

**Performance Sports Group Ltd.**

NYSE: PSG

**Analyst:** Brian Johnke  
**Sector:** Consumer  
Discretionary**BUY**

Price Target: \$23.82

**Key Statistics** as of 4/8/15

Market Price:	\$18.68
Industry:	Leisure Products
Market Cap:	\$925.8 M
52-Week Range:	\$13.23-20.61
Beta:	0.6

**Thesis Points:**

- Diversified Product Line
- Recent Acquisitions to Help Drive Growth
- Growth In Lacrosse and Hockey Participation
- Financials

**Company Description:**

Performance Sports Group Ltd., together with its subsidiaries, designs, manufactures, and distributes performance sports equipment, related apparel, and accessories for ice hockey, roller hockey, lacrosse, baseball, and softball primarily in the United States, Canada, and Europe. It operates through two segments, Hockey and Baseball/Softball. The company offers ice hockey products, such as skates, skate blades, protective gear, sticks, team apparel, and accessories; baseball and softball products, including bats, gloves, protective gear, apparel, and accessories; roller hockey products comprising skates, protective gear, and accessories; and lacrosse products, which include shafts, heads, gloves, helmets, and protective gear. It also provides uniforms for ice hockey, roller hockey, lacrosse, and other team sports. The company offers its products under the brand names of BAUER, MISSION, MAVERIK, CASCADE, INARIA, COMBAT, and EASTON. Performance Sports Group Ltd. distributes its products through sales representatives and independent distributors to specialty retail stores, sporting goods, and national retail chains, as well as directly to sports teams. The company was formerly known as Bauer Performance Sports Ltd. and changed its name to Performance Sports Group Ltd. in June 2014. Performance Sports Group Ltd. was founded in 1927 and is headquartered in Exeter, New Hampshire. (CIQ)



## Recommendation

As a growing company that continues to expand its business both organically through strategic acquisitions, Performance Sports Group (PSG) is a BUY with a one year target price of \$23.82. Their recent acquisition of Easton will cause PSG to shift their focus towards organic growth as they pay off some of their debt. Controlling leading and growing market shares in growing industries will enable Performance Sports Group to continue its expansion into a leading provider of sports equipment and apparel.

## Industry Overview and Diversified Product Line

The global sporting goods industry has continued its steady growth in recent years. In the United States from 2009 to 2013 manufacturers' wholesale sales of sporting goods grew from \$48.3 billion in 2009 to over \$55 billion in 2013, representing a compounded annual growth rate of approximately 3%. These numbers may not look to significant, but considering America was experiencing a recession during this time frame the steady growth is worth noting and makes it clear that the sporting goods industry is not significantly impacted during times of economic distress.

Sport/Category	2013 Estimated Market Size <sup>1</sup> (\$ in millions)	Anticipated Growth Percentage <sup>1</sup>
<b>Hockey equip.</b> (Global)	<b>\$650</b>	Low-Single-Digit to Mid-Single-Digit
<b>Hockey apparel</b> (Global)	<b>\$390</b>	Mid-Single-Digit to High-Single-Digit
<b>Baseball/Softball equip.</b> (Global)	<b>\$1,000</b>	Low-Single-Digit
<b>Baseball/Softball apparel</b> (Global)	<b>\$300</b>	Low-Single-Digit
<b>Lacrosse equip.</b> (U.S., Canada)	<b>\$120</b>	High-Single-Digit to Low-Double-Digit
<b>Lacrosse apparel</b> (U.S., Canada)	<b>\$30</b>	Mid-Single-Digit to High-Single Digit
<b>Soccer team apparel</b> (U.S., Canada)	<b>\$300</b>	Low-Single-Digit to Mid-Single-Digit

*\*Anticipated growth rates are from PSG's management*

Performance Sports Group designs, develops, manufactures, and sells sports equipment and apparel for ice hockey and roller hockey, baseball and softball, lacrosse, and soccer primarily focusing on the North American and European demographics. PSG's product

line is diversified globally, by sport, as well as seasonally. PSG distributes its product to retailers in over 60 countries with its main two markets being the United States and Canada, with approximately 43% of its sales coming from outside the United States. The presence in five major sports has helped PSG to keep its quarterly sales somewhat constant when the sports are moving in and out of season. Performance Sports Group's customer base is also diversified, with no retailer representing over 12% of its sales.

