

# **SPORTS TREND WATCH JANUARY 2007**

**Market Review**

Broader positive economic data helped sustain steady gains in US markets for the last quarter of 2006. Import prices in December rose 1.1%, while retail sales climbed 0.9%, up 1.0% excluding automobiles. Business inventories in November were up 0.4% versus a revised 0.2% rise in October. Internationally, despite some degree of volatility, major markets trended upward over the last quarter of 2006, with London's FTSE up 1.1%, Frankfurt's DAX up 8.4%, and Paris's CAC up 4.85%. Japan's Nikkei and Hong Kong's Hang Seng closed up 2.4% and 8.9%, respectively.

Most of the sub-sectors that overlap the broader sports industry outperformed the S&P 500 over the last 90 trading days, led by broadcasting (+9.0%), entertainment services (+8.3%), footwear (+5.8%), and retail apparel (+1.4%). The exception was specialty retail, which includes names like Big 5 Sporting Goods Corp, which fell (-1.0%) behind the broader index due to mild winter temperatures. For the week ended 12/1/07, entertainment services, including leisure, increased a healthy +3.95%, followed by broadcasting (+3.40%), footwear (+2.56%) and retail apparel (+2.50%). Specialty retail saw negligible gains of +0.17%.

The mild winter temperatures that dragged the winter sports accessories and ski shops were particularly felt among Canada's sporting goods industry, where holiday sales at stores open more than a year slumped 2.5%. Offset by that, in the US market stepped up marketing spend by Adidas and Dick's Sporting Goods increased investor confidence in the sporting goods sector.

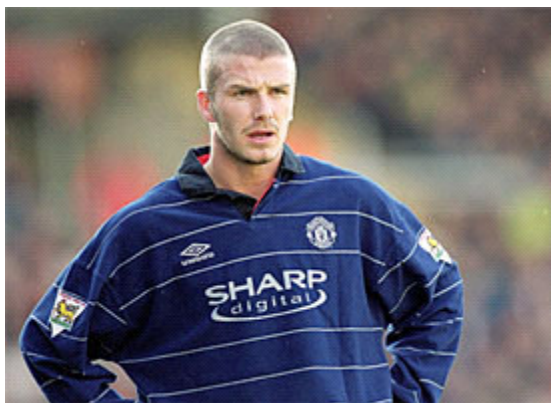
**Sector Feature: US Broadcast Market and North American Soccer**

**US Sports Overview**

With the big news this month of UK football star David Beckham moving to the US professional soccer league, we decided to feature the US broadcast market and growth in US soccer participation. US sports are big business today. Combined, the NFL, NBA and MLB leagues bring in about \$12 billion in annual revenue, but that's just the tip of the iceberg. U.S. sporting equipment sales at retail are roughly \$43 billion yearly, sports apparel \$43 billion and athletic footwear \$18 billion. A reasonable estimate of the total U.S. sports market might be \$375 to \$425 billion yearly. To put that in perspective, the U.S. retail food industry, including supermarkets, is only slightly bigger.

In addition to economic value, there is the entertainment factor: hundreds of millions of fans around the globe follow sports daily, whether via radio, television, printed publications, online or in person, as spectators or participants.

The sports sector is constantly evolving in terms of personal tastes, popular games and technologies. The Indy 500 is losing ground to NASCAR. In fact, the personality and popularity of a top athlete can have a tremendous impact on the current popularity of a particular sport—multiple-time Tour de France winner Lance Armstrong being a great example with his extremely positive impact on cycling. Other growth sectors in recent years include snowboarding and paintball. Tennis was a booming leisure activity in the U.S. for many years, but its popularity has diminished greatly in recent years, particularly among casual players. The number of people playing golf is dropping. The Sporting Goods Manufacturers Association (SGMA) reports that the highest increases in participation for 2004-2005 were in the sports of lacrosse, fly fishing, surfing, ice hockey, mountain biking, yoga/tai chi, artificial wall climbing, indoor soccer, jet skiing and kayaking.



