



Mossberg's Investor Digest

Idea Profile

Sport Supply Group (Nasdaq: RBI)

DESCRIPTION:

Headquartered in Dallas, TX, Sport Supply Group is the largest direct seller of bulk sporting goods equipment and team uniforms to schools, colleges, parks, churches and other institutional customers. The company sells a broad product line of 22,000 SKU's through catalogs, internet websites, 40 outbound telemarketers, and 200+ road sales professionals. About 1/3 of the company's sales are comprised of its proprietary branded products, such as MacGregor and Voit. The remainder is generated by re-distributing other well known brands such as Adidas, Under Armour, and Wilson.

KEY INVESTMENT CONSIDERATIONS:

Biggest player in a highly fragmented and sizable market - For anyone who has bought equipment/uniforms for their kids sports activities lately, it's not surprising that the institutional sports equipment/uniform market is a sizable \$4 billion annually. RBI is 5x larger than the next largest competitor, which mainly include local "mom & pop" sporting goods dealers.

Completive advantage should allow RBI to grow by taking market share – Efficiencies of scale and scope allow RBI to offer lower prices and wider array of products than its competitors. According to the company, its prices do not include the mark up attributable to wholesalers, manufacturers and distributors. In general RBI's prices are 10% to 30% less than sporting goods chains.

Economic challenges may make it easier to take share – Smaller competitors are challenged by a number of macroeconomic factors. 1) Since most sporting goods products are sourced from abroad, the relative weakness in the U.S. dollar has driven price increases for sporting goods equipment. Margins for smaller suppliers end up getting squeezed because they don't have sufficient buying power and have difficulty passing on price increases to their customers. 2) Constraints in the U.S. lending markets are making it challenging for smaller competitors with less capitalization to survive. In this environment, customers want to do business with stronger suppliers. In addition, RBI's competitive position strength also allows it to attract more talented sales people.

Not a retail or consumer company – RBI sells to institutional customers, whose budgets are typically set annually and don't change much from year to year. RBI's growth is not dependent on consumer spending. Its growth is dependent on its ability to take market share.

CATALYSTS:

Potential expansion of Nike relationship – Soon, Nike is expected to launch a 3-year plan to grow its institutional sports business into a \$300 million annual business and RBI could have a meaningful role in this.

Buyback authorization – RBI has recently announced that it may repurchase up to \$15 million in convertible debt, which is due in November of 2009. As of its 10k filing, the company had repurchased \$5.5 million of this debt at approximately 95% of par, eliminating \$300,000 in annual interest expense. If the company is able to complete the authorization, it should add \$0.03 to \$0.04 to annual earnings.

KEY RISKS:

Acquisition integration – RBI has made several acquisitions over the past few years and states that acquisitions are part of the growth strategy going forward. Integrating operations and cultures is difficult and could cause significant disruption.

VALUATION:

The company currently trades at 12x the midpoint of '09 guidance, which is \$0.90. For a company that is the dominate supplier in its market and has demonstrated its ability to grow earnings in cash flow at double digit rates, shares could easily command much higher multiples. It's also important to note that the company pays a regular dividend, which is currently almost a 1% yield. In a bear market, dividend paying stocks tend to fall less because dividends signal a high quality of earnings and yields can provide downside support.

(Nasdaq: RBI)

Investment Data (as of 9/17/08)

Recent Price	\$11.07
52-Week Range	7.00 - 13.21
Fiscal Year End	June
Dividend	\$0.10
Yield	0.8%
Shares Outstanding	12.4 MM
Average Trading Volume (3 mos)	43,000
Market Capitalization	136.9 MM
Cash	20.5 MM
Long Term Debt	50.0 MM
Enterprise Value (EV)	166.9 MM
LT Debt/ Equity	0.6
Tangible BV/ Share	1.51
TTM Revenue	251.4 MM
P/ Revenue	0.5x
TTM EPS	0.76
P/ EPS	14.6x
TTM EBITDA	23.4 MM
EV/ TTM EBITDA	7.1x

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