WEEK 1618 THE B.O.S.S. REPORT MAY 2, 2016

The Bicycle, Outdoor, and Snow-Sports Trade Newsletter

VF CORP.
STYMIED BY WINTER LEFTOVERS IN FIRST-QUARTER

VF Corp. reported operating profits at its Outdoor & Action Sports coalition fell 12.7 percent in the first-quarter, to $227 million. Sales gained 2.3 percent to $1.64 billion.

Overall operating margins in the coalition eroded to 13.9 percent, a decrease of 230 basis points compared with last year's first-quarter. More than half of the margin decrease was due to foreign currency changes as a majority of the coalition's business in the first-quarter came from overseas. On a currency-neutral basis, sales in the coalition were up 4 percent and operating earnings would have been flat.

However the mild winter that has left many retail accounts bloated with inventories continued to weigh on results. The sales gain for the Outdoor & Action Sports coalition was marked by a gain in low-teens in direct-to-consumer (DTC) sales that offset flat wholesale results.

On a conference call with analysts, Steve Rendle, VF president and COO, said the coalition's performance was generally in line with expectations. "Sluggish traffic and the hangover from the warmer than normal weather once again influenced our cold weather brands," said Rendle. "That said, overall we are pleased with how the quarter played out for the coalition."

The North Face Boosted By DTC

Among the major coalition brands, The North Face (TNF) global sales in the quarter grew 6 percent and advanced 8 percent on a currency-neutral basis. In the Americas, North Face saw a low single-digit percentage rate increase. The gains were boosted by a low-teen increase in DTC, including strong e-commerce results.

"On the wholesale side, sales were down in the mid-single-digit range as retailers continued to manage their inventories remaining from the difficult fourth-quarter of last year," Rendle added.

Outerwear showed strength in the first-half of the quarter in the Americas region while rainwear gained momentum in the second-half. The brand's Mountain Athletics training collections, as well as its overall women's business, continued to build momentum.

In Europe, TNF was up almost 20 percent with more than 25 percent growth in DTC and the mid-teen increase in its wholesale business. Strength in the Ultra footwear line and the launch of Mountain Athletics across Europe supported gains. Strong performances were delivered by the U.K., Italy, France, Spain and the Nordic region.

TNF saw a mid-single-digit percentage rate increase in the Asia-Pacific region with a gain in the high single-digits on a currency-neutral basis. The gain was driven by double-digit growth in the wholesale business and a mid-single-digit increase in D2C.

Vans Sees Effects Of Wholesale Reduction

Vans' global sales in the quarter were down 1 percent but up 2 percent on a currency-neutral basis, in line with expectations. The action sports brand saw a nearly 20 percent gain in its DTC business that helped offset a high-single-digit decline at wholesale. Rendle said the decline was a direct result of VF's choice to strategically reduce wholesale segment sales of certain classic styles, predominantly in Europe, and that the brand continues to experience "healthy consumer demand." He also stressed, "It's not a brand product or consumer issue" and he expects year-over-year comparisons to normalize in the second half.

In the Americas, Vans' revenues grew at a high-single-digit rate with a near 20 percent increase in DTC, including more than 30 percent growth in e-commerce. Wholesale showed a slight decline.

Vans' revenues in Europe were down with a mid-teen increase in DTC being offset by a high-teen decline at wholesale. In Asia, Vans' revenues accelerated at a low-double-digit rate, driven by 25 percent DTC growth and a mid-single-digit increase in wholesale business.

Photo courtesy Timberland

Timberland Still Driven By Boots

Timberland brand revenue globally was up 2 percent in the quarter and grew 3 percent on a currency-neutral basis. Low-single-digit growth was generated in both DTC and wholesale.

In the Americas, Timberland saw a low single-digit increase in reported terms and advanced mid-single-digits on a currency-neutral basis. Wholesale was up high single-digits while DTC was down low double-digits due to weak overall retail traffic and the mild weather's impact. Boots continue to be the main driver in footwear for Timberland in the region. The brands women's business continued to stand out with sales up nearly 50 percent. The industrial Timberland Pro line, which caters to construction workers, jumped 40 percent.

In Europe, sales for Timberland were up mid-single-digits, driven by DTC. Timberland's Asia revenues were down slightly, primarily from weakness in Hong Kong, Mainland China and Korea.

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The Outdoor & Action Sports coalition also includes Eagle Creek, Eastpak, JanSport, Kipling, Lucy, parts of the Napapijri business, Reef and SmartWool.

Companywide, DTC Drives Growth

Companywide, VF's earnings dipped 9.9 percent to $260.3 million, or 61 cents a share, exceeding Wall Street's consensus estimate of 58 cents. Gross margins eroded 80 basis points to 48.2 percent as benefits from lower product costs, pricing and the continued mix shift to higher margin businesses were offset by 100 basis points from changes in foreign currency and inventory management efforts.

Sales inched up 0.2 percent to $2.8 billion and gained 2 percent on a currency-neutral basis driven by an 8 percent gain on a currency-neutral basis in DTC, which increased to make up 26 percent of total revenue in the first-quarter compared with 24 percent in the 2015 period. Comps were up in the low single-digits, led by its Outdoor & Action Sportswear and Jeanswear coalitions.

"What this tells us is that our brands and products are resonating strongly with consumers who are happy to show their approval by buying," said CEO Eric Wiseman on the conference call. "However, our wholesale business is still navigating through the inventory carryover from what was a challenging fourth-quarter at retail in general."

