SPORTING GOODS REPORT
sports outdoor active lifestyle

FOR BUSINESS LEADERS IN THE GLOBAL SPORTING GOODS INDUSTRY

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Decathlon in robust shape after tweaks in assortment

Decathlon regained traction last year with a global sales increase of 9.2% to €12,353 million, as it moved into six more countries while diversifying its store formats and upgrading its offering.

The French-based retailer said its sales moved up by 9.1% in constant currencies. It added 136 stores to end up with 1647 in 57 countries. Online sales accounted for about 8% of the turnover.

After a dip of 5% in Decathlon's French sales to €3.14 billion in 2018, the group's turnover in its largest market moved up again by 3% in 2019. It added ten stores and boasted a comparable store sales rise of 2.3%.

While comparable store sales weren't available for the entire group in 2019, Decathlon confirmed that they were positive. The number of receipts issued increased by 8% to 428 million, implying that the average shopping basket slightly increased.

Arnaud Gauquelin, who leads Decathlon in France, suggested in a statement that the retailer has backtracked on radical changes in its offering two years ago, by buying more from the leading brands that support traffic, such as Adidas.

"These efforts to improve our commercial offering will continue in 2020 through partnerships with other international brands, to complement our exclusive products," said Gauquelin.

Decathlon declined to provide an update on its operating profit, which contracted by 14.6% to €828 million in 2018.

Ukraine, Japan, Vietnam, Algeria, Malta and Serbia are the six countries where Decathlon started operating in 2019. Adding production sites and franchised retailing in four markets, the group said it operated in 69 countries last year.

Decathlon said it was projecting a similar number of openings in 2020. It's adding at least two blue pins to its global map, with store openings in Kazakhstan and Luxembourg.

Tokyo is another destination for Decathlon this year, when the Olympics will be taking place in the Japanese capital. Decathlon has been sourcing bicycles and other products in Japan for many years, it started trading online in 2016 and opened its initial store in Nishinomiya, between Kobe and Osaka, in March 2019. The new Japanese store in Tokyo will open on about 2,500 square meters in April.

Decathlon continued to diversify its private labels as well, ending up with no fewer than 83 brands. It created Offload for rugby, Atorka for handball and Kuikma for padel, and just added Fencit for fencing.

Its strongest performers in 2019 were Quechua, Domyos and B'Twin, its own brands for outdoor sports, fitness and cycling, as well as Nabaiji for swimming.

Among the countries where Decathlon achieved the strongest comparable store sales are India and Brazil.

Decathlon ended the year with 309 stores in China, up 15 compared with the end of 2018. The group said earlier today that 130 stores had been closed, along with Chinese production sites, due to the health situation. A delay of 15 days has built up for production and deliveries in these sites, but Decathlon pointed out that the area affected by the shutdowns accounts for just 3% of the group's global production.

The European standout was Germany, where Decathlon opened 16 stores last year. As previously reported, Decathlon's sales in Germany already reached €528 million in 2018. The company is building a distribution center and offices of about 45,000 square meters near Berlin, to support its rapid expansion.

The group invested in "proximity" stores that are often convenient for urban customers and for omni-channel purposes. Among the

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latest formats is Mon P'tit Decat', a small and mobile store with the appearance of a container, that was placed in Paris, Bordeaux and Marseille, in mountain and sea resorts. Other small stores in Reims and Nice were opened with an offering focusing on just a few sports.

Decathlon boasted that it invested €555 million in 2019. It was the year with the second-largest annual investment, after €620 million in 2018. The annual average stands at €490 million for the last ten years.

In October, Decathlon purchased a majority stake in Alltricks, a French online retailer specialised in cycling and running products. Two months later it bought trademark rights to Dita, a leading supplier of field hockey equipment.

Another interest of 15% was acquired in October in e-Liberty, a leading French ski pass aggregator. The deal led to the formal launch of Decathlon.ski in November, in partnership between e-Liberty and Decathlon as well as Genairgy, a company specialised in sports travels and sports tech. It enables Decathlon's French and international customers to simplify their ski pass and equipment reservations at French resorts, but the partners intend to turn Decathlon.ski into a full-fledged platform with many other stakeholders.

A more specific partnership was implemented between Van Rysel, Decathlon's brand of road bikes, and Campagnolo. This led to the launch of the Rosso limited edition, which generated 1.25 million views on social media. It consisted of 30 bikes with frames weighing just 850 grams.

Some of the investments are going to sustainability. In France, Decathlon has a target to have installed solar panels at 80 of its stores, to cover about half of its electricity consumption. It's aiming to use more trucks using fuel made with renewable resources, among many other efforts.

