

# **The Forzani Group Ltd.**

## **Investor Presentation**

April 28, 2009  
09:00 ET

BOB SARTOR: Ladies and Gentlemen, if we could sit down and we'll begin. We're a few minutes late. We'll get the webcast participants up. The presentation portion of this meeting will probably be about 30 – 35 minutes and then we'll allow ample time for questions afterwards. I know we have one on ones with many of you sometime over the next couple of days so we'll look forward to that.

Well first of all, good morning Ladies and Gentlemen and welcome to our investor presentation. For those of you who don't know me, my name is Bob Sartor and I'm the chief executive officer of the Forzani Group Ltd. The purpose of this presentation is to update you on our business strategy and our various business initiatives. Now those of you who have listened to our conference calls over the last year, would have heard us talk out about many of the initiatives that we are going to present today but today brings it all together under the umbrella of a cohesive strategy and with concrete financial targets. Now for our webcast participants, we have some animation in this presentation so hopefully the speed of your internet service will allow you to keep up with some of these slides. Now this morning you are going to hear from Tom Quinn, our president and chief operating officer, and Mike Lambert, our chief financial officer, in addition to myself.

Much has changed in our company in the last fifteen months and I believe that our recently released Q4 performance gives us some good reason to be very optimistic about the Forzani Group Ltd. We see tremendous opportunity to grow this business more profitably than ever before without acquisition and without significant capital and that will drive returns for our shareholders. Ladies and gentlemen, here are our financial targets over the next five years. We would like to increase our sales by an average of 10% per year. Ebitall will increase by 15% per year as we increase margin rates, and reduce costs. Our earnings per share will increase by 20% per year as we embark on a regular gradual share buy back

program and our turn on equity is targeted to increase an average of 100 basis points per year with a target of 20%.

The rest of our presentation today is going to be spent discussing how we are going to do this. Our strategy of unifying and simplifying our organization expanding our consumer reach and improving our productivity had been over two years in the making and has required a substantial rethink of how we operate our business. Our rethink was designed to accelerate our corporate store performance to the level already reached by our existing franchise business, adopt a continuous improvement mentality to best practise sharing, drive cost out of our business and enable us to grow well in excess of the rate of growth in our sector. To that end, you will see, we have made many changes and our pursuing many growth opportunities. As chief executive officer, I've felt that the less <indiscernible> was coming off record results in fiscal 2007 and fiscal 2008, we needed to change the way we operated this business if we were to achieve sustainable growth and deliver superior returns. And from the three strategic drivers that you saw on the previous slide, there are sixteen initiatives today that we will discuss. Now of those sixteen, only a handful have the potential to drive this organization, and I will, I will outline as I go through them.

This first one is harmonizing and unifying our business prophecies and technologies. This is a critical one. Going to one approach, an FGL way will dramatically reduce cost, make our organization easier to run and navigate, and make it more profitable. Expand our Sport Chek stores. We will get our Sport Chek sales per square foot to Sport Experts' levels. Now those of you who don't follow our company closely would probably not realize that Sport Experts on a sales per square foot and a gross margin realization per square foot is the most profitable sporting goods chain in North America and the standards and the operating practices and the assortment practises and the marketing practises will be imported into our corporate business. We will grow both our fitness and bike businesses that are under development and Tom will talk about all of these initiatives later. Our very successful Nevada Bob's boutique, Tech and Sport

Chek is now ready for full rollout. We will add performance nutrition to certain stores. Fitness stores were a small chain when we first did it a few years ago for very few dollars. We now have prospected a large box category killer much in the vein of Golf Town or Pro Hockey Life but in the fitness business. We will continue with our franchise special de-banner expansion which has been very successful in the last several years. When announced yesterday a partnership with GSI, a US player who basically built Westside, maintains them, and does the warehousing and distribution. We will be launching an e-commerce site within the next twelve months with them. Our wholesale business has been consolidated under INA International and we now have the portfolio of brands that truly expand. We will shift our marketing span to put more dollars toward amateur sports investments. That's where our customer base is and that's where we'll be putting our money. We will streamline our banner cap. This, too, is a critical, critical initiative. We will continue to refine and grow Sport Mart and, in this economy, it is a banner of great potential. We will be phasing out certain stores. And we will improve margins.

Again, the three strategic drivers are unifying and simplifying the organization, expanding our consumer reach, and improving our productivity. I will now address the first of these drivers and then Tom Quinn will address the other two. Our company was built through organic growth in a deliberate but conservatively minded approach to acquisition. Today we have four core retail businesses. We have general sporting goods, we have outdoor sports, we have discount sports, and we have specialty. But these four core businesses comprise sixteen banners. As a result, there is some overlap and overlap impacts productivity. In addition, our corporate banners have historically been run by separate teams by banner, and our corporate and franchise businesses were run differently. And the franchise approach has been far more successful than the corporate approach. This made in our view our organization more expensive, more complicated, and more capital intensive than it could otherwise have been. And that's the principal driver of this strategy - to make this a more

efficient and effective organization generating superior cash flow. So two years ago, we embarked on a journey to unify our technology, our prophecies, and our teams. This summer, the corporate technology harmonization project will be completed. That sets the stage for significant unification of our teams, and our prophecies. Last fall, we combined the Sport Chek, Sport Mart, and our Coast Mountain teams. Throughout last year, we were able to reduce the size of our management teams without a detrimental effect to our business. We have successfully transitioned from our previous banner management approach on the corporate side of the business, to a category management approach. That means that rather than have multiple buyers per category, we have one team. This is the best practise we imported from our franchise business. We will accelerate the process of migrating best practises from our franchise business into our corporate business and with a substantial investment in market research last year, we have clarity on where our brands are positioned and are executing against that positioning. That is a summary of our first strategic driver unifying and simplifying the organization and it is the foundation upon which the other two fit. Tom Quinn will now take you through the other two drivers. Tom?

