

DRAFT



Black Diamond Equipment BDE

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19 June 2014



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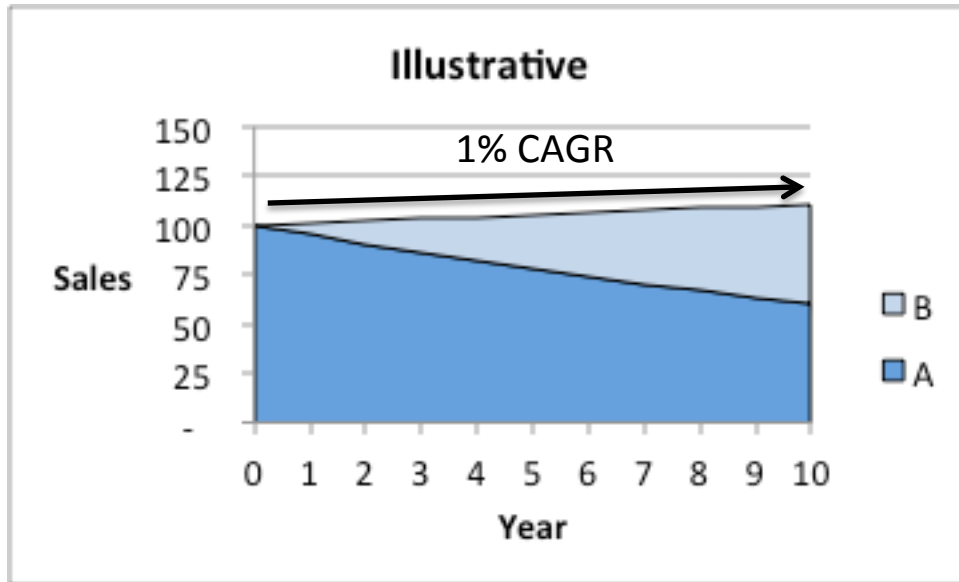
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This is what REAL trust in a brand looks like



But, is it a value?

Looking for growth, not portfolio rotation...



COMMON PROBLEM

In Mature Industries:

- One segment grows, one declines
- Total = slow growth at best
- Profit trajectory is result of change in:
 - » Tax rate
 - » Foreign exchange
 - » Structural changes

EXAMPLES

- Launch Simply Orange to offset decline in Minute Maid.
- Spirits: more brown, less white.
- Beer: one region up, one down
- Beer: less total beer, but more craft
- Non-alc: more still, less carbonated

Why not look for a more compelling opportunity, a high probability pure play?

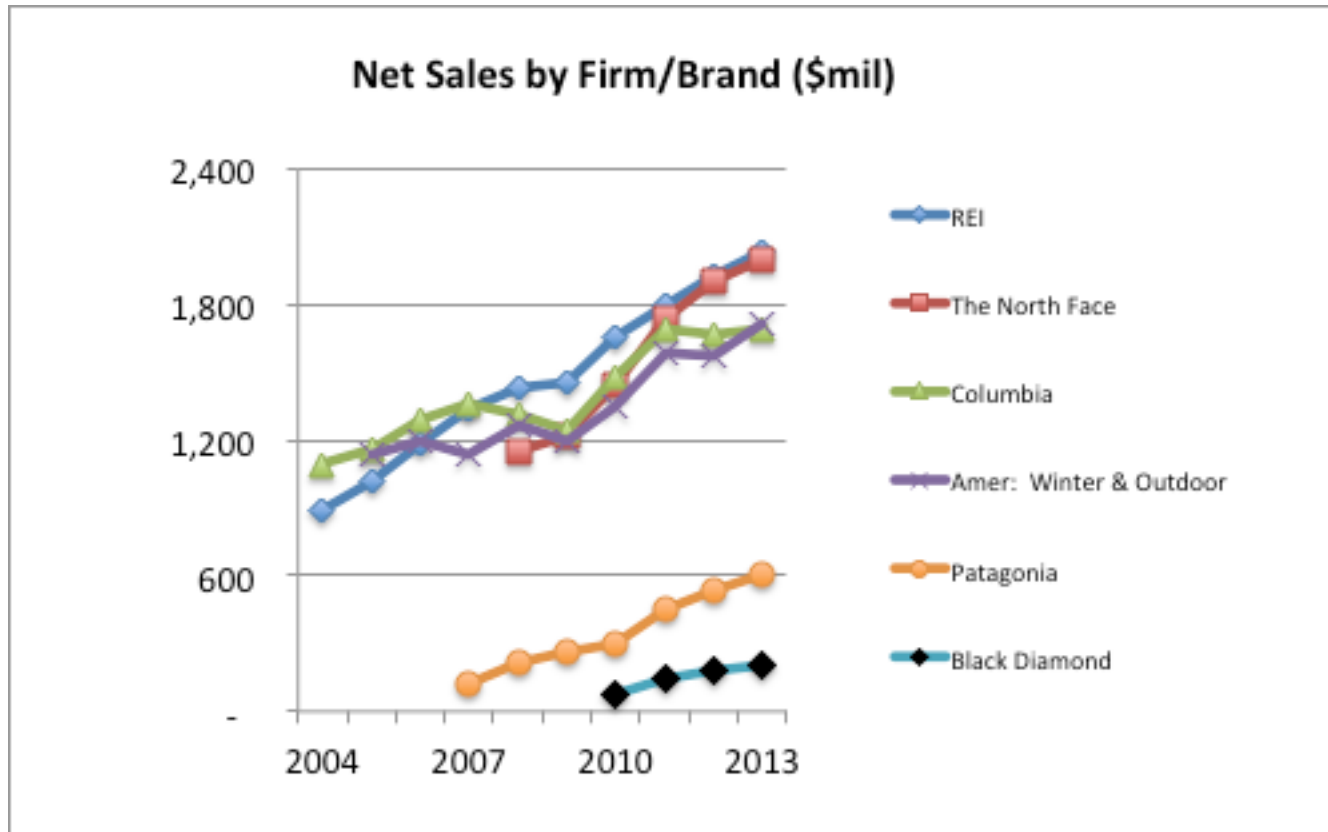
Growing business at a value/fair price.

The operator asks: what levers can I pull?

