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# **Valuation of XXL ASA**

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## Abstract

This master thesis presents a comprehensive valuation analysis of XXL ASA, a prominent Norwegian retail company operating in the Nordic sports industry. A fundamental valuation method, in combination with a supplementary comparative valuation has been utilized to estimate the equity value of the company as of December 31, 2021. The valuation has been performed from an investor perspective, using only publicly available information. The purpose of this study is to provide a trading strategy: buy, hold, or sell, based on the estimated equity value and the corresponding stock price. Therefore, the research question addressed in this study is as follows: *“What is the fair value of XXL ASA’s equity as of December 31, 2021?”*

To address this research question, a strategic analysis of internal and external factors has been conducted to map XXL’s strengths and weaknesses, as well as to identify opportunities and threats. Furthermore, a financial statement and credit risk analysis of historical data has been performed, which together with the strategic analysis forms the basis for future expectations for the industry and the projected financials for XXL. The analysis indicated that XXL in the short term is expected to face challenges due to macroeconomics conditions, high inventory levels, and increased competition. However, in the long term, the company is expected to reverse this trend, regaining profitability and growth.

Based on the assumptions about the future and the projected financials, the value per share using a fundamental approach for XXL is estimated to be NOK 5.98. To test the uncertainty in the valuation estimate, a sensitivity analysis has been conducted to assess the robustness and reasonableness. In addition, the comparative valuation yielded a value per share of NOK 51.61 based on the average of multiples. For comparison, the market price of XXL on the Oslo Stock Exchange at the valuation date was NOK 14.03. In determining the final value estimate of XXL’s equity and the corresponding stock price, the comparative valuation has been excluded due to an excessively high valuation and its weaknesses. Therefore, only the fundamental valuation is taken into consideration in estimating the value per share to be NOK 5.98. This leads to the following conclusion: *The XXL stock is overpriced, and we recommend selling the stock as of December 31, 2021.*

## Foreword

This thesis is conducted as part of the master's program in Business Administration at the University of Stavanger. The topic of this thesis is valuation of the publicly listed company XXL ASA. This study is a result of our passionate commitment to stocks and finance, and our strong desire to pursue a future career in this industry. We are confident that the knowledge generated through this thesis has brought us one step closer to achieving this goal.

The work on this thesis has been engaging, interesting, and educational. We have had the opportunity to delve into a topic that we find very interesting. Throughout this thesis, we have had the chance to explore various methods and approaches for valuing a company. It has been a challenging, exciting, and educational journey that has given us a deep understanding of the valuation process and its importance in finance. We are grateful for this opportunity to explore this subject area and look forward to applying the knowledge we have gained to future challenges in our professional careers.

We would like to take this opportunity to express our gratitude to our supervisor, Gordon Mwintome, for his exceptional guidance through the entire process. Furthermore, we would like to thank our fellow classmates for the unique social environment they have contributed to. Lastly, we would like to thank our family and friends for their support throughout the writing process.

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# **1. Introduction**

In the introductory chapter, we address our background and motivation for choosing the topic and purpose of the thesis. Furthermore, we provide a brief description of the structure of the thesis, the underlying framework, and necessary limitations.

## **1.1 Background and motivation**

Our interest in stocks and finance naturally led us to choose the topic of valuation of a publicly traded company for our master's thesis. This allows us to utilize the aspects of our studies that we are most passionate about. We enjoy both quantitative subjects such as accounting and finance, and qualitative subjects like strategy and management. In addition, the topic of the thesis is relevant for our future career path, as we both will be starting careers in auditing.

We acknowledge the complexities involved in valuing a company and view it as an opportunity to test our abilities and strive towards arriving at a reliable value estimation. Given the importance of accurate and reliable valuation methods, we hope to contribute to the collection of information currently available on company valuation. By conducting empirical research, we are hoping to bring insight into the effectiveness of the valuation models used in this thesis and be able to offer guidance to others who may be considering taking on a similar challenge. We wish to increase the accuracy of valuation methods in a certain industry by analyzing market-specific factors and possible future changes. By combining valuation-related literature and actual company challenges and situations, we aim to bring together theory and practice. Finally, the thesis aims to improve the understanding of a company valuation and might be valuable to other researchers.

The choice of XXL as a valuation subject stem from several factors. Firstly, both of us have a genuine interest in sports and outdoors activities, which naturally draws us to a company operating in that industry. XXL is a prominent player in the sport and outdoor retail sector, which has had major problems in recent years, making it an appealing choice for analysis. The challenges XXL is facing are due to factors such as challenging macro conditions, high inventories, and loss of market shares in all countries. Secondly, the sports and outdoor industry is experiencing growth and evolving consumer trends, making it a dynamic and interesting field to study. By selecting XXL, we have the opportunity to delve into the company's financial performance, strategic position, and potential future growth in the industry. Overall, the

decision to value XXL is driven by our shared interests, the company's significant position in the Nordic sports industry, and the potential insights we can gain from analyzing its financials and strategic aspects. Additionally, the current challenges XXL is facing make it an interesting case to study for a comprehensive valuation thesis.

## **1.2 Research question and purpose**

The purpose of this master's thesis is to calculate the value of XXL's equity and the corresponding stock price. As analysts, we aim to arrive at a value estimate that reflects our opinion of the company's real value. However, the future is uncertain, and the forecast is therefore based on our own assumptions and expectations. Based on our estimate, the purpose is to provide a buy, sell, or hold recommendation based on the market price at the time of valuation. Therefore, our research questions are as follows:

*“What is the fair value of XXL ASA's equity as of December 31, 2021?”*

## **1.3 Limitations**

There are some limitations to this study which is essential to know. Firstly, the analysis and conclusions are solely based on publicly available information, and we will therefore not have direct contact with XXL during the writing process. Publicly available information refers to the company's and its competitors annual reports, and other secondary sources such as news articles and websites. Thus, we have chosen to have an investor perspective when analyzing the company, assuming the investor to be a professional. As mentioned, the valuation date is set to 31.12.2021. However, we have nevertheless chosen to use information that has been published after this date. We have chosen to base the analysis on audited annual reports and have therefore not included quarterly reports. As XXL published its annual report for the financial year 2022 on 26.04.2023, at the end of our writing process, we have chosen to include these real figures in the forecasting and valuation. However, due to time availability, we have not included all of this new information.

In order to get a correct picture of XXL's value, we believe for practical reasons that it is necessary to include newly published information about the industry and the company.

Therefore, we have implemented an information cut-off date aligned with the release of XXL's 2022 annual report.

## **1.4 Structure and framework**

The thesis is mainly based on the framework developed by Stephen H. Penman, which outlines the process of fundamental analysis into 5 steps. However, we have extended the process to include a sensitivity analysis and comparative analysis for supplementing the value estimate retrieved from the fundamental analysis. Therefore, the valuation process for XXL is divided into 6 steps, including a sensitivity and comparative analysis with inspiration obtained from Aswath Damodaran. These steps will in the thesis consist of three main parts, which in turn consist of the following chapters and content:

### **Part 1 – Knowing the business**

*Chapter 2* presents XXL and the industry the company operates in. This chapter provides an overview of the company's history and presents information about all the countries where XXL operates and the competition in each country.

*Chapter 3* provides an overview of main valuation techniques and explain the chosen methods for valuing XXL.

*Chapter 4* covers a qualitative strategic analysis of XXL to gain a better understanding of the company's position in the market, market opportunities and potential risks. The strategic analysis is divided into an external and an internal analysis, which provide the foundation for the decision-making process throughout the rest of the thesis.

### **Part 2 – Analyzing information**

In *Chapter 5*, an analysis of XXL's financial statements will be presented. The reported financial statements will then be reformulated to prepare them for analysis.

In *Chapter 6*, the credit risk for XXL will be analyzed using key financial figures. This analysis is divided into two parts: short-term and long-term credit risk.

*Chapter 7* is the final chapter of the analysis. In this chapter, we will present the theory of required rate of return and determine it for XXL.

### **Part 3 – Converting forecasts to a valuation**

*Chapter 8* present a forecast of future cash flows based on the information and findings from the strategic analysis.

In *Chapter 9*, XXL is valued through a fundamental approach based on the future cash flows outlined in chapter 8. Here, the forecast is converted into a valuation, resulting in an estimated value of XXL's equity.

In *Chapter 10*, a sensitivity analysis is conducted to assess the robustness and reasonableness of the valuation performed in chapter 9. It will be tested how XXL's value responds to changes in key inputs.

In *Chapter 11*, a comparative valuation of XXL is conducted as a supplement to the fundamental valuation for increasing the accuracy of the value estimate.

*Chapter 12* provides a summary of the results derived from the analysis and presents a trading strategy based on the valuation.



## **2. Presentation of XXL and industry**

In this chapter, we will present XXL and the industry the company operates in. The information presented will serve as the foundation of our qualitative and quantitative analysis and will inform the strategic analysis in chapter 4. This chapter begins by introducing XXL and a brief history of the company. The chapter will then proceed to examine the management and organizational structure of XXL, as well as information on the company's stock and list of shareholders. Further, an overview of broader industry in Norway, Denmark, Sweden, Finland, and Austria will be presented. This information will provide comprehensive understanding of the company and the market in which it operates.

### **2.1 XXL**

XXL is the largest sports retail chain in the Nordic region, with a vision to become the preferred destination for sports and outdoor activities in Europe (XXL, 2019). In addition, the company also has the largest online sports store in the Nordic region. The slogan of XXL is "All sports united. Sports unite all" which emphasizes the company's goal of making all sports-related products available to everyone regardless of age, gender, ethnicity, geography, and financial position. The intention is to have everything gathered in one place, accessible to all.

XXL's business concept is to provide customers with the largest stores at the lowest prices, with a wide range of products and a focus on well-known brands. To achieve this, XXL is built on a Big-Box concept with a few and large stores with a good location. Each store is between 3000 and 5300 square meters, with an average size of 3900 square meters (Sveen, 2016). All stores have the same design to provide customers with a "one-stop-shop" experience. In addition, each store is using a "store-in-store" model where the products are organized into different departments according to product type and area of expertise. According to the annual report (2021), XXL operates and divides its stores into the following four product categories: 1) Sport, Running & Training; 2) Leisure & Youth; 3) Outdoor & Hunting and 4) Skis & Bikes. Looking at previous annual reports, the number of product categories has decreased over the years.

For future growth, XXL has modernized its brand identity and implemented a comprehensive strategic program to improve operational performance both in the short and long term. This includes strengthening customer experience, improving efficiency and quality control, and enhancing the company's omni-channel platform. XXL is also focused on establishing closer relationships with key suppliers. Despite the challenges posed by COVID-19 pandemic, the company has focused on maintaining momentum on strategic initiatives and minimizing the impact on its workforce to emerge stronger post-pandemic (XXL, 2021).

### ***2.1.1 History of XXL***

XXL is a Norwegian sports retailer that was founded in the year 2000 by Øivind Tidemandsen. Prior to establishing XXL, Tidemandsen began his career by opening an Elkjøp store. After a decade of working within the chain, he was appointed as the director of operations of the entire Elkjøp chain. However, Elkjøp was later sold to foreign investors. Using the experience and capital gained from Elkjøp, Øivind and his brother Tore decided to venture into the sports retail industry. Tidemandsen highlighted his tenure at Elkjøp, as one of the main reasons for his success with XXL in an interview with E24 in 2014 (Nissen-Meyer, 2014). He believed that the principles of low prices, well-known brands, economies of scale and consolidating different industries under one roof which led to Elkjøps success, could be applied to the sports market.

Furthermore, Tidemandsen also mentioned in the same interview with E24 that they would not have been able to start XXL without the equity received from selling their 15% ownership in Elkjøp, which was around NOK 600 million. The Tidemandsen brothers built up well-known chains such as Elkjøp, Power, Skeidar and XXL under the Dolphin Management group. In 2016, Øivind Tidemandsen bought his brother's share in the XXL-ownership of Dolphin for NOK 1.1 billion (Sagmoen, 2016). The first XXL store was opened in 2001, at the NAF-building in the center of Oslo. Since the opening of its first store, XXL has been one of the fastest-growing sports retailers in Europe. By 2007, XXL had opened 8 stores in Norway and had acquired a market share of 10% (XXL, 2021). In 2010, the company established operations in Sweden, and in 2014 it expanded further east and opened its first store in Finland. Furthermore, in 2016 XXL launched an e-commerce presence in Denmark. In 2017, XXL opened its first store outside the Nordic region in Vienna, Austria (XXL, 2021).

At the end of 2021, XXL operates 92 stores in total, with a strong focus on outdoor and action sports as well as fashion brands. In addition, XXL has also established a strong position as the leading sports retailer in the Nordic region when it comes to online sales. Online sales surpassed two billion Norwegian kroner in 2020. At the end of 2021, XXL had 5789 employees including full- and part-time, with a majority working in retail stores. The company has a history of hiring from diverse environments where men and women are equally represented. Out of the total workforce, 3253 employees are women (44%), and 2536 employees are men (56%) (XXL, 2021). Figure 1 shows the development of the number of stores for XXL from the period 2014 to 2021, including the period after the company’s listing on the stock exchange.



Figure 1: Development in number of stores in all countries. Numbers retrieved from XXL ASA annual reports 2014-2021

As of December 31, 2021, XXL operated 37 stores in Norway, 30 in Sweden, 17 in Finland and 8 in Austria. The company also had centralized warehouses at Gardermoen (Norway), Örebro (Sweden), and in Vienne (Austria) (XXL, 2021).

**2.1.2 Management and organization structure**

XXL is today led by chief financial officer (CFO) and interim chief executive officer (CEO) Stein Alexander Eriksen. Eriksen has been working at XXL as CFO since 2018 and got appointed as interim CEO in July 2022, when former CEO Pål Wibe, who was in charge for 2.5 years, stepped down (XXL, 2021). The executive management team of XXL is composed

of diverse individuals holding various positions, responsible for different areas such as IT, operations, HR and digital commerce, and each country has its own managing director in charge of the company's operations.