TOM QUINN: Thanks Bob. Good morning ladies and gentlemen. This morning I will take you through the second and third strategic drivers. Our second driver, expanding our reach, will examine how we intend to get more from our consumers, how we will track new customers, certain categories we will target, and what initiatives we will address in our existing businesses. We will explain why our Sport Cheks will be getting bigger, and speak about our drive to establish a new category killer in Canada with our new fitness business. I will speak to our new association with GSI, our e-commerce business, and take a look at INA International, look at our continued development our successful and time proven franchise business. Finally this segment I will discuss our continued and growing association with amateur sport in this country and our primary consumer base.

Let's now look at how we intend it get more from our existing customers and I'll focus my time here on our Sport Chek banner which has significant up sign. Presently, our average consumer visits our locations on average four times per year. This is one area we will increase. Now how are we going to get there? Two ways. First, we are going to build on our success and transfer some of our best practises within our network, and second, we are going to start some new ventures to broaden our revenue stream with existing environments. Just for an example, in our Sport Chek banner we do get an average of our visits per year, but on the Sport Ex side, its six and a half visits.

Let's take a look at the first plan. I've now lead the franchise team driving FGL's franchise business specifically Sport Experts, for many, many years now. The plan that began last spring was clear; we examined our businesses carefully and determined what were the best practises in the organization. We then basically employed an arm playing the same approach to assortment planning, merchandising, marketing, and our in store experience plus the development of our leaders at Sport Chek that has been so successful at Sport Experts. We began to initiate change last spring and as you know this business is a six month cycle. So we started to see the impact of the changes late in the third quarter and definitely in the successful 2-4. When you just reflect on our business for a moment and realize that the Sports Experts business outperforms Sport Chek on a sales per square foot basis by over forty percent, it shows us clearly the potential we have in the existing real estate. We have focussed in three principal ways to build Sport Chek's success. We looked to expand the size of the box, we will grow the sales per square foot within the existing space and we will add categories and some store within the store boutiques that have been very successful in the number of tests that we have piloted over the last two years in both corporate and franchise businesses. If the average Sport Chek box grows by just 5000 square feet including new stores over the next five years, it adds 780,000 square feet to the network. In effect, this is the equivalent of adding thirty-nine new Sport Chek stores. And we're not talking about taking Sport Chek

stores and running them to the size of the decks and the galleons of the US market. It's simply moving them from an average of about 22,000 – 23,000 square feet now, up to 28-30,000 square feet, just to put it into perspective. This initiative will require capital investment but can be managed within our existing baseline capital spend over the next four to five years. My expand, adding more space will permit us to add new categories into our mix and rapidly grow those categories. The additional space will also enable us to clearly align our lead categories with our consumers.

It also has been our experience in both corporate and franchise businesses that the bigger stores do deliver a better return on investments. We can also grow our business by getting better sharing categories of which we currently are well below the potential. Today, our fitness business, for example, sits at two point four percent of the Canadian market. Our objective is to target our share of this market to go to ten percent which is very modest. Here our competition is the non-conservice mass merchants and department stores, such as Sears, and the fragmented independent retailers. We now have the key brands, with the acquisition of Fitness Source a few years ago, which will help us succeed. And most of our other hard goods categories, our share is above twenty percent so we understand how to target and deliver the growth we want. Incidentally, the fitness equipment business in Canada is estimated over 700,000,000 dollars. We have less than five percent share of the bike market four years ago. Now, we have ten percent. Our goal is to get at least fifteen percent here, which is quite reasonable. We know what it takes to grow this category. The Canadian market here is 780,000,000 dollars. Last year, we tested six Nevada Bobs boutique shops within the Sport Chek environment. The result was more than doubling of sales with stronger margins. The golf apparel we now carry is ideally suited for mall customers and our women's golf apparel assortment now boasts the best brands. This strategy will allow us to gain market share in this category by taking share from Golf Town and independents throughout the country without adding new free standing Nevada Bob stores. It

is cheaper, and less risky than opening stand alone golf stores to service what is essentially a six month golf season in this country. And it doesn't stop there. We're looking to finalize a test in the fall of this year of a vendor managed nutrition department in Sport Chek and Fitness Source. The fit of performance nutrition in Sport Chek is excellent. And it is a business with sound margins and inventory turns is well, well above what is found in the sporting goods industry. It will also, based upon our research, add to store visits as people replenish supplies.

We are also adding some new revenue streams to win new customers. One of those is Fitness Source. We acquired this business, as I mentioned, just over two years ago and successfully launched our new prototype store last November in the Calgary market. Golf has its category killers, hockey has its category killers. In fitness, the new game change in category killer is Fitness Source. The new 18,000 square foot prototype banner has it all. The vast assortment of equipment, the best apparel in footwear brands including some not found in our existing stores, an outstanding accessory department that appeals to every personal trainer and fitness enthusiast, a nutrition department, personal training and home and gym showrooms. Here we have taken a page out of the IKEA concept - actually showing consumers what various fitness setups for their homes would look like. Everything from a bedroom setup, to a full blown fitness studio for their basement and a number of variables in between, showing the fifteen hundred dollar package right up to the forty thousand dollar complete studio. Since the launch of this concept, we have exceeded our expectations in both sales and margins. In the past few years, we have also developed a number of new businesses on the franchise side of FGL. Each of these banners has potential for additional growth. Some with store within a store and we will continue to advance the franchise business as we have over the past number of years. It will continue to be a study as she goes philosophy in this business and we see no reason to move over or move off our present strategy as it is working very well.

