

Star Tribune (Minneapolis, MN)
March 7, 2004, Sunday, Metro Edition

**Angling for growth;
With its plans for an IPO, Gander Mountain is pursuing an
ambitious strategy to become one of the big fish in the nation's
outdoor equipment retailing pond**

Melissa Levy; Staff Writer

SECTION: BUSINESS; Pg. 1D

LENGTH: 1580 words

Greg Miller wanted to buy a fishing lure as a gift for his father's birthday. Not just any lure, but a hinged, chartreuse one - perfect for hooking walleye.

His shopping trip took him not to a mass merchant such as Wal-Mart or Target, or even to a general sporting goods store such as Galyan's Trading Co. or Sportmart. Miller stopped instead at the Gander Mountain store in Lakeville, because of the chain's "huge variety."

"I wish I had one of everything," the 37-year-old Elko man said as he browsed through the large Rapala fishing display that lures customers with a boat and fish mounts suspended from the ceiling.

Gander Mountain's goals are just as lofty. The Bloomington-based outdoor equipment retailer - which last month filed plans for an initial public stock offering to raise about \$86 million - is pursuing an ambitious growth strategy. It wants to transform itself from a regional, specialty merchant of hunting, fishing and camping gear into a more national chain of large-format, "category killer" stores, a la rivals Cabela's and Bass Pro Shops.

"They have the potential to be more than a regional [retailer] - maybe cover half the country, maybe eventually cover the whole country," said Bob McGee, editor of Sporting Goods Intelligence, a weekly industry newsletter.

Less than a decade ago, Gander Mountain was a struggling Wisconsin retailer that went bankrupt and sold its stores to the privately held Holiday Companies, a Twin Cities-based operator of gas-and-convenience stations owned by the Erickson family.

Since then, Gander Mountain has grown from 17 stores in 1996 to 65 locations in nine Midwestern and northeastern states at the end of last year. Eight of the 10 stores that it

opened in 2003 are in a big-box format that ranges from 50,000 to 100,000 square feet. Its stores previously were about 25,000 square feet.

The five-month-old Gander Mountain in Lakeville is the newest of its eight Twin Cities stores. At 85,000 square feet, the store carries everything from \$5 fishing lures to \$6,800 all-terrain vehicles - and most recreational trappings in between. The warehouse-style interior, with exposed ceilings and concrete floors, also features a 4-foot-deep indoor pool to test canoes and kayaks, as well as a gunsmith service and an archery pro shop and range.

Gander Mountain plans to add up to 15 stores in its current fiscal year and said in its stock filing with the Securities and Exchange Commission that it believes "there are over 400 potential locations" for its stores.

The retailer said in its prospectus that it anticipates capital spending of up to \$35 million in fiscal 2004, mainly to open new stores. It said that cash flows from operations and funds available through its credit facility will be enough to satisfy its capital requirements for at least the next year.

Gander Mountain plans to use \$9.9 million of the proceeds from its offering to repay its outstanding debt to Holiday Companies, as well as increase its borrowing through its credit facility.

CEO Mark Baker - an avid sportsman and former Home Depot executive who returned to his Twin Cities roots in fall 2002 to take the reins of Gander Mountain - declined to discuss details of the retailer's strategy because of the pending stock offering. But several company watchers credited the 46-year-old Baker with pushing Gander Mountain to extend the reach of its merchandise and stores.

The retailer isn't alone as it fashions itself into a "specialty big-box" chain, offering a more in-depth product selection than what's available at other stores. For example, Eden Prairie-based Golf Galaxy also is aggressively opening stores in a segment served by sporting goods chains and mass merchants. (Its 25 stores average 17,000 square feet.)

Big-game market

Gander Mountain's corner of the crowded sporting goods universe includes everyone from mom-and-pop bait shops to Wal-Mart.

It's a lucrative niche: The Mercanti Group, a financial advisory firm with offices in Minneapolis and Los Angeles, estimates that \$32.5 billion was spent on hunting, fishing and camping goods in 2002, the most recent year for which statistics are available.

Wal-Mart controls 10 percent of the market - more than No. 2 Cabela's, No. 3 Bass Pro and No. 4 Gander Mountain combined, according to a Mercanti report issued last month. The firm said that Gander held a 1.1 percent share of the hunt, fish and camp [HFC] market in 2002, with sales of \$357.4 million.