The company also has a board of directors who oversee the management team and ensure that corporate governance practices are in place to align the interests of the management with those of shareholders and ensure the long-term success of the company. A strategy XXL has implemented for aligning the interests of the executive management team with those of shareholders is through the establishment of an equity-based long-term investment program. This allows members of the executive management to invest in XXL Management Invest AS (XMI), which in turn is able to invest in XXL Sport & Villmark AS. The main objective of the long-term investment program is to ensure the executives are focused on the long-term success of the company and working toward the same goals as the shareholders. The total number of shares in XMI held by the board of directors and executive management at the end of 2021 represents 2.9% indirect ownership of XXL Sport & Villmark AS (XXL, 2021).

### ***2.1.3 The XXL stock***

XXL ASA was listed on the Oslo Stock Exchange (OSE) on October 3, 2014, under the ticker symbol "XXL". The company received help from ABG Sundal Collier, Goldman Sachs, Carnegie, Credit Suisse, and DNB Markets in the listing process (DNB, 2014). The initial public offering (IPO) had a subscription price of NOK 58 and a closing price on the first day at NOK 62, which gave a return of 6.9%. It was a successful IPO. There was a strong interest in the stock, as it was oversubscribed within the price range as early as September 23, 2014 (Oslo Børs, 2014). This is consistent with the empirical evidence that companies tend to underprice their IPOs (Ritter J. R., 2023). Ritter (1991) found that IPOs tend to be underpriced by an average of 7.5%. In Norway, previous studies have shown that underpricing during IPOs on the OSE has resulted in an average return on the first day of 12.5% during the period of 1984-1996 (Emilsen, Pedersen, & Sættem, 1997), 15% during the period of 1990-2003 (Eckbo, 2010) and 10.3% in the period of 1984-2021 (Loughran, Ritter, & Rydqvist, 1994). Underpricing is a type of cost of going public and may be to compensate investors for taking the risk of the IPO.

From the date of listing, the stock price of XXL has had a positive trend until the company's highest stock price of NOK 110.6 on 14th October 2016. Since then, the company's market

value has dropped by around 87.31% and is currently at NOK 14 as of December 31, 2021. Figure 2 shows the development of the closing stock price from the listing until the end of 2021 (Yahoo Finance, u.d.).



Figure 2: Figure XX: stock price development 03.10.2014 – 31.12.2021. Numbers retrieved from (Yahoo Finance, u.d.)

#### 2.1.4 Shareholder list

Table 1 shows the distribution of shareholders in the company, which is characterized by a dispersed ownership structure (Coffee, 2001). No single shareholder holds a controlling stake or blocking minority in the company. The ownership is widely dispersed among many shareholders. The largest shareholder per 31.12.21 is Altor Equity Partners, which holds 60 118 846 (23.80%) stakes in the total of 252 436 640 shares outstanding (XXL, 2021). Additionally, it is worth noting that the sum of shares held by the top shareholders is less than 50% of the total shares outstanding, which further supports the dispersed ownership structure. Some of the shareholders are institutional investors or fund management companies, which may also hold shares on behalf of multiple investors, which also adds to the dispersed ownership structure.



Shareholder list as 31.12.21	Total amount of shares	Ownership	Voting right
Altor Equity Partners	60 118 946	23,80 %	23,80 %
Dolphin Management	34 500 000	13,70 %	13,70 %
Ferd AS	22 922 385	9,10 %	9,10 %
Odin Forvaltning AS	21 872 210	8,70 %	8,70 %
Artic Fund Management AS	12 245 433	4,90 %	4,90 %
XXL ASA	8 470 000	3,40 %	3,40 %
Dimensional Fund Advisors LP	2 548 717	1,00 %	1,00 %
Barclays Capital Securities Ltd	2 236 126	0,90 %	0,90 %
Nordkronen II AS	2 220 000	0,90 %	0,90 %
Blackrock Fund Advisors	2 207 568	0,90 %	0,90 %
Robert Iversen Holding	1 956 403	0,80 %	0,80 %
Geni Holding AS	1 800 000	0,70 %	0,70 %
Carucel Holding AS	1 677 110	0,70 %	0,70 %
Arrowstreet Capital	1 595 117	0,60 %	0,60 %
Bofa Securities Europe SA	1 523 930	0,60 %	0,60 %
Stamina II AS	1 419 404	0,60 %	0,60 %
Norron AB	1 351 057	0,50 %	0,50 %
Klp Kapitalforvaltning AS	1 304 335	0,50 %	0,50 %
Evli Fund Management Co. Ltd	1 268 390	0,50 %	0,50 %
Ulsmo Finans	1 260 000	0,50 %	0,50 %
Other shareholders	67 939 509	26,90 %	26,90 %
Sum	252 436 640	100 %	100 %

*Table 1: Overview of shareholders per 31.12.21 (XXL, 2021)*

## 2.2 Presentation of the industry

According to Porter (1979) an industry is defined by "group of competitors producing substitutes that are close enough that the behavior of any firm affects each of the others either directly or indirectly". The sports industry can be defined as a collection of businesses and organizations that are involved in the production, marketing, and sale of products and services related to sports and physical activity. This may include the production and sale of sports equipment, clothing and shoes, fitness centers and training programs, sports events, and media, as well as sports medicine services and rehabilitation programs. XXL goes under this industry and is a sports chain that focuses on selling sports equipment. The sports equipment category can contain all equipment for different sports such as football, ice hockey, golf, tennis, etc., but also nutritional supplements, training equipment, and other products/equipment dedicated to training. In addition to this, there is also a large focus on selling footwear and clothing to the active consumer. This can be anything from hikers, mountain climbers, runners, fishermen, and hunters in addition to several of the sports already mentioned.

The sports industry includes a large selection of companies and organizations. These competitors can be companies that are in the same niche as XXL, but also companies such as Hennes and Mauritz (H&M) or Zalando that sell parts of the same product types as XXL. In order to achieve the best possible result from the strategic and financial analysis, it is essential to know the industry XXL operates in. Therefore, it is important to make a market delimitation so that it becomes easier to define which other companies are the biggest and most relevant competitors to XXL (Lien, Knudsen, & Baardsen, 2016). This assignment will have a market delineation against XXL's biggest competitors in the countries of Norway, Sweden, Denmark, Finland, and Austria according to their market shares and relevance. The background for this is because XXL operates and competes in these countries. Thus, competitors such as Intersport, Stadion, Sport 1, Stadium, and Sportmaster will be included and seen as XXL's biggest competitors. While companies such as Zalando, H & M, and Coop OBS will be excluded. The reason for this differentiation is because the companies Zalando, H&M and Coop OBS sell a few products within the sports segment but are not seen as full-fledged sports chains like the others.

### ***2.2.1 The Norwegian sports industry***

The sports industry in Norway has grown in recent years. Back in 2020, the total industry revenue was NOK 25 billion. The sports industry is today characterized by several market players, both from abroad, online players and other suppliers who sell from their own sales channels. Everyone wants a share of the market in the sports industry, which has affected the sports chains' market shares. The sports chains accounted for 57% of the total revenue from sports and outdoor equipment in 2020, which corresponds to NOK 14.36 billion. In 2021, this income increased again by 3.58% to NOK 14.88 billion (Norsk sportsbransjeforening, 2022).

Figure 3 provides an overview of the total revenues generated by the sports chains in Norway in the period 2017 to 2022, according to published information (Norsk sportsbransjeforening, 2022). As seen, there has been an increasing trend in this period, except for 2019, which had significantly lower revenues compared to other years. Despite this setback, the sports chains continue to grow, but they now have a smaller share of the total industry revenue than before. Just a few years ago, the sports chains such as XXL, Sport 1, Intersport and Stadion accounted for 90% of the total industry revenue. The industry is constantly changing, and advances in

technology and the internet have played a huge role in these changes (Norsk sportsbransjeforening, 2022).

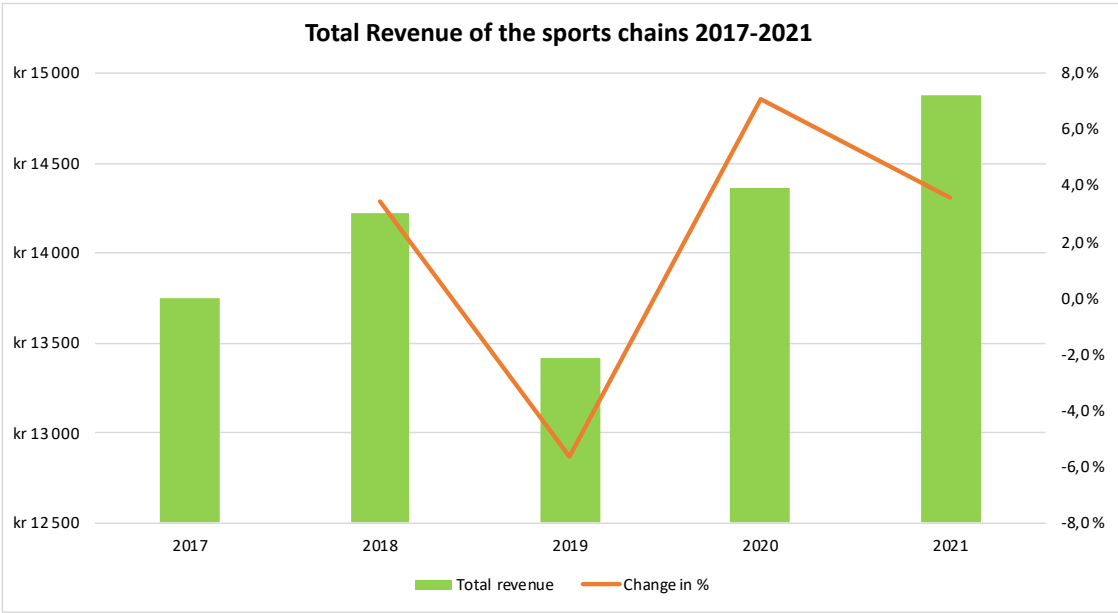
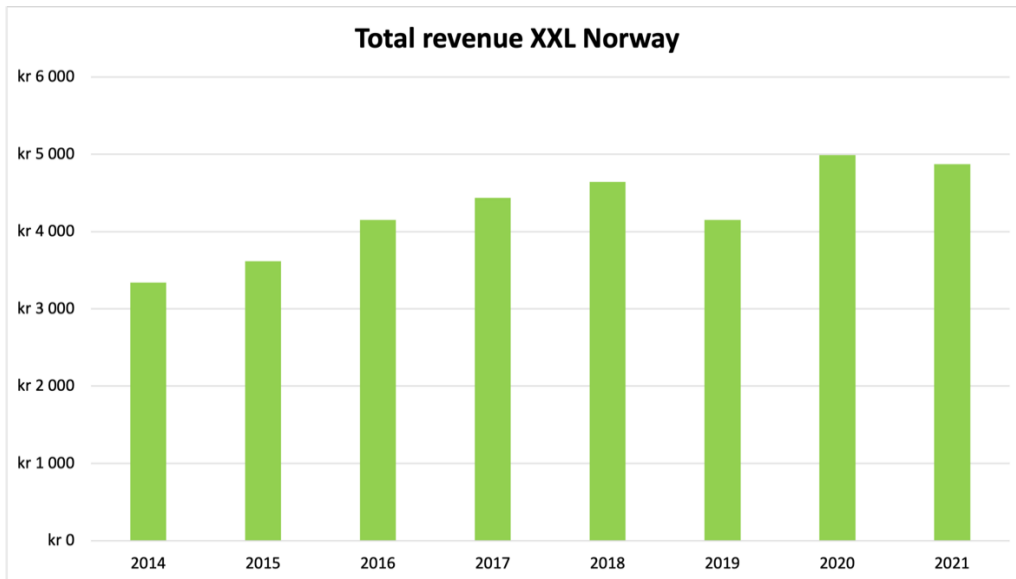


Figure 3: Total revenue of the sports chains 2017-2021. Numbers in NOK million (Norsk sportsbransjeforening, 2022)

Together with the overall sports industry, XXL has had a stable growth from listing on the stock exchange back in 2014 until 2021. Figure 4 shows that XXL had a decline in 2019 like the rest of the industry. At the same time, they had a slight decrease from 2020 to 2021. According to XXL itself, this is due to a clearance campaign in 2020, as well as closed shops and a challenging delivery situation of bicycles in 2021 (XXL, 2021). Of the countries in which XXL operates, Norway is the country where XXL sells most of its products and has the highest revenue. Of the countries in which XXL operates, Norway is the country where XXL sells most of its products and has the highest revenue.



*Figure 4: Total revenue of XXL Norway 2014-2021. Numbers in NOK million. Retrieved from XXL ASA annual reports 2014-2021*

The market shares of the sports chains in Norway are dominated by the largest companies, where XXL has the largest market share of 32.1% followed by Sport 1 with 30.5%, Intersport with 16.8% and Stadion with 11.6% as of 2021 (Norsk sportsbransjeforening, 2022). Figure 5 below shows the development of the various sports chains' market shares for the period 2016-2021. XXL has been the market leader in the Norwegian sports market since 2017 and has managed to maintain this position. But as shown, they are constantly threatened by the other sports chains such as Intersport and Sport 1. In particular, Sport 1 has had significant growth in market share in recent years and will probably be one of the competitors XXL has to worry about the most in the nearest future.