<b>#1 in Hockey</b> (~54% Share)	<b>#1 in Diamond Sports</b> (~30% Share)	<b>Lacrosse Equipment Leader</b> (~26% Share)
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Performance Sports group has grown into the market share leader in hockey and diamond sports apparel and equipment.

## Recent Acquisitions

Performance Sorts Group has a proven its ability to identify acquisition targets that are both lucrative and help increase their market share by sport.



In the past seven years, PSG was able to grow its market share of hockey products from 35% to 54%, they are looking to do the same with their diamond sport products. Currently PSG controls about 30% of the diamond sport market share. With the recent acquisition of Easton, PSG plans to apply the same techniques it used with its hockey business to its diamond sport business.

Company	Total Market	Bats	Batting Helmets	Catcher Protective	Equipment Bags
Easton	#1	#1	#1	#1	#1
Rawlings	#3	#3	#2	#2	#5
Mizuno	#4	n/a	#3	#3	n/a
Hillierich & Bradsby	#5	#4	n/a	n/a	#4
Wilson	#2	#2	n/a	#4	#3

Easton is currently the number one overall market share leader for diamond sport products. PSG plans to continue R&D of Easton's equipment with hopes of having consumers shift from using competitors' products to Easton products as well as significantly increasing Easton's apparel business.

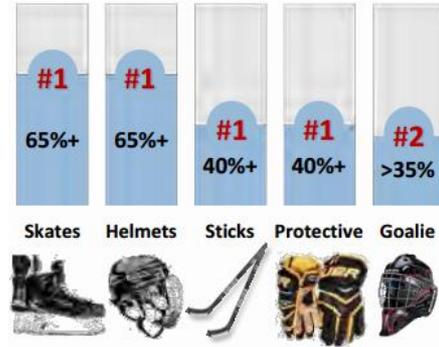
## Lacrosse and Hockey

Lacrosse and Hockey are two of America’s fastest growing sports; a large reason for the growth is a shift in youth sport participation. The growing concern that concussions and other contact injuries can cause lasting physical damages has been responsible for the decline in youth football participation as parents prefer their kids to play safer sports. Lacrosse and hockey can be considered “safer” contact sports, look for more parents in upcoming years to say no to football and yes to hockey and lacrosse.

Global ice hockey participation is estimated to be six million, a number that has grown on average 2% annually over the past eight years. Hockey participation in the United states has grown approximately 5.1% year over year from 2008 to 2013. Lacrosse is a sport mainly played in the United States and Canada. Lacrosse participation has grown to over 750,000 in 2013, representing year over year growth of nearly 11% from 2008 to 2013, making it one of America’s fastest growing sports. A majority of lacrosse players in the United States live in the northeast or the mid-Atlantic, so there is a tremendous growth opportunity as lacrosse starts to move into other regions of the country. Approximately 93% of lacrosse participants in the United States are under the age of 20, with 54% of participants in the youth (15 and under) category and 39% of participants in the high school category. Similar to ice hockey, the high representation of youth in the sport provides the industry with a more frequent product replacement cycle as players outgrow their equipment.

Currently in the United States, there are approximately 1.3 million combined youth lacrosse and ice hockey players compared to 7 million youth basketball players, 5.6 million youth baseball players, 6.6 million youth soccer players and 3 million youth football players. As youth participation moves away from America’s four major sports and into lacrosse and hockey, there is a tremendous growth opportunity for equipment and apparel sales within these two sports.

