

# clearthought

## Outdoor Equipment and Clothing

What used to be a niche sector has turned into a highly competitive lifestyle market



In recent years many outdoor brands have deliberately set out to be more fashionable, with their clothes now used regularly and not just for sporting activities. For many consumers outdoor is simply a lifestyle product, instead of a technical product for outdoor pursuits.

There has also been huge growth in people wanting to improve their health and fitness, which has driven a convergence between the outdoor equipment and sports markets. People who participate in a sport are typically strong buyers of outdoor equipment and clothing.

### Challenging market

After a period of unprecedented growth over the last decade or so, the outdoor equipment and clothing market now faces a much more challenging environment.

Latest figures from the European Outdoor Group<sup>1</sup> show the market only growing by 2.1% in value and 1.7% in volume during 2015. Apparel was impacted most, while other categories proved to be more resilient.

Two of the largest European markets, Germany and France, grew by 2.2% and 2.5% respectively, while the UK lagged slightly with growth of 1.8%. In terms of regions, Southern Europe and Eastern Europe performed best, growing by 2.3% and 2.2% respectively. EOG says the market has experienced two consecutive difficult winter seasons and all eyes will be on data showing how the market performed during winter 2016.

### Market saturation

With the market saturated – estimates suggest there are now more than

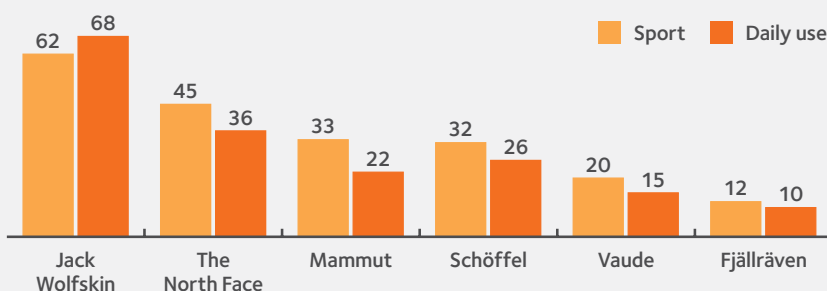
500 outdoor brands – leading players are looking for new ways to position themselves and make their brands stand out among the crowd.

The big challenge for such groups is how to address this broader target market and increase sales without putting at risk their core brand values and unique selling points.

One solution has been for big brands to open their own retail stores in prominent retail locations, thereby attracting new customers to their brands. Indeed, due to the specialised and technical nature of many products in the outdoor market, there is still great value in the store model as consumers want advice and to review products before they purchase.

<sup>1</sup> European Outdoor Group – State of Trade report

### Consumer choice in brand for sports and daily use (in %)



SOURCE: Benchex - Brand Audit

### M&A activity

Against this backdrop we continue to see significant M&A activity. In recent years the market has seen substantial consolidation of the retail base, reducing the number of independent retailers, while at the same time brands have been consolidating giving bigger players more sales opportunities across several markets.



# Market drivers

## E-commerce

Although the physical store model remains very strong, the e-commerce segment is growing rapidly and has fast become an indispensable tool to get closer to customers as part of multi-channel strategies.

As more customers purchase goods via smartphones, leading players are also developing their app offerings and running exclusive app-only deals.

For instance, Go Outdoors recently developed an app that allows customers to show their iPhone instead of their discount card in store.

Another trend has been the emergence of 'flash-sale' sites selling sports and outdoor brands. A flash-sale is a highly discounted time limited offer on a specific brand, meaning that the price reductions can be significant.

One of the leading players in this market is UK-based SportPursuit which works with more than 1000 global brands.

Although the UK is a particularly strong e-commerce market, we are seeing significant growth across Europe. In Germany, for instance, online sales for sports and camping goods increased at a CAGR of 11.7% in the six year period from 2009, with sales reaching €1.3bn.