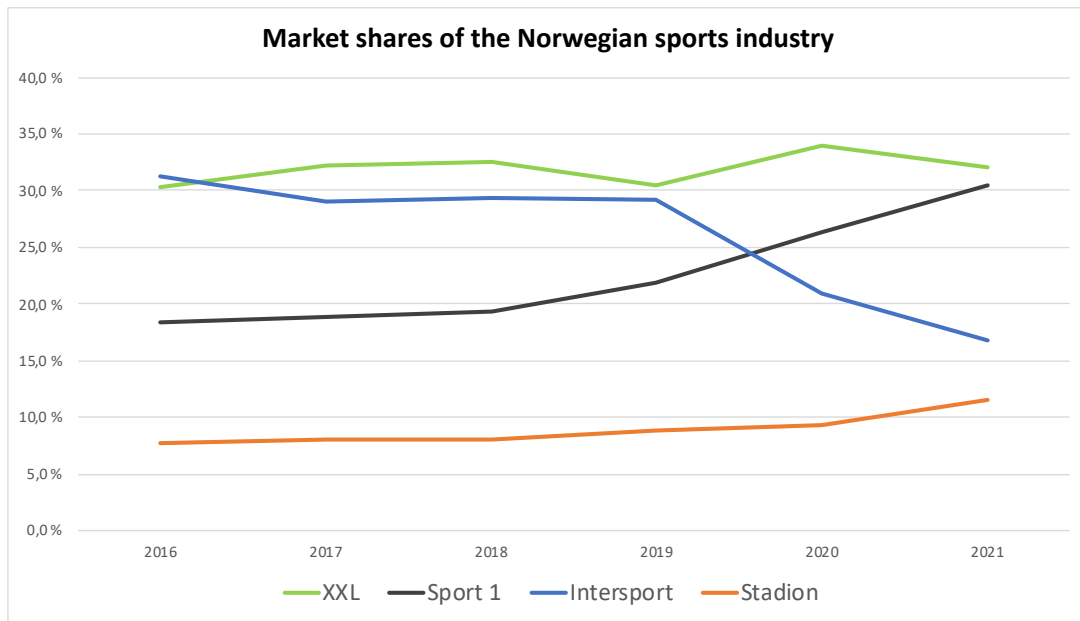


Figure 5: Market shares of the Norwegian sports industry 2016-2021. Numbers retrieved from Sportsbransjen.no

### 2.2.2 The Danish sports industry

After XXL started up in Denmark in 2016, they have tried to establish themselves and grow their business in the same way as the markets in the other countries. Today, XXL only offers e-commerce in Denmark and had a total revenue of NOK 20 million in 2021. The sports industry in Denmark is characterized by several large competitors, of which Sport24, Intersport and Sportmaster are seen as the largest. In 2021, Sport24 had a total revenue of approximately DKK 1.4 billion and Sportmaster had a total revenue of approximately DKK 861 million (Sport 24 AS, 2022; Sportmaster Danmark ApS, 2022). Figure 6 below shows XXL's total revenue in Denmark since its inception in 2016 until 2021. As shown, there have been large fluctuations over the past few years and that XXL had the largest revenue back in 2018 at NOK 77 million.



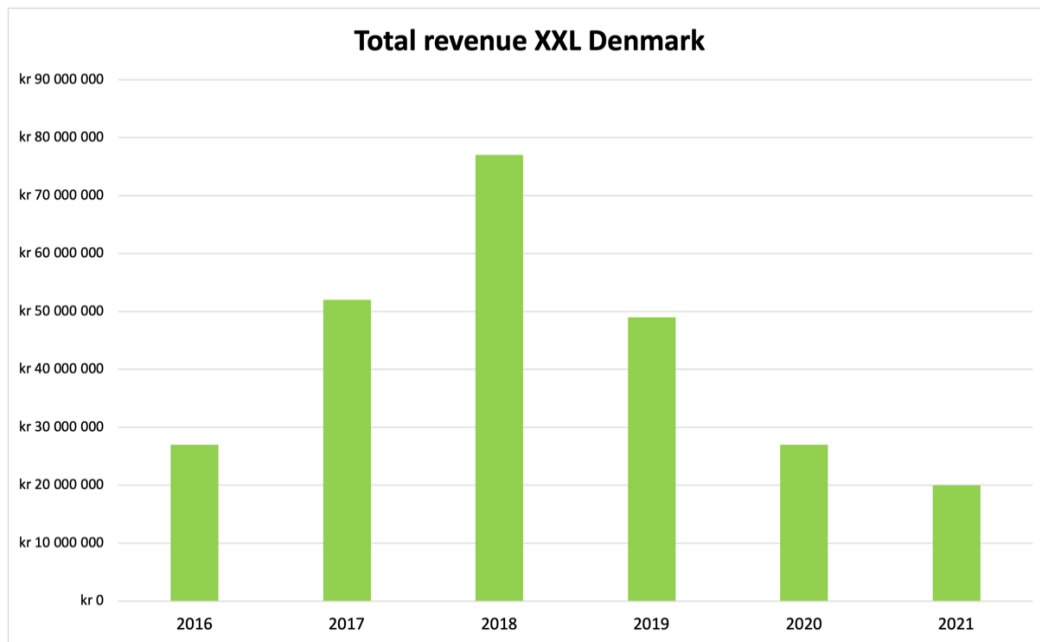


Figure 6: Total revenue of XXL Denmark 2016-2021. Numbers retrieved from XXL ASA Annual reports 2016-2021

### 2.2.3 The Swedish sports industry

The total sports industry in Sweden had an increase of 7.5% in 2021 and XXL has one of the largest market shares in this market. XXL Sweden had a revenue of NOK 2.96 billion this year. In the Swedish sports market, Stadium Sweden AB has the largest market share. They had a total revenue of SEK 4.58 billion in 2021 (Stadium Sweden AB, 2022). Other companies such as Intersport Sweden AB and Sportamore AB had a total revenue of respectively SEK 1.42 billion and SEK 1.5 billion in the same year (Intersport AB, 2022; Sportamore AB, 2022).

XXL has seen a steady growth in the market since 2014, as shown in Figure 7. Currently holding the second largest market share in Sweden, the company has a goal on surpassing Stadium as the leading player in the market. In pursuit of this goal, XXL continues to invest in their operations in Sweden (XXL, 2021).

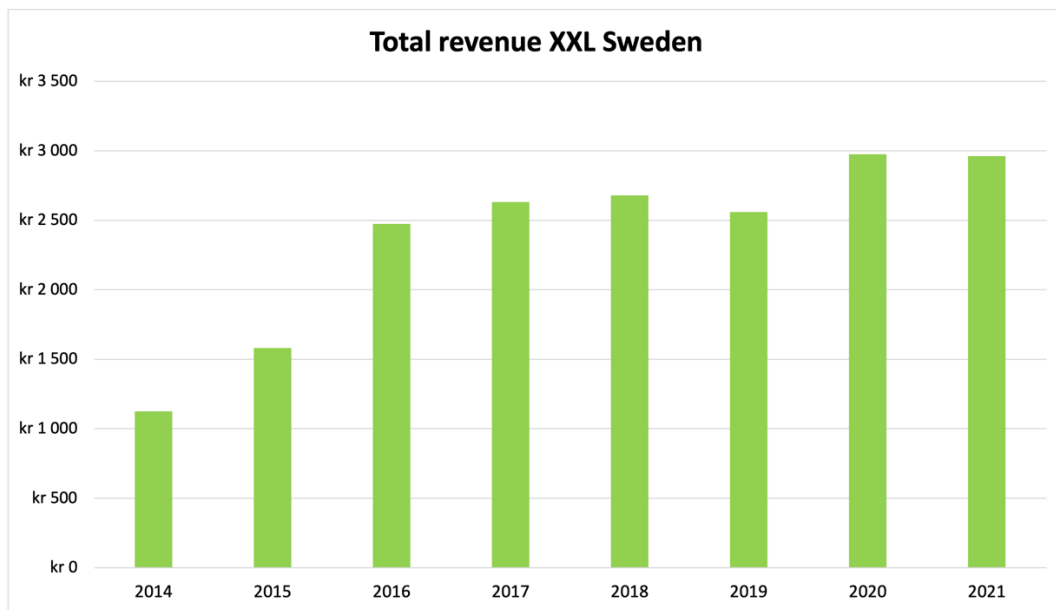


Figure 7: Total revenue of XXL Sweden 2014-2021. Numbers in NOK million. Retrieved from XXL ASA Annual reports 2014-2021

#### 2.2.4 The Finnish sports industry

The Finnish market had a growth of 10.8% in 2021. However, this growth was not seen in XXL, which achieved a negative growth of 6.0% in the same year. The total revenue ended at approximately NOK 1.74 billion. Despite the drop in revenue, the company still managed to achieve its highest profit margin to date. Like Sweden, the Finnish sports industry is characterized by the same key competitors Intersport and Stadium. Among these competitors, Intersport has the largest market share in the country, with XXL and Stadium close behind (XXL ASA, 2021).

As shown in figure 8 below, XXL in Finland has had increasing growth until 2020. Furthermore, there has been a period of less growth in the company in the period 2018 to 2021. This is due to the increased competition within the retail market where competition from outlet store concepts has taken a larger share of the market. The decline in turnover from 2020 to 2021 was, like in Norway, characterized by the same clearance campaign in 2020 and the company also had problems with the delivery of bicycles in 2021 (XXL, 2021).

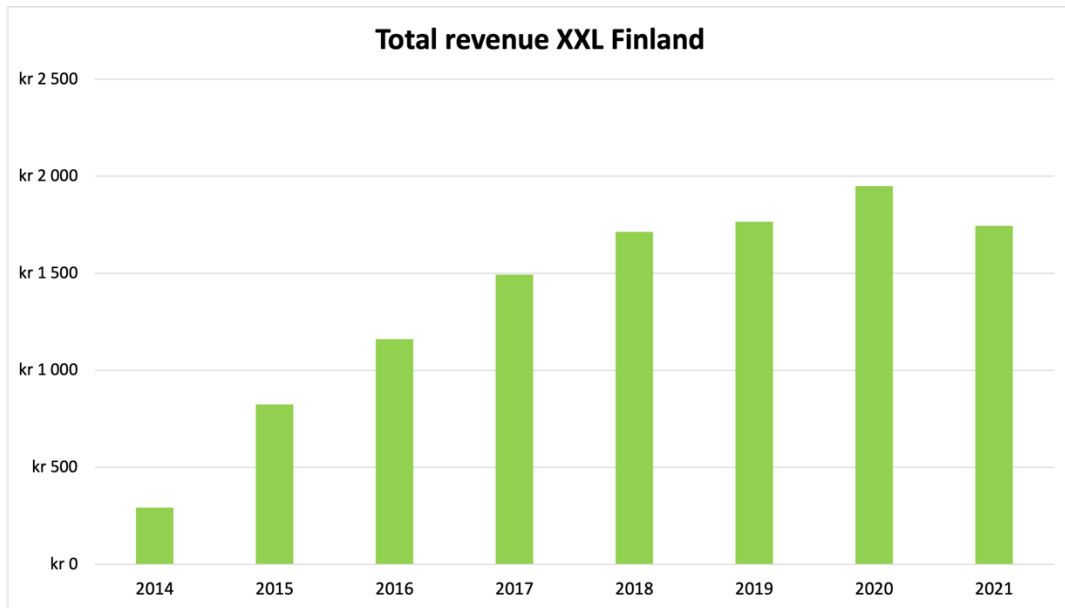


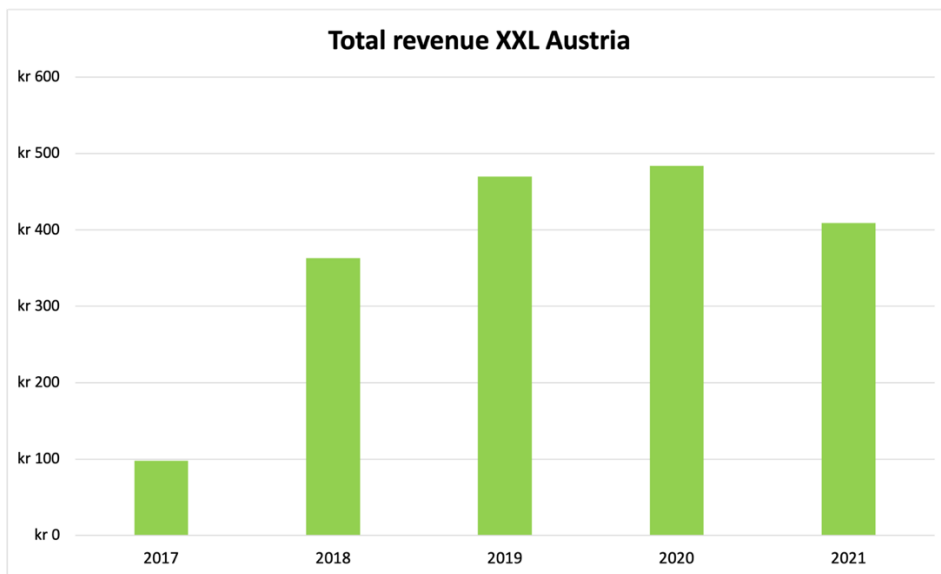
Figure 8: Total revenue of XXL Finland 2014-2021. Numbers in NOK million. Retrieved from XXL ASA Annual reports 2014-2021

### 2.2.5 The Austrian sports industry

In 2017, XXL chose to enter the Austrian sports industry. This decision was influenced by the fact that Austria, like the Nordic countries, is affected by all the different seasons. This provides great opportunities for the sale of various types of sports equipment throughout the year. Market research done in the country estimates the total size of the industry to be approximately 2.8 billion USD, with sports spending per capita at the same level as Sweden (Statista, 2021). The market structure in the sports industry is composed of many small sports retailers, many of which are connected through franchise models or purchasing alliances (XXL ASA, 2021). In terms of competition, Sport 2000 has the largest market share with 33.6%, followed by Intersport with a significant part of the market (Medianet, 2021).