Among its other coalitions, Jeanswear revenue (Lee and Wrangler) was up 1.6 percent to $71.5 million and grew 4 percent on a currency-neutral basis. Operating earnings climbed 4.1 percent to $137.3 million.

In its Imagewear coalition, which includes its work and licensed apparel businesses, revenues sunk 4.9 percent to $269.1 million. The Licensed Sports Group (LSG), which includes Majestic Athletic, remained flat. Majestic Athletic is seeing strong demand for its Cool Base replica jerseys and new Flex Base uniforms, as well as a favorable response to the "My Team, My Colors" marketing campaign.

Workwear showed a high single-digit decline, impacted by the reduction in oil and gas exploration. Operating income for the Imagewear segment was flat at $42 million.

Exploring Majestic Athletic Alternatives

As reported, VF on March 25, three days after reporting fourth-quarter results, said it was exploring strategic alternatives for its LSG business. Wiseman said the company felt compelled to announce the potential divestiture given the many licensed partners Majestic works with. He added that the move was part of the company's ongoing assessment of potential divestitures and acquisitions and said LSG may not be sold.

In the Sportswear coalition (Nautica, Kipling), revenues declined 12.7 percent to $118.4 million while operating income decreased 62.8 percent to $4.8 million. In the Contemporary Brands coalition (7 for all Mankind, Ella Moss, Splendid), revenues were down 15.1 percent to $74 million, including a 52.9 percent decline in operating income, to $1.7 million.

Looking ahead, VF reiterated its full-year outlook, where revenue is expected to increase at a mid-single-digit percentage rate, including about one percentage point of negative impact from changes in foreign currency. EPS, on a currency-neutral basis, is expected to increase 11 percent or up 5 percent on reported terms, compared to an adjusted EPS of $3.08 in 2015.

Revenue in the first-half is expected to be flat on a reported basis, up at a low-single-digit percentage rate on a currency-neutral basis. First-half EPS should be down at a low-double-digit percentage rate on a reported basis and off low-single-digit currency-neutral.

VF continues to expect currency-neutral revenue growth in the second-half of 2016 to increase at a high single-digit percentage rate, with the strongest performance coming in the fourth-quarter. EPS in the second-half is projected to increase at a mid-teen percentage rate, or up at a high-teen percentage rate currency-neutral. ■

COLUMBIA SPORTSWEAR
CONTINUES TO ROLL IN FIRST-QUARTER

Columbia Sportswear Company (NASDAQ: COLM) turned in its second blockbuster quarter in a row but trimmed its outlook for margins to reflect the closing of dozens of retail stores and a relapse in South Korea.

While reiterating its revenue guidance for fiscal 2016, the Portland, OR-based company lowered its guidance for gross margins and operating margins slightly due to uncertainty over the future of 140 Sports Authority and 47 Sport Chalet stores now conducting going-out-of-business sales.

"We're really up in the air waiting to see what happens with these stores, whether there will be further liquidation and closures, or whether someone will take them over and operate them as a going concern, or whether they'll change into selling some other commodity," said Tom Cusick, Columbia's EVP of finance and CFO.

The two retailer's problems did not keep Columbia from reporting record first- quarter net sales, operating income and net income. The company reported net sales hit $525.1 million in the quarter ended March 31, up 10 percent, 12 percent in currency-neutral terms, compared with the first quarter of 2015. Operating income increased to a first-quarter record of $44.3 million, or 8.4 percent of net sales, while net income increased 20 percent to $31.8 million, or 45 cents per diluted share, including a 6 cent bump from a one-time accounting change and despite setting aside another $500,000 for bad debts on top of the $1.5 million reserved in the fourth-quarter in anticipation of retail bankruptcies.

"Investors should know that there is a reason that we didn't end up in the top creditors on these bankruptcies," said Columbia CEO Tim Boyle. "In fact, we managed those accounts receivable balances quite well. We're in a position where we have inventory to sell and not assets to be written off, not receivables to be written off."


Photo courtesy Columbia

In the United States, net sales grew 18 percent to $336.2 million, thanks to low-teen percentage growth in wholesale channels and greater-than-expected high 20-percent growth in direct-to-consumer channels.

Net sales grew 7 percent (14 percent c-n) in the Europe, Middle East and Africa (EMEA) regions to $51.3 million, including high-teen percentage growth (high 20- percent c-n) in direct sales that was partially offset by a high 20-percent decline in net sales to EMEA distributors. Net sales grew 4 percent (18 percent c-n) in Canada.

Relapse In South Korea

The Latin America, Asia/Pacific (LAAP) region proved the laggard as net sales declined 10 percent (7 percent c-n) to $101.8 million. Sales declined more than 30 percent in South Korea and to LAAP distributors, where Columbia's PFG fishing apparel line has sold well. The declines were partially offset by low-single-digit growth in China and Japan.

"Frankly, our Korean business, which we thought had bottomed in the fourth- quarter of last year, has softened a bit," said Cusick.

Global Columbia brand net sales increased 9 percent (11 percent c-n) to $437.1 million compared with the first-quarter of 2015. Global Sorel brand net sales increased 35 percent (38 percent c-n) to $18.1 million. Global Prana brand net sales increased 12 percent to $41.4 million, and global Mountain Hardwear brand net sales of $25.2 million were essentially flat compared to the first-quarter of 2015.

Global Apparel, Accessories & Equipment net sales increased 9 percent (11 percent c-n) to $434.0 million and Footwear net sales increased 14 percent (18 percent c-n) to $91.1 million.

