Agenda

1. What we said in January
2. How the situation has evolved
3. How to react
4. Q&A
What we said in our 2022 annual report

<table>
<thead>
<tr>
<th>Evolving attitudes and behaviors</th>
<th>From social media to social commerce</th>
<th>The sustainability imperative</th>
<th>The future of channels</th>
<th>Solving the supply chain puzzle</th>
</tr>
</thead>
<tbody>
<tr>
<td>70-85% of consumers expect to continue using online fitness, wellness and digital exercises</td>
<td>&gt;80% of consumers use online channels to search for products</td>
<td>2 out of 3 consumers say promotion of sustainability is an important buying factor when purchasing apparel</td>
<td>~45% of sales through digital online channels even after stores reopened after lockdowns</td>
<td>7-10x increase in shipping prices due to demand / supply imbalances</td>
</tr>
</tbody>
</table>

Online, you can have access to the full report

Sporting Goods 2022 – The New Normal is here
Agenda

1. What we said in January
2. How the situation has evolved
   - Inflation & consumer behavior
   - Cost pressure persisting
3. How to react
4. Q&A
Recent developments... the eve of a perfect storm?

**Inflation & expected demand decline**

Mandatory household expenditures are increasing (e.g., energy, food) and the cost of borrowing money is increasing. Consumers are starting to cut back on discretionary expenditure, given prices are rising faster than incomes. Spending intent on apparel, footwear, and sports and outdoors equipment is declining.

**Cost pressure & supply chain issues**

Continuous increase in input costs since COVID-19 outbreak, incl.:

- Raw material prices increasing tremendously, up to almost 2x (for metals and cotton) vs. pre-pandemic levels.
- Supply chain congestions increasing lead times, decreasing sailing capacity, and increasing ocean freight costs up to 7x.

Supply chain issues persist, but as blocked orders get unlocked, the risk is excess inventory increases.
Agenda

1. What we said in January
2. How the situation has evolved
   - Inflation & consumer behavior
   - Cost pressure persisting
3. How to react
4. Q&A
Sporting apparel has been one of the strongest categories since beginning of the COVID-19 pandemic

<table>
<thead>
<tr>
<th>Year-over-year consumer spending growth, select categories,¹ %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><img src="chart.png" alt="" /></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Source: Affinity Solutions credit-card spend data; Stackline Amazon spend data

Note: Categories arranged from least to most discretionary; ¹. Data adjusted for inflation. From Mar 2021 onwards, data is adjusted for COVID-19 and actual spending is compared with the same month of the previous year to which the COVID-19 impact is taken out; ². Out of home
While sporting apparel still shows strong consumption growth, inflation is the main driver of spending across categories.

Change in spending including inflation contribution, by category, Mar-Apr 2022 vs Mar-Apr 2021,\(^1\)

<table>
<thead>
<tr>
<th>Category</th>
<th>Increased consumption</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel/ other auto</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grocery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drug/pharmacy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pet supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software/electronics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail apparel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sporting apparel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cosmetics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restaurant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OOH(^2) Entertainment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Includes data on credit card spending and some debit card spending among banked consumers; data is adjusted for COVID-19: actual spending is compared to the same month of the previous year to which the COVID-19 impact is taken out.

2. Out of home

Source: Affinity Solutions credit-card spend data; Stackline Amazon spend data; Bureau of Labor Statistics; McKinsey Analysis
Spend has been supported by higher holdings of cash equivalents

Holdings of cash equivalents, long term view
Percent of disposable income, through 2021 Q4

Beginning of 2022, savings however fell to near 0% for the first time in more than a decade

Personal saving rate
% of disposable income

Yearly averages from 2000 to 2019
2020
2021
2022

1. Months are seasonally adjusted at annual rates
2. Adjusted by subtracting unemployment and other government transfers (which includes stimulus payments and child tax credits from disposable income)

Source: Bureau of Economic Analysis, Federal Reserve Board, NBER, McKinsey analysis
Recent economic and geo-political developments have increased consumer pessimism to higher levels than 2020

Confidence in own country’s economic recovery after crisis, 1% of respondents

<table>
<thead>
<tr>
<th>Optimistic</th>
<th>Neutral</th>
<th>Pessimistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>The economy will rebound within 2–3 months and grow just as strong as or stronger than before the current crisis</td>
<td>The economy will be impacted for 6–12 months or longer and will stagnate or show slow growth thereafter</td>
<td>The current crisis will have lasting impact on the economy and show regression or fall into lengthy recession</td>
</tr>
</tbody>
</table>

### 2020

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>30</td>
<td>32</td>
<td>30</td>
<td>31</td>
<td>31</td>
<td>24</td>
<td>17</td>
<td>25</td>
<td>37</td>
</tr>
</tbody>
</table>

### 2021

| 21       | 34       | 24       | 49       | 51       |

### 2022

| 14       | 49       | 37       |

1. Q: What is your overall confidence level surrounding economic conditions after the coronavirus (COVID-19) crisis subsides (i.e., once there is herd immunity)? Rated from 1 “very optimistic” to 6 “very pessimistic”; Top, middle, and bottom 2 boxes of scale aggregated to “Optimistic,” “Neutral,” and “Pessimistic.” Figures may not sum to 100%, because of rounding.