## Innovation

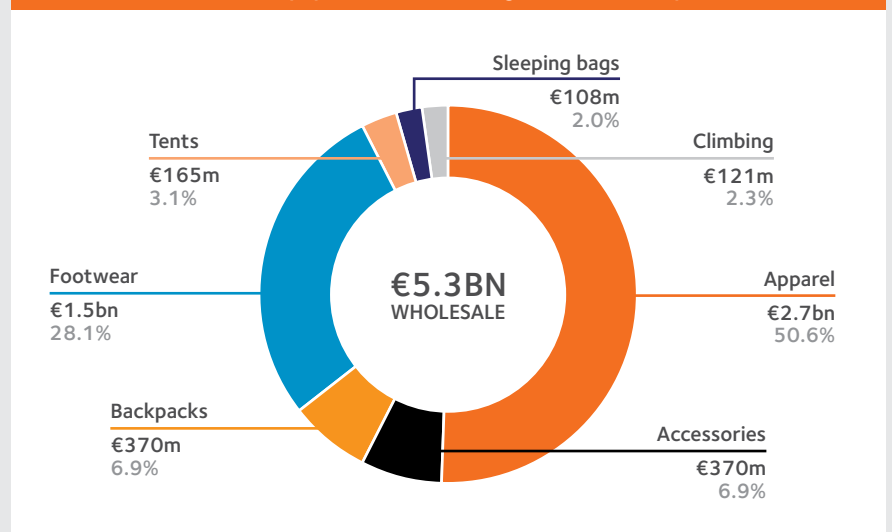
The outdoor market is one of the most innovative in the entire apparel sector. Much of this innovation stems from the very technical nature of outdoor clothing, with many of these innovations now transferring across into more mass market clothing and products.

This innovation also feeds through to the textile supply chain. For instance,

the Textile and Clothing Association of Portugal (ATP) has seen exponential growth in the high-tech textiles segment, especially with applications in sports clothing.

It forecasts that high-tech textiles will more than double to 25% of the sector's turnover by 2020. However, even this figure lags behind countries like Germany where it is nearer 40%.

Breakdown of outdoor equipment and clothing market in Europe



SOURCE: European Outdoor Group - State of Trade report

## Sustainability

More and more outdoor companies have set out to make their entire supply chain as sustainable as possible, a measure which is increasingly judged by customers.

For instance, a growing indicator is a company's Sustainability Image Score (SIS) which demonstrates the impact of sustainability and corporate responsibility on the company's image and how the communication of sustainability is perceived and valued by consumers.

Several outdoor leisure companies made it into the top ten in the 2016 SIS ranking, including US firm Patagonia and German companies Schöffel and Vaude.

Other leading players such as Fenix Outdoor, the owner of Scandinavian brand Fjällräven, put sustainability at the heart of their business. For instance, over the past year the company has strengthened its links with the Sustainable Apparel Coalition which is constructing a standardised global supply chain measurement tool which reflects the environmental and social impacts of production.

## High visibility

The market for high visibility apparel is set to rise markedly in coming years driven by legislation governing the use of high visibility protective apparel, advances in wearable technology, and the development of products which are environmentally sustainable<sup>1</sup>.

High visibility materials have found their way into an increasing number of apparel categories, including casualwear, corporate apparel, fashionwear, promotional apparel, recreational wear and sportswear. They are also increasingly being used in non-apparel items, including backpacks, running shoes and bicycles.

Wearable high vis technology is also becoming increasingly prominent as a result of technological developments such as washable high visibility garments which incorporate light emitting diodes (LEDs).

<sup>1</sup> Textiles Intelligence – High visibility apparel: providing protection, safety, comfort and style



## Case study: Jack Wolfskin

The flagship German outdoor clothing company, whose products bear the famous yellow wolf's paw symbol, is a good example of a business which has seen huge growth due to the rise in the outdoor leisure market. However, like many of its competitors, it has struggled against tough market conditions.

In 2011, Blackstone acquired the business in a €700m deal and then accelerated international expansion beyond its German heartland. However, earlier this year Blackstone reached an agreement to hand

over control of the business to a group of its lenders in a debt for equity swap.

Under the terms of the financial restructuring plan, the lenders will write off €255m and reduce Jack Wolfskin's debt from €365m to €110m, with extended terms until 2022. In addition, lenders will strengthen the company's liquidity by injecting €25m into the business in the form of a super senior loan.

As well as the tough market conditions, the company has faced difficulties in China since

it took direct control of the distribution of its products to around 700 stores.

Last year the company launched its Tech Lab urban outdoor collection, seen as a bid to soften the boundaries between fashion and sport. Jack Wolfskin said the range showed that it was 'possible to hit the mountain and look good doing it!'. The company also changed its product structure, splitting it into Active Outdoor and Everyday Outdoor, the latter focusing on clothing for use in the urban environment and when travelling.