Inventory Update

The Company ended the quarter with inventory valued at $412.2 million, or 13 percent higher than a year earlier. More than 60 percent of that consisted of current Spring 2016 styles, while the balance was Fall 2015 product. More than half of the Fall 2015 product comprises styles that carry over into in-line Fall 2016, while the remainder is excess that Columbia will sell through its own outlets this fall.

"The inventory is in better shape today than it was a year ago," said Cusick. "We were able to clear more than we planned of the fall 2015 excess in Q1 in the U.S., particularly given the favorable winter weather we had in January and February."

The company ended the quarter with cash and short-term investments of $451.2 million, or about flat with the year earlier, while its total debt-to-equity ratio stood at a very healthy 30.4 percent.

Trimming Margins Expectations

Columbia's fall orders booked supports its original full-year revenue forecast which calls for net sales to grow in the mid-single-digit percentage range. But the Company did take down its forecasts for gross margin improvement from 40 to 30 basis points and lowered guidance for operating margins by 10 basis points to 10.7 percent in anticipation that store closings would result in cancelled orders during the fall. The new targets assume Columbia spends 5.3 percent of net sales on marketing, down from 5.4 percent planned at the beginning of the year.

Boyle said Columbia's strong balance sheet gives it financial flexibility to help dealers cope not only with unfavorable weather, but also with a rapidly changing retail landscape. The Company plans to continue investing in its existing brands through innovation and design, elevated in-store presentation and increased demand creation, rather than acquisitions, he said.

"We're proud of the approach we take in extending credit to wholesale customers," said Boyle. "It allows us to really, with some certainty, pick the winners in terms of those that have the ability to grow and take advantage of a tumultuous time in the retail business." ■

CABELA'S MERCHANDISE LOSSES MOUNT
AS BOAT AND GUN SALES RISE

Cabela's Inc. reported operating losses at its Merchandise segment quadrupled to $16.4 million in the fiscal first-quarter compared with the year earlier quarter as strong sales in boats and firearms failed to revive sales of higher margin apparel and accessories.

The Nebraska-based outfitter reported revenue from its brick-and-mortar stores increased 7.6 percent to $564.1 million in the quarter ended April 1, thanks to the addition of 15 stores and high sales of power sports - particularly boats - and firearms. Those gains were countered by declining sales of apparel, archery and shooting categories. Internet and catalog sales decreased 10.2 percent to $155.7 million.

Even after adjusting a shift due to the timing of Easter, which fell within the fiscal first-quarter this year, Cabela's comparable store sales decreased 3.8 percent in the United States and 4.3 percent when including its stores in Canada. The company ended the quarter with 82 stores, up from 67 as of March 27, 2015.

Merchandise gross margins decreased by 96 basis points to 32.2 percent due to increased sales of lower margin firearms and power sports, lower sales in higher margin soft goods and apparel, along with markdowns and pricing. Operating losses at the Merchandise segment, which includes all retail operations, quadrupled to $16.4 million compared with the year earlier quarter.

Credit Card Business Booming

The loss was easily made up by a $12.3 million, or 25.4 percent, increase in operating income at Cabela's Financial Services segment, which includes results at its wholly owned bank, which manages the Cabela's Club Visa credit card program.

The average number of active Club Visa accounts grew by 140,009, or 7.4 percent, compared with the fiscal first-quarter ended March 28, 2015. Average outstanding balance on credit card loans, meanwhile, grew 15.3 percent. While net charge-offs as a percentage of average credit card balances jumped from 1.53 percent to 2.25 percent, CFO Ralph Castner said the number was in line with expectations for this phase of the credit cycle.

Moving to the bottom line, Cabela's reported net income of $22.9 million and earnings per diluted share of 33 cents, down 14.5 percent and 10.8 percent respectively from the year ago quarter. Excluding impairment and restructuring charges and costs related to preliminary settlement of an undisclosed legal matter, adjusted net income increased 7.3 percent to $29.5 million, or 43 cents per diluted share, the company reported.

It was unclear whether the preliminary legal settlement, which reduced earnings per diluted shared by 4 cents, pertained to a $1.0 million civil penalty Cabela's agreed to pay April 27 to settle charges by the SEC that it knowingly violated generally accepted accounting principles (GAAP) in preparing its 2012 financial statements.

Guidance, Store Openings Affirmed

Cabela's reaffirmed its guidance for fiscal 2016, which calls for revenue to grow at high-single-digit growth rate and high-single-digit or low-double-digit growth rate in earnings per diluted share compared to fiscal 2015.

Growth anticipates Cabela's will open five stores in addition to five already opened since the beginning of the fiscal year, as well as other initiatives aimed at growing same-store sales, including expanded drop ship programs, retail inventory visibility on cabelas.com, merchandise realignment in selected stores and in-store customer service improvements.

"A lot of process improvement activities in the stores are designed to free our folks up from having to do tasks instead of really working with customers," Cabela's CEO Tommy Millner explained in the company's April 28 earnings call.

The company has also been testing store layouts "that place much deeper focus on our hunting customer, our angling customer, the recreational shooting customer and our camping customer," Millner added.

Online, Cabela's has begun positioning itself as a destination for everyday value by emphasizing the competitive pricing and exclusive lifetime guarantee it offers on private label products.