3. Question in Apr 2022 was not framed for coronavirus: What is your overall confidence level surrounding the potential economic impact related to the invasion of Ukraine that began in Feb 2022?

As spend on essential products rises, consumers save less and spend less on nonfood discretionary items—and expect further cuts

### Change of spend and expected spend in general categories

% of respondents

<table>
<thead>
<tr>
<th>Change in spend in the last 4–6 weeks¹</th>
<th>Expected change in spend in the next 4–6 weeks²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent/mortgage</td>
<td>Rent/mortgage</td>
</tr>
<tr>
<td>Energy/utilities</td>
<td>Energy/utilities</td>
</tr>
<tr>
<td>Transport and gasoline</td>
<td>Transport and gasoline</td>
</tr>
<tr>
<td>Food and essentials</td>
<td>Food and essentials</td>
</tr>
<tr>
<td>Nonfood discretionary</td>
<td>Nonfood discretionary</td>
</tr>
<tr>
<td>Put money into savings</td>
<td>Put money into savings</td>
</tr>
<tr>
<td>Higher</td>
<td>Higher</td>
</tr>
<tr>
<td>About the same</td>
<td>About the same</td>
</tr>
<tr>
<td>Lower</td>
<td>Lower</td>
</tr>
</tbody>
</table>

**Net change³**

<table>
<thead>
<tr>
<th>Rent/mortgage</th>
<th>Energy/utilities</th>
<th>Transport and gasoline</th>
<th>Food and essentials</th>
<th>Nonfood discretionary</th>
<th>Put money into savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>47</td>
<td>38</td>
<td>39</td>
<td>−6</td>
<td>−40</td>
</tr>
<tr>
<td>7</td>
<td>38</td>
<td>26</td>
<td>30</td>
<td>−16</td>
<td>−34</td>
</tr>
</tbody>
</table>

1. Q: How have your household finances been affected over the past 4–6 weeks? Rated from 1 “Reduced a lot” to 5 “Increased a lot.” For visualization, we merged “increased a lot” and “increased,” as well as “reduced a lot” and “reduced.” “Last 4–6 weeks” refers to the change in behavior vs before the invasion of Ukraine.; 2. Q: How do you expect your spend on the following categories to change in the next 4–6 weeks? Rated from 1 “Will spend significantly less” to 5 “Will spend significantly more.” For visualization, we merged “significantly more” and “more,” as well as “significantly less” and “less.” “Next 4–6 weeks” refers to the plan consumers make today, so this change is incremental to past change.; 3. Calculated by subtracting all "lower" answers from all "higher" answer in each column/time frame.

Source: McKinsey & Company Europe Consumer Pulse Survey, 4/12–4/18/2022, n = 5,075 (France, Germany, Italy, Spain, UK), sampled to match European general population 18+ years

McKinsey & Company
Forward-looking consumers expect to decrease spending, especially low income groups and older generations

Expected change in spending in next 4-6 weeks, Europe, net change

1. Net change is calculated by subtracting the % of respondents stating they decreased spend from the % of respondents stating they increased spend in the category.; 2. Low income = <25,000; middle income = 25,000–50,000; high income = >50,000. Income brackets use euros for France, Germany, Italy, Spain; for UK, the same brackets were used with pounds.; 3. Includes silent generation.

Source: McKinsey & Company Europe Consumer Pulse Survey, 4/12–4/18/2022, n = 5,075 (France, Germany, Italy, Spain, UK), sampled to match European general population 18+ years
Agenda

1. What we said in January
2. How the situation has evolved
   - Inflation & consumer behavior
   - Cost pressure persisting
3. How to react
4. Q&A
Rising input prices of raw materials are putting pressure on margins
Indexed price development, Q1 2019 – Q1 2022

Global prices for industrial raw materials, weighted index (Q1 2019 = 100)

Industrial raw material prices: In the past two years, a significant increase in relevant industrial raw materials prices can be observed
Metals: +88%
Cotton: +84%
Fibers: +40%
Rubber: +32%

Source: EIU Economic Intelligence
At the same time, global supply chains continue to experience major congestion, reducing the capacity of actively sailing containership.