# M&A activity

The sector is evolving fast as brands increasingly go direct to market and look to sell their products globally, while retailers also seek to strengthen their own brands. At the same time all brands need to constantly innovate to differentiate themselves.

These changes are creating M&A opportunities as companies look to reduce costs, enter new markets and extend product ranges. With significant investment from private equity, driven by high growth rates as outdoor products become more mainstream, we are seeing an increasing number of business owners looking to exit, creating more quality acquisition targets. We therefore expect to see significant international M&A activity in the future.

## Private equity

The sector has traditionally been very attractive to private equity, and interest remains strong given the fragmented nature of the outdoor market – especially when compared to the more consolidated sports market. However, PE players are now facing increasing competition from trade buyers. Recent PE deals include:

- Groupe Shark, the French manufacturer of helmets, clothing and accessories for motorcycle riders and a portfolio company of Naxicap Partners, acquired Marlybag, the French manufacturer and retailer of winter sports masks and helmets. The transaction enables Marlybag to develop its research and development capabilities in the bike and outdoor markets.
- Freeman Spogli & Co acquired Osprey Packs, the US designer and manufacturer of technical packs for outdoor, travel, cycling, running, kids and urban adventures.
- Growth Capital Partners acquired AMG, a UK group of outdoor brands including Vango and Force Ten. The acquisition will help to accelerate AMG's growth plans by helping it develop new products, invest in brands, and expand its geographical reach.
- PE firm Ratos acquired Oase Outdoors, a Danish family-owned company that supplies camping and outdoor equipment under the Outwell, Easy Camp and Robens brands.



## Recent trade transactions

Wal-Mart Stores acquired Moosejaw Mountaineering and Backcountry Travel, the outdoor equipment and apparel retailer, from investors including Parallel Investment Partners and Glencoe Capital.

Finnish investor Ville Rantala acquired Scandinavian Outdoor Oy, a Finnish retailer selling outdoor gear and camping equipment. The acquisition gives Scandinavian Outdoor the opportunity to expand its business internationally.

Vista Outdoor, a designer and manufacturer of consumer sports products, acquired Camp Chef, a manufacturer of outdoor cooking instruments.

Coghlan's, the Canadian manufacturer of outdoor camping accessories, acquired McNett Corporation, the US manufacturer of outdoor gear and accessories.

International Retail Corporation SA, the Switzerland-based investment holding company of Beat Zaugg, acquired a majority stake in Transa Backpacking AG, a Switzerland-based supplier of travel and outdoor products.

Schwanhaeusser Industrie, a German group which already owns well-known outdoor equipment brand Deuter, acquired Maier Sports GmbH, a German manufacturer of sportswear for skiing and outdoor sports.

Cherokee, a provider of women's apparel, footwear, and other goods, acquired Hi-Tec Sports, a UK manufacturer and designer of sportswear, as part of its move into the active lifestyle arena. Hi-Tec will enhance Cherokee's presence in active, outdoor markets.

H. Young Holdings, the UK-based group that owns a number of businesses including the Animal surfwear brand, acquired Rohan Group, a designer of outdoor activity clothes.

JD Sports Fashion, the European retailer of sports clothing and accessories, acquired GO Outdoors, the UK outdoor retailer best known for its camping equipment.

Japanese company Descente acquired an 80% stake in Inoveight, the UK manufacturer famous for its off-road running shoes, from PE firm Livingbridge.

# Interview: Hans Falkenburg

After 18 years at the helm of UK outdoor clothing retailer Cotswold Outdoor, Hans Falkenburg is well-placed to comment on the challenges facing the market today.

With fierce competition in the outdoor leisure sector Hans Falkenburg says market conditions have probably never been harder.

"Prices in the Far East are going up, here in the UK the pound is losing value against the dollar which puts margins under pressure, and then consumers are more price-sensitive than ever. Brands and retailers are having to share the pain and, to a degree, absorb the price increases."

However unless companies keep innovating and investing in their businesses they run the risk of standing still and losing the battle. "Today more than ever retailers and brands need to continue improving their ranges and servicing their customers to the best of their ability. At Cotswold Outdoor we were always incredibly focused on servicing the outdoor consumer and that is why we remained successful."