"Clearly, future investors in the recently announced Gander Mountain IPO will be betting on Gander's ability to continue to grow its share of the HFC market," Mercanti said. An executive declined to comment further because the company is doing work for Gander Mountain.

Other sporting goods retailers have been embraced by Wall Street. Dick's Sporting Goods went public at \$12 a share in October 2002, raising \$87.6 million. Its shares now are trading at nearly \$60.

Big 5 Sporting Goods raised \$94.2 million in a June 2002 initial public offering and another \$104.7 million in a secondary offering in November. Its stock, then priced in the teens, now trades at about \$25.

An exception: Galyan's raised \$123.5 million in June 2001, with an offering priced at \$19 a share. Its stock recently was below \$10 a share, as its CEO resigned this week amid lagging sales.

Gander Mountain's annual sales have been steadily growing - more than doubling from \$171.4 million at the end of its fiscal year in January 1999 to \$357.4 million for the year ended in February 2003.

But the company didn't post a net profit during that five-year period. Its loss of \$12.2 million for the year ended in February 2003 was 45 percent more than the \$8.4 million loss recorded at the end of its fiscal year in February 2002, according to the company's prospectus. (Gander Mountain did report positive cash flow in the fiscal year ended in February 2003.)

How does a retailer contend with Wal-Mart? The key is not to try to compete on price but to offer a "deeper, broader assortment" of merchandise, as well as specialized customer service, said Murrey Wanstrath, an analyst at Hibernia Southcoast Capital in New Orleans who tracks the major, publicly held sporting goods retailers.

That is Gander Mountain's strategy. The retailer carries 35,000 products at its big-box stores and also has been adding stock at its smaller locations, according to its prospectus.

"What we sell to Gander Mountain is really for the enthusiast - someone looking for a broad selection, special colors, special size, something that you can't find somewhere else," said Tom Mackin, president of Rapala Group, a Minnetonka-based manufacturer of fishing equipment. His company has about 64 feet of shelf space at a Gander Mountain store, vs. a paltry 4 feet at a mass merchant.

Four members of the Erickson family plan to resign from the retailer's board of directors after the IPO. They will be replaced by CEO Baker and four others. Two family members will remain on the board, including Chairman Ronald Erickson.

The company could be taking on risk in entering new markets. "You have to understand the demographics of those markets," including what sports pursuits are popular, said Anthony Lebedzinski, an equity analyst at Sidoti & Co. in New York who follows sporting goods retailers.

Edwin Holman, the newly named CEO of competitor Galyan's, agrees that there is a "significant learning curve" in the transition from being a regional to a national sporting goods retailer.

"I think it's mainly on the merchandising side. It's really your ability to identify what the customers' needs and demands are on a market-to-market basis - and they vary significantly," he said.

Gander Mountain executives appear to be doing their homework. Rapala president Mackin was surprised, for example, to see the retailer in attendance at a recent saltwater fishing expo. His company had sold Gander only freshwater fishing products, given the retailer's northern-store bent.

"You guys are a long way from base camp," Mackin recalls saying, referring to the nickname for Gander's Bloomington headquarters.

Melissa Levy is at mlevy@startribune.com.

Aiming for customers

Gander Mountain has focused its store growth on nearby states with high concentrations of sportspeople.

.

State	No. of sportspeople	Pct. of population	No. of stores#
Minnesota	1,437,000	39%	12
Iowa	580,000	26%	2
Wisconsin	1,141,000	28%	14
Illinois	1,507,000	16%	3
Indiana	914,000	20%	2
Michigan	1,325,000	17%	12
Ohio	1,513,000	17%	8
Penn.	1,648,000	18%	10
New York	1,493,000	11%	2

#As of Jan. 31

.

Sources: Gander Mountain, U.S. Fish and Wildlife Service

Hunt, fish, camp

The biggest sellers of hunting, fishing and camping gear:

Company	2002 sales#
Wal-Mart	\$3.3 billion
Cabela's	\$1.1 billion
Bass Pro	\$880 million
Gander Mtn.	\$357 million
Sports Authority	\$250 million
REI	\$200 million

#Of hunting, fishing and camping equipment.

Source: Mercanti Group