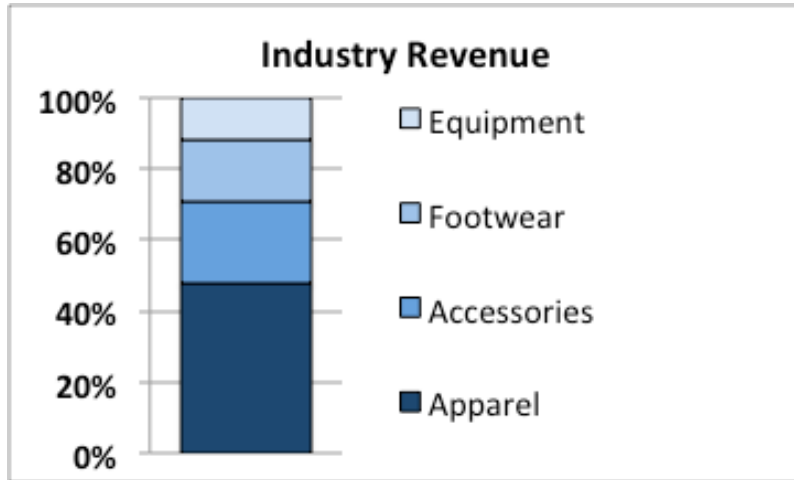
Growth Lever	Comments
Simple Distribution: more accounts	Easy
Effective Distribution: more stuff/account	Very easy
New Channels	Can be fun
Geographic Expansion	Lots of fun
Cost Savings	Ongoing battle
Bolt-ons: leverage current relationships	When attractive
New Products	Fun, if no cannibalization
New Categories	Oh, baby. Do that again.
Industry Growth	Floats all boats

Note: "It's hard to screw up a growth industry."

Was there a financial crisis in here somewhere? All major suppliers and retailers have enjoyed continuous growth.



Global Outdoor Retail market: ~ \$25 billion, growing ~5%/yr



Revenue: \$25 billion

- growing about ~5%/yr,
- combination of volume & pricing is usually positive, varies by category

Grew through the financial crisis

- REI, largest retailer, 3yr CAGR = 7%
- REI revenue has doubled since 2005

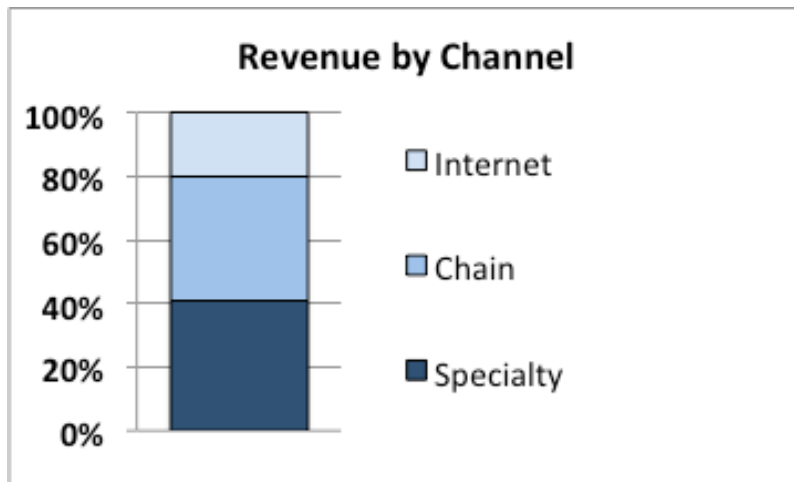
Gross margins: average ~43%

- Retail & Supplier margins are similar

Major Segments: Apparel, Accessories = 70%

Major Channels: Specialty & Chain = 80%

- Internet is growing high single digits



Three consumer “megatrends” are providing a steady tailwind.



Health & Wellness



Extreme Sports



Social Media

Note: Selfies = Free Advertising

Growth = Innovation + Channel Shift + Geographic Expansion

STRATEGIES DRIVING THE INDUSTRY

1. Innovation/Technology:

- » Rapid change in fabrics, fit & features
- » New sports = new categories being created
e.g. adventure racing, trail running, stand up paddle,
backcountry & side country skiing

2. Channel Shift: from Wholesale to Direct to Consumer

- » Owned/Branded stores
- » eCommerce

3. Geographic Expansion

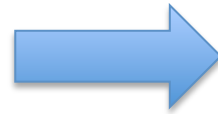
- » US companies expanding in Europe, Asia
- » European brands coming to America

Innovation in Features and Fit: from Integrated to Layering

Example: Integrated Jacket vs “Technical Shell”



Old School: **\$250**
Warm, but bulky



New School: **\$750**
And, you still need layers



Real Old School: Priceless

Innovation in Fabrics: leading outerwear fabric now comes in many forms and price points: 2-Layer, 3-Layer, Pro, Lined, etc.



OUTERWEAR CONSTRUCTIONS

2-Layer Construction >

3-Layer Construction

Unlike the 2-layer construction, this construction bonds the GORE-TEX® membrane to both the outer fabric and the inner lining. The benefit: no movement between the layers, which means less wear and tear, and enhanced durability.

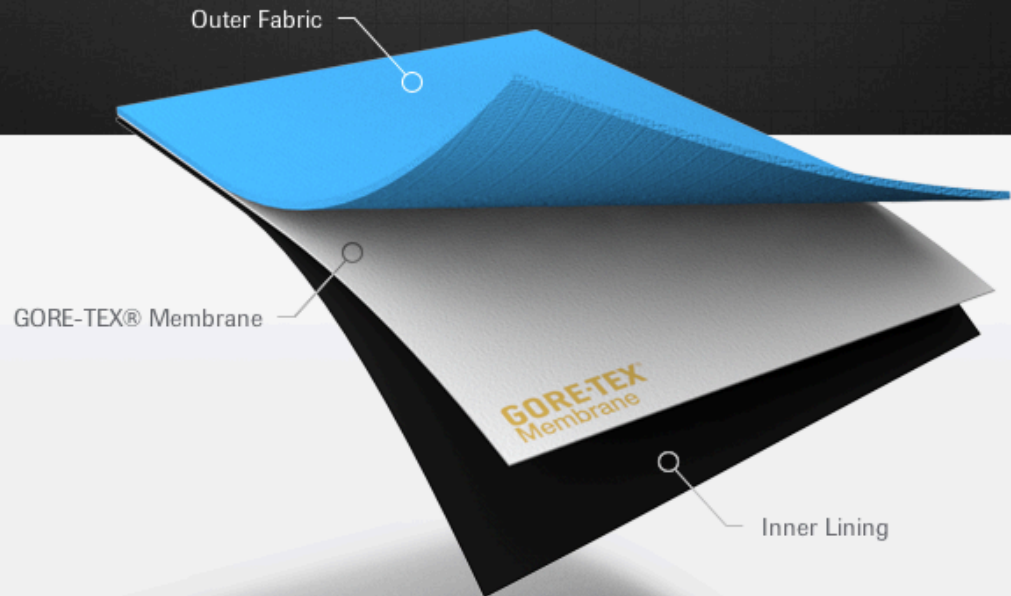
Available In:

[GORE-TEX® products](#) >

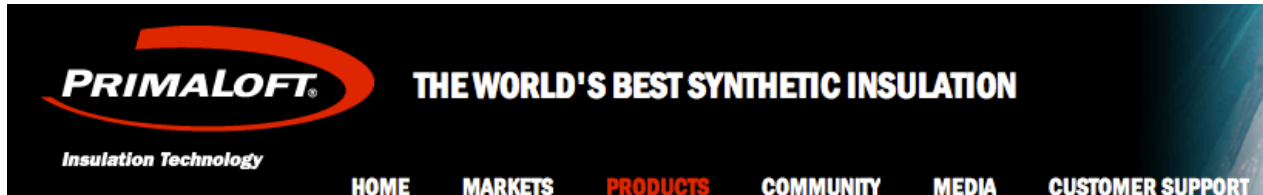
[GORE-TEX® Pro products](#) >

[GORE-TEX® Active Products](#) >

Z-Liner Construction >



Innovation in Insulation: The hottest new insulation comes in 7 flavors



PrimaLoft® ONE Ultimate performance
PrimaLoft® SPORT High performance
PrimaLoft® SYNERGY Multi-denier performance
PrimaLoft® ECO Earth-friendly performance
PrimaLoft® INFINITY Continuous filament insulation
PrimaLoft® ECO FOOTWEAR Earth-friendly performance
PrimaLoft® YARN High performance yarn blends

PrimaLoft® ONE

BREATHABLE
COMPRESSIBLE
WATER RESISTANT
THERMALLY EFFICIENT

CLO/OZ/YD²
0.92 DRY 0.90 WET
CLO/G/M²
0.027 DRY 0.026 WET

It's all very Technical. Website info > retail clerk info.



FULL FEATURE LIST



Technical Features

- Waterproof
- Snow-shedding
- Windproof
- Breathable
- Highly durable

Construction

- GORE-TEX® three-layer construction
- Laminated high-strength hanger loop
- Taped seams for added weatherproofness
- DWR finish (Durable Water Repellent) helps repel water from fabric surface
- Micro-seam allowance (1.6 mm) reduces bulk and weight

Patterning

- Anatomical shaping for fit and comfort
- Articulated patterning for unrestricted mobility
- Articulated elbows
- No-lift gusseted underarms
- Expedition with e3D fit for easy layering, svelte profile and functional articulation

Hood Configuration

- Helmet compatible StormHood™
- Glove-friendly hood adjusters
- StormBrim™— Laminated brim is longer in length for extra protection from the elements

Collar Configuration

- Laminated chin guard

Zippers & Fly Configuration

- WaterTight™ external zippers
- Pit zippers for easy venting
- Corded zipper-pulls reduce noise and are easy to grab
- WaterTight™ Vislon front zipper with double back flap to ensure weather protection
- Zipper garages to protect zipper closure from snow and rain

Cuff & Sleeves Configuration

- Laminated die-cut Velcro® cuff adjusters with elastic

Waist & Belt Configuration

- Adjustable waist drawcord

Hem Configuration

- Laminated hem
- Drop back hem
- Adjustable hem drawcord

Pocket Configuration

- Internal chest pocket with laminated zip
- Internal mesh pocket
- Sleeve pocket with WaterTight™ zip
- Chest pocket with laminated zip
- Two high-volume hand pockets
- Note: Our WaterTight™ zippers are highly water resistant, but not waterproof. We do not recommend keeping items in your pockets that may be damaged by moisture