Another area we are looking to expand our reach is examining additional revenue streams. We have partnered with GSI who currently execute the e-commerce sites for the NFL, the NBA, the NHL, MLB, Dick Sporting Goods, the Sports Authority, and many more e-commerce sites. They will host, maintain, manage the web sites, and handle warehousing and product deliveries. There will be little capital costs to FGL, and a meaningful revenue stream over time will be realized. This will also open remote markets to our vast product assortment that currently are not being serviced. By way of example, US sporting goods retailers that have reported online results do four to six percent of their total volume online. Our customers are not only in the stores, they are also shopping online. Here are a couple of numbers that cause us to see significant opportunity with this e-commerce initiative.

Now let's look at yet another area where we continue to expand our reach and that is our INA International business. INA International wholesale business, which today sells exclusive brands, licensed brands, and closeouts to several countries including the UK, Canada, USA and Central America. This business has the potential to grow significantly in the future as we have now licensed required a solid group of brands to take to market.

A final area in our second strategic driver is the Canadian sport community in terms of expanding our reach. Canadians in all walks of life are involved in amateur sport at some level, whether it be competing, officiating, coaching, or volunteering their time and or services. FGL has always supported the Canadian sport community and more specifically, amateur sports. In addition to our prior commitments in the past, we continue to sign significant long term partnerships with various sports associations and governing bodies, such as the Canada Games, Hockey Canada, Soccer Canada, Participations, Sports Quebec to name a few. We're getting directly involved with our primary customer base through increased support of amateur sport in this country. And this will pay dividends with those same amateur athletes will see us as their natural place to go for their sport product needs. They will support the businesses that support

their sport and their athletes. This has been a focus area for franchise business for over a decade and it is a best practise that our corporate stores will now follow. There are seven point nine million active amateur sport participants in this country. By shifting our marketing spend will enable us to target this group directly. So we defiantly have a clear plan in place that we are executing in order to expand our reach.

Now let's look at our third strategic driver which is to improve the productivity of our existing investments by streamlining our banner portfolio, our merchandising and wholesale businesses and proving Sport Mart's discount positioning, phasing out stores that we believe will not meet certain minimum return thresholds and grow our margin rates. Over the past several years, we have bought businesses and developed new banners. We have gained market dominance and now trail only <indiscernible> margins in our sector in North America. It is worth noting that Hibbetts is a corporate only business and does not operate a franchise division. We are now focussing on backing only those banners that are capable of good growth at the highest possible return on sales and developing them into a super brand status in the marketplace. Businesses like our Sport Chek, Sports Experts, Intersport, and Atmosphere brands already boast a market awareness of over ninety-five percent. We already understand the link between awareness and revenue so we will be focussing our efforts where we can generate the strongest potential revenues.

I spoke a few minutes ago about our INA International business which is a result of recently consolidating our wholesale businesses under one strategic business. This consolidation links to efforts in sourcing, product developments and national and international sales from several businesses into one business unit. Efficiencies here already have a positive impact on our retail businesses. By reducing our banner counts from sixteen to nine or possibly even less, consolidating our merchandising departments and unifying our merchandising group, we reduce working capital employed and concentrate on building strong market dominant businesses. We also significantly eliminate overlap and

maintain or grow sales. The results are higher retail and wholesale business productivity and lower operating costs.

Another area that we see opportunity for improvements in productivity is in our Sport Mart banner. Research has shown us that Sport Mart is capable of much more. Through a combination of morse closeouts, lower price points, and increased private brand penetration our store will become even more attractive to the opening price point consumer. With this in mind our stores will be reset and our messaging to that opening price point customer will be sharper and more focussed than ever. The potential growth here is great and the size of this market in Canada is well over three point five billion dollars and we're trading very little in this area at the present time. We will narrow our focus and tailor our assortments to the communities that we service. We will focus on footwear, as it is currently an underdeveloped category at Sport Mart, and as I said earlier, we will have a very strong price message.

Over the next four years, stores that do not meet a minimum contribution defined as a threshold return on investment will be improved or phased out. Much of the volume loss from phased out stores will recoup to other FGL stores. The result will be an even more profitable FGL employing less working capital. We have as many as one hundred leases per year or approximately fifteen percent of our base that come due every year. That's why we can get out of the leases without great cost over four to five year period and eliminate the poorer performers. Our commitment to broadening our base, our focus on quality private labels and the leverage of our now truly unified organization will drive our margin rates upward. We expect to reach the average franchise retail margins presently realized in our franchise businesses, in our corporate stores which would be a minimum of a hundred and fifty basis point increase over our current consolidated corporate margins. Again, significant improvement and productivity. All of these initiatives that we have been executing serve in the end to provide a better experience for our customers which at the end of the day is what will drive our business forward.

With that, I will now turn the podium over to Mike Lambert, our CFO.

MIKE LAMBERT: Thanks Tom and good morning everyone. I'm going to graph for you essentially what our new targets mean. I do want to emphasize that this is not guidance, just a quantification of what these new targets mean and what it would look like when we achieve the targets.