**Major League Soccer (MLS)**

Now add to the above the Beckham effect, and how easily he might transform the game of soccer the way Tiger Woods transformed golf. In a deal that could be worth £128m (\$250m) over five-years, David Beckham will be leaving Real Madrid at the end of the season to join Major League Soccer (MLS) side LA Galaxy – a move likely to increase MLS' status on the domestic and international sports map. The MLS league sponsorship by **Adidas** has also helped pushed the deal through and should add an exciting new level of exposure to the brand. Unlike more established US professional sports leagues, MLS has to date not employed a household name and despite significant publicity, has yet to live up to expectations. With MLS preparing for its 12th season in April, professional soccer is now clearly established in the US and reaping commercial benefits. Last summer, MLS signed its first ever rights fee deals (with four individual television stations) and more recently

announced it will allow major shirt sponsors for 2007, the first professional league in the US to allow such advertising. With the addition of Beckham, the Galaxy is expected to attract a shirt sponsor in line with major European teams. International brands, including Pepsi, Honda, Chase, Panasonic and Budweiser, are already aligned with MLS and keen to target the significant

number of American children who play the game as well as the growing Hispanic population. According to Jeff L'Hote, Director of North American Operations for FMMInternational, MLS could not have signed a better player to promote soccer in the US: "MLS has yet to captivate the 15+ million children who play the sport in the US. Beckham will instantly give the league more credibility and should inspire young players to support MLS and to set their sights on one day emulating Beckham. From a commercial standpoint, MLS will also gain from foreign interest. Where six months ago it was paying to have its matches televised, MLS now stands to gain significantly from international rights fees and sponsor interest, which will also ultimately benefit the American player. "The future of soccer in the US has never looked more promising."

### Industry News

- Holiday sales for **The Forzani Group Ltd** slumped 2.5 per cent at stores open more than a year, considered a key measure of retail performance. The group operates several chains, including Sport Chek, Coast Mountain Sports and Sport Mart. Shares in Forzani, which are off 7.6 per cent so far this year, rose a modest eight cents in mid-day trading to \$17.70 on the Toronto Stock Exchange.
- Outdoor clothing and camping gear retailer **Blacks Leisure Group Plc** reported disappointing trading in the run-up to Christmas and said second half profits would be substantially below market expectations. The company said the poor sales performance, which saw its shares close down 8.6 percent at 363 pence to value it at about 155 million pounds, reflected a very mild autumn and a weaker clothing market. Analysts are looking for profits of 1.5 million pounds in the current year, down from 11.5 million previously, before bouncing back to around 7.4 million next year, versus a previous forecast for 15.0 million.
- **Sport Chalet (Nasdaq:SPCHB)** announced its participation in upcoming 2007 investor conferences. The company operates 17 specialty shops and 40 retail stores across Southern California, Nevada and Arizona. Its stores offer traditional sporting goods merchandise, including footwear, apparel, and other general athletic products; and nontraditional merchandise, such as snowboarding, mountaineering, and SCUBA. In addition, it operates a retail e-commerce store at [www.sportchalet.com](http://www.sportchalet.com). Sport Chalet was founded in 1959 and is based in La Canada, California.

### Small-Cap Feature

#### **Kangaroo Media, Inc. (TSX:KTV)**

Kangaroo Media, Inc. engages in the manufacture and rental of portable wireless audiovisual multifunctional entertainment systems. Its systems allow users to watch an event from different points of view with audio content, real-time statistics, and access to useful and informative material. The company was incorporated in 2003 and is headquartered in Montreal, Canada. We like Kangaroo as it has successfully attached itself to the successful NASCAR brand, the biggest spectator sport in the US after the National Football League. Revenues ended September 30 2006 were in the amount of \$0.43 million, compared to \$0.39 million for the corresponding period of the previous year, while orders at the end of the period totaled \$9.34 million. A net loss of \$4.59 million (\$0.17 per share) was incurred, versus \$1.43 million (\$0.08 per share) for the third quarter of 2005. Kangaroo are currently running pilots tests at the NFL and are in discussions with formula 1. If these tests and negotiations are successful, we believe the stock price will climb as orders and revenues will be forthcoming.

