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MAJOR SPORTING GOODS RETAILERS TO BENEFIT FROM PRIVATE LABEL EXPANSION, SPORTS SPECIALIZATION AND OTHER INDUSTRY TRENDS, SAYS MERCANTI GROUP

In U.S., Large Retailers Represent only 23% of Sales but Mercanti Sees Potential for Growth

MINNEAPOLIS, MN, May 28, 2008 – The U.S. sporting goods retailing industry, already a global major league industry that distributes a solid 45 percent of all global wholesale shipments, is poised for significant market consolidation and increased private label penetration, according to the investment banking firm The Mercanti Group.

In the firm's latest monthly *Chronicle* research report, Mercanti takes a hard look at what it estimates was at least a \$110 billion retail business last year and the participation, demographic and spending trends that have and will continue to significantly affect sporting goods retail sales. Among them is a greater than ever swing to organized team sports, more focus on sports specialization at early ages, a growing emphasis on performance related products and apparel, expanding private brands and e-commerce potential.

In addition, Mercanti expects the highly fragmented domestic sporting goods retailing industry to experience steady consolidation. Because of an array of retail formats and established retailers in local/regional markets, the firm notes that the top five retailers in the *Sporting Goods Business*' "Retail Top 100" represent only 23 percent of U.S. retail sporting goods sales, as compared to estimated concentration among the top players in European markets of at least 50 percent.

Indicative of the consolidation trend, the report notes that Dick's Sporting Goods (NYSE: DKS), the largest full-line sporting goods retailer by sales volume, also became the largest golf retailer with its acquisition last year of Golf Galaxy. Having achieved growth in recent years via acquisitions, including the purchase in 2007 of Chick's Sporting Goods, Inc., a 15-store chain in Southern California, Dick's is now focusing on organic growth.

Meanwhile, significant cash flow and compelling valuations also are attracting private equity capital to the industry. The Sports Authority was purchased by Leonard Green & Partners and management in 2006, and other firms have more recently made investments in Sportsman's Warehouse and Joe's Sports & Outdoor.

Other fundamentals are also driving the industry, says the report's author, Josh Susser, a principal in the firm's Minneapolis office:

- A regimen of organized games, training and practice is now the norm among youngsters, while casual participants have dropped out of team sports. Mercanti says this reflects a trend among individuals to sport specialization, in which youngsters play a single sport year-round.
- At the same time, sport specialization has upped demand for sport training and conditioning programs, facilities and products. Athletic footwear and apparel leader Nike (NYSE: NKE), for example, has developed

programs with an athletic performance testing and training services company, as well as with a company that operates and franchises athletic training camps consisting of certified trainers, to offer footwear, apparel and equipment.

- With growing participation at the varsity sports level and increased, year-round participation by youth in a single sport, injury prevention offerings, particularly of supports, braces and protective equipment designed to reduce harm from repetitive stress, impact and over-extensions have experienced increased demand from players, coaches and parents. Consumer willingness to “trade up” for additional design features and technologies that provide greater safety for players and even greater peace of mind for parents have been reflected in increased average selling prices for supports and braces, says Mercanti.
- Private label brand merchandise is giving sporting goods retailers greater control over merchandising, better visibility on wholesale pricing and enhanced gross margin, says Mercanti. In this, they are following the lead of international retailers, where private brands are more prevalent and garner a bigger share of many chains’ overall business.
- Similarly, the Mercanti report notes, online sporting goods sales are increasing significantly among retailers. The report shows how GSI Commerce (Nasdaq: GSIC) has increased its sporting goods sales by more than 47 percent from 2006 to 2007 by contracting with the major retailers to manage their e-commerce operations. This has left consumers with fewer unique options and has contributed to the growth of several non-traditional sporting goods retailers such as zappos.com. Zappos.com sales of athletic footwear reached \$300 million in 2006, a 100% increase from 2005, making it one of the 50 largest sporting goods retailers in the U.S. Mercanti notes that if traditional sporting goods companies were willing to invest in online retailing, there lies great potential for growth.

A full copy of this report can be obtained at www.mercantigroup.com.

About The Mercanti Group

The Mercanti Group is a results-oriented boutique financial advisory firm that embraces a fierce commitment to client service and provides creative Merger & Acquisition, Capital Raising and Strategic Advisory solutions to small and middle market companies, private equity firms and individual business owners primarily in the consumer and retail industries. Mercanti offers companies the expertise and capabilities of a large investment bank with the focus, attention and energy of a small entrepreneurial firm. Mercanti has offices in Minneapolis, Los Angeles and New York. Mercanti also is strategically affiliated with Marquette Financial Companies, a diversified financial services company which is a part of the Pohlad family holdings. If you would like more information on The Mercanti Group, please visit the Web at www.mercantigroup.com, or contact a Mercanti professional at 612.333.0130 (Minneapolis); 310.444.0130 (Los Angeles); or 212.883.0130 (New York).

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