First, let me start with top line of retail sales. Today, we are a one point six billion dollar top line organization. As you can see on the graph, sales are targeted to grow two point six billion by the fifth year of the plan. Remember, our target for top line is an average of ten percent compounded growth. Is this target reasonable? Well, over the past eight years we have increased sales by eleven percent on average. But of course this includes acquisitions. Now, we all know that it's not only what you sell or top line but how much of that you keep or the bottom line. Our target for top line is an average ten percent as we just saw. And our target for <indiscernible> or essentially the cash being generated by operations is higher, or an average fifteen percent. The drivers, obviously the sales increase, but added to by increasing gross margin rate and also improved productivity from unity and simplicity driver. Even dot doubles over the term of the plan from just under a hundred million, to nearly two hundred million. And now to EPS, one of the most important metric to many of our shareholders. Our target growth for EPS is an average twenty percent per annum and it's driven by two things: our earnings growth that we talked about and share buy backs. I've already talked about our earnings growth so I won't cover that again, but on share buy backs we've made an assumption that would free cash being generated over the planned term even after reinvesting in the business on growth opportunities and even after increasing dividends, that incremental cash flow will be returned to the shareholders through share buy backs. Our capital allocation model is a balanced one. Investing in positive return growth opportunities, reinvesting in the business and then returning capital to shareholders. And speaking of dividends, we're planning the dividends will grow as earnings grow consistent with our dividend policy and the pay out of twenty to twenty-five

percent of EPS. And then to top it all off, our target is to grow the very important ROE metric as return on equity by an average of hundred basis points annually to eventually attain a twenty percent ROE. And all of this with a healthy balance sheet. We're starting this plan with a debt to equity of less than point three to one which we feel is prudent in these uncertain times. The plan we have described today is capital light. Also, we'll continue to focus on inventory productivity with our unity and simplicity drivers.

Now, I'd like to talk to our initiatives and what part of the financial metrics each of these initiatives will affect. Our first initiative on simplicity will drive productivity, sales, margins, and costs. And by the way inventory productivity as well. Second, expand Sport Chek stores both sales and margin dollars. Third, implement Sports Experts best practices in Sport Chek, sales margins and again inventory productivity. Fourth and fifth grow two of our businesses, sales and margins. Sixth, golf boutiques expansion, sales and margins. Seventh, nutrition will add to both sales and margins while adding to traffic. Eight, our new fitness source big box, sales and margins. Now turning the page and I should mention that there are so many initiatives we couldn't fit them all on one page. Nine, expanding franchise, sales and margin and virtually no investment. Ten, e-commerce, sales and margin and again virtually no investment. INA, sales and margin. I won't go over the rest but you get the picture. I should point out that two of the remaining four are cost reduction initiatives. One thing you'll note on most of these initiatives: capital light. Our capital expenditures for the next five years are expected to be on average equal to our depreciation of this past year. So to sum it up, you can see that all of our major initiatives serve to add either to the top line and or to our margin and bottom line with no incremental investment. A good note to end the financial summary on. So with that, I'd like to turn it back to our CEO. Bob?

BOB SARTOR: Thank you, Mike. The strategy of unifying and simplifying our organization, expanding our consumer reach, and improving our productivity that we presented to you today is being acted upon. Our entire team right down to

store management gets it. And none of this is treading on untrodden ground. In fact the single biggest initiative from the financial impact is bringing best practises from one of our businesses which is already best in class into another one of our businesses. It is not capital intensive, it does not rely on acquisition and it will transform our company into a strong performer from both the top line perspective and from a cash flow perspective. The initiatives presented here today were necessarily presented at a high level for both competitive reasons and obviously in the interest of time. Our fourth quarter results in the midst of a difficult retail environment were good and to me acted as a barometer for our progress on these initiatives. Finally, this strategy which has been two years in the making will allow us to grow our dividends and with incremental cash flow further reduce our float. Over the last ten years we've grown this business dramatically to the point where our market shares are twice that of our nearest competitor and while we came off record results in 2007 and 2008, we believe that more is available for our shareholders. The focus of this strategy is not only to grow our top line but to drive our cash flow.

Ladies and gentlemen I'd like to thank you for listening and obviously we would be please to answer any questions you have. To be fair to everyone in the room, we would request that you limit your questions to one at a time plus a follow up and then hand the mike off to whomever is next so that everyone has an opportunity to ask questions. Obviously once we have gone around the room, we'll repeat that process until time runs out. Thank you very much and we'll take any questions you have.

#### **QUESTIONS AND ANSWERS:**

QUESTIONER: Yeah Bob, I was just wondering if you could give us a the big three of that extensive list and a sense of – I guess timing over the five years as how that would stream through.

BOB SARTOR: Yeah, uh, the big three, actually it's more like the big five, but I'll do the big three. First and foremost, harmonizing and unifying our business processes and technology and our teams. That will reduce cost and basically get us onto what I would call a best practise approach. The second one is obviously getting Sport Chek sales per square foot to the Sport Experts level. This is a huge, huge benefit. We are talking about a significant gap, not only between Sport Experts and Sport Chek, but Sport Experts and any other retail business in the sporting goods industry in North America. The third one, in my view, would be streamlining our banner counts. That will not only reduce costs but it will significantly drive the productivity of our remaining banner count. The fourth one to me would be obviously improving our margins a hundred fifty basis points as least on a business that big is a lot of cash flow. And I would be remise if I didn't talk about phasing out certain stores. We have built our leases with enormous flexibility in them, and we'll take advantage of that flexibility. In terms of timing, we have moved very rapidly on the largest one which is getting Sport Chek's sales per square foot to Sport Expert's level. Significant changes have been made under Tom's tutelage in both our assortment, in our marketing, and our store operations and we're seeing the impact on it in Sport Chek.