Global containership capacity actively sailing
Million TEU, ships traveling 7.5kts or more, through March 23rd, 2022

7-day moving average

Source: McKinsey DeepBlue; McKinsey analysis
Freight rates have increased up to 7x pre-pandemic levels but showing a slight decline and plateauing trend in the past few weeks

Rate development by trade lane, USD/FEU

1. Additional surcharges putting it more than quoted prices

Source: SCFI data sourced from SIN Clarksons
The risk of excess inventory is real

Excess inventory threat

Source: Press Search, McKinsey analysis

Few examples... signs of inventory overflow

American sporting goods retail company
+40% inventory YoY
(as of Apr 30, 2022)

American multinational retail corporation
+32% higher-than-expected inventory
(Q1 2022)

American big box department store chain
+43% inventory YoY (Q1 2022)

High risk for in-season products, that if marked down, could impact margins heavily

COVID-19 outbreak
H2 2020 with demand in SG picking up
Today, with first signs of overstock and demand decline
Q1 2020 Q2 2020 Q2 2022

Orders of parts and materials that increased during the supply crisis are expected to unlock, while inflation may reduce demand – with risk of excess inventory as consequence

After a first demand shock in H1 2020, we have then experienced demand picking up, while supply decreasing, leading many players to not be able to meet consumers demand
Agenda

1. What we said in January
2. How the situation has evolved
3. How to react

Q&A
Increasing resilience – successful players react now

To successfully navigate the current economic environment characterized by volatility and uncertainty, successful companies urgently get ahead of the curve.
We observe best-practice companies act now

Key levers

Smart pricing

Assortment and commercial strategy

Proactive cost management

Main considerations

- Adjust prices based on price elasticity, KVIs, and next-best alternative
- Review gross-to-net ratios and consider reductions in promotions
- Adjust prices regionally and/or by channel based on market dynamics
- Rebalance between entry price points and midmarket prices based on margin structures, and emphasize the perceived value gap

- Discontinue low-margin products
- Make down-trading less attractive
- Focus on communication by emphasizing product aspects beyond price
- Make part of the assortment premium
- Increase direct-to-consumer (DTC) offering

- Create full transparency on the company’s spending
- Develop visibility and optimize cost structure at product and category levels
- Consider conditional contract terms
- Develop a design-to-value (DtV) approach
- Review the supply chain network
- Increase operational efficiency
Response should use a phased approach, prioritizing measures based on their urgency and impact

### Illustrative phased approach

<table>
<thead>
<tr>
<th>Situation</th>
<th>Key activities</th>
</tr>
</thead>
</table>
| Rising inflation rates drive cost of goods sold (COGS) increases and put pressure on companies' margins | • Discontinue low-margin products  
• Emphasize aspects beyond price  
• Selectively increase prices quickly depending on price elasticity and non-key value items  
• Consider reduction of promotion  
• Create transparency on cost structures |
| Following price increases, shifts in consumer behavior must be expected, such as switches to cheaper alternatives where available | • Make downtrading less attractive  
• Make part of the assortment premium  
• Review gross-to-net ratios  
• Review prices regionally and/or by channel  
• Consider conditional contract terms  
• Develop design-to-value |
| Increase of non-COGS costs, especially labor, can be expected, resulting in a need to improve cost efficiency | • Increase direct-to-consumer  
• Further optimize products cost structure  
• Review supply chain network  
• Increase operational efficiency |

Create an inflation control tower to initiate immediate tasks
Revisit the assortment to adjust it to shifting consumer behavior
Initiate a cost program and prepare for labor inflation
Initial measures against inflation have shown positive impact on margins

Consumer industry case example

Case example #1:
Company experiencing inflationary cost pressure across supply chain

**Context**

**Approach**
Initial short-term margin relief through pricing adjustment:
- Structured and sized pricing action scenarios with advanced-analytics driven RGMx solution
- Quantified volume shifts based on purchase structure and price elasticities

2nd phase to reset promotion and assortment strategies:
- Shifted promotion investment with promo effectiveness tool to increase sales lift effectiveness and efficiency of ROI

**Impact**
Immediate financial benefit
~9% margin improvement through pricing actions

Longer-term ongoing value creation
~5% of promo-led margin improvement

Case example #2:
Beverages company looking for assortment optimization to increase margins

**Context**

**Approach**
The approach focused on understanding consumer purchase decisions to move beyond “cutting the tail” through:
- Use of external retail data to build purchase structure and understand volume transference
- Built a transfer model to create an indexed substitutability matrix to identify products that are more similar or substitutable

**Impact**
10-40% SKU reduction in covered categories

2-3% gross margin improvement
Agenda

1. What we said in January
2. How the situation has evolved
3. How to react

Q&A
WFSGI and McKinsey continue collaborating to provide the sporting goods industry with updates and analysis on the latest industry developments and trends.

If you haven’t yet downloaded our 2022 annual report, you can find it online:

“Sporting Goods 2022 – The New Normal is here”

… and stay connected for our upcoming 2023 annual report!
These are suggested practices, in many cases adopted by companies across sectors.

We do not offer recommendations on sufficiency, adequacy or effectiveness of these measures.

You can derive no rights or make decisions based on this material.

We do not provide legal, accounting, tax, medical or other such professional advice normally provided by licensed or certified practitioners and will rely on you and your other advisors to define applicable legal and regulatory requirements and to ensure compliance with applicable laws, rules and regulations.

We do not intend to supplant management or other decision-making bodies, and you remain solely responsible for your decisions and actions, including those relating to manufacturing, product release, regulatory reporting and market action.

We make no representation or warranty, express or implied, and expressly disclaim any liabilities relating to your manufacturing operations, compliance, quality, R&D and regulatory processes and products.