The EPS guidance anticipates growing costs savings. For instance, Castner expects Cabela's will be able to open two new 70,000-square-foot stores, announced April 28, for $6 million less than previously anticipated. Those two stores are among six expected to open in 2017. ■

CABELA'S SEC SETTLEMENT
REVEALS MULTIPLE ACCOUNTING FAILURES

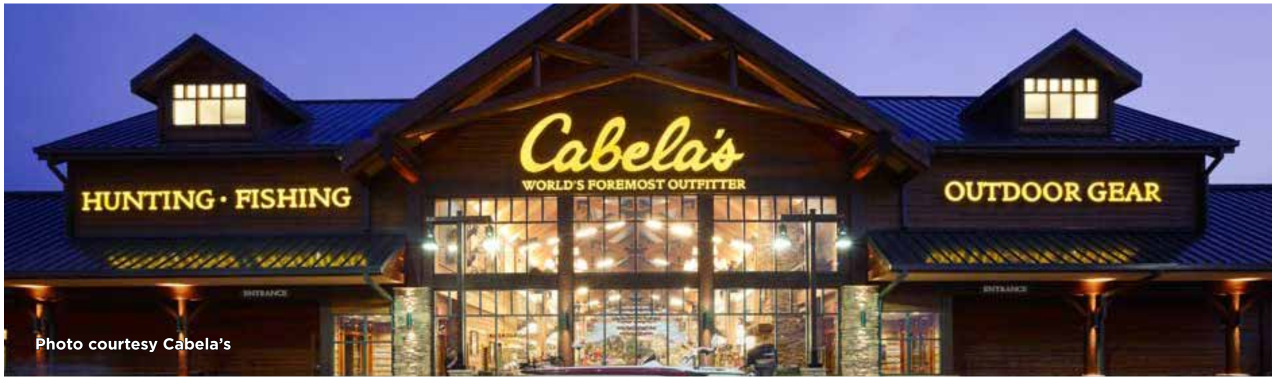

Photo courtesy Cabela's

Cabela's Inc. and its CFO Ralph W. Castner agreed Tuesday, April 26 to pay a $1,050,000 civil penalty to settle Securities Exchange Commission (SEC) charges that they increased the company's reported earnings from 2012 through the first-quarter of 2014 by knowingly violating generally accepted accounting principles (GAAP).

While the SEC press release disclosing the settlement focuses primarily on the way Cabela's calculated merchandise gross margin from 2012 through the first- quarter of 2014, a cease and desist order it issued April 26 spells out five other accounting and disclosure failures the agency said inflated Cabela's net income by $2.02 million, or 4.72 percent, in third-quarter 2012.

The order found that Cabela's violated the reporting, books and records and internal accounting controls provisions of the Securities Exchange Act of 1934, and that Castner caused the failure to disclose the material positive impact of the intercompany payment.

As part of the settlement, Cabela's and Castner agreed to pay civil penalties of $1 million and $50,000 respectively, but did not admit to nor deny the SEC's findings.

Cabela's stock price continued to trade at pre-announcement levels the day of and after the announcement, indicating investors took the news in stride. Castner meanwhile participated in Cabela's fiscal first-quarter earnings call Thursday as usual.

The SEC found that Cabela's, and more specifically Castner, began in 2012 to erroneously include promotional fees received each quarter from its wholly-owned bank subsidiary, which issues the Cabela's Club Visa Card, when calculating the merchandise gross margin percentage at its retail business. GAAP requires companies to eliminate such intercompany payments in preparing their consolidated financial statements.

Castner's failure to eliminate the promotional fees in consolidation resulted in an understatement of the company's merchandise costs and inflated merchandise gross margin percentage it touted to investors.

The effect was most intense in 2012, when those fees totaled $15.8 million and accounted for between 47 and 100 percent of the year-over-year increase in Cabela's reported merchandise gross margin for each quarter in 2012, according to SEC records.

Throughout the period, Cabela's incorrectly stated that "All intercompany accounts and transactions have been eliminated in consolidation," in its periodic filings.

"Cabela's did not disclose the material impact of the promotions fee on the metric in its description of the reasons for the year-over-year increase in merchandise gross margin percentage," according to the SEC's cease and desist order. "Because of the error in consolidation and the lack of disclosure, investors were not aware that an intercompany payment was responsible for a material part of the improvement in the key financial metric."

In fact, many analysts cited the merchandise gross margin percentage as a basis for a favorable view of the company throughout 2012, when Cabela's stock price surged from $26 to $55 before closing up about 70 percent for the year.

Cabela's disclosed that it had changed the way it accounted for the intercompany payments in the fiscal second-quarter of 2014, when it reported the adjustment had not resulted in a change to consolidated earnings per share. However, the company never mentioned the SEC investigation, which only became public knowledge Tuesday. ■

AISLE TALK

Adidas Group will remove plastic shopping bags from its retail stores globally.

Adidas Outdoor named **Michael Silitch**, alpine climber and guide, to its roster of athletes

Cabela's Inc. plans to open 70,000-square-foot stores in Georgia and Missouri featuring a new floor plan designed to cut operating costs and facilitate more locally relevant offerings.

Darn Tough Vermont hired **Mark Yardley** as VP of Sales. Yardley joins Darn Tough from W.L Gore & Associates.

Giant USA is urging its dealers to join the bicycle trade-in network BicycleBlueBook.com through a new strategic partnership.

Kampgrounds of America Inc. supported a study showing more than one million households in North America started camping last year thanks in part to growing participation by minority and millennials.

MbientLab expanded wearable tracking to the climbing consumer, introducing a clip-on tracker and app under the name **Whipper**.

Native Eyewear and **ElliptiGO Inc.** signed on as sponsors for the REI Outessa Summit, an outdoor weekend getaway series offered to women seeking outdoor adventures.