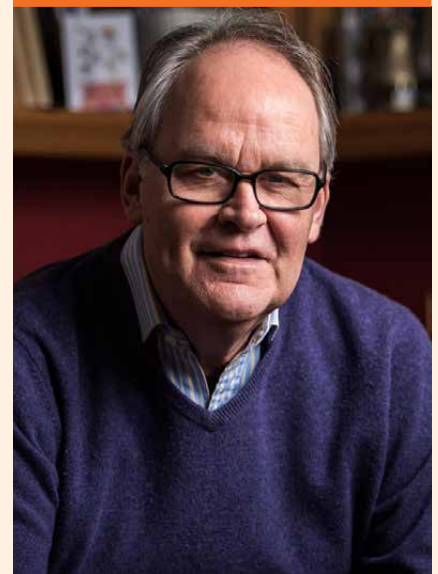
compelling, ensuring that customers receive a very personal service which is particularly relevant to the outdoor industry.

"This then needs to be supported by a strong website which makes their offer a true multi-channel experience allowing the shopper to research, browse and shop where and when he or she wants."

## Outdoor as lifestyle

Falkenburg says brands have to determine the best route for each specific market they operate in. That means deciding whether to sell direct to retailers/etailers, through distributors and/or agents, through licence agreements, or via their own direct to consumer channels.

"As they expand their business they need to decide whether they want to stick to



trend and provides a completely different technology offering amazingly durable clothing with a sense of lifestyle."

## Innovation

Falkenburg says in order for brands to stay compelling to their customers they must continue to innovate. "New materials are constantly being brought to market with the clothing and equipment market being now all about lighter weight breathable materials that are fit for purpose and, wherever possible, offer 'green' solutions."

Meanwhile Falkenburg says although the UK remains the most competitive European market for outdoor clothing and equipment, the market is becoming more and more international. As such the M&A scene is also increasingly active.

"We will see stronger brands grow at the expense of weaker brands and there are considerable M&A opportunities for private equity and trade buyers alike. Niche players need to be sufficiently strong with good cashflow to flourish in this competitive marketplace. However in order to increase their market share they may wish to find a financial partner.

"What is crucial for the growth of both retail and wholesale brands is that they focus on the end consumer, completely understanding their motivation and behaviour. Big data has an important role to play and is an area where retailers and brands have a real opportunity to work together if they want to stay ahead of the game."

"Brands have to be very careful that they don't stray too far from their core DNA."

## Retailers and brands

Falkenburg admits that's easier said than done in today's fast moving industry, where there is the blurring of boundaries between retailers doing more and more own label, and brands retailing direct through either their own shops or websites.

He believes that in a competitive retail landscape there is room for both stores and pure online players provided there is always a raison d'être for the latter. He cites the example of online player SportPursuit where he is chairman. "This company provides a solution for brands to clear surplus assortment in a discreet way."

As for stores he says they not only need to make their environment fit for purpose and exciting but also make their offering

the same categories but target new customers in new territories, or whether to widen their assortment targeting both existing and new customers."

He says the move into lifestyle by many leading outdoor brands, as well as the 'athleisure' trend, are examples of this. However he cautions that brands have to be very careful that they don't stray too far from their core DNA.

He cites the examples of British brands Rab and Mountain Equipment which he says understand this balance. He says both completely understand their technical customer but have also added an offering of lifestyle options.

"You also have Scandinavian brand Fjällräven which has gone against the lightweight

## Deal highlights

### Some of our recent consumer deals

#### Groupe Vivarte

##### Major French shoe and clothing distributor

Clearwater International advised Groupe Vivarte on its disposal of Pataugas, an iconic French footwear brand

#### MOS MOSH

##### Danish womenswear brand specialising in high-end jeans and trousers

Clearwater International advised MOS MOSH on its sale to German private equity fund Findos Investor

#### Sofacompany

##### High growth Danish furniture company

Clearwater International advised Sofacompany and Scandinavian Design on its sale to Nordic private equity fund Procuritas Capital Investors V

#### Kettler

##### Producer of fitness and sports equipment

Clearwater International advised Heinz Kettler GmbH & Co. KG on the sale of its bicycle division to ZEG

#### Stewart Group

##### Leading brand in the garden and outdoor decorative market

Clearwater International advised ECI Partners-backed Stewart Group on its cross-border sale to BC Partners-backed Keter Group BV

#### Away Resorts

##### UK holiday park operator

Clearwater International advised LDC-backed Away Resorts, raising a significant debt facility supporting its acquisition of Sandy Balls Holiday Village, forming a group of six sites valued at over €100m

## Meet the team



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