Innovation in Sports = new categories, gear, apparel



Backcountry & Side Country Skiing



Mountain Training & Adventure Racing



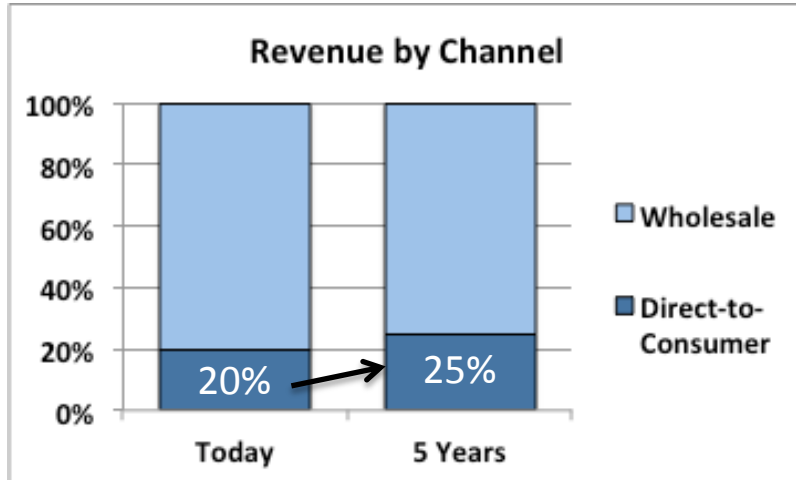
BD Jetforce Airbag
\$ 1,100



BD Avalung
\$ 140

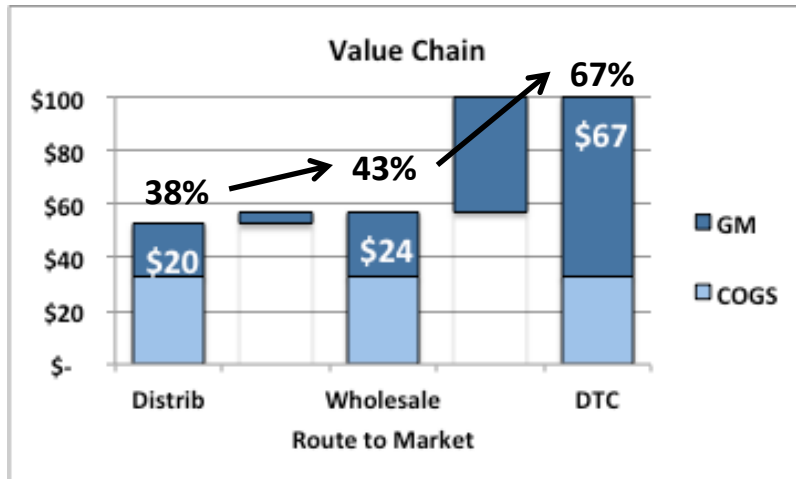


Value Chain: Supplier revenue grows as channel mix shifts toward Direct-to-Consumer (owned/branded stores, internet sales)



More Revenue

- Suppliers expect Direct-to-Consumer to increase share of Revenue by ~ 5% over next five years



Much more Gross Margin

- Supplier gross profit per item sold can more than triple when sold DTC vs via 3rd Party distributor
- Of course, there are additional costs
 - » Store
 - » Online sales & fulfillment

Industry has attractive margins and low CapEx but can have high working capital requirements; varies with business model.

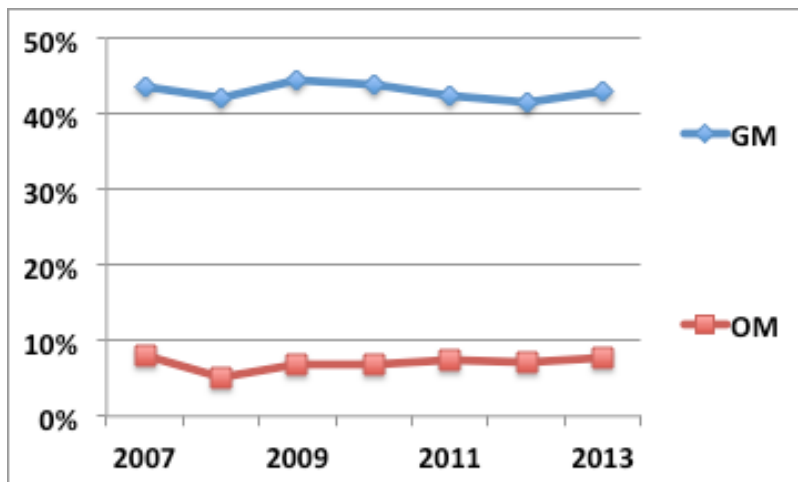
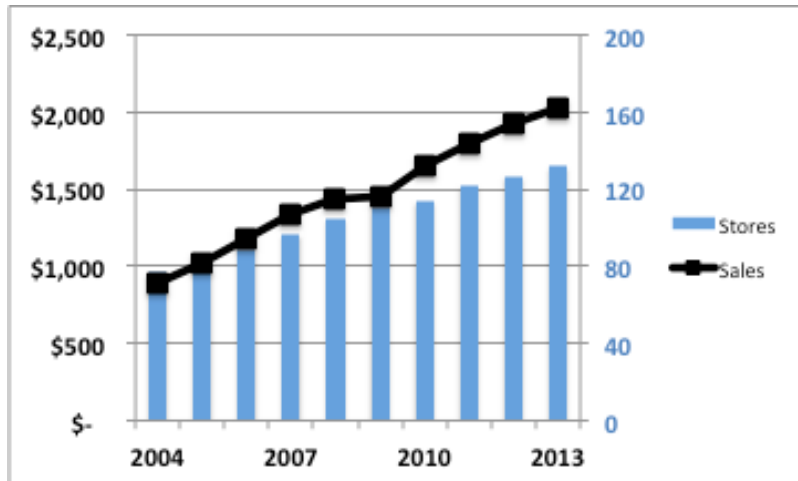
2013 data	REI	VFC	JAH	COLM	AMER	BDE
Company Rev, \$ bln	\$ 2.0	\$ 11.4	\$ 7.4	\$ 1.7	\$ 2.8	\$ 0.2
Division Rev, \$ bln	\$ 2.0	\$ 6.4	\$ 2.7	\$ 1.7	\$ 1.7	\$ 0.2
Gross Margin %	43 %	52 %	29 %	44 %	44 %	38 %
Operating Margin %	8 %	17 %	7 %	8 %	10 %	-2 %
Days Inventory	109	85	95	134	106	167
Working Cap, % Sales	13 %	18 %	28 %	54 %	23 %	38 %
Adv & Promo, % Sales	3.5 %	5.9 %	2.3 %	4.6 %	10.3 %	1.7 %
Gross PP&E, % Sales	47 %	19 %	25 %	36 %	23 %	17 %
CapEx, % Sales	4.0 %	2.8 %	2.9 %	4.1 %	2.0 %	2.5 %
Return on Capital	16 %	19 %	6 %	12 %	14 %	-1 %

Notes

- REI: Nonprofit, presented as if for profit. CapEx two year avg.
- VFC: Rev, GM, OM for Outdoor & Action Sports; WC, Adv & Promo, CapEx total co.
- JAH: Rev, OM, CapEx for Outdoor Solutions; GM, WC, Adv & Promo for JAH.
- AMER: Rev, OM are for Winter & Outdoor; balance are total company.