OIA appointed **Matt Kaplan** as VP of Membership and Sales. Kaplan recently served as VP of Sales at Ibex Outdoor Clothing.

Outdoor Sports Marketing hired **Gaston Farmer**, who managed Rock/Creek Outfitters flagship store in Chattanooga, TN, as its National Account Sales Trainer.

Performance Bicycle is offering **Sport Chalet** customers a discount and complimentary safety inspection on any bicycle purchased from Sport Chalet.

Raleigh Bicycles hired **Curt Davis** as Director of Product Management, while promoting **Rob Kaplan** to VP of Sales and Tyler Stetson to Director of Inside Sales and Customer Service.

Sherpa Adventure Gear merged with investment holding company, **Innov8 Partners**, appointing **Dan and Kelsie Costa** as CEO and President.

Sierra Designs became the latest outdoor brand to support **Packing It Out**, a group of thru-hikers raising awareness of litter conditions along America's trails.

WEST MARINE'S E-COMMERCE GAINS BOOST FIRST-QUARTER COMPS


Photo courtesy West Marine

West Marine Inc. (NASDAQ: WMAR) continued to grow sales, gross margins and add outdoor brands and customers while cutting losses in the first quarter, thanks to a big boost from online sales.

The California-based retailer and marine supplies wholesaler, which has been expanding into apparel and other "waterlife" lifestyle categories and brands since 2012 in a bid to lessen its reliance on boat usage, reported net revenues grew 2.6 percent to $130.4 million in the first-quarter ended April 2, compared to the same period last year.

Comparable store sales increased 2.7 percent on top of 7 percent growth a year earlier, although most of that came from a 32.3 percent increase in online sales, which benefited from a redesign of WestMarine.com that included improved apparel pages and the addition of video.

The company ended the quarter with two fewer stores and 2.67 less retail square footage than a year earlier.

Sales through "waterlife" stores, which have been retrofitted to accommodate expanded assortments of footwear, apparel, clothing accessories, fishing products and paddle sports equipment, reached 52.8 percent of total sales compared to 49.4 percent a year earlier. Sales of those categories increased 6.9 percent, lead by accessories, fishing equipment and waterlife activities. Sales of core boating products were up 0.9 percent.

WMAR, which has added travel shops to 47 of its 261 retail locations, began selling Prana and ExOfficio apparel during the quarter, said CEO Matt Hyde, and added that Yeti coolers continued to perform well for the retailer.

The company grew its base of active customers, or those who have shopped at its stores in the trailing 12 months, 6 percent compared with the quarter ended April 4, 2015.

Gross margin expanded 400 basis points to 25.2 percent, with about 100 basis points coming from improved first margin performance and the balance from higher sales and lower vendor costs. Selling, general and administrative increased 140 basis points to 36.8 percent of net sales, with nearly half the increase attributed to the cost of hosting about 400 employees at a biennial training meeting that cost about $1.5 million.

Net loss for the first-quarter was $9.1 million, or $0.37 per share, compared to a net loss of $10.3 million, or $0.42 per share, for the first-quarter of 2015.

The company affirmed its guidance for fiscal 2016, which calls for revenue to grow 1-to-4 percent, pre-tax profits to grow 50 percent and comparable store sales to grow 2-to-5 percent. ■

SPORTS AUTHORITY ABANDONS STAND-ALONE REORGANIZATION TO FOCUS ON SALE

Sports Authority has given up its efforts to reorganize as a stand-alone concern as part of its plan to emerge from bankruptcy. Instead, the retailer will focus on the ongoing sales process to pay off creditors.

"It has become apparent that the debtors will not reorganize under a plan but instead will pursue a sale," a Sports Authority lawyer Robert Klyman told Judge Mary Walrath at a hearing last week in the U.S. Bankruptcy Court in Wilmington, DE, according to the *Wall Street Journal*.

As reported, Sports Authority said it was exploring two options when it filed for bankruptcy in early March. The first was negotiating a plan with lenders to emerge as a smaller, more profitable company – a plan it had hoped to formulate before entering bankruptcy proceedings. Under the stand-alone plan, Sports Authority would end up with about 320 locations with a bigger focus on e-commerce, private-label assortments and customer service.

The second was the sale of all or part of the company. In mid-April, Sports Authority pushed back its planned bankruptcy auction from April 25 to May 16. The extension by another month came after landlords expressed concern that the sale was moving too quickly.

Klyman, a lawyer at Gibson, Dunn & Crutcher, last week indicated that "major" potential bidders are interested in Sports Authority's assets. Dick's Sporting Goods, Academy Sports and Modell's Sporting Goods all reportedly submitted letters of interest to buy some of the assets of Sports Authority at the auction.

A Chapter 11 liquidating plan that would set out how the company will deal with its debts is also possible, according to the *Wall Street Journal.*

The news that Sports Authority was abandoning its stand-alone restructuring plan came at a hearing to approve the company's debtor-in-possession financing.

Unsecured creditors have argued that the financing wasn't necessary with funds from going-out-of-business sales coming in and given the mandated closing of the case set for late May.

Vendors claim senior lenders are the only ones who stand to benefit from the DIP financing. At the same time, vendors have been reluctant to ship more merchandise to Sports Authority given the imminent sale and possible liquidation.

Past bankruptcy financing arrangements that won interim approval earlier in the case have allowed lenders to sweep $109 million to pay down their loans, according to lawyers for the unsecured creditors.

Goods shipped under consignment arrangements also remain an issue in the case. Vendors argue that they should be paid when items are sold under consignment arrangements rather than lenders getting first priority over funds.

