



# Capstone Partners

Investment Banking Advisors

Boston | San Francisco

## SECTOR SNAPSHOT

Specialty Products >> Outdoor & Sporting Equipment

>> Specialty Bicycle

**SECTOR SCOPE:** The bicycle industry is a mature market and has an aggregate global and U.S. retail opportunity of approximately \$20.0 and \$5.7 billion, respectively. New bicycles typically comprise half of the U.S. total, with the balance consisting of components, apparel, accessories and service. In 2004, bicycling was the largest equipment-based sporting activity in the U.S. by over \$1.5 billion, outpacing golf, the next largest.

### GROWTH OUTLOOK:

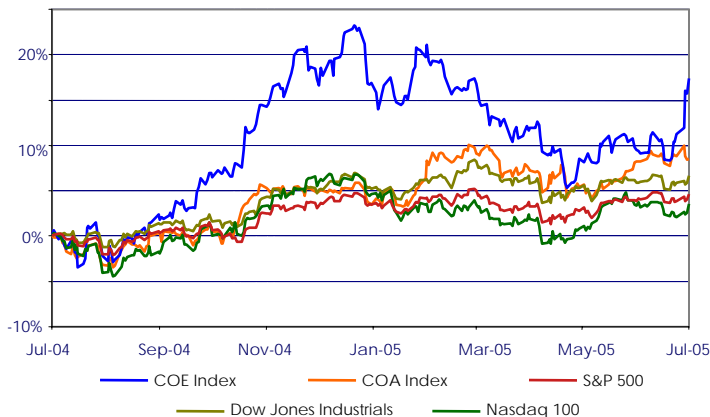
- ▶ The U.S. market is relatively mature and growth has been moderate. From 1999 to 2004, sales have fluctuated between \$5.3 and \$5.8 billion.
- ▶ Participation in activities such as triathlons, which has grown at a CAGR of over 30% since 2000, and Lance Armstrong's seven consecutive Tour de France victories are fueling market growth by increasing demand for high-end bicycles and accessories.

### MARKET DRIVERS & TRENDS:

- ▶ **Offshore Manufacturing Shifting Competitive Landscape** - The proliferation of offshore manufacturing has continued to stiffen competition for smaller manufacturers not able to leverage alternative manufacturing options. Lower offshore production costs have driven production capacity overseas and spurred fierce price competition, even among the high-end brands.
- ▶ **Shift in Global Manufacturing "Hotbeds"** - Producing 60% of the world's new bicycles, China is still the dominant country for manufacturing. To protect its remaining market share, the European Union continues to enact steep anti-dumping duties, motivating new and existing players to establish operations in countries such as Poland, Hungary and the Czech Republic to offset the cost of these duties.
- ▶ **U.S. Manufacturers, Competition Driving European Paradigm Shift** - The emergence of tier-one, U.S. brands as the leading products worldwide and the consolidation of local European manufacturers, who once dominated the heavily fragmented market, are also causing a significant shift in the competitive landscape. The convergence of these two factors is compelling retailers to develop new relationships with non-local manufacturers and is giving rise to a small group of European bicycle conglomerates.
- ▶ **High-end Bicycle Manufactures Resisting Competition** - Due to the lack of mass manufacturing of titanium overseas, high-end titanium bicycle frames are typically manufactured in the U.S. High-end bicycle manufacturers have thus been better equipped to compete more favorably against offshore manufacturers than U.S.-based companies targeting the general participant market.
- ▶ **Casual Riders "Trading-up" to Enthusiast** - As discretionary income continues to increase for middle-market consumers, companies have successfully marketed "luxury" goods and services, including products that deliver higher quality, technical advantages, and superior performance, to a wider market. The increase in the number of enthusiast riders augers well for manufacturers of higher-end bicycles and accessories.

### MARKET PERFORMANCE:

Capstone Outdoor Equipment Index



The Capstone Outdoor Equipment (COE) Index is a market capitalization weighted index that includes the following companies: ATN, ALDA, UCPJ, BIKE.Q, DIIB, ESCA, GRMN, HED, JAH, KTO. The Capstone Outdoor Apparel (COA) Index is a market capitalization weighted index that includes the following companies: BOO, COLM, BOOT, OO, ZOK, RCKY, RML, TBL, VFC (July 8, 2004 to July 8, 2005).

### Public Equity Markets

#### Equipment

Company Name	Valuation Statistics		
	TEV/LTM Rev	TEV/LTM EBITDA	TEV/LTM EBIT
Action Performance Companies Inc. (NYSE:ATN)	0.5x	6.4x	N/A
Aldila Inc. (NasdaqNM:ALDA)	1.5x	6.8x	7.7x
Brownie's Third Lung (OTCBB:UCPJ)	0.6x	178.6x*	N/A
Cannondale Corp. (OTCPK:BIKE.Q)	0.4x	N/A	N/A
Dorel Industries Inc. (NasdaqNM:DIIB)	0.9x	9.3x	10.8x
Escalade Inc. (NasdaqNM:ESCA)	1.0x	7.4x	9.5x
Garmin Ltd. (NasdaqNM:GRMN)	6.2x*	15.1x	17.2x
Head NV (NYSE:HED)	0.5x	9.1x*	32.7x*
Jarden Corp. (NYSE:JAH)	2.4x	16.5x	19.5x
K2 Inc. (NYSE:KTO)	0.8x	9.2x	13.7x
<b>Average</b>	<b>1.0x</b>	<b>10.1x</b>	<b>13.1x</b>
<b>Median</b>	<b>0.8x</b>	<b>9.2x</b>	<b>12.2x</b>
<b>Harmonic Mean</b>	<b>0.7x</b>	<b>9.0x</b>	<b>11.7x</b>