Decathlon has a rental program for backpacks under the Forclaz brand and even wants to take part in the circular economy. Under its second-hand project, products returned by customers are reconditioned and sold in stores with discounts of 10% to 30%, particularly for skis and bikes.

Most encouragingly for Decathlon, it regained its status as the most popular retailer in France, in an annual survey conducted by OC&C. ■

Decathlon United
Store numbers 31/12/19

France	324
China (1)	309
Spain	171
Italy	124
Germany	80
India	76
Poland	59
Russia	58
U.K.	45
Turkey	37
Belgium	36
Portugal	34
Brazil	31
Romania	27
Hungary	24
Czech Republic	23
Switzerland	23
Netherlands	20
Morocco	15
Mexico	12
Thailand	10
Slovakia	9
Singapore	9
Bulgaria	7
Croatia	6
Colombia	6
Malaysia	5
Canada	5
Australia	5
South Africa	4
Slovenia	4
Israel	4
Philippines	4
Sweden, Tunisia, Egypt, Indonesia, Senegal, USA	3
Chile, South Korea, Congo, Greece, Ukraine, Vietnam	2
Ghana, Ivory Coast, Austria, Cambodia, Lithuania, Sri Lanka, Kenya, Japan, Algeria, Malta, Serbia	1
TOTAL	1647

Source: Decathlon, excluding franchises (1) includes Hong Kong and Taiwan

Gresvig files for bankruptcy

In a major upheaval for the Norwegian sports industry, the Gresvig retail group filed for insolvency early last week, reporting debt of about 1.1 billion Norwegian kroner ($119m).

Gresvig is the company behind the G-Sport and G-Max stores in Norway, and the partner for Intersport in the country. The filing comes amid rough competition in the Norwegian market, due to over-capacity as well as an alarmingly warm start to the winter.

Statistics Norway (SCB) estimates that the entire market was down by 3.5% for the year, and by 4.3% in the fourth quarter. This compares with an estimate from Norsk Sportsbransjeforening, the Norwegian industry association, that sales of the larger chains increased by 3.4% in 2018.

In an indication of the shift in the Norwegian market, the organisation estimates that the seven largest players reaped sales of NOK 14.2 billion ($1.5bn) in 2018, equivalent to 71% of the entire market. That joint turnover is estimated to have declined by nearly 8.6% in the first quarter of 2019, 1.45% in the second and 3.7% in the third.

The performance may have been temporarily worsened by Gresvig's decision last year to ditch the G-Sport brand and switch entirely to Intersport instead. As others observed, this exacerbated discounting in the Norwegian market in the last months, as G-Sport stores struggled to get rid of inventories.

The insolvency proceedings involve the 95 stores owned by Gresvig. The company said that the stores remain open and the 100 Intersport franchises are not affected. The bankruptcy filing at Heggen and Frøland District Court apparently came out of the blue for most employees.

The largest shareholder in Gresvig, Sunde is reportedly owed NOK 600 million ($65m). Sunde has accumulated one of the largest fortunes in Norway, on the back of the family's shipping business.

Olav Nils Sunde, chairman of Gresvig's board, said in a statement that the group has supported Gresvig "through ups and downs" since 2006 and it strongly backs the decision to work more closely with Intersport.

But he adds that Sunde invested more than NOK 1 billion in the last three years, and the cost structure is not sustainable. "We cannot justify providing the company with additional resources without a fundamental change in the Group's total costs," he says. "Today's cost level is simply not adapted to market conditions."

Lars Kristian Lindberg, Gresvig's managing director, said that it has reached an agreement with bankers to make sure the stores remain open. He said this should give the group the chance to implement a new business model and hopefully identify another potential owner.

Lindberg said the group has taken a raft of measures to tackle the cost structure, which was burdened by onerous leases, but it didn't manage to finalise the restructuring. Even after the changes, the retailer suffered an EBITDA loss of NOK 250 million ($27m) last year. "It's like scooping up a boat with an oversized hole in the hull," he said in a statement.

For many years Gresvig was the leading player in the Norwegian sports retail business, but it has come under attack from XXL as well as online retailers.

As estimated by Norsk Sportsbransjeforening, XXL commanded a share of 33% in the sales generated by the seven largest Norwegian players in 2018. It was ahead of Gresvig, which had a share of 29% for all of its sports retail formats, amounting to about NOK 4.1 billion ($443m). Next were Sport 1 with 19%, Stadion with 8% and Coop with 6%.

Just five years earlier, in 2013, Gresvig was easily ahead with a share of 32.2%, against 23.0% for its largest rival. XXL surpassed Gresvig in 2017.