QUESTIONER: I know there have already been a number of tests in the marketplace and you've given us sort of a big roll out plan for this year, so would you over a five year time frame say that its front end loaded in terms of its effort on the Sport Chek sales per square foot side?

BOB SARTOR: Yes, definitely front end loaded.

QUESTIONER: And on the cost saving side, is that the same? Sounds like an immediate opportunity as opposed to a longer term opportunity?

BOB SARTOR: I would agree with you. And one of the reasons we have done that is where we don't have capital intensity those are the ones we like to focus on. And the other one we would basically is over five years we would move to do that. Prime example would be expanding the Sport Chek market by about five thousand feet. It's not a big number but there are over a hundred Sport Cheks

so the idea is if we do it over five years what we have is an opportunity to do that within our existing base line capital spend.

QUESTIONER: All right, thanks.

QUESTIONER: How possible is it to expand the Sport Cheks by five thousand square feet? Many of them are mall based – is it possible to get that extra square footage?

BOB SARTOR: I think over five years we can probably get a long way there. We're also prepared to relocate. Because of our status as an anchor tenant, and the fact that we drive a lot of traffic, we are the only sporting goods player in the mall, we usually have fluidity, and we've had very little difficulty relocating with tenant inducements.

QUESTIONER: Just to follow up, any idea on the cost of relocation?

BOB SARTOR: Well the relocation depends on the tenant inducement you do get. Typically what we look for is a thirty dollar tenant inducement, sometimes up to forty dollars. Cost to build will range depending on the mall front and the condition that you get the store or the shell from anywhere from fifty-five to up to seventy dollars, but we've had very little difficulty when we plan these things a head of time to say that when that CRU tenant next to us comes due we'll take that space. That's our preferred route, not to relocate.

QUESTIONER: You didn't mention anything about your small market roll out initiative with Athlete World. Maybe you could comment on that?

BOB SARTOR: Sure. Athlete's World is, for those of you that don't know the business that we purchased in CCWA a little over a year ago, it exited CCWA last early July, I guess it was, or the end of June. It is a profitable contributor, but we have a philosophy in organization that, while they're profitable, they have to hit a certain return on investment and also a return on sales targets for us to invest in them. And we're not there yet with that business. And that business, I should add has substantial tax losses attached to it and obviously those will be a cash flow benefit to FGL over the next few years.

QUESTIONER: You didn't actually speak about store count over the five years, or the square footage over the five years. Is this more an in the box or expanded within the existing location strategy?

BOB SARTOR: For Sport Chek, yeah.

QUESTIONER: And overall for the business, like Sport Mart?

BOB SARTOR: I would say overall for the business you are going to see less absolute numbers of doors opening. The focus is really on driving productivity and cash out of our existing doors.

QUESTIONER: Just on Athlete's World, is there anything you can take from the Hibbett model to the Athlete's World small market model or not?

BOB SARTOR: I think the Hibbett model is very different. First of all, the stores are a little bigger. The stores are sports generalists and obviously Athlete's World is not. And the Hibbett's model is a small market model that relies on cheap rent and a lack of competition. Clearly there is not a lack of competition in the mall for Athlete's World with Foot Locker, Champs, and, in fact, Sport Chek.

Any other questions or comments?

QUESTIONER: <indiscernible> you go into lower price points. Can you comment on the margins and credibility of that?

BOB SARTOR: Sure. Tom, you want to take that?

TOM QUINN: The margins and the relative price points would be – the margins would be the same. We can hit the same level of margins without any incidents. We will also see a higher percentage of private waiving of certain categories and that type of environment. In addition to that the retail price points will probably have a ceiling roughly thirty to forty percent less than where are Sport Cheks are currently positioned.

QUESTIONER: Just on the e-commerce, I guess. Would you expect that you would see some investment and losses in the first couple of years on that business or because the cost structures not largely on your plate would that be profitable out of the gate?

TOM QUINN: We don't have a lot invested in that coming out so we've budgeted very modestly coming out of the gate. And we're already – it's not at uncharted area; the GSI has gone through with a number of companies before. So we're basically following their lead on where they're projecting what's going on.

QUESTIONER: On your amateur sports business, can you give us some idea of what kind of structures you would see being put in place with the different associations out there. How much of a linkage is there to actual purchases at the store?

TOM QUINN: Well, I will give you a fairly simple one because we have already done it. In some cases where we've taken associations like Sport Quebec, they run an annual event with somewhere in the neighbourhood of twenty-two thousand athletes that get involved. They ended up getting gift cards that ended up coming back to the store. So there is one example, but a lot of kind of a process we're linking with a number of the different sports, is to be able to get to work to more of a direct link direct with this consumer base. Our advertising spend will probably over the next three to four years move off what we have been traditionally doing and moving more into a direct less customer relationship affect, probably ending up being thirty percent of our marketing spend.

QUESTIONER: I wondered if you could speak about the apparel trends, particularly whether the Quebec market has anything unique about it in terms of willingness to spend on high ticket sport fashion versus the rest of Canada or whether there is any other difference in Quebec in competition or anything else that makes their higher sales per foot not realizable elsewhere.