Retail: REI is the largest outdoor retail chain, can be ~ 10% of sales for any major supplier



Key Statistics

Founded:	1938
Stores Today:	132
Employees:	11,000
Active Members:	> 5 million

2013 Results

Sales, \$million:	\$ 2,017
Percent of sales online:	~ 20%
Gross margin	43 %
Operating margin	7.6 %
Revenue growth:	5 %
Same-store sales growth:	3 %
Gross PP&E:	\$ 956
Patronage Refunds:	\$ 98

New CEO and President: Jerry Stritzke

Retail Experience:

- Coach: President and COO
- Victoria's Secret Stores, Inc: COO

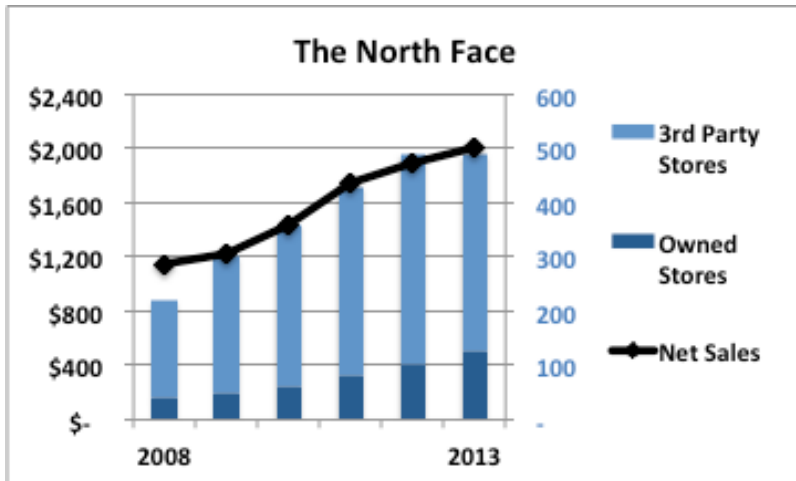


Next Year's catalog should be awesome.



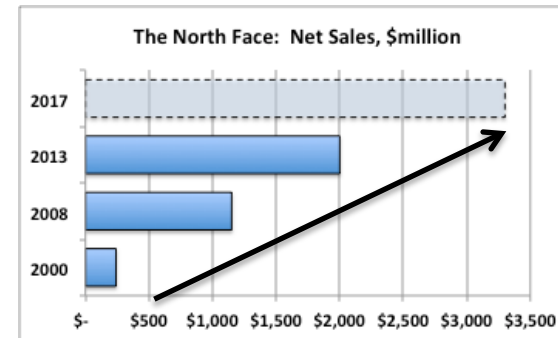
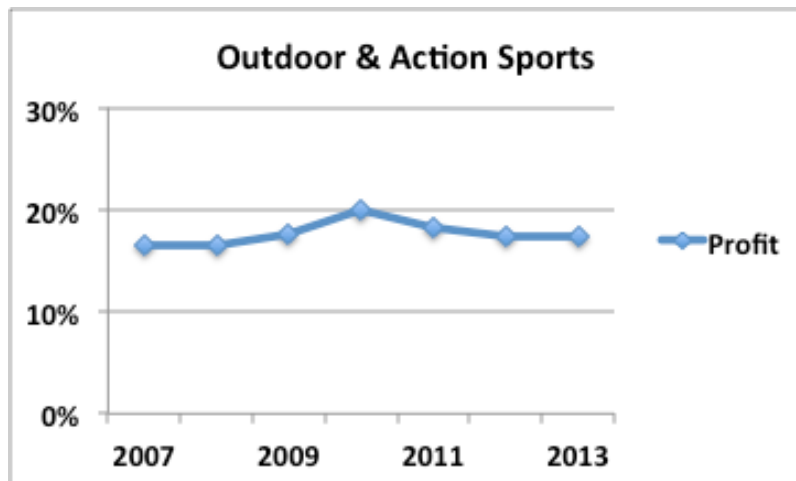
TNF continues to be a major growth engine for VF Corp.

Note: In 2000, TNF looked a lot like BDE does today.



History of The North Face

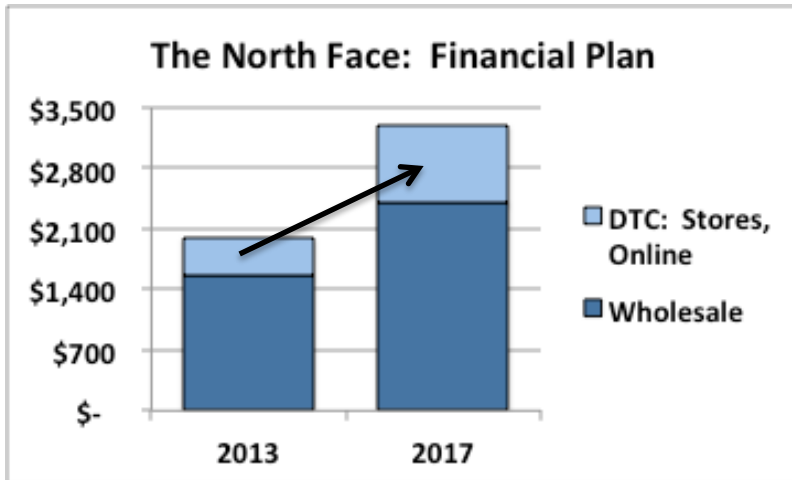
- 1966: Founded, North Beach, SF, CA
Grateful Dead plays at first store opening
- 1968: Technical mountaineering gear & apparel
- 1975: Innovative geodesic tent designs
- 1980s: Extreme Gear skiwear
- 1990s: Trekking and Trail Running shoes
- 2000: Acquired by VF Corp
\$ 240 million in sales, losing money
- 2013: \$ 2 billion in net sales



2013 Results

Sales, \$million:	\$ 2,000
Operating margin	17 %
Revenue growth:	7 %
Direct-to-Consumer:	~ 23 %
Direct-to-Consumer growth:	13 %

The North Face makes great products and has a strong financial plan



Growth Strategies

1. Invest in the Brand
2. Grow Direct-to-Consumer
3. Innovate: categories, products
4. Geographic Expansion

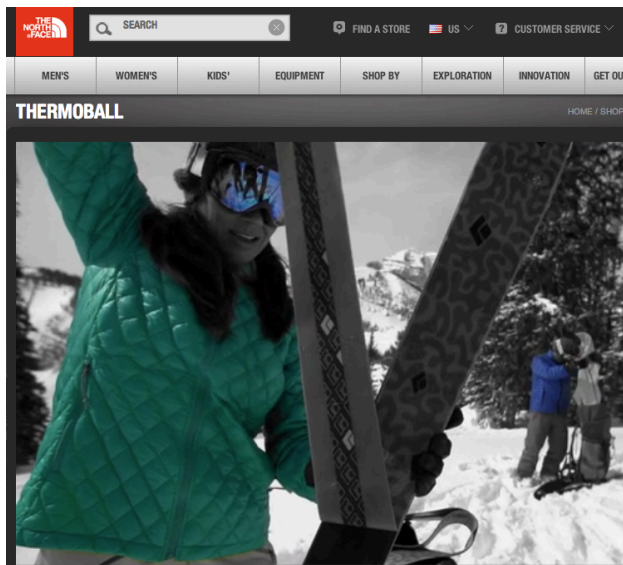
Growth Targets, 2012 to 2017

- Revenue CAGR = 12%
- Direct-to-Consumer = 27% (up from 22%)