Landlords are also challenging the DIP financing. With the filing coming one day after March rent was due, lawyers representing landlords are arguing that the retailer was able to avoid paying March's rent until the end of its case. The retailer pays about $27 million per month in rent. If not enough money is leftover in the case after paying off secured creditors, landlords are worried they won't be paid much, or at all, for hosting going-out-of-business sales on their premises.

The DIP hearing was adjourned on April 26 and rescheduled for May 3. ■

THULE GROUP
RIDES EUROPE TO PROFITABLE GROWTH IN FIRST-QUARTER

Thule Group grew revenues 5.5 percent in the first-quarter as growth in Europe more than offset an expected 4 percent decline in the Americas, where Case Logic and turmoil in Latin America continued to weigh on results.

The Swedish company reported sales from continuing operations reached SEK1.38 billion ($163 million), up 6 percent in currency-neutral terms as trends seen in late 2015 carried over into the quarter ended March 30.

Photo courtesy Thule

Gross margins reached 40.7 percent, up 120 basis points compared with the first-quarter of 2015. Even after higher product launch costs and currency headwinds, Thule was able to increase operating profits 15 percent thanks to higher sales and a positive product mix. Underlying EBIT increased 13.8 percent (15 percent c-n) to SEK235 million ($28 million), or 17 percent of net sales, compared with 15.7 percent in the first-quarter of 2015.

In Europe and the rest of the world, revenues rose 10.1 percent (11 percent c-n) to SEK912 million ($108 million) on the strength of expanding distribution and new products, including the VeloSpace, a tow bar-mounted bike carrier designed for heavier e-bikes. Sales were also buoyed by the company's RV product business, which does not compete in the Americas.

Net income rose 21.6 percent to SEK169 million, while earnings per share before dilution amounted rose 20.1 percent to SEK1.67.

Thule ended the period with inventory valued at SEK780 million, down 1.9 percent from a year earlier, after excluding inventory from discontinued operations. Net debt totaled SEK2.05 billion, down 24.8 percent.

Case Logic, Latin America Weigh Down Americas

Sales in the Americas declined 4 percent, dragged down by economic weakness and political unrest in Latin America and the continuing decline in sales at Case Logic, which specializes in camera and other bags for electronic devices.

Sales of Outdoor & Bags declined 4.8 percent in the Americas to SEK353 million ($42 million), although roof racks and bike carrier sales grew, thanks in part to the introduction of an upgraded tow bar-mounted Thule T2 Pro bike carrier. Other Outdoor & Bags products posted another quarter of strong growth, with sport strollers and hiking backpacks posting the best growth. Thule launched its Versant and Stir hiking backpacks during the quarter.

Thule opened a new roof box factory in Chicago and a new, third-party distribution center in the Western United States during the quarter, which will expand flexibility and enhance efficiency in the coming quarters, officials said.

"The new center is the first step in the sweeping reorganization of the North American distribution structure that we will implement over the coming 18-month period," said CEO and President Magnus Welander.

Taking U.S. Retail Bankruptcies In Stride

Thule does not expect the closing of Sports Authority and Sports Chalet to have a significant impact on its 2016 results. Neither Thule nor its largest U.S. competitor Yakima have emerged on the Top 40 unsecured creditor lists of the bankruptcies, although Thule sells its products through 47 Sport Chalet and 68 Eastern Mountain Sports (EMS) retail locations. While Vestis is closing all Sport Chalet stores, it plans to continue operating 60 EMS stores when it emerges from bankruptcy this summer. Sports Authority is closing all 140 of its retail locations.

"While both of these retailers were customers of Thule Group, they principally at retail conventional sports clothing and some equipment and were thus not key customers of Thule's more outdoor-oriented products," Thule said of Sports Authority and Sport Chalet. "We do not anticipate any marked impact on sales moving forward, given that consumers can visit several alternative stores."

While Thule's accounts receivable declined by 16.2 percent, or nearly $20 million, during the quarter, it was not clear whether the decline reflected a markdown in the value of sums owed by the bankrupt retailers. ■

GARMIN FIRST-QUARTER UP ON OUTDOOR, FITNESS, MARINE GAINS

Photo courtesy Garmin

Garmin (Nasdaq: GRMN) continues to lean on sales gains from its outdoor, fitness, marine and aviation segments as its automobile navigation segment continues to decline.

The non-auto divisions reported sales up 17 percent as a group for the first quarter 2016 and now account for 69 percent of the business (versus 62 percent a year ago), contributing to a 7 percent rise in overall Garmin sales to $624 million for the period.

Gross margins fell 430 basis points to 54.5 percent on higher sales of lower-priced products, plus higher advertising and research and development costs. Higher tax rates also cut into profits. First-quarter net income still came in higher at $88.1 million, or 46 cents per diluted share, versus $66.8 million, or 35 cents per diluted share, a year ago.

Company officials maintained their guidance issued in February of approximately $2.82 billion in revenue, saying performance so far was consistent with expectations.

Garmin's first-quarter Outdoor revenues showed the most robust growth — up 33 percent to 96.8 million. Operating income for the division rose by 17 percent.

"We recently launched several golf products, which have brought new excitement to the market," Garmin President and CEO Cliff Pemble said. "Additionally we have completed the acquisition of DeLorme, and look forward to integrating their technology into a broad range of product categories." Dog tracking products also boosted sales for outdoor.

In Fitness, sales grew 9 percent to $142.4 million driven by strong growth of products with Garmin's Elevate wrist heart rate technology, Pemble stated. "Running and activity tracker categories experienced robust growth over the prior year, somewhat offset by declines in the multisport category," he said.