TOM QUINN: Well actually an interesting fact to commission – or a study we commissioned last June, with IPSOS Reid, actually showed us that the average spend on apparel in Quebec was actually less than Ontario and other parts of Canada. One of the significant differences – and we're seeing the change happen already in the Sport Chek stores this year – is one of the significant differences has been the focusing depths in the apparel and collections that have been going into the stores, and viewing the apparel of less than a commodity base and more of a collection base. And as we put that in and start telling the

consumer – one of reasons for the re-launch the floors and magazine last fall was to start telling consumers we do have assortment. We do have variety, and we are already seeing the impact on it. We saw it into the fourth quarter this past year. We're seeing it grow in this first quarter as we're going through, and we can see that develop. There are some best practises that were in place in the franchise business for a number of years, just the way the buy was approached. And a lot of it had to do with building collections into the environment as apposed to just buying commodity items.

QUESTIONER: So people are buying more outside Quebec? Where are they buying it given that they're not buying it as Sport Chek?

TOM QUINN: Sport Cheks still do fairly substantial volume in clothing but what's happening is they are buying it from a multiple various groups of department stores, from some specialty businesses, and things like that. And a lot of it has to do with what is being offered to the consumer. If the product doesn't make it to a lack in any of the stores, the consumer doesn't have that choice.

BOB SARTOR: One of the graphics that was presented in Tom's presentation was the average number of visits. The average number of visits in Sport Chek currently runs around four times a year. The average number of visits in Sport Ex runs close to fifty percent higher than that. And that's what it is – a better assortment will drive better shopping loyalty. And that's one of the big, big changes and going back to an earlier question, one of the biggest things we are focussed on right now because it requires no capital is simply moving those best practises from Sport Experts to Sport Chek.

TOM QUINN: Another compelling stat that we did not mention earlier in the presentation here, is the average consumer in the Sport Chek environment will spend six and a half minutes in the store. In Sport Experts, the average consumer will spend twenty-four minutes in the store. So, again, it has to do with the experience in the store environment, it has to do with the assortment in the store, and also the service levels that are going on. And we're addressing each of those factors.

BOB SARTOR: Do we have any questions on this side?

QUESTIONER: Just getting back to the big five – one of them was streamline the number of banners and you talked about Sport Chek and Sport Expert, and <indiscernible> having a ninety-five percent market awareness. Could you talk about the awareness levels for some of your key brands and maybe – er – that you'll be keeping?

BOB SARTOR: Of the key brands that we are looking at keeping, the brand awareness is no lower than the high sixties in unaided awareness. And we got a lot of small banners that I believe are a distraction and that's one of the beauties of this streamlining the banner strategy is that the small banners were basically designed to allow us to do two things – they were either acquired so we could get access to brands that we previously didn't have and usually acquired for little cost, frankly, because they were in trouble, or they were developed by ourselves such as S3, which gave us a much better access to the skate, surf, and snow brands. Ultimately the idea - and Tom talked to the concept of super brands – the idea is really to go with those forces that the consumers recognize and feel an affiliation to and obviously to join with Sport Chek to get it to the same level as Sport Exper. And then to tuck inside of these stores the various other stand alone businesses – whether it be a golf business under Nevada Bobs. And a prime example is now that we have proven Nevada Bobs in Sport Chek, we no longer need to open the stand alone stores, so we don't have the inventory risk and we don't have the real estate risk.

QUESTIONER: I know you have been doing the test for several quarters now, especially on the apparel side and I know that the last couple of quarters you've given us indications of what kind of lift you're getting. Can you just reiterate that for us in terms of the apparel boutique test? And I don't recall, and I don't know if you're prepared to, but can you give some idea on Nevada Bobs now style, how that mass might work?

TOM QUINN: The apparel side of some of the boutique tests without getting into the finance detail, some of the boutique tests we have employed saw the same

space, moving from \$280 a square foot to over \$700 a square foot. For example, the issue we have now, the challenge we have now, is how fast we can roll a lot of these things out into different environments. And that's what we're working on.

I mean, one the things that is opening this week is a Speedo boutique in West Edmonton Mall because we know on just for one example specifically, on the franchise store, the average store is doing close to \$350,000 a year in swim. On the Sport Chek side, we're lucky if the average store is doing 50,000. So the significant upside there, if we get the right things in place. On the Nevada Bobs boutique side, what we've done is taken space that was generating \$220 - \$230 a square foot, all of a sudden it has been lifted to north of \$400 a square foot. And the interesting thing about the Nevada Bobs test, the boutiques in the store actually generated higher margins than our free standing stores. And the other interesting thing was that they were able to attract very strong calibre of employees in pros and golf pros and that in the stores over the summer months because when the bottom falls out of the golf season round about October and the sales drop from \$100,000 a week to \$2 a week, those guys left to go south and play golf so it reduces the expense of the salary base in the stores as well. So it sort of marries very well with what we are doing with that business.

RESPONDANT: I think that's your third time, Keith.

QUESTIONER: I was just wondering about the camping business, not one that you have been in, what your thoughts are on that.

RESPONDANT: One of the interesting things that we started a couple of years ago, when we did acquire Coast Mountain and we did acquire Atmosphere, some of the things we were looking at, that you can probably see that will start impacting as we go forward, obviously do we need to do outdoor businesses in the country, or do we need one super brand. So that business, in the last year, we have significant comp sales increase in that category. So it's defiantly an area that we see for continued growth and that falls into our specialty banner category.

RESPONDANT: Just to add to that, the outdoor business has been largely unaffected by the current consumer environment. In fact, the banner's comp very nicely last year.