After entering the Austrian market, there has been an increase in revenue, as shown in figure 9. Although the company has had an increase in revenue since 2017, XXL has not yet managed to achieve profitability. The reason for this is that XXL has been affected by several factors, especially from the impact of the Covid-19 pandemic in recent years. This has resulted in the physical stores being closed for long periods and several of the stores have been forced to close (XXL, 2021). XXL has announced, via a press release December 21, 2022, that they will end their operations in Austria. This decision is a result of the company's inability to generate

profitability in the country. The withdrawal is planned to take place in 2023 (Dagens Næringsliv, 2022).



*Figure 9: Total revenue of XXL Austria 2017-2021. Numbers in NOK million. Retrieved from XXL ASA Annual reports 2017-2021*

### **3. Valuation techniques and choice of method**

There are several methods and approaches for valuing a company. In section 3.1, a presentation is given of three distinct valuation techniques, specifically fundamental valuation, comparative valuation, and option-based valuation. Subsequently, in section 3.2, the preferred technique is selected for further analysis.

#### **3.1 Valuation techniques**

Valuation refers to the process of converting a forecast into an estimate of the value of a company's assets or equity (Palepu, Healy, & Peek, 2010). The process of valuing a company is a complex and multi-faced process that requires the application of various methodologies. Generally, three primary techniques are widely used: fundamental, comparative, and option-based valuation (Damodaran, 2012). Given the strength and limitations of each method, it is common practice to use a combination of methods to arrive at a more accurate and reliable estimate of a company's value. In this chapter, we present the three main valuation techniques and explain the chosen method for valuing XXL. The methodology employed in the valuation process depends on the accessibility of data, the level of reliability required, and company characteristics.

##### ***3.1.1 Fundamental valuation***

In order to calculate an estimate of the value for a company, it is essential to have knowledge about the underlying conditions related to the company, such as the products, the industry, the management, and any relevant regulatory considerations (Penman, 2013). An analysis of a company's internal and external factors establishes the foundation for identifying any potential risks and advantages for the company. Furthermore, a historical financial analysis is conducted, the period of which depends on the type of company, the industry, and the stage of maturity the company is currently in. The information obtained from the strategic and financial analysis forms the basis for predicting projections of future cash flows. Then, these projections are used to estimate expected return on investment, discounted to present value based on the return-on-investment requirements.

According to Damodaran (2012), fundamental valuation is based on the principle that the value of an asset is equal to the present value of its future cash flows, discounted by a risk-adjusted

rate of return. The future cash flows form the basis for the valuation of the company (Penman, 2013).

$$\text{Value of an asset} = \sum_{t=1}^{\infty} \frac{CF_t}{(1+r)^t}$$

The valuation of a company can be executed through two distinct methodologies, namely equity valuation and firm valuation. Equity method involves directly determining the value of the company's equity. On the other hand, the capital method involves an indirect estimation of the company's value. Both methodologies should yield equivalent valuation estimates, as long as the return requirements are consistent and based on real values (Damodaran, 2012).

Fundamental valuation focusses on company's cash flows, making it a strong method for valuation. However, this technique requires making assumptions about the future, which immediately carries out a high degree of uncertainty. Using this method requires making several assumptions and predictions about the future, which may not be accurate. Additionally, fundamental valuation can be time-consuming. Despite the uncertainty involved in any valuation estimate, the method is best suited for companies that are in a mature and relatively stable phase with predictable positive cash flows (Damodaran, 2012). Listed companies operate in an efficient market that continuously prices the stock based on available information. The aim of any valuation method is to show market inefficiencies and validate market valuation.

### ***3.1.2 Comparative valuation***

Damodaran (2012) describes a comparable valuation as a method of comparing a company's value to other companies that operate in the same market and industry. Performing a comparable valuation of a company is a widely accepted method in the field of finance. The approach commonly involves comparing the financial ratios of similar companies or assets, with the goal of determining the fair market value of the subject company or asset. One of the most usual techniques used in this method is the analysis of multiples, which refer to the ratio of financial numbers to a company's stock price. The most utilized multiples in this method include the price-to-earnings (P/E) ratio, the price-to-book (P/B) ratio, the dividend yield, the price-to-sales ratio (P/S), EV/EBITDA and enterprise multiples.

In contrast to the method of fundamental valuation, comparable valuation is less time-consuming as it primarily relies on publicly available data, and the calculations are relatively straightforward. However, it is important to note that this method of valuation is not without its limitations. One limitation is that the comparable companies used in the analysis may have inherent errors, which can result in the multiples being undervalued or overvalued, thereby leading to inaccuracies in the valuation. In addition, the comparable valuation method is also affected by market conditions, which can fluctuate and have a large impact on the results of the analysis. It is also essential to acknowledge that conducting a comparable valuation of a company can present challenges in identifying appropriate comparable companies. Even though companies may seem comparable in terms of their products, size, and industry, there may be significant variations in terms of risk, growth prospects, cash flow measurements and other relevant factors. These variations can lead to inaccuracies in the valuation process and highlight the need for a thorough and comprehensive analysis of the comparable companies and the relevant company or asset. Therefore, it is crucial to consider several factors before selecting comparable companies to ensure the validity and reliability of the valuation process (Damodaran, 2012).

### ***3.1.3 Option-based valuation***

Option-based valuation is a common method for estimating the value of financial assets that have option-like features. To determine the value of an asset, the approach uses several option pricing models, such as the Black-Scholes model, the binomial model, and the Monte Carlo simulation (Damodaran, 2012). These models take into account a number of factors, such as the time until the option expires, investment expenses, the risk-free interest rate, the present value of cash flows, uncertainty (volatility) regarding the current value of the underlying asset, and cash flow lost to competitors (Koller, Goedhart, Wessels, & McKinsey & Company, 2020). The option pricing models consider the potential value of the option depending on these factors and provide a foundation for option-based asset valuation.

## **3.2 Choice of valuation method**

In the preceding chapters, various methods for valuation will be discussed. The choice of valuation method depends on several factors, such as (1) availability of information, (2)

industry specific conditions, (3) phase in the life cycle, (4) time available, and (5) reliability requirements (Kaldestad & Møller, 2011).

XXL is a mature company operating in an industry characterized by strong competition, demand for quality products, and the increasing trend towards active lifestyles and outdoor activities. The company was established in 2000 and has been publicly listed since 2014, making historical financial data readily available. In 2021, XXL had a 7.4% increase in operating profit and revenues of NOK 10 billion (Brønnøysundregistrene, u.d.). An analysis of XXL's life cycle indicates a transition from continuous growth since inception to a more stable growth trajectory in the present. This observation leads us to classify XXL as being in the mature growth phase (Damodaran, 2012).

Based on Kaldestad and Møllers (2011) factors for choosing a valuation method, we will conduct a fundamental valuation of XXL. This method requires a comprehensive analysis of internal and external aspects of the firm, with focus on evaluating factors such as the company's industry, leadership, economic- and macro conditions (Penman, 2013). By combining insights from strategy, accounting, and finance, this will enhance the information used in the analysis and simultaneously become more robust. Additionally, this will serve to enhance the precision of the final valuation estimate.

Although fundamental valuation involves a comprehensive examination of data and analysis, it is nevertheless associated with a high degree of uncertainty. Therefore, supplementing it with value estimates from other valuation methods may be deemed a judicious choice (Dahl, Hansen, Hoff, & Kinserdal, 1997). Consequently, we have chosen to supplement our fundamental valuation with a comparative valuation approach to increase the accuracy of the value estimate. This supplementary step will serve to reinforce and solidify the reliability of the value estimate.

### **3.3 Framework for fundamental valuation**

The framework that will be used for the fundamental valuation is based on the valuation framework of Penman (2013). It is a combination of revenue and cash flow analysis to determine the value of XXL's future cash flows and adjust them to present value. This approach is used to assess the value of the company. Additionally, the framework takes into consideration the company's equity and debt, as well as industry standards and economic conditions. This framework also aligns with the framework outlined by Palepu et al. (2010).



Penman (2013) outlines the process of fundamental analysis into 5 steps:

1. Knowing the business
2. Analyzing information
3. Developing forecasts
4. Converting forecasts to a valuation
5. Trading on the valuation

The first step will form the basis of the strategic analysis in chapter 4. In this chapter, the underlying economic conditions affecting the industry are analyzed. Through this analysis, strengths, and weaknesses of XXL, and opportunities and threats in the industry are identified. The use of analytical tools, such as PESTEL analysis, Porters Five Forces and VRIO analysis, will be used in the strategic analysis of both external and internal factors impacting XXL. This information will be summarized in a SWOT analysis.

The next step is to analyze information, both in financial statements and outside of financial statements. This aspect of the analysis will be detailed in chapter 5 and 6, financial analysis and credit risk analysis. This primarily involves conducting a quantitative analysis of XXL's financial statements. The objective of this step is to gain a deeper understanding of XXL's financial performance and position in the market.

The first two steps serve as the foundations for the subsequent development forecast of future financial projections and requirements. The fourth step involves the implementation of a fundamental valuation technique, whereby the cash flows forecasted in the future financial statements are discounted using appropriate return expectations to arrive at a fundamental value estimate. In addition, a sensitivity analysis and a scenario analysis are conducted to assess the level of uncertainty associated with the value estimate.

The final step in the process is to create a trading strategy for the XXL stock by comparing its valuation estimate with the market price. Through this comparison, an outside investor can gain a deeper understanding of the XXL share value and make informed decisions regarding buying, selling, or holding shares.

### 4. Strategic analysis

In this chapter, a strategic analysis of XXL will be conducted to gain a better understanding of the company's position in the market, market opportunities and potential risks. Furthermore, this analysis will help to gain a better insight into the company and look at its strengths, weaknesses, opportunities, and threats. This in turn will help make it easier to determine the company's growth prospects, identify potential opportunities for growth and evaluate their ability to compete in an already competitive market. The strategic analysis will provide a good basis for estimating XXL's future financial results and potential, which in turn are important main components of a fundamental valuation process.

To get a better overview, this analysis will be divided into two parts: macro and micro, also known as external and internal analysis. The external analysis will contain the analysis model PESTEL and Michael Porter's Five Forces framework, while the internal analysis will focus on the VRIO framework. Furthermore, the results of the external and internal analysis will be assessed and further incorporated into a SWOT analysis. Here the summary of the most important results of the strategic analysis will be presented, which will provide an overview of the most central points and considerations XXL faces in the future.

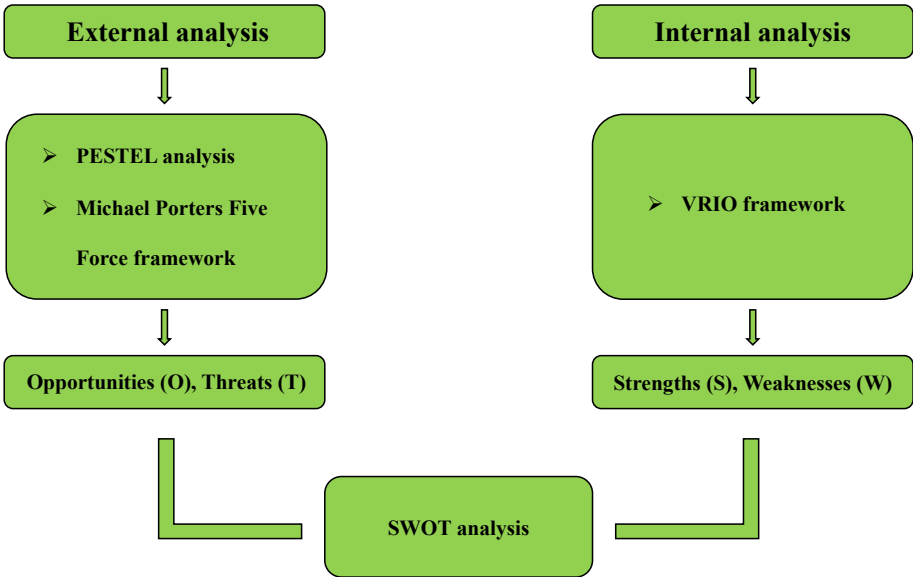


Figure 10: Framework strategic analysis

## **4.1 External analysis**

In conducting an external analysis of XXL, the objective is to delve deeper into the factors that impact the company, despite its lack of control over them. To this end, a PESTEL analysis will be performed, which examines the macroeconomic factors that can impact the sports industry in which XXL operates. Additionally, Michael Porter's five force framework will be used to analyze the sports industry and factors influencing the company. This systematic examination of external factors will provide a comprehensive understanding of the elements that shape the performance and success of XXL.

### ***4.1.1 PESTEL analysis***

PESTEL analysis is an analysis tool that can be used to gain an understanding of which different macroeconomic factors can directly affect a company and the industry the company operates in. By getting an overview of these factors, companies can try to predict future macroeconomic changes and use this as a competitive advantage. Furthermore, this analysis can help companies reduce potential risks, as well as chart new directions for the company and the industry. The PESTEL analysis can therefore play an important role in enabling companies to stay ahead of the curve and make future strategic decisions that will benefit the company. The PESTEL analysis contains the following macroeconomic factors: Political, Economic, Socio-cultural, Technological, Environment and Legal (Yüksel, 2012).

#### ***4.1.1.1 Political***

The political dimension of the macro-context emphasizes the government's role and other political elements that contribute to shaping the environment. XXL's operations can be influenced by a variety of political legal factors, including regulatory considerations, political uncertainty, trade restrictions, and worker's rights (Sammut-Bonnici & Galea, 2014).