Performance sports group controls an approximately 54% market share of the \$650 million hockey equipment industry from their Bauer and Mission brands

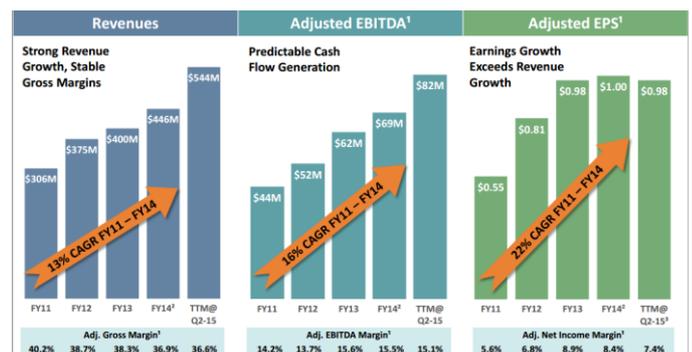


\*PSG’s hockey equipment market share by type

Performance sports group also controls a 26% market share of the \$120 million lacrosse equipment industry from their Maverik and Cascade brands, with Cascade representing a dominant 85% share of lacrosse helmet market. Having growing market shares in the growing hockey and lacrosse equipment industries, PSG is well positioned to continue its growth into a top provider of sports equipment and apparel.

## Financials

When looking at PSG’s financials, the one thing that sticks out is their debt. PSG has a net debt of \$408 million which is mainly due to its recent acquisition of Easton for \$330 million. Although this number is high PSG has shifted its short term focus away from acquisitions and into organic growth as it starts to pay down its debt.



In recent years, Performance Sports Group has posted strong revenue and Ebitda growths of 13% and 16 % respectively year over year since 2011. Controlling leading market shares in growing industries should enable PSG to sustain these strong numbers growing forward.