QUESTIONER: In a very large store, could you get camping in the Sport Mart, or not really?

RESPONDANT: I'll lead on one point on that. I think, you know, we talked about unity and simplicity. I mean, my view of Sport Mart is you have a business in 8,000 square feet that is trying to do what a business in 25,000 square feet does. And I think focus is what is required and as Tom pointed out a real drive towards making sure that that banner has access to more private brands, more closeouts, and a much stronger price message. I don't think it's a question of trying to cram more into an 8,000 square foot box. I don't think you would get the productivity out of the inventory and it would make for difficult jobbing environment if you did that.

QUESTIONER: I was just wondering if you could tell me when you are putting together your five year plan, what sort of external economic environment you are assuming, what sort of competitive environment you are assuming and vendor support and things like that.

RESPONDANT: Let me take a stab at that. In terms of our assumptions, it's similar to what the Bank of Canada said. We don't expect a recovery until next year, but for next year and beyond, we're assuming normal growth.

QUESTIONER: And competitively?

RESPONDANT: The competitive landscape we don't see changing very much the opportunity right now. Let me paint a little bit of a picture of our competitive landscape right now. We are the market leader at about 21%. The next biggest is at about half of what we are. So we are the 800 pound gorilla in the room. And about 50% of the market is taken up by the top five in terms of retailers. The balance is very fragmented – so essentially a lot of independents. Right now, in terms of the retail environment, we think there may be opportunities because it's a tough environment especially for the independents. We don't see

that changing. We actually see the top five gaining more market share. And that includes us.

QUESTIONER: And have you walked through these goals with your vendors too and what's their view?

RESPONDANT: I can talk to that. Well obviously one of the keys in getting Sport Chek apparel sales up is not only transferring best practises, but taking more advantage of these vendor boutiques that Jim made us give him some stats on and that relies on the vendors being onside. And frankly, the vendors are ponying up the cash to build these boutiques. So they are well aware, and they're excited because face it, if we can get twice the turns or three times the turns out of that space, we're going to be replenishing with them. So they're all in favour of it.

QUESTIONER: Okay and you've put these numbers out there – the first, you know, sort of, targets we've gotten from you in, I think since about 2004 – 2005. How would you like the investment community to benchmark you against that because Michael, you rolled it out and initially said that this is in guidance, and so I would like to hear your comments about how you would like to see us sort of benchmark you against that.

RESPONDANT: Well, one of the things that I should say is we've put these targets out there and our plan is that we are going to be accountable against those targets. And I think that everyone knows that we are in a seasonal business and so whether it does affect us – these are average targets, our average annual targets. If it doesn't snow one year, or if the weather is very favourable, we'll do better. If it's less favourable we'll do worse but on average these are our targets over the next five years. And one of the things we would like to say is that our plan is to beat these targets. These are our targets but our plan is to under promise and over deliver.

BOB SARTOR: On the other comment I would make is that as an organization, I said in my closing comments that everybody in our business gets it. This is a very simple strategy – a painful one, frankly, for some in our organization, but a simple

one. So it's easy to execute against. The beauty of this strategy is it doesn't rely on the unknown. It relies on simply taking what we do very well in one part of our business and applying it to another part of our business. Those are the key, key considerations that everybody in our organization can understand. The other thing I would add to Mike's point is that we will report on this on a quarterly basis.

We are accountable to you quarterly.

QUESTIONER: Fair enough. Thanks very much

QUESTIONER: On your advertising spend you were talking about eventually 30% going

to amateur on the total marketing budget. At the same time it sounds like, on Sport Chek as an example, you're trying to build up its present setup as a branded banner as opposed to just a place to shop. Do you see your total ad spending as a percent of sales going up over the five years or being flat or how do you play that?

RESPONDANT: Now, just let me clarify. One of the things that I said is that we are going to shift to more CRN market, not specifically amateur sport, but that whole getting more direct. We don't see a spend lifting, but just for example, you see all the rink boards around in the country. That's fairly expensive. We're already the world's largest hockey retailer. We already have the notoriety. So the investment spend there can be reduced and slid into other that will more than satisfy what we require. So we don't see the spend going up in advertising.

QUESTIONER: You have been doing some more brand oriented advertising on the Sport Chek banner –

RESPONDANT: Absolutely

QUESTIONER: Are you tracking the awareness of that and what impact it is having?

RESPONDANT: Yes, we are

QUESTIONER: Can you give us any indication how happy you are with the results so far?

RESPONDANT: So far the results have been very positive. And one of the things we are doing is we're going to have regular six month tracking surveys done by

IPSOS and Focus Fetish to let us know what's working, what's more effective, how the consumer is perceiving the brand and so on, as well as the amount of time the consumers are spending in the store, and where they're going.

QUESTIONER: And just one last question if I might – on the power centers and the GTA and the Ontario market, nice to see the Linens 'n Things position to come to you. Are you going to be aggressively pursuing increased presence in the power centers in this market?

RESPONDANT: We have always has a fairly deliberate and fairly opportunistic view to real estate. We know there are centers in malls we need to be in. We are simply not prepared to pay the kinds of rents at times that others are prepared to pay. Usually, if we're patient those centers come back up. We strongly believe in malls. A prime example is one of the reasons Nevada Bobs margins are significantly higher in the mall base Sport Chek stores is because you have more traffic and apparel turns a lot better than a stand alone – a stand alone power center. But they are not building a lot of new malls in, so as power center opportunities come available, we look at them. But we have a threshold. We know exactly what we want to pay in rent, and we know exactly what works for business models. And we have walked away from a lot of real estate because of it. And we'll continue to do so.

