Sovereign M&A
Website Case Study
May 22, 2023

During the disruption caused by the COVID-19 pandemic, some companies suffered from lagging demand, mandated shutdowns, and/or supply chain issues to name a few challenges. Certain other businesses grew exponentially as consumer purchasing habits adapted to social distancing regulations. This posed a unique dilemma to underwriters in M&A transactions, where investors are tasked with thinking not just about the upcoming quarter but instead are committing funds for the next 5-7 years.

Toward the end of 2020, I was tasked with underwriting a transaction for a branded, outdoor sporting goods brand. The brand's sales had grown tremendously over the prior 12 months. While it was true the sport as a whole had been increasing in popularity in the years prior to 2020 and the company had released exciting new designs, it was impossible to ignore the elephant in the room – part of the growth was likely caused by children who were used to playing team sports now being forced to look for new "safer" alternatives.

It was understood that some of this demand would taper off as the pandemic waned and normal activities resumed. The questions were: When would that shift happen? And, to what degree? Would some children find a passion for this new sport and stay engaged or would they all return to the baseball diamond and lacrosse fields? More importantly, what would happen to the company's earnings? Figuring this out was no easy task. No one could know for sure, but we had to try.

Ultimately, diving deep into sales by channel and sales by SKU provided valuable insight. That data allowed us to make an educated guess about longer term consumer behavior. For example, while it was true that the company's sales of entry-level products through discount big box stores increased, those gains were outpaced by sales of its higher-end products through its specialty retail outlets. The revelation was that if consumers were simply interested in these recreational sports as something to do to pass the time, they would be purchasing the cheapest alternative possible. After all, they would be expecting to throw it away in six months. Instead, they were purchasing more expensive, more feature-rich, and more durable versions of the equipment.

It was clear. This growth wasn't simply driven by temporary COVID disruption. The more permanent trends were leading the way, such as the inclusion of the sport in the Olympics for the first time and increased interest among female athletes due to the rising popularity of certain charismatic professionals. Armed with this insight, we were able to underwrite a normalized earnings profile that allowed our firm to win the deal while maintaining an acceptable risk/return profile. It was a win-win.