## Portfolio Developments

### Adidas AG

Adidas AG reaffirms earnings guidance for the full year of 2006 and 2007. For 2006, the net profit grew by 25% to €480-€490 million and in 2007 the Adidas group will also see profit grow in the double-digit range. Last month, the company downgraded its net profit forecast for 2007 to grow at a rate approaching 15% from 2006, compared with a previous guidance of 20%, due to lowered estimates for profit growth at the recently acquired Reebok unit.

### Callaway Golf

Callaway Golf introduced its Fusion FT-i driver to the market. The club's unique square shape allows weight to be shifted, which promotes less horizontal and vertical twisting and leads to straighter drives. Suggested retail price is \$625. The club will be available as of February 2007. Callaway Golf Eyewear will officially unveil the new Hybrid Series of performance eyewear and an array of other products at the PGA Merchandise Show in Orlando, Florida, in January 2007.

### Dick's Sporting Goods

Creative minds at **Dick's Sporting Goods Inc.** enlisted an actor from "The Sopranos" and a 250-pound panther for a new national TV ad to promote the company's line of golf balls. The commercial for Slazenger Raw Distance balls will air about 100 times this month on ESPN and The Golf Channel, and its unusual players and story line is a sign of the Findlay-based retailer's growing market dominance. Dick's has grown large enough to market to a national audience, and its national TV advertising has gone from virtually zero a couple years ago to a large, strategic partnership with ESPN. The chain has 294 stores in 34 mainly Eastern states and a strong electronic-commerce presence. Dick's CEO Edward W. Stack has said the company could expand to 800 stores in the next eight years. An acquisition of the 61-store **Golf Galaxy** chain is in progress with Dick's saying it will run those stores as a separate business.

### Sogecable SA

**Sogecable SA** and Vodafone Group PLC announced that they have reached an agreement to launch Digital+ Mobile, a television service for mobile phones. The service will be exclusively for users of Vodafone Live! with 3G and will offer 10 digital TV channels with contents from the broadcaster. The service will be available to some 2 million customers in Spain.

### Foot Locker Inc.

The CEO of **Foot Locker Inc.**, Matthew Serra said that the company is not exploring a potential sale. "The continued rumors in the press regarding Foot Locker being involved in discussions of a potential sale of the company are not true," said Serra on a conference call. Foot Locker hired Evercore Partners to advise it on a range of matters and the Parthenon Group, a strategic consulting firm, to assist it in reviewing its business plan.

### Georgica PLC

**Georgica PLC (AIM:GGA)** was downgraded by Standard & Poor to CCC+ and a negative watch from B- and a stable watch based on local currency rating as of 14/12/06.

Georgica PLC sales at its cue sports unit Rileys continued to fall in the fourth quarter after a year of 'wishy-washy' trading with its Scottish outlets hit by the smoking ban. Georgica has announced the de-merger of Georgica into its two existing, wholly separate businesses Tenpin and Riley's.