#### Apparel

Company Name	Valuation Statistics		
	TEV/LTM Rev	TEV/LTM EBITDA	TEV/LTM EBIT
Collegiate Pacific Inc. (AMEX:BOO)	1.2x	12.2x	13.1x
Columbia Sportswear Co. (NasdaqNM:COLM)	1.4x	6.9x	7.6x
Lacrosse Footwear Inc. (NasdaqNM:BOOT)	0.6x	6.1x	7.2x
Oakley Inc. (NYSE:OO)	1.9x	11.6x	17.1x
Quiksilver Inc. (NYSE:ZQK)	1.5x	11.9x	14.4x
Rocky Shoes & Boots Inc. (NasdaqNM:RCKY)	1.5x	12.5x	15.5x
Russell Corp. (NYSE:RML)	0.8x	7.3x	10.7x
Timberland Co. (NYSE:TBL)	1.5x	8.7x	9.5x
VF Corp. (NYSE:VFC)	1.2x	7.5x	8.9x
<b>Average</b>	<b>1.3x</b>	<b>9.4x</b>	<b>11.5x</b>
<b>Median</b>	<b>1.4x</b>	<b>8.7x</b>	<b>10.7x</b>
<b>Harmonic Mean</b>	<b>1.1x</b>	<b>8.8x</b>	<b>10.6x</b>

TEV = Total Enterprise Value = Market Capitalization + Debt - Cash.

\*Excluded from calculation

Source: Capital IQ, Reuters, FT.com and company reports.



Capstone Partners LLC is a leading national investment banking advisory firm dedicated to assisting middle market entrepreneurs through complex M&A and financing transactions.



Ongoing  
Strategic Advisory

Companies advised:



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## DEAL ACTIVITY:

### M&A Transactions

Date	Target	Buyer	Summary	Deal Size (\$mm)	TEV / Rev	TEV / EBITDA
7/11/2005	Just Two Bikes, Inc.	Private Buyers	Dale Hedstrand, President of Focal Point Financial Services, and Jim Dugelman, Sales and Marketing Manager of JTB, acquired Just Two Bikes, Inc., a recumbent bicycle manufacturer, for an undisclosed amount.	\$ N/A	N/A	N/A
6/17/2005	Pearl Izumi USA, Inc.	Nautilus Inc.	Nautilus, Inc. acquired Pearl Izumi USA, Inc., a sports apparel manufacturer, for \$74.0 million. Pearl Izumi had revenues of approximately \$49.0 million.	74.0	1.5x	N/A
5/31/2005	Dan's Competition Inc.	XP Innovation LLC	XP Innovation LLC acquired Dan's Competition, Inc., a direct marketer of BMX bikes and accessories, for approximately \$13.0 million.	13.0	N/A	N/A
5/2/2005	Salomon S.A.	Amer Sports Corporation	Amer Sports Corporation acquired Salomon S.A., a subsidiary of Adidas Salomon AG that manufactures bicycle wheels and outdoor sports equipment, for about \$624 million. Salomon had revenues of approximately \$840 million.	624.3	0.7x	N/A
4/29/2005	Tailor Sp. z o.o.	Summit S.A.	Summit S.A. acquired Tailor sp. z o.o., a manufacturer of clothing for hunting, angling and sailing, for approximately \$280,000.	0.3	N/A	N/A
7/19/2004	Huffy Sports Company	Russell Corporation	Russell Corporation acquired Huffy Sports Company, a division of Huffy Corporation that manufactures sports accessories like portable basketball systems, for \$30.0 million. Huffy Sports Company had revenues of approximately \$65.0 million.	30.0	0.5x	N/A

Mean	148.3	0.9x	N/A
Median	30.0	0.7x	N/A
Harmonic Mean	1.4	0.7x	N/A

### Private Placement and Buyback Transactions

Date	Company	Participants	Summary	Deal Size (\$mm)
6/15/2005	Textronics, Inc.	Institutional Investors	Textronics, Inc., a provider of textile electronics solutions for the health/fitness, communications, transportation, and industrial markets, announced that it has raised funding in Series A round led by NGEN Partners.	NA
3/30/2005	Shimano Inc.	Buyback	Shimano, Inc., a manufacturer of bicycle components and fishing tackle, acquired \$13.4 million in shares. Shimano has revenues of approximately \$1.7 billion.	13.4

## A CLOSER LOOK: BICYCLE COMPONENTS MANUFACTURERS

Bicycle components are comprised of core drive trains and brakes, as well as forks, shocks, bars and stems, seats ("saddles"), pedals and wheels. The challenging manufacturing environment that bicycle manufacturers face with respect to offshore competitive pressures extends to component manufacturers as well; however, components are less trend-oriented than bike frames and suffer less from the complexities of distribution through the specialty dealer channel. Component manufacturers typically benefit more uniformly from industry trends than frame manufacturers because their products can be used on any frame, so they are indifferent to whether a particular bike manufacturer has a good or bad year as long as bikes are being sold.

Component manufacturers are also better positioned to sell to any (and every) dealer, a result of most dealer's desire to carry the maximum variety of components due to their attractive margins and limited required floor space. Frame manufacturers, by contrast, are often limited by competing geographical coverage from other dealers. The aftermarket sales potential of components is also lucrative as participants and enthusiasts look to upgrade their components without necessarily buying a new frame.

### Select Bicycle Component Manufacturers

**SHIMANO**



*Campagnolo*

