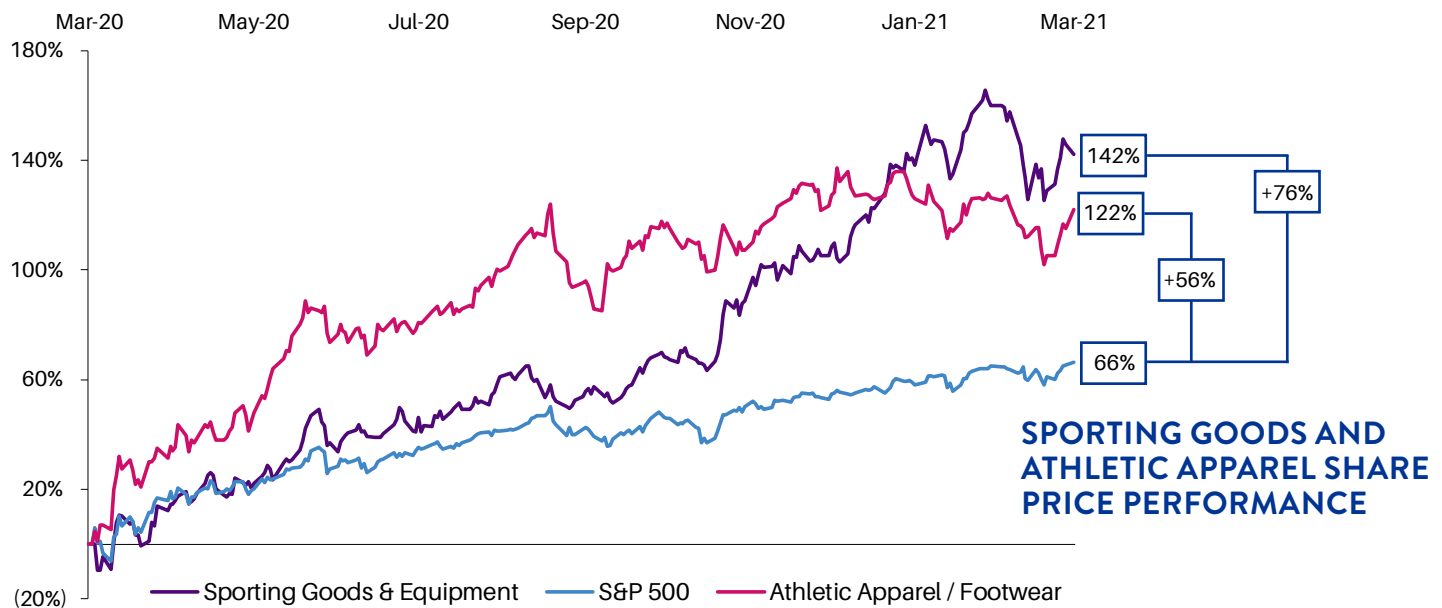
The pandemic has had a profound impact on consumer purchasing behavior, particularly in non-staple, discretionary spend. Analysts estimate that pandemic-induced reduction in spend on service-related experiences (e.g. travel, restaurants, and other in-person entertainment) freed up as much as \$500 billion in consumer discretionary dollars in 2020. While a successful vaccination rollout will likely lead to some re-balancing, it's unlikely to fully revert to pre-pandemic levels. As the consumer becomes accustomed to a more socially distant environment and lingering health concerns persist, demand for many experiential service categories (travel, concert and movie theater attendance, for example) may lag. This suggests the pendulum shift from spending toward 'things' from 'service experiences' may be a longer-term trend.

One area benefiting from this rotation is the SGOR category. While sporting equipment consumption had been gaining steady share of wallet over the past decade (growing 50bps between 2010 and 2019), it took off in 2020, with share of wallet growing 100bps YoY with the underlying category growing 18% YoY.

SPORTING EQUIPMENT CONSUMPTION GROWTH & WALLET SHARE



These trends are reflected in the stock price performance of individual public companies in the SGOR sector. While the category was not immune to sharp share price drawdowns at the onset of the COVID-19 spike, it has had an immense rebound, with the median company outperforming the S&P 500 by 76% in 2020.



3. DEMAND FOR SOLITARY LEISURE DRIVING OUTDOOR PARTICIPATION AND CATEGORY ADOPTION

As we reflect on the impact of COVID-19 in the U.S., investors remain focused on two primary questions: How much of the growth in 2020 was attributable to consumers pulling forward a future purchase – a new bicycle, a new set of golf clubs or fishing rod, a new powered vehicle – and how much was attributable to new category entrants and an “increase in the size of the pie.” Analysts estimate that as many as 265 million Americans – 80% of the U.S. population – participated in outdoor recreational activities during the height of the pandemic with 87 million – approximately one-third – doing so for the first time. Preliminary data suggests that half of outdoor recreationalists believe the events of 2020 will change their outdoor behavior long into the future, presenting a case where up to 45 million new consumers will anniversary first-time 2020 participation (and spend) in 2021 and beyond.

Similarly, we see a preference for self-reliance as a particularly interesting driving force behind SGOR consumption. Take the recreational vehicle category for example. Following strong demand in 2020, wholesale unit shipments are expected to grow 17% to 502,000 units in 2021, the second highest level on record. A significant portion of this growth is driven by consumers “trading away” from traditional travel – hotel stays, cruises, rentals – in favor of outdoor experiences.