Major Categories

- Outdoor
- Action Sports
- Performance Athletic
- Youth



**But is the ubiquitous market leader losing some of its “cool”?
Exhibit A: found spoof images on the internet.**



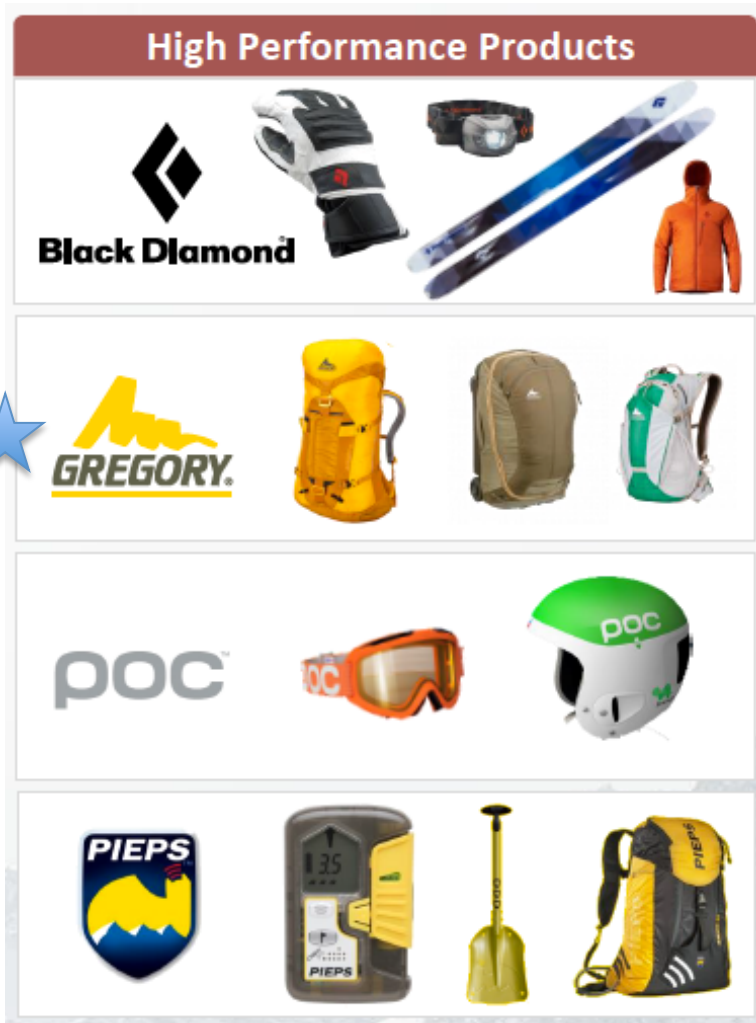
But is the ubiquitous market leader losing some of its “cool”?

Exhibit B: crampons, or heels?



The view is fabulous.

Black Diamond Equipment



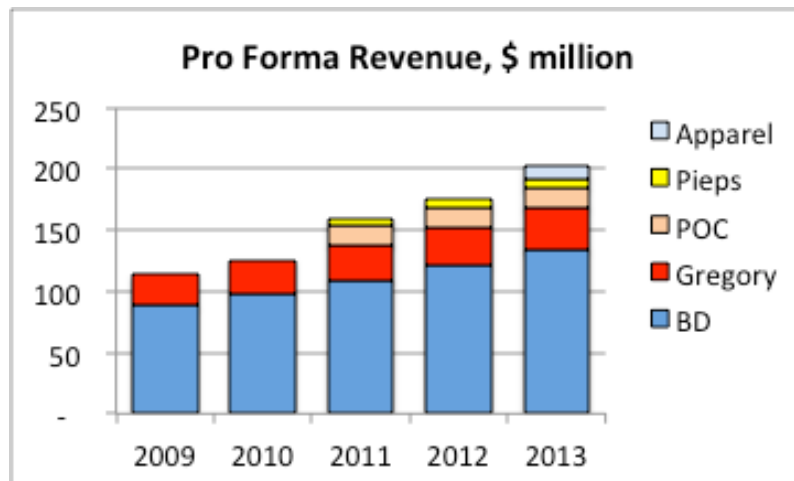
History

Founded, as Chouinard Equipment	1957
Chouinard Equipment bankruptcy, Metcalf leads acquisition of assets, Renames Black Diamond & moves to Salt Lake City, UT	1989
Black Diamond Europe established Zurich, Switzerland	1996
Black Diamond Asia established Zhuhai, China	2006
Clarus Corp/Gregory reverse merger w/BD, With over \$200m NOL carryforwards	2010
BDE acquires POC and Pieps	2012
BDE launches Apparel initiative	2013
BDE sells Gregory to Samsonite	2014

BD is known, liked and respected in the industry

Location	Sales	Distrib	Mfg	Retail
SLC, UT	X	X	X	X
Sweden	X	X	X	
Switzerland	X	X		
France				X
Austria	X	X	X	
Japan	X	X		X
China		X	X	

1. Enormous trust in the BD brand
 - » Consumer's life depends on BD products: climbing, skiing, etc
2. Highly-respected management, well known throughout the industry
 - » Outdoor industry associations
 - » Land stewardship
3. Global operating platform
 - » Sufficient to double revenue with minimal capital post-Gregory



4. Clean balance sheet

Revenue: \$ 203 m
 Gross Margin: 38 %
 Operating Margin: nil

Management is experienced, sophisticated, highly invested

Board

		BDE Ownership
Warren Kanders, Executive Chairman	Former Chairman, Armor Holdings	22.0 %
Robert Schiller, Executive Vice Chairman, Director	Former President, Armor Holdings	4.9 %
Peter Metcalf President, CEO, Director	Black Diamond Founder SLC Federal Reserve Director	0.3 %
Others: Michael Henning, Donald House, Nicholas Sokolow, Philip Duff		0.8 %