Trond Evald Hansen, managing director Norsk Sportsbransjeforening, said Gresvig's announcement comes after a period of unbridled expansion for the Norwegian market, which boasts outstanding sales per capita.

Hansen says the market has been growing every single quarter since 2003, save for the first quarters of 2014 and 2017 – and even then, it was more stable than declining. This bullish perspective probably led retailers to over-purchase, aggravating the inventory situation.

Hansen added that leading retailers such as Gresvig and XXL have suffered from a shift in sales channels. He mentions the rise of pure online retailers as well as the proliferation of outlet stores and brands selling directly to consumers. Another unfavourable factor was the exchange rate of the Norwegian krone, which has swung by about 20% in the last years. ■

XXL clearing inventory after rough year

XXL is launching a "massive" clearance sale, after a warm start to the winter that sharply reduced its comparable sales in the fourth quarter and led to an inventory write-down of no less than 385 million Norwegian kroner ($41.6m).

The Nordic retailer said last week that its sales contracted by another 22% to about NOK 600 million ($64.8m) in January. The inventory glut was compounded by continued warm weather – there were hardly any winter conditions in any of the largest Nordic cities where the group operates.

The clearance comes after a sales decline of 9.8% to NOK 2,319 million ($250.5m) in the last quarter, amounting to a comparable sales decline of 12.2%, with downturns in all of its markets. They were somewhat mitigated by store openings, since XXL ended the year with 86 stores around Norway, Sweden, Finland and Austria, up from 82 at the end of 2018.

As it previously warned, XXL was hurt by the weather as well as hefty price competition, some of it caused by Gresvig's decision to switch G-Sport stores to Intersport.

Black Friday sales delivered stronger margins but on lower volumes. This particularly applies for online sales, which were down by 21.3% to NOK 408 million ($44.1m) for the quarter.

The upside in XXL's performance is that measures implemented last year led to an increase in the adjusted operating profit margin, up by 1.5 percentage points to 6.0% for the quarter.

Without the inventory write-down, adjusted EBITDA slightly increased to NOK 139 million ($15.0m), compared with NOK 115 million for the same quarter last year. But after the write-down, XXL ended up with negative EBITDA of NOK 246 million ($26.6m) and a net loss of NOK 358 million ($38.7m).

XXL said in a conference last Friday that the inventory write-down was partly motivated by its strategic move to reduce the number of products on offer, and to work with fewer suppliers. The lower purchasing volumes reduced bonuses from suppliers by NOK 72 million.

XXL's unchanged target is to work with inventories of NOK 25 million ($2.7m) per store. Other measures to improve the performance are cost reductions and more efficient marketing.

Among the speakers at the conference was Hugo Maurstad, XXL chairman and partner at Altor, who became the retailer's largest shareholder last year.

XXL should continue to invest under the leadership of Pål Wibe, who has been appointed as chief executive (read Sporting Goods Report #25) and will start at the beginning of April. He has been chief executive at Europris for the last six years.

Another arrival is André Sjåsæt, who will become strategy and business development director and a member of the executive man-

Nordic markets
2019 Sporting Goods Sales (%)

	Norway	Sweden	Finland
Q4	*- 4.3%*	*- 4.2%*	*- 5.2%*
FY19	*- 3.5%*	*- 0.7%*	*- 0.3%*

Source: XXL ASA, referring to SSB (Norway), SCB (Sweden) and TMA (Finland)

XXL
FY 2019 (NOK m, %)

	FY 2019	Change
SALES	**8,992**	**- 5.1%**
Norway	*4,148*	*- 10.6%*
Sweden	*2,558*	*- 4.5%*
Finland	*1,766*	*+ 3.0%*
Denmark	*49*	*- 36.7%*
Austria	*470*	*+ 29.6%*
ADJ. EBITDA	**875**	**+61.7%**
ADJ. EBITDA MARGIN	**9.7%**	**+ 4.0 pp**
EBITDA	**490**	**- 9.4%**
Norway	*676*	*- 11.6%*
Sweden	*99*	*- 41.1%*
Finland	*139*	*+40.4%*
Denmark	*- 11*	*2018: - 10*
Austria	*- 55*	*2018: - 70*
EBITDA MARGIN	**5.4%**	**- 0.3 pp**
NET INCOME	**- 297**	**2018: 237**
STORES	**86**	**+ 4**
Norway	*36*	*-*
Sweden	*27*	*+ 1*
Finland	*15*	*+2*
Denmark	*-*	*-*
Austria	*4*	*+1*

Source: XXL ASA