RE-ENGAGEMENT WITH THE GREAT OUTDOORS

331m

Americans

265m

outdoor participants

80% of Americans participated in outdoor activities during the pandemic

87m

new outdoor participants

33% of whom were doing so for the first time

~45m

incremental long-term participants

52% of outdoor recreationalists believe the events of 2020 will change their outdoor behavior long into the future

2020 INCREASES IN PARTICIPATION²

HIKING

+ 16%

8.1m additional participants

TENNIS

+ 22%

6.8m additional participants

GOLF

+ 8%

2.7m additional participants

FRESHWATER FISHING

+ 9%

3.4m additional participants

CAMPING

+ 28%

7.9m additional participants

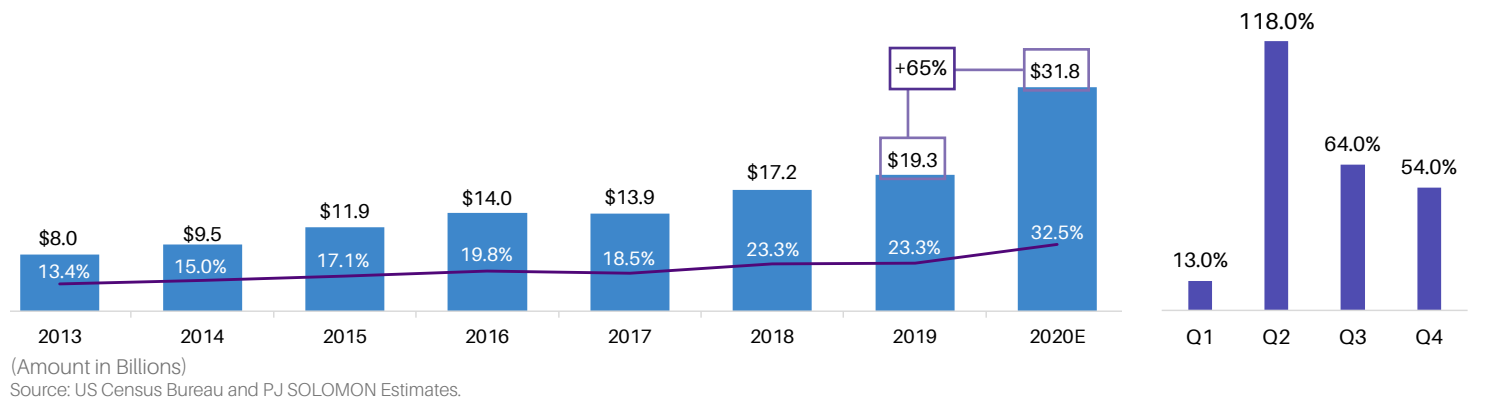
²Source: Outdoor Industry Association and SGB Media

4. EMERGENCE OF ECOMMERCE, DIRECT-TO-CONSUMER AND LIFESTYLE BRANDS

With stay-at-home orders sheltering people in place at the onset of the COVID-19 pandemic, consumers increasingly turned towards eCommerce, with some 43% who had not previously shopped online doing so for the first time. The pandemic rapidly shifted even the most digitally-averse consumers towards shopping online, with online penetration increasing 600-1,000 basis points in most categories and retailers such as Hibbett, DICK'S and Academy all experiencing comparable eCommerce sales growth in excess of 90%.

SPORTING GOODS ECOMMERCE SALES AND PENETRATION

PJ SOLOMON estimates that SGOR ecommerce sales grew approximately 65% in 2020, with penetration surpassing 32% of overall sporting good sales.



As these consumers continued to seek out new products online, they often focused their attention and wallets towards a re-emerging class of technical-focused, niche enthusiast brands. Hunting and fishing brands such as Marolina, KUIU and First Lite and cycling brands such as ASSOS and Rapha experienced rapid growth in 2020 as new and existing users alike increased purchases. While these "super fan" brands address a smaller market segment, their enthusiast consumers spend higher amounts and more frequently, often at low customer acquisition cost and at higher lifetime values. Beyond apparel, lifestyle hard goods brands such as YETI, Fox Factory and Thule continue to see growth, as consumers stock up on premium-grade products as part of their new-found outdoor lifestyles. Unlike prior generations of niche-focused gear manufacturers, these hardlines lifestyle brands have developed broader-based appeal while still staying true to their cult-like following and without sacrificing technical capabilities.

5. BURGEONING M&A ACTIVITY

After experiencing a near moratorium on M&A activity in the first six months of 2020, appetite for acquisitions in the SGOR category exploded in the second half of the year and into the first quarter of 2021. We believe the SGOR category is likely to

witness continued outsized M&A volume and strategic activity through the remainder of 2021 and beyond. The confluence of tailwinds, including continued focus on health and wellness, positive macroeconomic trends as we exit the uncertainty of 2020 and an increased focus on solitary leisure and re-engagement with outdoor activities, should drive growth in both industry participation and spend over the next 12-24+ months, which in turn will continue to attract interest from institutional and strategic acquirers. Further, the SGOR industry remains highly fragmented with many of the industry consolidators (both strategics and portfolio companies of financial sponsors) benefiting from improved operational performance, increased liquidity, healthier financing markets, and a mandate to pursue non-organic growth.

2020-21 M&A ACTIVITY & QUARTERLY VOLUME

M&A activity in the sporting goods and outdoor recreation category screeched to a halt in the early months of COVID-19 but rapidly accelerated in the second half of the year with no signs of letting up in 2021



CONCLUSION

As we look to 2021 and beyond, we remain excited about the possibilities for growth in the sector and the potential for significant strategic activity, including increased M&A. For founders and investors alike, it's an opportune time to think about how to best take advantage of this potentially lucrative – and incredibly fun – category.



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