The competition within the booming fitness tracker market continues to squeeze margins for Garmin Fitness as consumers shift toward lower price points. The company has had to increase its advertising spending and double-down on research and development spending to stay ahead. As a result, operating income within the segment fell by more than half. Pemble said the investments will prove to maximize long-term growth in the segment and that margin pressures will stabilize.

Garmin's Marine segment revenue grew 29 percent, driven by stronger sales of chart plotters and fish finders. Previous investments in the division are paying dividends now, Pemble said.

In Aviation, first-quarter sales rose 8 percent as the company saw growth in both OEM and aftermarket product lines. As more aircraft shift to GPS tracking technology for next-gen air traffic control systems, Garmin is set to capitalize with several of its product offerings, Pemble said.

Garmin's Auto segment saw sales fall 11 percent for the quarter, due to the continuing contraction of the market as more consumers use their smart phones for navigation. Garmin is beginning to innovate its technology here to include more cameras that can help with lane-departure and collision warnings, although that might be short-lived based on more new cars coming with the technology built in.

ACCELL E-BIKES GAIN TRACTION OUTSIDE EUROPE


Photo courtesy Accell

Accell Group NV of the Netherlands attributed strong revenue and profit growth in the first-quarter largely due to improved demand for higher-priced electric and sports bikes, but did not say how much of that came from the United States where independent bike dealers and their vendors are working their way through a glut of some bikes.

While its shares are publicly traded, Accell limits its first and third-quarter earnings reports to a general discussion of its business. It won't publish actual sales and earnings numbers until it releases interim results for the first-half of the year in July.

"Sales of electric bikes were up in all countries, especially in Germany," said Accell Group Chairman René Takens. "Sales of electric bikes also increased by more than 10 percent in countries where the market in this category is more modest. On top of this, we are seeing a clear rise in the demand for our sports bikes."

It was not clear whether the 10 percent figure applied to North America, where Accell has been pioneering sales of a new generation of e-bikes since 2014, that have reinvigorated the industry in Europe but have been slow to catch on with U.S. independent bike dealers. A record number of brands exhibited e-bikes at the Subaru Sea Otter Classic in California earlier this month, including market leader Specialized.

The strong demand for e-bikes continued to push up the average price of bikes Accell sold during the first-quarter compared to the same period in 2015. Sales of its parts and accessories business came in flat.

Favorable weather conditions in the first months of the year also boosted sales compared with the same period in 2015.

"The higher revenues we recorded helped us to book a healthy increase in profit for the first three months of 2016," Takens continued. "We therefore maintain our forecast for 2016 of a further increase in turnover and profit, barring unforeseen circumstances."

Accell Group N.V. announced April 1 that it had agreed to sell its North American parts & accessories business so it could increase its focus on its core business of selling bikes in the United States. In addition to selling sport and e-bikes under its flagship Raleigh and Diamondback brands, Accell offers electric mountain bikes, or e-MTBs, from the German brand Haibike. Its California subsidiary Currie Technologies sells iZIP e-bikes and in 2015 REI became the exclusive U.S. dealer for Accell's German-designed Ghost mountain bikes.

Accell Group is Europe's leading bike supplier in terms of revenues, which reached €986 million in 2015. ■

NEW OR WINTER MARKET DATES
LATEST IN TRADE SHOW SHUFFLE

Outdoor Retailer Winter Market has shifted its dates for 2017 — pulling the show into the mid-week and reducing the trade show by a day, organizer Emerald Expositions announced.

The trade show, which will now be only three days instead of four, will begin Tuesday, January 10, 2017, and wrap up Thursday, January 12, with the All Mountain Demo day scheduled for Monday, January 9.

OR Winter Market had previously been scheduled for Saturday, January 7 through Tuesday, January 10, which was meant to be an experiment of starting the show on a weekend instead of ending it on a weekend.

In the end, however, show retail buyers rejected the weekend altogether.

"A significant majority of specialty retailers indicated in the post-show surveys and conversations that a mid-week date pattern, rather than a schedule that includes weekend show days, is preferred as it allows them to get back to their store, or with their families enjoying the outdoors," show officials said.

Many vendors were also unhappy about the previous show's weekend schedule, which last OR Winter Market spilled into Sunday versus being just on Saturday. Booth traffic on those days was significantly down vendors told us and some quipped that those left at the show were more interested in the NFL playoffs, huddling around televisions to watch the games.

The latest new dates also move OR Winter Market out of a scheduling conflict with the electronics industry's CES show (January 5-8, 2017). Some marketing managers had complained that the crossover with CES had pulled press away from OR Winter Market 2016.

The decision to reduce OR Winter Market 2017 to three days versus four, also came from feedback, officials said. "A clear majority feel a three-day expo would best serve their needs," for the winter edition, which is smaller than the summer show.

It all comes as the global outdoor trade shows jockey for position and relevancy with earlier order deadlines and competition amongst themselves.

Outdoor Retailer moved up Winter Market by two weeks to early January starting in 2016. Then, the SIA Snow Show announced that it would bump up its event by nearly two months to early December. (There will actually be two SIA shows in 2017 — one on the old time frame in late January 2017, then the other on the new time frame in early December 2017). Meanwhile, for summer, OutDoor Friedrichshafen shifted its schedule up by a month to mid-June starting in 2017, and Outdoor Retailer Summer Market will move up by one week to late July 2017.

Those are the changes … for now, that is. Outdoor Retailer officials said that they continue to conduct research that could result in further date changes for future Outdoor Retailer Winter and Summer Markets.