### Recent M&A Activity

- **Adidas AG** continued to expand internationally, acquiring the remaining 49% stake in Adidas Korea. The deal closed September 1, 2006. Terms were not disclosed.
- **British Sky Broadcasting Group Plc** made a recommended cash offer to acquire 365 Media Group Plc for £96.43 million on December 15, 2006. The consideration for the offer will be paid as £0.68 per share in cash and represents 43.5 million shares, or 30.7% of the target company.
- **Dick's Sporting Goods, Inc.'s** (NYSE: DKS) pending acquisition of **Golf Galaxy, Inc.** (NASDAQ: GGXY) has received early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvement Act. The move paves the way for Dick's Sporting Goods' \$18.82 per share deal for the Minnesota-based golf specialty retailer to close in February of 2007.
- **International Speedway Corporation** (Nasdaq: ISCA) (ISC) entered into a purchase agreement with **Indianapolis Motor Speedway Corporation** to indirectly acquire an additional 37.5 percent interest in Raceway Associates, LLC for a reported consideration of approximately \$69 million on November 1, 2006. After the transaction closes, ISC will own 100 percent of Motorsports Alliance, LLC, which owns 75 percent of Raceway Associates. All the above transactions are expected to close in early 2007.
- **Liberty Media Corporation** (Nasdaq: LINTA, LCAPA) signed the share exchange agreement to acquire a 38.5% stake in The DirecTV Group, Inc. from **News Corporation** on December 22, 2006 for calculated consideration of \$11.2 billion. The transaction is expected to close in mid-2007.
- NBC Universal's 25% stake in **NGC Network International** was acquired by **News Corp.** on December 19, 2006. In a related transaction it also agreed to acquire NBC Universal's 25% stake in NGC Network (UK). The financial terms of the transaction were not disclosed.
- **Puma AG** is having a hard time finding acquisition candidates, even though it has a full war chest, according to Financial Times Deutschland. Chief Executive Officer Jochen Zeitz said that very few companies fulfill its acquisition criteria, including a global identity, profitability, a compatible corporate culture and lasting value. He said Puma will be very cautious with acquisitions.
- **Television Francaise 1 SA** (ENXTPA:TFI) acquired a 33.5% stake in **Groupe AB S.A.** on December 5, 2006, for €230 million. Groupe AB Chairman Claude Berda owns the remaining 66.5% and will remain in Groupe AB.
- **VF Corp.'s** unit said it was in talks to buy **Eagle Creek Inc.** but did not disclose the terms of the deal. The acquisition of Eagle Creek, which has annual sales of about \$30 million, is expected within 30 days. Separately, **VF Corp.**, owner of backpack maker JanSport Inc. in Appleton, was looking to buy the apparel company that has the contract to produce Major League Baseball's uniforms and other apparel, Majestic Athletic, a privately held company with hundreds of employees in the US state of Pennsylvania's Lehigh Valley area.
- **Iconix Brand Group Inc.** (Nasdaq: ICON) entered into a definitive agreement to acquire Ocean Pacific Apparel Corp. from **The Warnaco Group, Inc.** (Nasdaq: WRNC) on October 31, 2006 for \$54 million in the aggregate. As part of the transaction, Warnaco will be granted a license from Iconix to continue to manufacture and sell women's and junior swimwear. The deal completed closed November 6, 2006.

## European Holdings Analysis

### Arena Leisure plc

The Reuben brothers, the billionaire private investors, have quietly accumulated a 14% stake in Arena Leisure, the owner of Royal Windsor and Lingfield racecourses. We believe that they could be making their first strides towards a takeover. Shares in Arena rose by 5.5 per cent amid the news, with many analysts citing the stock as highly desirable. If granted a casino license by the government this year, Arena hopes to develop a casino at the Wolverhampton Racecourse in a partnership with Ladbrokes. If successful, we believe the value of Arena will continue to rise.

### British Sky Broadcasting Group plc

U.K. antitrust regulator the Office of Fair Trading Friday launched a formal investigation into British Sky Broadcasting Group PLC's (BSY) purchase of a 17.9% stake in ITV PLC (ITV.LN). Concerns focus on the perceived dominance of the U.K. media by News Corp. In addition to the controlling stake in BSkyB, News Corp.'s U.K. subsidiary News International owns Britain's largest selling daily and Sunday newspapers, the Sun and the News of the World. It also publishes the influential Times and Sunday Times.

#### Ducati Motor Holding SpA

Ducati has a long road ahead of it before it can catch up to profitable rivals such as Japan's **Honda** or America's **Polaris** and **Harley-Davidson**. But at least it's on the *right* road. Losses are shrinking, and the firm continues to make good on CEO Federico Minoli's promise to "maintain a tight control on sales and production in order to avoid excessive inventories." While the firm's inventories didn't contract as much in this quarter as they did in the first half, at 2% down from a year ago, they're still headed in the right direction.