XXL has established its operations in several countries including Norway, Sweden, Finland, Denmark, and Austria, which are characterized by their stability in terms of politics. The characteristics of stable political systems are their stable rule framework and gradual slow changes, while in contrast, unstable political systems are characterized by sudden and significant changes (Berg, 2022). As a result of this stability, XXL's operations in these

countries are likely to experience minimal disruption, allowing the company to focus on growth and expansion. In addition, companies operating in politically stable countries are often viewed more favorably by investors and stakeholders, as the stability of the political system is seen as a key indicator of the overall stability and security of the business environment. Apart from Norway, all countries XXL operates in are members of the European Union (EU) (European Union, u.d.). Norway, however, is included in the European Economic Area (EEA) agreement, which seeks to link the EEA/EFTA countries to the EU's internal market. This agreement grants rights within the trade of goods, investments, banking and insurance, and the ability to work, study and reside in other member states (Regjeringen, 2021).

The tax policies of the countries XXL operates play a crucial role in determining its profitability. These policies can have a significant impact on a company's financial performance and can even determine its success or failure in a particular market. For XXL it is important to stay informed about the tax laws and regulations in their operating countries and to develop strategies that are in line with these policies for maximizing its profits. Additionally, XXL's reputation and public image can also be influenced by its compliance with local tax policies (OECD, 2004). Therefore, XXL should ensure that they maintain a high level of transparency and ethics in their tax practices.

The company tax rate of the various countries is illustrated in figure 11. The figure depicts the evolution of the tax rate since XXL's IPO in 2014. There is a declining trend in the tax rate in the Nordic countries, while Austria has maintained a stable tax rate. This observation is in line with previous empirical research on the convergence of tax rates resulting from international tax competition (Slemrod, 2004). The factors that influence the setting of corporation tax rates have become more increasingly similar across countries, leading to greater convergence in tax rates. This trend toward convergence highlights the dynamic and competitive nature of tax policy and the importance of XXL's regular monitoring and adaptation to changes in the tax environment. The impact of a higher tax rate compared to other countries can result in decreased investment and shift towards countries with lower tax rates. Lower tax rates increase the net income, which can be re-invested and improve the competitiveness of foreign competitors. This highlights the importance of considering the tax policy environment in XXL's operating countries.

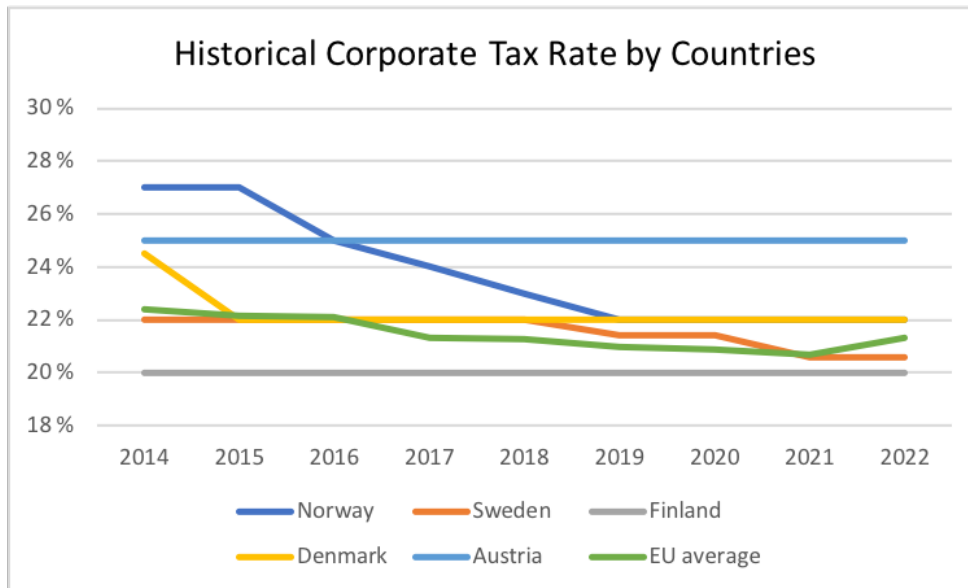


Figure 11: Graph of countries by corporate tax rate (Trading Economics, u.d.)

The distribution network of XXL is also susceptible to the influence of various political factors such as trade agreements, customer regulations, and transportation infrastructure. Today, XXL operates central warehouses both within and outside the European Union (EU), which all operating countries outside Norway are EU member states. The three main warehouses are located near Gardermoen in Norway, Örebro in Sweden, and Vienna in Austria (XXL, 2021).

To conclude, the countries where XXL operates have stable political systems and thus, drastic changes that could significantly impact the company are unlikely. Also, the convergence of tax rates leads to lower political risk for XXL. Based on this, the political factors are considered to have a moderately positive effect on the company.

Factor	Very negative	Negative	Neutral	Positive	Very positive
Political				X	

Table 2: Political factors influence on the retail industry

#### 4.1.1.2 Economic

The economic part within the PESTEL analysis framework deals with all the various macroeconomic factors in a country and their impact on the company and the industry. In this section, the following factors will be assessed and analyzed: the key interest rate, monetary policy, inflation rate, gross domestic product, and unemployment. All these economic factors

fluctuate a lot over time and can have a significant impact on the company's financial function and performance. Doing thorough research and looking at several potential outcomes of changes in these factors can provide a company with valuable information to be able to take strategic action to maximize its profitability or minimize losses (Whittington, Regnér, Angwin, Johnson, & Scholes, 2020).

Gross domestic product (GDP) is a common measurement scale used to measure a country's economic performance. It measures the total value of all goods and services produced in a country over a specific period, usually a year, after subtracting the costs used in production. This unit of measure acts as a useful indicator of a country's economic condition and provides insight into the country's economic development (Statistics Norway, 2017).

Figure 12 illustrates the variation in the GDP of the selected nations from 2014 to 2021. Norway's GDP exceeds the other nations by a considerable margin, and it is among the world's richest nations measured in GDP per capita. In particular, Norway's economic growth is heavily dependent on the petroleum sector, which has led to the creation of a GDP measurement unit that excludes activities linked to this sector, such as oil and gas, pipeline transport and international shipping. In recent years, the GDP target unit, which excludes the petroleum sector, has consistently fallen between 10-15% lower than the original GDP target unit (Statistics Norway, 2017).

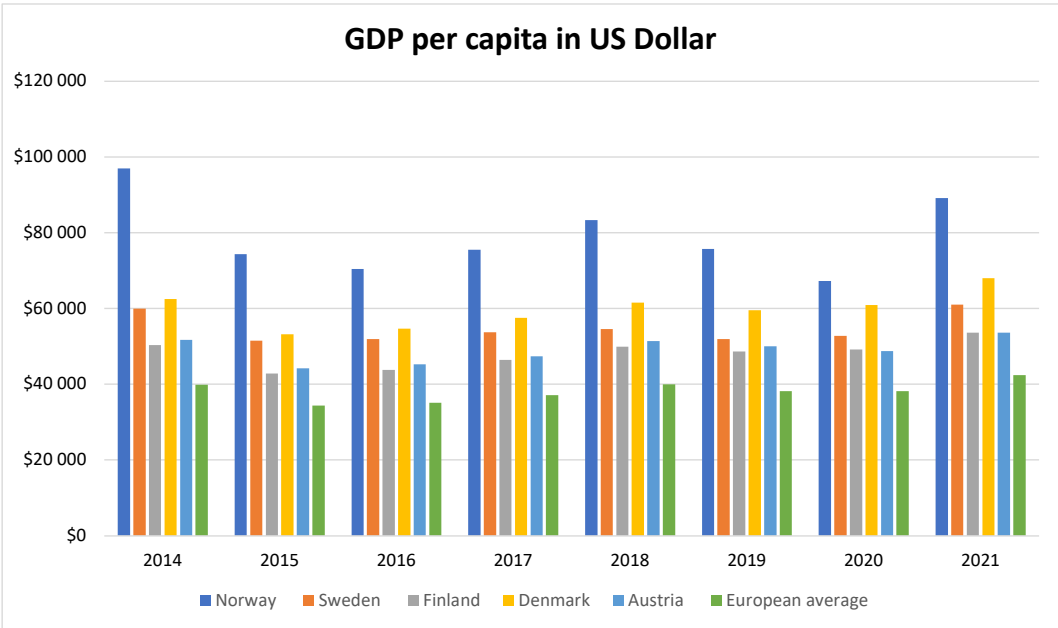


Figure 12: Overview of GDP per capita 2014-2021. (United Nations Association Of Norway, n.d.)

It is expected that GDP in Norway will have an increase of approximately 3% in 2022. Furthermore, it is estimated that GDP will continuously decrease between 1.2% to 1.6% over the next few years up to 2025 (Statistics Norway, 2022). Compared to the European average, the other nations also have a relatively high GDP per capita. Although there have been fluctuations in GDP in recent years, this does not appear to have affected people's consumption patterns in these countries. This can be supported by the fact that there has been steady growth in the sports industry and in XXL during the same period. Nevertheless, it is important to point out that a high or low GDP can play a crucial role in deciding which goods and services individuals can afford beyond their most important expenses.

Inflation in a country also exerts a notable influence on private individuals' consumption of goods and services because it affects their purchasing power, which in turn determines their ability to afford these commodities. Central banks in different countries measure inflation via the consumer price index and subject the data to analysis with the aim of forecasting future trends. Norges Bank, the central bank of Norway, regularly employs this measurement and targets an annual inflation rate of 2% (Norges Bank, 2023). Over the last year of 2022 and at the beginning of 2023 the inflation in Norway has displayed an upward trend, resulting in an inflation rate of 7% in January 2023. This development has induced Norges Bank to implement policies to address the situation, including setting the key interest rate at 2.75% in the same period. Given the current level of inflation, it is reasonable to anticipate that the Norges Bank will persist in increasing the key interest rate in the forthcoming period. As a result, this monetary policy action is likely to impact the demand for goods and services, as well as private consumption and business investments (Norges Bank, 2023).

Unemployment is another indicator that reveals information about a country's economic position and success. High unemployment can lead to a reduction in private consumption as people then lack income and employment opportunities. This in turn can affect the demand for goods and services and potentially lead to companies and organizations having to reduce their workforce. Furthermore, high unemployment will lead to fewer taxpayers, which will reduce the country's tax income. The opposite will also be the case with low unemployment, where private individuals will have greater employment opportunities with stable incomes, which in turn will lead to greater welfare in the country. In light of this, labor and employment are seen as one of the most important resources in a country to achieve value creation and welfare (Arbeids- og inkluderingsdepartementet, 2017).

In 2021, the unemployment rate in Norway and Denmark was much lower compared to the European average, as shown in figure 13. On the other hand, Sweden and Finland had significantly higher unemployment this year. Inflation numbers in recent years show that Sweden has had increasing unemployment, while Finland has had a declining trend. Austria has been around the European average in recent years (United Nations Association of Norway, n.d.). According to numbers published by Statistics Norway in December 2022, the unemployment rate in Norway is 3.4%. This is a decrease of 1.6% from 2021. Although there has been a positive decrease in unemployment in Norway since 2021, it should not be overlooked that the current level of inflation and interest rates may change in the nearest future (Statistics Norway, 2022).

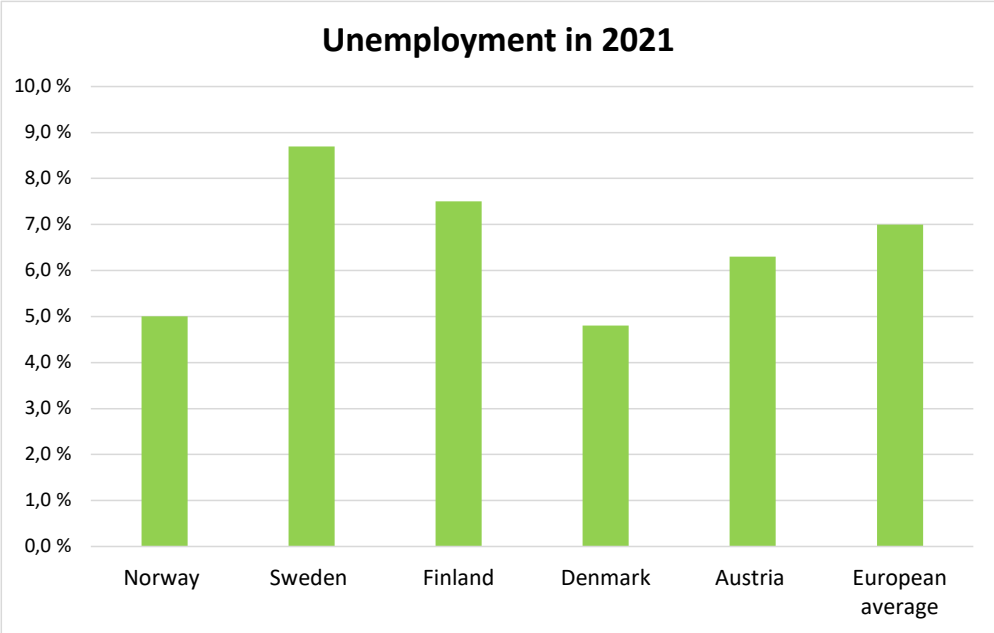


Figure 13: Overview of unemployment in 2021. (United Nations Association Of Norway, n.d.)

To summarize and conclude, the various elements GDP, key interest rate, inflation, monetary policy, and unemployment all have an influence on each other. As the economic situation is right now, with a relatively high GDP in Norway and in the other countries, with a declining trend in unemployment, it may look good for XXL's sales at first glance. However, due to the high inflation and a rising key interest rate, private individuals will most likely struggle with a poorer economy in the nearest future. This will in turn go beyond private individuals' consumption and it will probably lead to expenses that are absolutely necessary such as mortgages, electricity, food etc. being prioritized before expenses for hobbies, and leisure activities. For XXL, this will probably have a negative effect, as they will most likely notice



this in the volume of sales of goods, but also that the costs of goods sold will become more expensive. Therefore, the economic factor has a major impact on XXL's income, costs, and profits. Based on everything mentioned, the economic factor is seen as very negative for XXL in the nearest future. However, in the medium and long term it could change to a positive effect. Taking this into account, the economic factor is considered a negative effect on XXL at this time. This is based on the current situation in the various countries with high level of inflations and rising interest rates.