Management

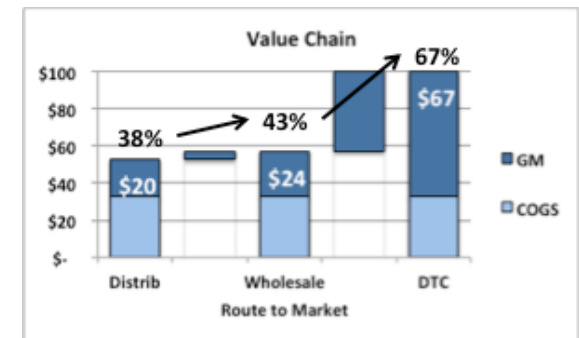
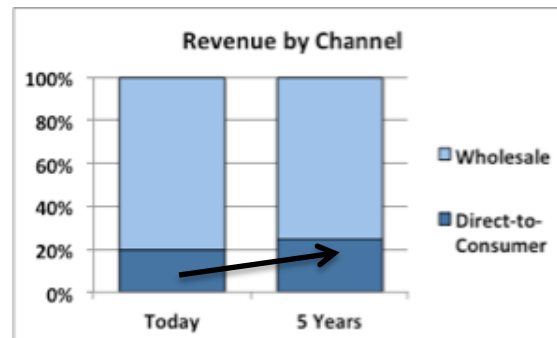
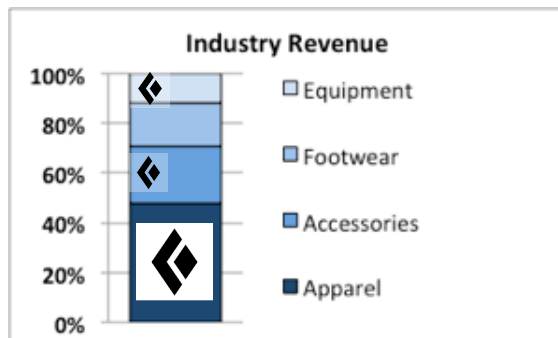
CEO:	Peter Metcalf, leader for ~ 30 years	
CFO:	Aaron Kuhne, promoted from within	0.1 %

Departmental Leads

Apparel Design:	Hired from Patagonia, Arc'teryx
Engineering, Merchandising:	Hired from The North Face
Business Process:	Hired from Arc'teryx

BDE Strategic Focus is now on the BD & POC brands, with multiple very valuable initiatives underway

Strategy	Comments	Risk	Value
Service & Grow Existing Retail Accounts	<ul style="list-style-type: none"> Grow with key retail partners, including REI, MEC, Backcountry.com, Decathlon 	Low	\$\$
Introduce New Product Technologies	<ul style="list-style-type: none"> Expected continuation of double-digit growth driven by future product innovation 	Med	\$\$\$
Grow into New Categories	<ul style="list-style-type: none"> Technical outdoor apparel Fall 2013 Cycling launching Spring 2014 Electronics – beacons & airbags 	Low	\$\$\$\$
Broaden Distribution & Elevate Brands	<ul style="list-style-type: none"> Large European & Asian market opportunity Bring international distribution in-house Direct-to-consumer, Retail Sell Gregory assets to fund BDE, POC growth 	Low	\$\$\$\$

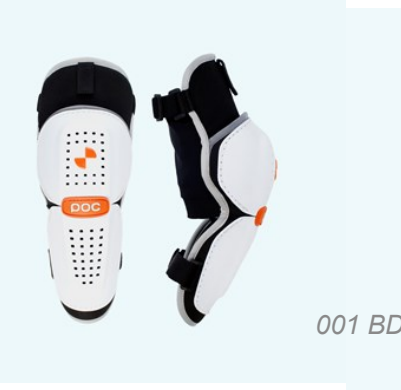


BD Apparel is the biggest idea. Take the brand into the biggest, highest-margin category in the industry.

A few samples from the limited launch so far:



POC will start with Road collection, then Mountain & Commuter



Source: POC website

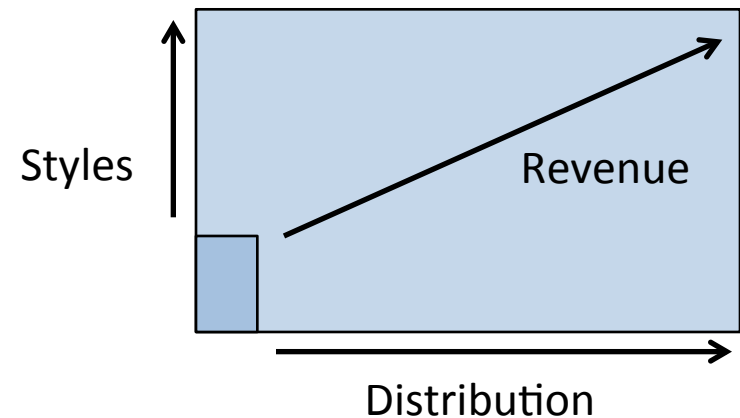
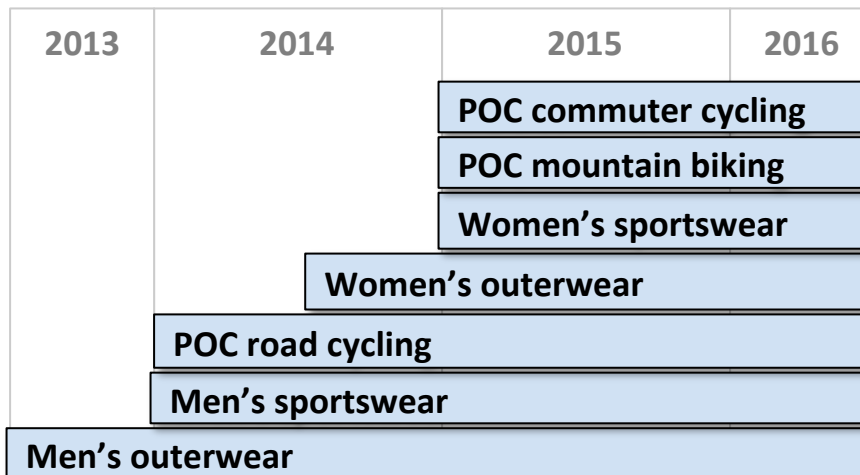
BDE Apparel is building offerings, awareness, availability over time