#### Puma AG

Puma shares surged during December on renewed speculation that Nike Inc. may be looking to buy the company. Rumors swirled among investors in Europe after Nike arranged a \$1 billion loan.

Puma Sports India Pvt Limited is planning to open 12 stores by the end of 2006 and 40 more in 2007. PUMA already has two stores in India - one each in Chennai and Bangalore. The company will open two stores in Mumbai by the end of 2006 and a total of four stores, including one factory outlet, in Mumbai by the end of 2007. PUMA also intends to make India its export hub for SAARC countries, South Africa and West Asia.

#### Umbro

Umbro says full-year profits for 2006 are likely to be "marginally below" the company's expectations previously reported. It said the group's ability to maintain margins in the UK was under increasing pressure as the marketplace remained "extremely tough" and price led.

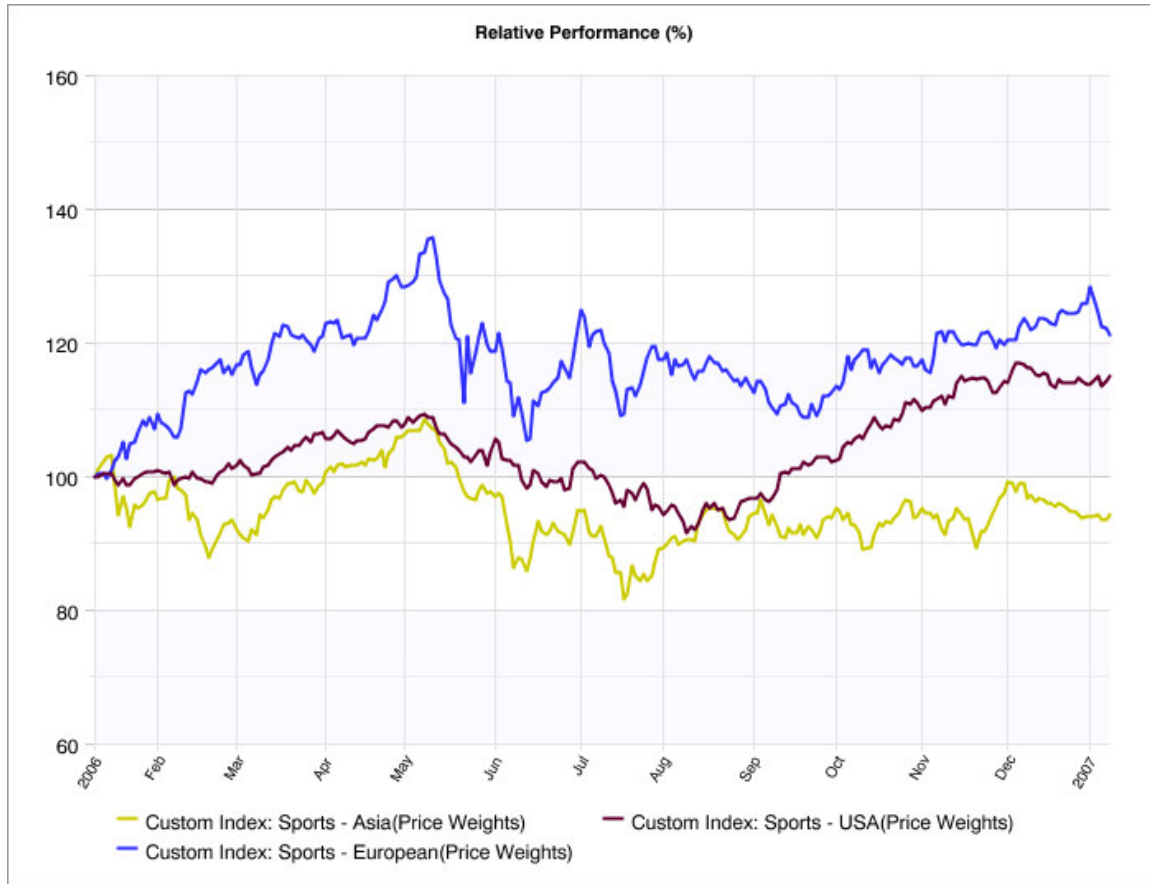
#### Powerleague

The CEO of Powerleague, Sean Tracey said that organic growth and domestic acquisitions would still be a key part of Powerleague's growth strategy. Mr. Tracey said the business was still looking to grow organically and, following the recent acquisition of the JJ Boyle centre in Bolton, was also in touch with smaller five-a-side venue operators with a view to takeover talks. But it is unlikely there would be any acquisitions in Scotland, where Powerleague largely competes with Goals Soccer Centers for business. "There's one or two small operators up here but they don't meet our profit profile. But we're not ruling anything out," said Mr. Tracey.

## Sports– Trend Watch

Company Ticker	Company Name	Current Stock Price (14/1/07)	Stock Price - 3 Months Ago (14/10/06)	Stock Price - 6 Months Ago (14/7/06)	Stock Price - 1 Yr Ago (14/1/06)	Stock Price change % 1Yr	Stock Price change % 6 Month	Stock Price change % 3 Month	Ebitda Margin %	Gross Margin %	TEV/EBITDA
<b>Europe</b>											