Factor	Very negative	Negative	Neutral	Positive	Very positive
Economic		X			

Table 3: Economic factors influence on the retail industry

4.1.1.3 Socio-cultural

Socio-cultural factors are an important aspect of the external environment that can significantly impact the success of a company. The systematic observation and analysis of social trends is a crucial component of effective business strategy for a firm. By monitoring shifts in consumer behavior and preferences, a company can adapt its products or services to meet the changing demands of its customers, thereby positioning itself for continued success in a dynamic market environment (Sammut-Bonnici & Galea, 2014). For a company like XXL, a close examination of the following relevant socio-cultural factors such as demographic considerations, lifestyle trends, and geographics is crucial to gain a comprehensive understanding of the impact of social factors on XXL’s operations.

Demographic considerations play a key role in shaping consumer behavior and preferences. It is crucial to understand the age and gender distribution of the population as it can create both opportunities and threats for various industries (Whittington et al., 2020). Therefore, demographic considerations are a crucial aspect of the social-cultural environment for XXL. For instance, as the population ages, there is an increasing demand for products from the older generation which could potentially be a market opportunity for XXL. On the other hand, an aging population also means that the demand for certain products that are more popular for younger generations may decline.

Based on figure 14, the largest proportion of the Norwegian population in 2022 was between the age groups 25 and 59. Moreover, the age distribution depicts a relatively smaller population of individuals above the age of 59 compared to those under the age of 25. Nevertheless, there has been an increase in the proportion of elderly individuals over the age of 67, who now accounts for 16% of the total population (Folkehelseinstituttet, 2022). The largest proportion of the population is in the younger age range, which is most likely to be interested in sports and outdoor activities. This will give XXL the potential for targeting this segment with relevant products, which can be beneficial for the company in the medium term. However, in the longer term, it appears that the fertility rate among women has declined substantially over the past decade, falling from 1.98 children per woman in 2009 to 1.55 in 2021 (Statistics Norway, 2022). This could potentially have an adverse impact on the sports industry in the future. Therefore, it is important for XXL to understand the demographic trends and be able to adapt its products to meet the changing demands of the market to ensure long-term sustainability and growth.

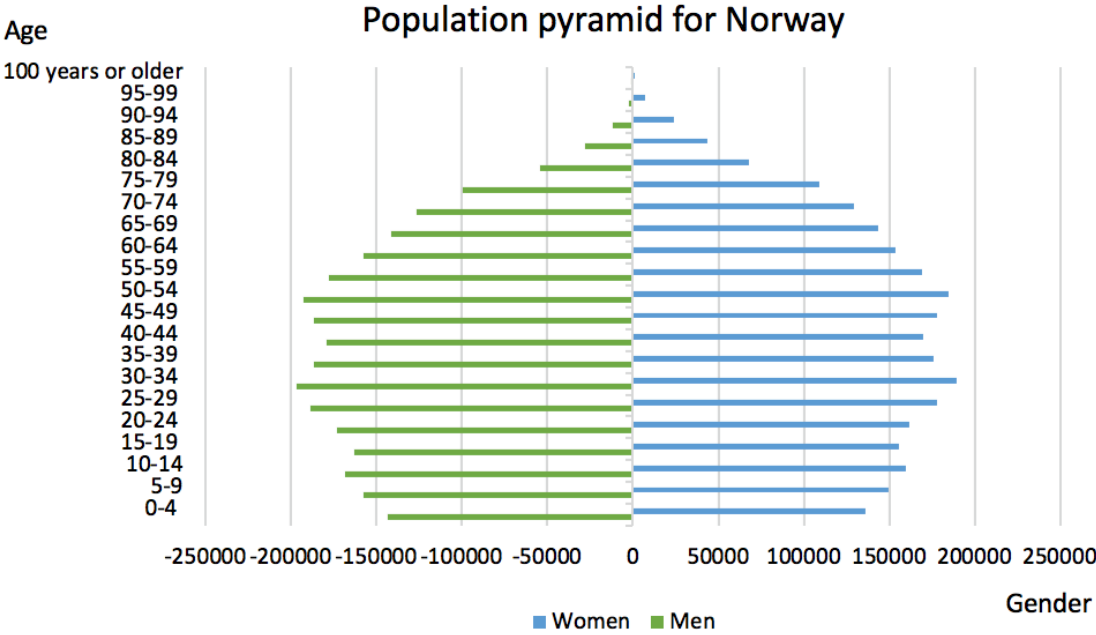


Figure 14: Population of in Norway 2022 (Statistics Norway, 2022)

In addition, life expectancy has increased in Norway over recent years. Specifically, life expectancy for men has risen from 78.6 years in 2009 to 81.59 in 2021, an increase of approximately 2.99 years. For women in the same years, they have increased from 83.06 to 84.73 years, which is an increase of approximately 1.67 years (Statistics Norway, 2022). It is not expected that the increase in life expectancy will have a significant impact on the retail

sports industry, as the majority of consumers are younger than those above 80 years old. However, this trend of increasing age may present opportunities for retailers in the sports industry to offer products tailored to the older populations needs.

Further, lifestyle trends represent a crucial aspect for companies operating in the retail sports industry. Changes in such trends can have a substantial effect on the sales and growth prospects of a company. It is crucial for companies to closely monitor emerging trends to be able to adjust strategies and maintain competitiveness in the market.

In recent decades, there has been an increased interest in sports, training, and fitness. Nordic countries, in particular, have established strong cultural associations with healthy and active lifestyles. Accordingly, Statistics Norway’s living conditions surveys from 1997 to 2019 demonstrate an upward trend in the number of people who exercise or work out at least once a week (Statistics Norway, n.d.). In addition, there has been a reduction in the proportion of the Norwegian population who never exercise. The latest survey in 2019 indicates that 80% of the population aged 16 years or older in Norway engage in regular physical activity, and only 7% do not. The proportion who exercises weekly has increased by approximately 20%, while the proportion of the population who never exercise has decreased by approximately 20% since 1997. This is shown in figure 15.

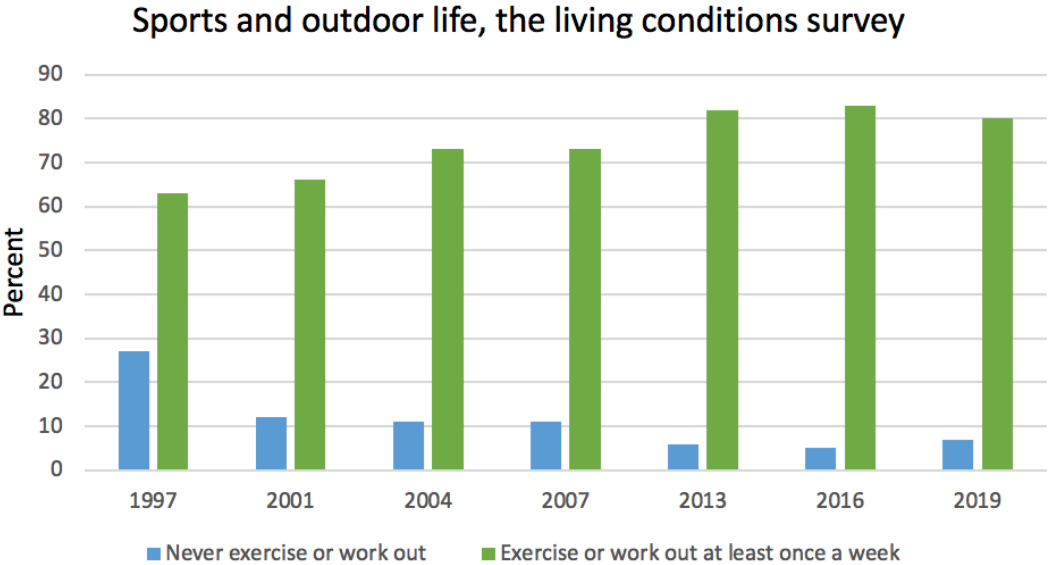


Figure 15: Percentage of individuals who exercise (Statistics Norway, n.d.)

According to surveys conducted by the European Commission, the physical activity levels of individuals in the countries in which XXL operates can be compared. Results from the special Eurobarometer for sport and physical activity indicate that the Nordic countries have the highest levels of physical activity in Northern Europe. The proportion who exercises at least once a week is 69% in Finland, 67% in Sweden and 63% in Denmark. In comparison to the EU average, where only two out of five (40%) exercise at least once a week, these findings reveal that the Nordic figures is relatively high (European Commission, 2018). As there is a growing trend for physical activity in the countries where XXL operates, this is positive for the retail sports industry.

The increasing trend of physical activity is also reflected in parallel growth in the number of fitness centers as shown in figure 16. The fitness center industry in Norway has experienced substantial growth from 477 fitness centers in 2008 to 1313 centers as of 1. October 2020 (Treningsindustrien, 2018, 2019, 2021). This corresponds to almost a tripling of the industry. The same growth applies globally and especially to the Nordic countries. As the fitness center industry continuously increase, it is likely to believe that the demand for training clothes also increase.

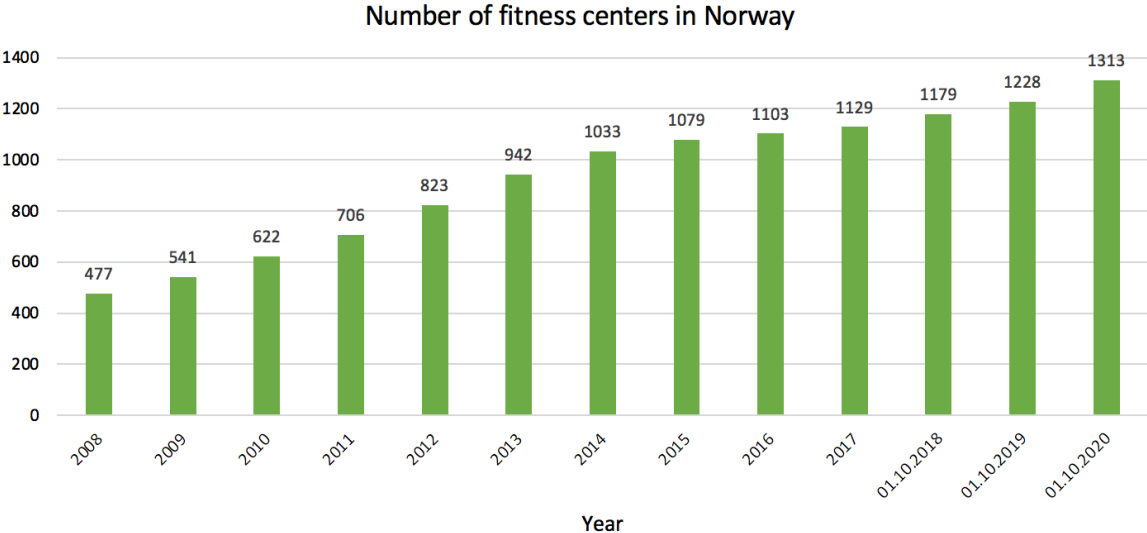


Figure 16: Development in the number of fitness centers in Norway from 2008 to oct 2020 (Treningsindustrien, 2018, 2019, 2021)

Lastly, another important aspect to consider when looking at socio-cultural factors is geographical factors. For instance, the distribution of the population can influence a company's

sales and marketing. According to Whittington et al., (2020) will certain locations with more concentrated areas more likely experience stronger economic growth than rest of the country. In Norway, there is a large spread in the population across the country, which can be considered a decentralized distribution. However, XXL has placed most of their warehouses in eastern Norway and the Oslo area, as it is the most concentrated area in the country (XXL, 2021). The fact that Norway is a large and elongated country with mountains and fjords, it can be a disadvantage for the retail sports industry as they must establish more stores to cover the entire country. This also applies to similar countries like Sweden and Finland where XXL operates.

In conclusion, by looking at the retail sports industry market from a socio-cultural perspective, including demographic factors, lifestyle trends and geographical factors, they are considered to have a positive effect for XXL on the forecasted period.

Factor	Very negative	Negative	Neutral	Positive	Very positive
Socio-cultural				X	

Table 4: Socio-cultural factors influence on the retail industry

4.1.1.4 Technological

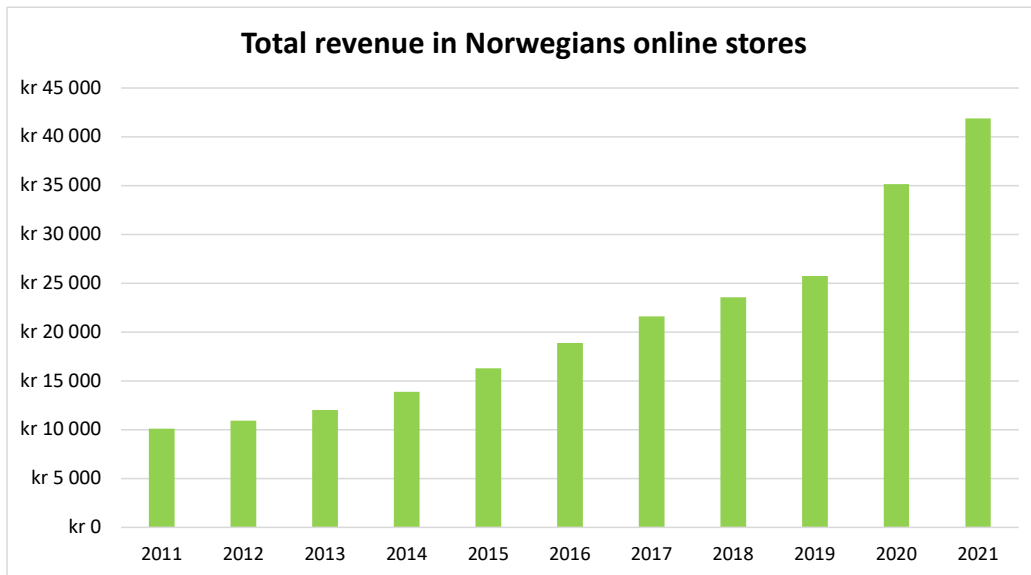
Technology has made significant strides over the past two decades, leading to increased importance in people’s daily lives. People today are constantly surrounded by technology, and this has made it easier to communicate, make decisions, save time, etc. However, for companies, this has resulted in the constant appearance of new advancements in the shape of products, machinery, software, analytical tools, etc. Development and research into new technology can be costly for companies, but on the other hand, it can attract and reach larger customer bases and reduce costs in terms of efficiency and labor. The technological aspect in the PESTEL framework evaluates the impact technology has on an industry and companies (Whittington et al., 2020).