	Fall 2013	Spring 2014	Fall 2014	2020
Styles	25	50	119	XXX
SKUs	440	608	1,945	XXXX
Doors	240	400	800	“10k”

Apparel is launching in phases

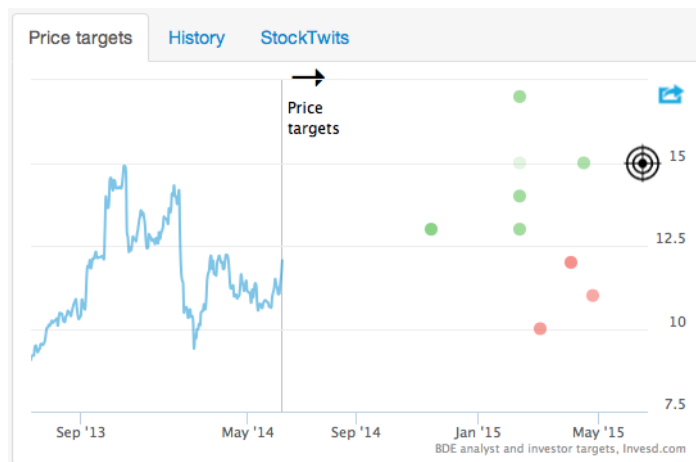
- Deliberately limited at first
- Creates “buzz” at retail
- Preserves premium pricing
- Adding SKUs, distribution over time
- BDE currently sells legacy products to ~ 10,000 retail doors

Apparel Collections & Timing



Scenarios: what do you believe 2020 will look like?

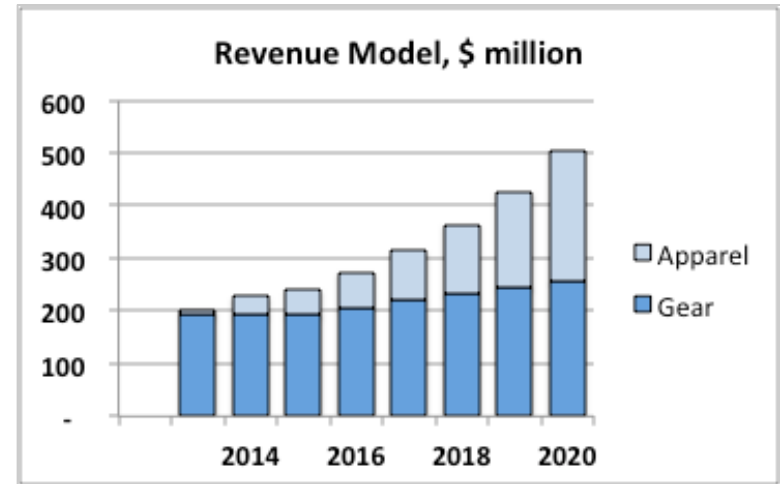
Scenario	Downside Base Stalls, Apparel Flops	Expected / Management Case	Upside Good Apparel/Channels
Base Business Revenue CAGR	5 %	Double digit growth (I slow it to 4% over time)	Higher due to channel shift
Apparel Revenue in 2020	\$ 150 million	\$250 million	\$ 400 million
Gross Margin	38 %	44 %	44 %
Operating Margin	5 %	12 %	15 %
M & A	None	None at this time	Buy Footwear or Sell BDE
Enterprise Value, \$ million	\$ 210	\$ 525	\$ 1,000 +
Share Value	~ \$ 5.50	~ \$ 15	~ \$ 31 +



Base Case: BDE Intrinsic Value ~ \$15 vs recent Price ~ \$11 - \$12.

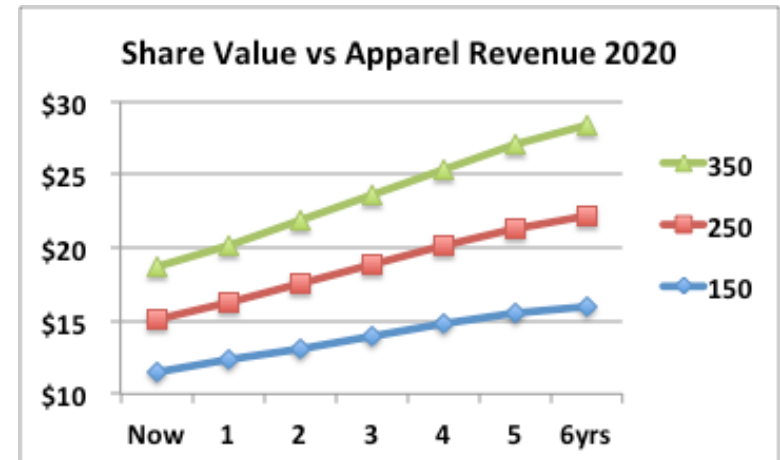
Assumptions

Existing business growth rate 10%, slows to 4%
 (assumes Gregory sale)
 2020 Projected
 Apparel sales \$250 m
 Gross Margin 44 %
 Operating Margin 12 %
 Discount Rate 10 %
 Terminal Growth Rate 4 %



Current Market Price

Stock Price, 19 June 2014 \$ 12.06
 Market Capitalization \$ 390
 Enterprise Value, \$m \$ 420
 Revenue, 2013 \$m \$ 203
 Management Guidance, 2014 \$m* \$ 240



	Intrinsic Value	Apparel Revenue in 2020				
		150	200	250	300	350
	\$ 15.09					
Terminal Growth Rate	2%	\$ 9	\$ 11	\$ 12	\$ 13	\$ 15
	4%	\$ 11	\$ 13	\$ 15	\$ 17	\$ 19
	6%	\$ 16	\$ 18	\$ 21	\$ 24	\$ 26

* Will change due to Gregory sale; \$10 to \$20 lower?

BDE is a very attractive firm in a very attractive industry

Summary		
Industry	✓	Grew through the crisis, still growing
Business	✓	Long runway for growth, many levers to pull
Management	✓	Experienced, sophisticated, highly invested
Valuation	✓	Price volatile, but often < Value

Risks & Catalysts

- Key Man
- Dilution
- Fashion
- Product liability

Summary