QUESTIONER: I guess the reason for my question is that a lot of investors when they talk about concerns down the road are fearful of a repeat, I guess, of the Future Shop, Best Buy scenario where the assumption would be that Dicks would show up. If power centers are already occupied and there's not some nature of exclusivity in that power center, it gives them that toehold and they get to stand up and say, "Hey, we're going to open five or six locations in the Ontario marketplace. Your stock comes under severe pressure. You may end up getting bought, but you end up getting bought." It's sort of where the stock was ninety days before, instead of at a much healthier premium. I realize that's not necessarily a business strategy, its more of an investor strategy but I think that's why I asked the question.

RESPONDANT: I guess the only thought I'd make on that one is I'm not going to rush into real estate for fear of Dicks coming up in Canada. First of all, I think that in that next several years Dicks has got an awful lot of issues on its own to iron out. It wouldn't make sense. I could never see myself presenting a strategy like that to a board, saying, "Guess what. Let's go out and try occupy as much real estate as we can so we can shut the competition out." I think that if you are a fantastic retailer, and you have most of the prime sites, you're going to do okay. And that's how you have to look at it.

QUESTIONER: So, if I go on your apparel comment, though, am I wrong in assuming that maybe a power center location can have a higher sales per square foot to justify the higher rent per square foot cost?

RESPONDANT: No, it's probably the inverse.

RESPONDANT: It's <indiscernible> the inverse. Malls will drive higher traffic.

QUESTIONER: That's maybe the primarily the apparel differential

RESPONDANT: Yeah. Now it's an interesting dynamic because as – one of the things obviously we are doing with Sport Chek and few of the tests that we have done in the past year – we've actually taken it and say in a Sports Expert in Locklin, for example, we have taken a Hockey Experts and actually put it inside the Sport Ex environment which improved that equipment category, sales per square foot, and volume significantly to that environment. As we are looking at the Sport Chek environments that we have across the country, we are not looking at a cookie cutter formula across the board. There is a tendency that free standing power center stores do a higher hard goods component because consumers to a degree find it more convenient to drive up to a door and drop your skis off, or their bikes. In no stores in those environments will have much stronger environments catering to that consumer. The same as we go in now. The one drive a higher sales per square foot in other, the tendency, because of the turnover and the apparel business will be higher in the mall environment just because you are getting a broader consumer base. But it doesn't mean that you

can't hit the sales per square foot at the same level as the free standing, it's just probably done more with equipment as opposed to the apparel.

BOB SARTOR: We are just about out of time. Are there any last – oh, Keith you have the mike again.

QUESTIONER: I got control of the mike. Can you just talk about the S3 store? Could we see S3 boutiques in Sport Chek or S3 stores in Ontario?

RESPONDANT: One of the interesting challenges we've had over a number of years is that there are a lot of things we would like to do, but we can't do them immediately. A typical example is Nevada Bobs. We would not have gone through the pain of dealing and acquiring a poor licensed business, converted chains to dress it up and eventually sneak it into Sport Chek through the back door just to have access to the brands. That would have happened a lot faster had the supply day said we will make Taylor Made, Pane Calloway available to you in your big box environments. They wouldn't. We had to do the back play to get into it. We're now there. The specialty businesses, in particularly, the S3, extreme Sport category like the S3 banner caters to. That banner has started off very well. It's performing well above expectations. We see significant upside to it. It's something that does have the potential to be boutique'd within a larger box environment, but we have to get the brands specifically like the Quiksilvers, the Billabongs, and that on side and feeling warm and fuzzy about Forzani Group before we can start then migrating that to another environment.

RESPONDANT: Now it's clear to me that the recent trials and tribulations of a certain mall based skate surf competitor of ours will probably work to our benefit.

QUESTIONER: I was just wondering if you could talk a little bit about the bike business and what you think the sort of key imperatives are for you in terms of growing the share there.

RESPONDANT: With where we are with our bike business, we've literally doubled in the last four years as I mentioned earlier. Two of the things we are doing – we've historically have done very little direct importing on the bikes. We stepped that up this year with the tests. We will do more of that. Our greatest impediment to

increase our bike presence in the country is not unlike the same thing that happened with our golf business. Today, specialized giant and Trek, for example, will not sell into general sporting goods. We have probably about thirty of our franchisees that do sell these brands in their stores but it's not – it's sort of like unassociated with Forzani Group the way they do it. That business is very fragmented in the country. Right now, that specialty business prefers to keep it in an independent environment for obvious reasons: control. The economy is having a little bit more of a pressure on that business now and we're looking to see how we can get access or get involved with those brands. Once we get one or two or three of those brands, all of a sudden it changes the whole picture of our bike business in the country. But to get to, as I said earlier, the 15% market share, we can do that with our existing brands and businesses we have access to.

BOB SARTOR: One last question? All right then. Ladies and gentlemen, thank you very much for attending both here in person and online. Hopefully it wasn't too painful a process online. And as I said to, I think it was to Tao earlier, the way in which you'll see this come to life is these initiatives will be central to our quarterly conference calls. They certainly are central to our strategic planning with our board. And they are central to the people in our organization because everyone is on line behind them now. So thank you very much for attending and I'm sure we'll be busy with one on ones and we'll see some of you again over the course of the next couple of days. Thank you.

[PRESENTATION CONCLUDED]