In the sports industry, technology will have an impact on companies in the form of new technology in the electrical products they offer, such as software in watches and GPSs. Further, it can also be in the form of improving systems, so companies can get a better overview of how many products they have in storage, updating computer programs, or deciding whether machines can take the place of workers. As previously mentioned, XXL has several large

warehouses centrally around the largest cities in the countries they operate in. In these warehouses, it will be possible to look at new technological possibilities to make it more efficient. The publicly traded technology company Autostore is one such company that works to develop order fulfillment solutions to help businesses achieve efficiency gains in the storage and retrieval of goods (Autostore, n.d.).

Online shopping is one of the most important technological factors in the sports industry. Although it has been possible to shop online for many years, more and more people are choosing this option over directly visiting stores to purchase goods and services. Statistics represented by Statistics Norway (2021) showed that as many as 4 out of 5 Norwegians between the ages of 16 and 79 shop online. The amount of people shopping online has increased by 30% between 2017 and 2021. The majority of these numbers came from younger people, but there has been a significant increase in the amount of older people who prefer to shop online in recent years.

Postnord publishes a yearly report on online shopping in Norway, revealing an annual rise in the revenue of Norwegian online stores from 2011-2021. Figure 17 provides an overview of these numbers. These figures show how big a proportion of goods purchased online has become, and this development is expected to continue in the future. Nevertheless, it is mentioned that the online revenue forecast in the nearest future in Norway is very uncertain, considering that 1 in 2 Norwegians say that they will reduce their consumption due to high inflation and interest costs as the situation is now. Furthermore, the report shows that 75% of people between the ages of 16-49 said they were going to shop online at least once a month in the next six months. For people between 50-59 years of age, this percentage was 60% and for people over 60 years of age 37% (Postnord, 2022).



*Figure 17: Total revenue in Norwegians online stores in the period 2011-2021. Numbers in NOK million (Postnord, 2022)*

In terms of the sports industry, it shows that some of the top categories of goods purchased in the first quarter of 2022 were clothes and shoes, 57% for women and 45% for men, and sports and leisure goods, 18% for women and 28% for men (Postnord, 2022). These are categories that affect XXL and other companies in the industry, and the fact that such high percentages of consumers chose to purchase these products online demonstrates the importance of focusing on online shopping for companies in this industry.

According to XXL's annual report 2021, they have placed a higher priority on keeping products that they sell a lot of online in central warehouses. This is much more effective, opens up more room in the physical stores, and reduces the cost of shipping for the company (XXL, 2021). Furthermore, according to XXL, online shopping is where they are currently experiencing the most growth, though they admit that there is still much room for improvements. As a result, they have recently made the choice to increase their efforts in the future year in order to increase market share in online purchasing. To achieve this, they will expand their knowledge of digital sales, digital customer experience, digital analysis, and digital product development (XXL, 2021). In all of the countries where XXL operates, it offers online shopping, and in 2021, online sales compensated for 23.5% of all overall revenue. This is the highest percentage XXL has ever had on online shopping, but they believe it is due to changes in people's shopping patterns as a result of the Covid-19 situation and technology (XXL, 2021).

Technology is constantly developing, which has an impact on XXL and other businesses in the industry. Online shopping is becoming more common, and this is expressed in a growth in revenue every year. XXL is dedicated to continually improving its online shopping and believes that online shopping in general will continue to grow in the future. Furthermore, XXL expects increased competition in e-commerce from players who only operate online instead of having physical stores (XXL, 2021). Based on the information reviewed, the technological factor is expected to have a positive effect on XXL due to opportunities for cost reductions in warehouses, new technologies in products, and the steady increase in e-commerce. As long as XXL is capable of keeping up with technological developments and keeps a strong focus on continuously gaining knowledge about this field.

Factor	Very negative	Negative	Neutral	Positive	Very positive
Technological				X	

Table 5: Technological factors influence on the retail industry

4.1.1.5 Environmental

Another important aspect of the PESTEL framework is the environmental conditions. According to Whittington et al., (2020), environmental conditions, also called an ecological factor, refers to the macroeconomic challenges related to environmental issues such as pollution, waste, and climate change. Today, the focus on improving the environment and recycling has increased more than ever both for individuals and corporations. The world is increasingly facing a climate crisis, mostly as a result of greenhouse gas emissions (United Nations Associated of Norway, 2021). For companies selling sports and outdoor equipment, environmental regulations can not only lead to additional costs but could also be a source of opportunities.

As sustainability and environmental consciousness have become more important factors for consumers, it leads many to prefer purchasing products from retailers that prioritize these values. As a result, this can lead to increased demand for sustainably produced and managed products. Retailers that lack in sufficient sustainable practices may risk losing customers. For XXL, climate and environmental issues are important areas of focus throughout the entire production process (XXL, 2019). The company sets requirements for its suppliers to ensure that the products are made in an ethical and sustainable way. On 1 July 2022, a new law came into



force, called the Transparency Act, which applies to larger corporations in Norway, and which offer goods and services outside the country. The purpose of the law is to promote business respect for basic human rights and working conditions and ensure the public access to information (Forbrukertilsynet, 2023). Overall, companies such as XXL are affected by this law. However, the transparency act is in alignment with XXL values and goals and can provide opportunities to further enhance its reputation as a socially responsible company.

Other important environmental factors the industry faces relate to reducing the CO2 footprint, plastic reduction, and animal welfare. The European Commission launched a new circular economy plan in March 2020, which aims to make Europe cleaner and climate neutrality by 2050 (European Commission, n.d.). For the retail sports industry, this means that companies must continuously work to reduce their CO2 footprint in order to be competitive in the long term. XXL has implemented various initiatives aimed at reducing energy consumption and transportation emissions. For instance, the company has installed LED lighting across all of its warehouses and has invested in a solar cell system that provides electricity to these facilities. Additionally, XXL has collaborated with transport carriers to enhance the environmental sustainability of its logistics operations (XXL, 2019).

In order to protect the environment, governments can introduce new laws and regulations, such as restrictions on the use of plastics and chemicals in the production of sport equipment and clothing. For instance, the waste regulation affects XXL and the industry, which sets requirements for companies that manufacture, import, and sell plastic products. It requires companies to take responsibility for collecting and treating plastic waste (Lovdata, 2004). XXL has implemented several measures to reduce plastic usage, including charging for plastic bags, with the proceeds going to the XXL Children's Foundation. The foundation aims to help underprivileged children in developing countries (XXL, 2019). According to statistics from the Norwegian Retailers Environmental Fund, Norway used 151 plastic bags per capita in 2021 (Miljødirektoratet, 2022). In late 2022, the European Commission proposed a new packaging directive which includes that no EU/EEA country cannot use more than 40 lightweight plastic carrier bags per person by 2025 (European Commission, 2022; European Commission, 2018). The implementation of such laws can lead to higher costs for companies operating in the retail industry, as they need to adapt to the new requirements.

XXL’s goal is to be the greenest sport retailer in Europe. In July 2016, the company was recognized by the International Consumer Research & Testing (ICRT) as delivering the best environmental and ethical practices in the European sports industry (XXL, 2019). Given that the company has a strong record in environmental issues and continually adapts to new requirements and regulations, it is considered that environmental conditions will have a moderately positive effect on XXL in the forecasted period.

Factor	Very negative	Negative	Neutral	Positive	Very positive
Environmental				X	

Table 6: Environmental factors influence on the retail industry

4.1.1.6 Legal

The last component of the PESTEL framework considers the legal conditions of a company’s macro-environment. Legal factors refer to regulations related to competition, labor conditions, and products (Whittington et al., 2020). There are several legal factors that impact the retail sports industry in Norway and the countries in which XXL operates. For instance, competition legislation, labor legislation and tax legislation.

One of the most important legal factors that affect the retail sports industry is competition legislation. The purpose of the competition law is to promote competition to ensure the effective use of market resources, with particular consideration given to consumers interests (Lovdata, 2004). This also applies to the countries in which XXL operates, where the competition authorities have similar laws that regulate competition between companies. Since XXL is a major player in the market, this law must be followed to avoid being penalized with fines, orders, or injunctions. The law prohibits the abuse of a dominant position, and thus promotes fair and free competition.

Another important legal factor that affects the industry is labor legislation. In Norway, companies must comply with the Working Environment Act, which ensures safe employment conditions and equal treatment in working life (Lovdata, 2005). An earlier investigation of XXL in 2019 shows that employees were offered beer instead of wages and that there have been several cases of price cheating (Lysengen, 2019). Another media report reveals that XXL employees were ordered to do push-ups as punishment if they arrived late, forgot sales target,

or referred to customers incorrectly. This resulted in several employees quitting their jobs (Wig & Jordheim, 2019). In 2020, the Norwegian Labor and Welfare Administration (NAV) froze its collaboration with XXL, which had sent 422 people to the sports chain for job training and work experience since 2018. This is due to the conditions explained above. NAV requires necessary measures and routines to continue the collaboration in the future (Wig, 2020). However, XXL has established an own team dedicated to ensuring that the working environment maintains a high standard to protect the employees at all levels in the sports chain (XXL, 2019).

As explained in section “4.1.1.1 political”, tax legislation is also an important factor affecting the sports industry and operations of XXL. To summarize briefly, tax laws can vary from country to country and can significantly impact the company’s financial results. To mitigate such risk, XXL must comply with tax regulations in all the countries where they operate.

In conclusion, there are several legal factors that have a significant impact on the sports industry and XXL’s operations. Competition-, labor- and tax legislation is three crucial legal factors affecting the industry. Based on those factors, they will not have a significant impact on the profitability of XXL. Therefore, it is considered that the legal factors will have a neutral effect on XXL in the forecasted period.

Factor	Very negative	Negative	Neutral	Positive	Very positive
Legal			X		

Table 7: Legal factors influence on the retail industry

4.1.1.7 Summary of PESTEL

Table 8 provides an overview of the PESTEL analysis, which indicate that political, social, technological and environmental factors are expected to have a positive impact on XXL in the forecasted period. However, the economic factor is expected to have a negative impact. On the other hand, the legal factor is expected to have a neutral effect.

Factors	P	E	S	T	E	L
Very positive						
Positive	X		X	X	X	
Neutral						X
Negative		X				
Very negative						

Table 8: Overview of PESTEL-analysis

#### 4.1.2 Porters Five Forces

Michael Porter (2008) believes that one of the most important factors in business success is the ability to understand and cope with the competition. Porter highlights the importance of analyzing the industry's underlying structure from what he refers to as the five factors instead of only focusing on its main rivals. A detailed analysis of these five forces will help companies in a deeper understanding of the industry and market, as well as in increasing their knowledge of how to generate profitability. Michael Porter's Five Forces framework includes the following competitive forces: threats from new entrants, supplier bargaining power, threats from substitutes, buyer bargaining power, and rivalry among existing competitors. The analysis will be able to identify how attractive a market is and will provide an understanding of how challenging it can be to generate profits. Profitability will be difficult to accomplish if the market is unattractive, and vice versa (Porter, 2008).

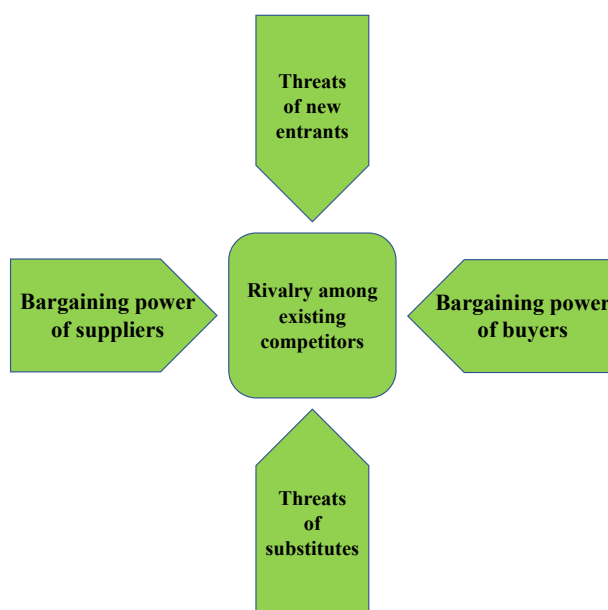


Figure 18: Michael Porter's Five Forces framework

#### *4.1.2.1 Threats of new entrants*

The threats of new entrants are the first of Porter's five competitive forces. This refers to new or existing companies that seek to enter a new industry and market in the goal of taking a portion of the market share. If there is an opportunity to generate profits, new entrants will place pressure on companies that already belong to the industry in terms of prices, costs, and resources (Porter, 2008). As a result, the market's competition will be strengthened, and the profitability of the existing companies will decline. In order to prevent losing market share to new entrants, it is crucial to take this threat seriously, and established companies must do everything in their power to create barriers to entry. Companies will find it less attractive to enter a new market and industry if there are high entry barriers.