DB:ADS	Adidas AG	48.53	46.8	44.5	49.5	-2.01%	8.96%	3.66%	11.40	45.24	9.7
HLSE:AMEAS	Amer Sports Corp.	20.91	23.4	20.3	18.7	11.71%	2.92%	-10.75%	6.12	39.21	16.4
LSE:ARE	Arena Leisure plc	1.14	0.7	0.8	0.7	57.22%	51.73%	55.71%	16.60	34.76	32.5
LSE:BSY	British Sky Broadcasting Group plc	10.81	10.3	9.8	9.1	19.08%	10.60%	5.02%	24.24	44.35	9.9
CM:DMH	Ducati Motor Holding SpA	1.18	0.9	0.7	1.1	3.67%	57.45%	27.87%	6.89	31.65	15.2
AIM:GGA	Georgica PLC	2.84	2.6	2.7	1.7	68.91%	4.28%	7.44%	12.93	55.39	14.8
ENXTAM:MACIN	MacIntosh Retail Group NV	36.98	34.1	34.4	19.1	93.35%	7.61%	8.54%	8.19	41.83	11.9
AIM:PWR	Powerleague Group Ltd.	1.61	1.4	1.3	1.1	41.79%	23.34%	17.00%	34.67	82.23	12.0
DB:PUM	Puma AG Rudolf Dassler Sport	378.66	353.6	349.8	291.4	29.95%	8.24%	7.09%	18.43	51.16	10.6
CATS:SGC	Sogecable SA	35.35	34.6	28.3	41.8	-15.34%	24.75%	2.18%	12.85	89.15	24.2
ENXTPA:TFI	Television Francaise 1 SA	35.74	32.6	31.8	29.1	23.02%	12.43%	9.72%	13.91	55.68	15.1
LSE:UMB	Umbro	2.91	2.6	2.7	2.9	0.82%	7.52%	11.21%	-5.64	23.61	NM
<b>High</b>						<b>93.35%</b>	<b>57.45%</b>	<b>55.71%</b>	<b>34.67</b>	<b>89.15</b>	<b>32.53</b>
<b>Low</b>						<b>-2.01%</b>	<b>2.92%</b>	<b>-10.75%</b>	<b>6.12</b>	<b>39.21</b>	<b>9.72</b>
<b>Mean</b>						<b>27.68%</b>	<b>18.32%</b>	<b>12.06%</b>	<b>13.38</b>	<b>49.52</b>	<b>15.67</b>
<b>USA</b>											
<b>High</b>						<b>99.89%</b>	<b>63.84%</b>	<b>39.43%</b>	<b>41.89</b>	<b>66.34</b>	<b>36.63</b>
<b>Low</b>						<b>-48.44%</b>	<b>-37.41%</b>	<b>-18.29%</b>	<b>-1.05</b>	<b>13.21</b>	<b>3.89</b>
<b>Mean</b>						<b>13.65%</b>	<b>19.15%</b>	<b>8.54%</b>	<b>15.80</b>	<b>39.58</b>	<b>12.06</b>
<b>Complete Portfolio</b>											
<b>High</b>						<b>99.89%</b>	<b>63.84%</b>	<b>55.71%</b>	<b>41.89</b>	<b>89.15</b>	<b>36.63</b>
<b>Low</b>						<b>-48.44%</b>	<b>-37.41%</b>	<b>-18.29%</b>	<b>-1.05</b>	<b>13.21</b>	<b>3.89</b>
<b>Mean</b>						<b>15.32%</b>	<b>19.40%</b>	<b>8.99%</b>	<b>14.68</b>	<b>42.11</b>	<b>13.07</b>