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Performance Sports Group Ltd.		Analyst Brian Johnke	Current Price \$18.57	Intrinsic Value \$21.55	Target Value \$23.82	Divident Yield 0%	Target Return 28.24%	NEUTRAL		
General Info		Peers	Market Cap.	Management						
Sector	Consumer Discretionary	Callaway Golf Co.	\$716.97	<b>Professional</b>	<b>Title</b>	<b>Comp. FY2012</b>	<b>Comp. FY2013</b>	<b>Comp. FY2014</b>		
Industry	Leisure Products	Nautilus Inc.	\$516.15	Davis, Kevin	Chief Executive Officer, President and Non-Independent Director			\$ 2,295,391.00		
Last Guidance	Aug-12-2014	LeapFrog Enterprises Inc.	\$164.28	Rosenthal, Amir	Chief Financial Officer, Executive Vice President of Finance & Administ			\$ 1,443,655.00		
Next earnings date	4/14/2015	Dunlop Sports Co. Ltd.	\$36,104.77	Wall, Michael	Vice President, General Counsel and Secretary			\$ 989,833.00		
<b>Market Data</b>		Black Diamond, Inc.	\$313.96	Gibson, Paul	Executive Vice President of Product Creation & Supply Chain			\$ 1,096,390.00		
Enterprise value	\$1,584.75	Johnson Health Tech Co., Ltd.	\$26,007.89	Wuerthele, Richard	Executive Vice President of Hockey			\$ 1,132,958.00		
Market Capitalization	\$4,487.91	Mizuno Corporation	\$78,136.84	Jones, Steve	Senior Director of Corporate Communications			\$ -		
Daily volume	1.70	Escalade Inc.	\$238.74	<b>Historical Performance</b>						
Shares outstanding	47.02	Johnson Outdoors Inc.	\$341.74	PSG		Peers		Industry		
Diluted shares outstanding	41.78	Globeride, Inc.	\$24,258.55	Growth	16.3%	1.2%	5.2%	All U.S. firms		
% shares held by institutions	63.80%	<b>Current Capital Structure</b>			Retention Ratio	17.5%	48.0%	35.6%	61.6%	
% shares held by insiders	0.62%	Total debt/market cap	26.68%	ROIC		4.1%	19.8%	11.8%		
Short interest	0.00%	Cost of Borrowing	5.50%	EBITA Margin	5.2%	3.9%	10.1%	13.7%		
Days to cover short interest	0.00	Interest Coverage	282.47%	Revenues/Invested capital	111.4%	110.7%	220.5%	202.3%		
52 week high	\$20.57	Altman Z	1.87	Excess Cash/Revenue	#DIV/0!	8.3%	12.4%	18.5%		
52-week low	\$11.52	Debt Rating	B	Unlevered Beta	0.08	0.99	1.09	0.95		
5y Beta	0.58	Levered Beta	0.63	TEV/REV	1.3x	0.7x	1.1x	2.4x		
6-month volatility	25.53%	WACC (based on market value weigh	5.45%	TEV/EBITDA	9.4x	11.1x	10.8x	11.3x		
<b>Past Earning Surprises</b>				TEV/EBITA	9.9x	20.0x	12.1x	15.4x		
				TEV/UFCF	20.3x	26.7x	28.6x	26.8x		
				<b>Non GAAP Adjustments</b>						
				Operating Leases Capitalizatic	100%	Straightline		10 years		
				R&D Exp. Capitalization	100%	Straightline		10 years		
				Expl./Drilling Exp. Capitalizatio	0%	N/A		N/A		
				SG&A Capitalization	0%	N/A		N/A		
<b>Proforma Assumptions</b>				<b>Forecasted Profitability</b>						
				Period	Rev. Growth	Adj. Op. Cost/Rev	Revenue	NOPLAT	Invested capital	UFCF
Operating Cash/Cash	25.0%	LTM	52%	85%	\$544.49	\$26.55	\$841.72	-\$6.93		
Unlevered Beta	0.50	LTM+1Y	67%	85%	\$908.11	\$64.53	\$1,075.27	-\$87.02		
Rev/Invested Capital	100.0%	LTM+2Y	12%	85%	\$1,017.09	\$76.47	\$1,155.53	-\$3.79		
Continuing Period Revenue Gro	3.0%	LTM+3Y	12%	85%	\$1,139.14	\$87.95	\$1,249.04	-\$5.56		
Long Term ROIC	11.2%	LTM+4Y	12%	85%	\$1,275.83	\$99.75	\$1,351.30	-\$2.51		
Invested Capital Growth	Equals to Maintenance	LTM+5Y	12%	85%	\$1,428.93	\$112.05	\$1,466.52	-\$3.17		
Justified TEV/REV	1.3x	LTM+6Y	11%	85%	\$1,585.31	\$124.37	\$1,579.76	\$11.13		
Justified TEV/EBITDA	10.0x	LTM+7Y	9%	85%	\$1,735.53	\$136.36	\$1,682.60	\$33.52		
Justified TEV/EBITA	13.0x	LTM+8Y	9%	85%	\$1,891.73	\$148.72	\$1,790.92	\$40.40		
Justified TEV/UFCF	20.3x	LTM+9Y	9%	85%	\$2,061.99	\$161.68	\$1,912.53	\$40.07		
<b>Valuation</b>										
		ROIC	WACC	EVA	Enterprise Value	Total Debt	Other claims	Equity	Adjusted Price	
LTM		3.3%	5.4%	-\$1.82	\$1,531.94	\$422.78	\$77.43	\$1,031.73	\$22.51	
LTM+1Y		6.9%	5.5%	\$13.85	\$1,723.59	\$502.11	\$114.39	\$1,107.09	\$24.57	
LTM+2Y		7.1%	5.6%	\$16.67	\$1,826.59	\$502.11	\$90.29	\$1,234.19	\$27.22	
LTM+3Y		7.6%	5.7%	\$23.13	\$1,941.92	\$502.11	\$74.87	\$1,364.95	\$29.90	
LTM+4Y		8.0%	5.8%	\$29.41	\$2,060.20	\$502.11	\$76.23	\$1,481.86	\$32.36	
LTM+5Y		8.3%	5.8%	\$35.59	\$2,186.68	\$502.11	\$89.32	\$1,595.25	\$34.91	
LTM+6Y		8.5%	5.9%	\$39.93	\$2,305.34	\$502.11	\$88.85	\$1,714.38	\$37.40	
LTM+7Y		8.6%	6.0%	\$43.58	\$2,409.42	\$502.11	\$66.78	\$1,840.54	\$40.16	
LTM+8Y		8.8%	6.1%	\$48.91	\$2,517.77	\$502.11	\$38.52	\$1,977.14	\$43.07	
LTM+9Y		9.0%	6.1%	\$54.51	\$2,627.84	\$502.11	\$11.35	\$2,114.38	\$44.97	