"As the show organizer, we feel it's our responsibility to strengthen the event to ensure that we are meeting the needs of the industry," officials said. "We do this by listening and gathering feedback on a regular basis to identify ways to be innovative and relevant, which makes Outdoor Retailer the must attend show for our community. Order deadlines and selling cycles are potentially different for many of our segments, but we look to best represent the needs of a majority of our audience and, as well, consider solutions around sales cycles that differ from the majority."

Outdoor Retailer Summer Market 2016 trade show dates remain Wednesday, August 3 to Saturday, August 6 with the Open Air Demo day on Tuesday, August 2. ■

SHIMANO REPORTS
16 PERCENT DROP IN FIRST-QUARTER REVENUES

Shimano Inc., which owns Pearl Izumi as well as the expansive Shimano bicycle components business, reported net income in the first-quarter dropped 68.9 percent to ¥6.4 billion ($57.4 million) while revenues sunk 16.2 percent to ¥82.2 billion ($737 million).

Operating income was down 30.7 percent to ¥16.1 billion ($144.1 million).

In its statement, Shimano said the company was hurt by more uncertain economies in Europe, Japan and the United States. Japan was also impacted by appreciation of the yen. Specifically regarding the U.S., Shimano said that while employment rates and the overall economy have improved, "personal consumption showed signs of diminished vigor due to unstable energy prices."

Higher bike inventory levels are also putting pressure on the market, officials acknowledged.

"In North America, distributor inventories, which have been accumulating relatively high, are likely to adjust to appropriate levels within the first-half of fiscal year 2016," they said. "Distributor inventories of bicycles in Europe remained at an appropriate level." Inventories were also high in China and Japan.

On the positive side, Shimano noted that the quarter's performance for the Bicycle Components segment "achieved the initial target" given the challenges across several regions.

In the Bicycle Components segment, net sales decreased 20.3 percent to ¥65.3 billion ($585.6 million) and operating income fell 34.4 percent to ¥14.6 billion ($130.9 million). Shimano said both Europe and North America had a mild winter and retail sales of the Bicycle Components segment in the first quarter "were buoyant," in those markets.

In the Fishing Tackle segment, revenues increased 5 percent ¥16.8 billion ($150.6 million) while operating income gained 37 percent to ¥1.64 billion ($14.7 million). Sales in its Other segment, which includes rowing equipment, increased 6.5 percent in the quarter to ¥90 million ($807,000) while an operating loss of ¥19 million ($170,000) was recorded.

Shimano reduced its EPS guidance for the current year due to lack of a gain on foreign exchange in the latest period. Net income is now expected to reach ¥53.4 billion, down from its previous guidance of ¥58 billion. In the prior year, Shimano earned ¥76.2 billion. Shimano kept its yearly sales guidance the same at ¥350 billion, which is down from ¥378.6 billion a year ago. ■

U.S. IBD INVENTORIES
REMAIN UNUSUALLY HIGH

U.S. bike suppliers did not make much headway last month clearing their warehouses despite favorable weather and deep discounts, according to financial results and industry data released this week.

On April 26, Chicago-based SRAM, which is the second largest supplier of bicycle components for high-end bikes after Japan's Shimano Corp., announced it had laid off about 40 employees in response to soft sales over the preceding 12 months.

In an interview with Bicycle Retailer and Industry News, a for-profit affiliate of the National Bicycle Dealers Association, SRAM President Stan Day said the company's sales were off about 10 percent in the first-quarter compared to a year earlier.

The layoffs occurred across SRAM's global operations, which employ 2,500 in North America, Europe and Asia, and follow 50 corporate layoffs announced in February by Specialized Bicycle Components Inc., the country's largest domestic bicycle supplier.

On April 27, Shimano reported sales at its Bicycle Components segment fell 20.3 percent in the first-quarter due to high distributor inventories in North America. While noting the inventory buildup had put pressure on prices, Shimano said it expected the situation to correct itself in the first-half of the year.

The Bicycle Product Suppliers Association (BPSA) reported April 28 that bicycle suppliers sales to U.S. retailers were flat in the first-quarter, although sales improved in March as unusually aggressive spring promotions triggered by market leaders Specialized Bicycle Components Inc. and Trek Bicycle Corp. kicked in.

As reported here in December, independent bicycle dealer (IBD) suppliers entered 2016 with inventory equivalents to about 3.5 months of sales, or about 40 percent more than the long-term average of 2.5 months.

BPSA data released April 28 showed inventory levels of 27.5-inch, full suspension bikes at the end of March at twice their year ago levels.

In a bid to help its dealers clear bikes, Giant USA began urging them to take advantage of a used bike trade-in program it established April 25, under the BicycleBlueBook.com Authorized Trade-In Program. This would allow customers to bring their used bikes to an affiliated bike shop where a shop employee will determine the BicycleBlueBook.com Trade-In Value based on the bike's condition and any modifications. The customer is then presented with the trade-in value and store credit that can be applied toward the purchase of a new bike or equipment. The bike shop boxes and ships the bike to BicycleBlueBook.com and is reimbursed for the trade-in value less the cost of freight.

"We're very positive on partnering with BicycleBlueBook; we feel this is another opportunity for our brand and retailers to drive more people to ride bikes," said John Michael Thompson, general manager of Giant USA. "We've seen a beneficial impact for new bike sales by offering a seamless trade-in opportunity. The BicycleBlueBook.com program has the common interests of retailers, brands and riders aligned." ■