**Relative Performance of European Holdings vs. US & Asian Holdings (Price Weights)**



**Major Currency Movements**

	Latest Value	Price 1dy % chg (%)	Price 7dy % chg (%)
<b>Biggest gainers</b>			
Sudan Dinar / British Pound Spot (SDDSS)	414.820	0.59	6.75
Guyana Dollar / British Pound Spot (GYDSS)	393.930	0.79	6.73
Guyana Dollar / Canadian Dollar Spot (GYDKS)	171.890	-0.05	6.26
Guyana Dollar / U.S. Dollar Spot (GYDUS)	202.190	0.00	6.14
Sudan Dinar / Canadian Dollar Spot (SDDKS)	181.310	0.66	5.66
U.S. Dollar / Chilean Peso Derived	0.002	0.00	5.56
Sudan Dinar / U.S. Dollar Spot (SDDUS)	212.030	0.00	5.31
Botswana Pula / British Pound Spot (BWPSS)	12.284	0.68	4.99
Guyana Dollar / Euro Spot (GYDVS)	260.980	-0.32	4.78
	Latest Value	Price 1dy % chg (%)	Price 7dy % chg (%)
<b>Biggest losers</b>			
Saint Helena Pound / Japanese Yen Spot (SHPYS)	0.004	-2.33	-4.55
Sao Tome Dobra / Japanese Yen Spot (STDYS)	54.686	0.07	-2.84
British Pound / Norwegian Krone Spot (GBPOS)	0.079	0.00	-2.82
Gibraltar Pound / Swiss Franc Spot (GIPHS)	0.409	-0.85	-2.62
Saint Helena Pound / Swiss Franc Spot (SHPHS)	0.409	-0.85	-2.62
Falkland Island Pound / Swiss Franc Spot (FKPHS)	0.409	-0.85	-2.60
Turkish Lira / Japanese Yen Spot (TRYYS)	0.012	0.00	-2.46
New Zealand Dollar / Japanese Yen Spot (NZDYS)	0.012	0.00	-2.44
British Pound / Swiss Franc Spot (GBPHS)	0.409	-0.56	-2.43
Sao Tome Dobra / Swiss Franc Spot (STDHS)	5,274.000	0.07	-2.41

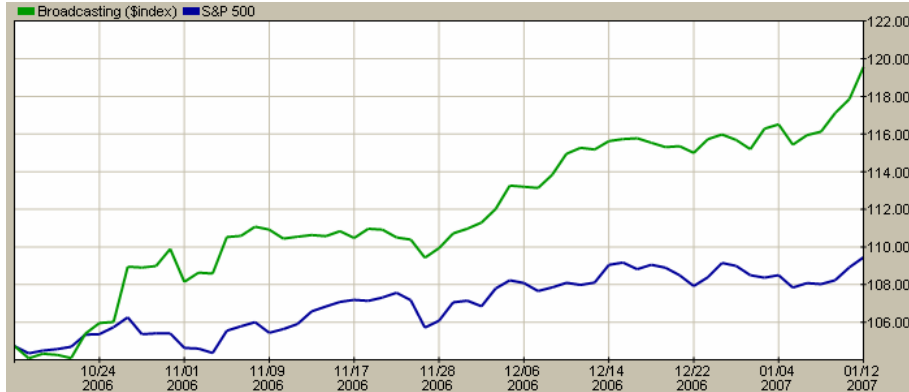
Source: Calibre

**Market Outlook and Portfolio Considerations**

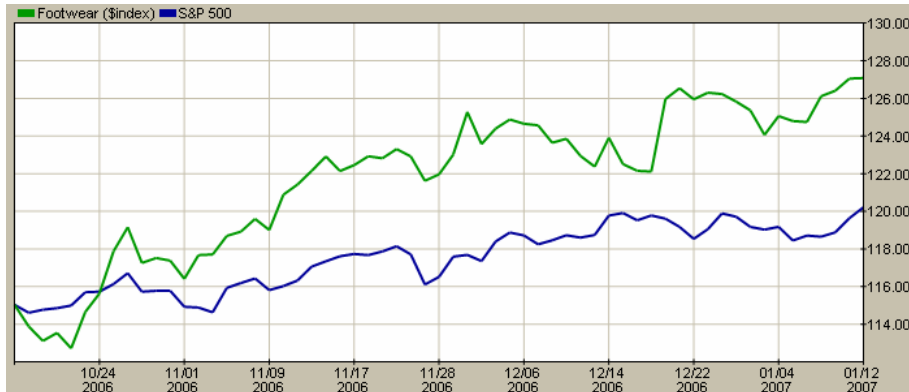
Based on perceptions of the global business cycle in a global fund manager survey conducted last year, more than half believe the global economy is in a late-cycle phase, with most surveyed (41%) stating that the economy will 'get a little weaker'. At the same time only 7.0% said it was fairly likely or very likely that the US would experience recession (two consecutive quarters of negative real GDP growth) in 2007. Given the relative optimism for 2007 we believe a conservative stance is warranted, focusing on companies with stronger fundamentals and visible growth trajectories.

Current mean enterprise value (EV) to Ebitda and forward P/E multiples for the group currently trade at 12.9x and 21.1x, respectively, versus 9.9x and 23.9x for the S&P 500 Consumer Discretionary Sector (CDS) Index. While we believe component valuation differentials are less critical than overall market strength and continued growth in US economy, we believe portfolio fundamentals are strong enough to sustain modest to healthy gains into early 2007.

**Chart 1 - Broadcasting vs. S&P 500**



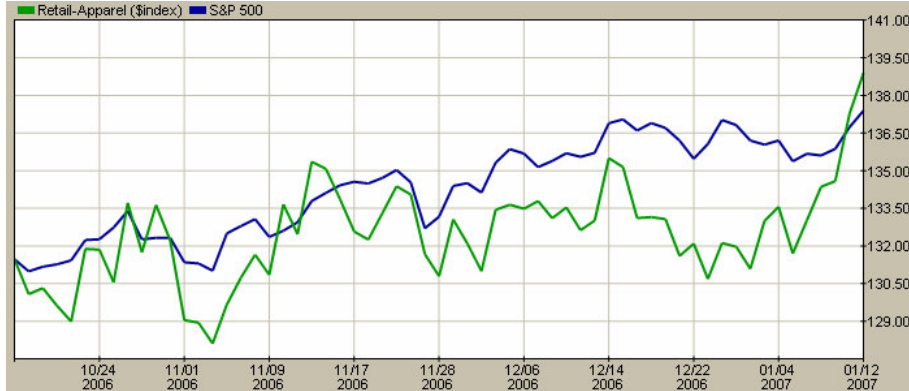
**Chart 2 - Footwear vs. S&P 500**



**Chart 3 - Entertainment vs. S&P 500**



**Chart 4 - Retail Apparel vs. S&P 500**



**Chart 5 - Specialty Retail vs. S&P 500**