Today's sports industry is characterized by major players in numerous nations, each having a significant market share. Therefore, it is logical to assume that when XXL and the other big players in the industry buy goods from suppliers, they benefit in some way from economies of scale. These economies of scale can, for example, be related to cost savings in purchasing, shipping, marketing, or logistics. XXL strives and desires to keep its operating expenses lower than all of its competitors and must maintain complete control over its operating costs in order to maintain its pricing strategy of offering the lowest prices for its products (XXL, 2021). This enables XXL to constantly lead the market in terms of price and market growth. Such economies of scale are establishment barriers that can have a large effect on new, smaller players who want to enter a new market but are held off by high operating costs.

Even if there are high entry barriers in a large market, new entrants will always attempt to find ways to get around these barriers and win market share. In the sports industry, new small online players without physical stores are taking a larger share of the market. According to XXL, they are aware of the competition from these players and have noticed that these companies offer similar goods for sports and outdoor activities (XXL, 2021). In the Nordics, the group Footway Group AB in particular, with subsidiaries such as Sportamore and Caliroots, has grown significantly in recent years with its online sales solutions. In 2021, Footway Group AB had a revenue of approximately SEK 1.5 billion and had a growth in revenue of 38% compared to the previous year (Footway Group AB, 2022).

Furthermore, XXL has faced strong competition from outlet stores, which have grown significantly in recent years. In Norway, Sport Outlet has lately taken larger market shares, and from 2020 to 2021, the company saw a growth of 31% (Finansavisen, 2022). Sport Outlet's goal of offering well-known brands at only low prices has made it one of XXL's biggest rivals in Norway. Goods purchased online from Sport Outlet are shipped directly from local stores, and the customer is thus supporting the local Sport Outlet store. This makes Sport Outlets online shop solution unique compared to the rest of the industry (Sport Outlet, n.d.).

The psychological processes that buyers go through when considering a purchase are another benefit for XXL. This means that the willingness of a buyer to purchase a product increase as more people purchase the same product (Porter, 2008). It relates to how people's decisions are influenced by others, and when people see that several people purchase a product from XXL, it affects someone else to believe that this is a good product. It also helps that XXL is a big company with advertisements on television, online, and in other media. This, in turn, will increase people's trust in the business and their ability to provide good and high-quality goods. Large customer bases like these are advantageous for XXL and will create barriers to entrance for new competitors.

Large financial resources are necessary for entering a new market. These funds must be used to pay for facilities, startup costs, marketing programs, hiring and training employees, buying goods, building partnerships and networks, and other related expenses. For smaller companies or start-ups, it can be challenging to raise capital and this need for capital can contribute to scaring away companies considering entering a new market (Porter, 2008). Even so, technology has made it easier for new companies to operate online, which has led to a decrease in this type of entry barrier. However, it still requires a great deal of capital to enter and establish a new company in a new market. If there are large well-established companies that want to enter a new market, they usually have the financial capacity to make it through the initial period with big losses. They have the potential to shock a market and make trouble for the major players like XXL. However, it must be profitable over the long run for these companies to operate in a new market, and it is challenging to enter a new market and dominate it right away.

One last entry barrier that new entrants must consider is how the market's major players will respond. Some of them will go to great lengths to protect their market shares, and they have no intention of losing any of their current customer base to new entrants. This can have a negative

effect on the profitability of newly established companies and lead to major financial losses. The established companies, such as XXL, may respond by taking large price cuts on the same types of goods that the new companies focus on, gaining pressure over their distribution channels and suppliers, or investing large sums of money in the market, weakening the new smaller companies (Porter, 2008). It typically takes new competitors a long time to create large customer bases, and very often the only way to do this is to take the customers of already established companies.

To summarize, XXL and other large players are very likely to benefit from a number of economies of scale. Consumers normally observe where other people purchase their products and follow the trends. It is simpler to trust a big, well-established company than a startup. Getting established in a new market is expensive, so a lot of capital and other financial resources are required. In order to protect their market shares, already established companies will react to new entrants in the market in different ways. Despite this, there are always methods to profit in a market, and it is up to the new entrants to figure out these strategies to get past the barriers to entry and attempt to become profitable. Based on the factors studied and the fact that the sports industry is currently characterized by a few large players, the threat from new entrants is rated as low. However, it should not be ignored that several smaller online players may be a major threat in the future.

Competitive forces	Very low	Low	Neutral	High	Very high
Threats of new entrants		X			

Table 9: Threats of new entrants

4.1.2.2 Bargaining power of suppliers

The next aspect in Porters five forces framework is the bargaining power of suppliers. It is the suppliers who offer organizations a wide selection of goods, labor, and other critical input factors that businesses demand. Therefore, suppliers can influence the operations of the business by increasing prices or reducing the quality of goods offered (Barney, 2013). The bargaining power held by a supplier affects both the terms they can negotiate in the market and the demands that customers can make regarding the products offered. The greater the supplier’s bargaining power is, the more value creation they can capture (Whittington et al., 2020). According to Porter (2008), suppliers with high bargaining power can reduce the profit margins

of other actors to such a significant extent that these actors are unable to compensate for their own cost increases by raising product prices.

In the sports industry, there is many suppliers who offer products to various retailers. For example, XXL buys goods from suppliers both inside and outside the EU (XXL, 2021). The company trades with more than 400 suppliers to be able to offer a wide range of products (XXL ASA, n.d.). For smaller sports retailers specializing in a narrower range of products, this number may be considered high. Nevertheless, this indicates that there are many potential suppliers available in the industry. As the number of suppliers exceeds the number of sports retailers, it indicates that retailers have greater influence and power compared to the suppliers. The supplier's bargaining power weakens when retailers have the option to choose from a wide range of suppliers (Porter, 2008).

The largest sport retail chains such as XXL and Intersport in Norway account for a significant portion of the supplier's revenues. Therefore, these large chains have the ability to pressure the suppliers on price. Having to replace large customers with several small customers involves significant switching costs for suppliers. For many years, there has been an intensive price competition between the chain XXL and Intersport (previously G-Max) in Norway, with a focus on offering the lowest prices (Hopland & Kampevoll, 2019). This has also contributed to putting pressure on the suppliers. As XXL and G-Max have accounted for approximately 75% of the Norwegian sports market, this price competition has affected margins throughout the industry over the past 10 years (Solem, 2019). This price competition particularly put pressure on small suppliers.

However, looking at the supplier's side, major brands such as Adidas, Nike, Puma and New Balance have greater bargaining power than smaller suppliers. This is because these brands are highly sought after by customers, allowing the suppliers to charge higher prices for their products. Therefore, these suppliers have a lot of power as the sports retailers must adapt to customer's demands and have their products available. Except for the large suppliers, there are low switching costs for the retailers in this industry due to a large number of suppliers to choose from.

To complement the branded product range, sports retailers can also invest in their own brands. These brands will serve as substitutes for brand manufacturers. XXL sells its own private label



goods with relatively low-price points that account for a small share of total sales. In 2021, these own brand products accounted for around 9 percent of the company’s operating revenue (XXL, 2021). Generally, substitutes contribute to lower bargaining power for suppliers. However, this can vary depending on the specific industry. For the sports industry, substitutes will have a limited effect since there are already multiple suppliers offering the same products. Sports retailers investing in their own brands will still pose a threat to suppliers as their products can be removed from the retailer’s product range.

Another important factor that can affect the profitability of the sports industry in the future is vertical integration. Large suppliers such as Adidas, Nike, and Puma, as well as smaller suppliers like Sport Outlet and Stormberg, all have their own retail- and online stores. Therefore, they are both suppliers and competitors to XXL and other sports retailers selling the same products. This could be a certain threat for the sports industry, especially when it comes to online sales. Suppliers with online sale solutions can save significant costs, allowing them to push down prices while accepting orders around the clock (y Monsuwé, Dellaert, & Ruyter, 2004). Suppliers who have their own online stores can steal margins from the sports industry in the years to come and are therefore seen as a threat to the industry, as this can increase suppliers bargaining power.

To conclude, the high number of suppliers in the sports industry indicates that the bargaining power of suppliers is low. Therefore, switching costs for sports retailers are also low. However, the major suppliers and well-known brands have greater bargaining power. Additionally, vertical integration, where suppliers have their own stores, both physical and online, will affect the sports industry and bargaining power in years to come. Based on this, it is reasonable to assume that the threat from suppliers during the forecasted period will have a neutral effect on XXL.

Competitive forces	Very low	Low	Neutral	High	Very high
Bargain power of suppliers			X		

Table 10: Bargain power of suppliers

#### *4.1.2.3 Threat of substitutes*

Porter (2008) describes how substitutes can be a threat to a company's profitability in his third competitive force. Substitutes are products that can be replaced with similar products. In the sports industry, substitutes are seen in the companies we excluded earlier because they are not considered full-fledged sports chains. These included companies like Zalando, H&M, and Coop OBS. These companies are not seen as direct competitors to XXL, but as competitors where consumers can purchase products that satisfy the same needs.

When it comes to XXL's substitutes, there is a strong focus on the sale of training clothes and various types of leisure/training shoes. The most common substitute at H&M is training clothing for men, women, and children. This can be purchased in physical stores or online, like XXL. Zalando offers a much larger selection of clothing and footwear, but it also has some other products, such as sports glasses for running, cycling, and winter sports. Zalando is only available through online shopping and has a separate sports category on its website. According to an article in 2019, more than one in every four Norwegians shopped at Zalando in 2018, which was more than other countries such as Sweden, Denmark, and Finland (Hopland, 2019). Further to Coop OBS, they offer a wide range of sporting and leisure products and clothing and has also a separate category for sports and leisure. They operate with sales from online shopping and physical stores in Norway's major cities.

There will be variations between the products sold at the different substitutes and those sold at XXL. Price, quality, brand names, and insurance on the products are the determining factors and thus make the threat from these substitutes high. It is necessary for XXL to consider the threat of substitutes seriously as it can limit their profits and growth potential. One could argue that the mentioned substitutes do not provide the same level of quality and service as a full-fledged sports chain. However, if the cost to the consumer of switching to a different product is minimal and the price of the substitutes is significantly lower than that of XXL, it may lead to a change in the consumer. On the other hand, you won't get the same knowledge and the best service to find the best product for the customer at the substitutes. However, XXL and other sports chain stores have employees with good product knowledge and expertise within the various product categories.

The service and expertise provided by full-fledge sports chains can have a major influence on consumer choice. A consumer with limited product knowledge would prefer to be able to pay a little more for XXL's high level of service and the feeling that the employees are there to assist them. This is not feasible, for instance, at Zalando or H&M, where you may feel that you are shopping blindly because you have little or no personal knowledge of the product category. Of course, this will vary depending on the products purchased; service and expertise are not as necessary when shopping for socks/boxers as they are when shopping for shoes.

Another substitute group that can pose a threat to XXL is niche retailers. A niche can be defined as a small market made up of a small collection of people who share similar characteristics or needs (Dalgic & Leeuw, 1994). These niche stores specialize in a single product category and have detailed knowledge about the products they offer. They will also be able to provide excellent service, have a better understanding of the customer's needs, and offer personalized and customized products that cannot be found at XXL or other full-fledge sports chains. Customers in these stores are often big enthusiasts or professionals in this product category. These specialty stores may offer fishing equipment, bicycles and related equipment, outdoor activities, or football equipment. Today, XXL has many competitors in the niche market. Löplabbet, a company that specializes in running shoes, has experienced huge success in Norway and Sweden. Currently, the company operates 22 stores in Sweden and 17 stores in Norway (Löplabbet, n.d.). Another successful company in Norway is Torshov Sport, which specializes in football and hockey equipment, and they claim to be the country's best specialist in this field (Torshov Sport, n.d.). Furthermore, the company Fjellsport only operates online and specializes in outdoor activities. They have employed skilled climbers, hikers, hunters, fishermen, skiers, and other specialists to test the products they sell to ensure that they are always of the highest quality and functionality (Fjellsport, n.d.).

To summarize, the opportunity to replace one product with another has become more accessible than ever, mainly because of the availability of online shopping. This leads to a greater threat from substitutes because the costs of any replacement are significantly lower than they were in the past. Additionally, the internet makes it easier to start up niche stores. From XXL's viewpoint, they wind up in the middle of the market's substitutes. This is because XXL has superior knowledge and customer service compared to H&M and supermarkets and hypermarkets like Coop OBS, but has trouble competing with the niche shops in this field. XXL closely observes its rivals to stay on top of rising trends and technological developments

because of the development of e-commerce in recent years. Zalando, Amazon, and eBay are among the biggest competitors for XXL in online shopping (XXL, 2021). Smaller niche shops may have the potential to capture smaller portion of the company's market shares in the future. Based on this, the threat posed by substitutes is considered to be high.

Competitive forces	Very low	Low	Neutral	High	Very high
Threat of substitutes				X	

Table 11: Threats of substitutes

4.1.2.4 Bargaining power of buyers

The bargaining power of buyers refers to the ability of customers to exert pressure on prices or demand higher quality through improvements in products and/or services. This will reduce the profitability in a specific industry. Some customers even have such high bargaining power that suppliers hardly manage to make any profits (Whittington et al., 2020). Customers can therefore reduce a company’s selling prices (Barney, 2013). According to Barney (2013), the bargaining power of buyers depends on the following factors:

- (1) The concentration of industry actors relative to the customers.
- (2) The degree of product standardization or differentiation.
- (3) The magnitude of customers switching costs.
- (4) How price sensitive the customers are.

The sports industry is characterized by homogeneous products, many providers, and low switching costs. As mentioned earlier in point “4.1.2.2”, the switching costs is low since customers can choose from many providers offering the same product. The fact that customers have the option to purchase a similar or equivalent product from a competitor gives the customers high bargaining power. In chapter 2, we found that in Norway, Sweden, and Finland, there are many providers of sports equipment even though the sports industry is dominated by a few strong market leaders. However, the proportion of independent sports stores has decreased, and chains have strengthened, which has reduced the number of providers somewhat.

As the sports industry is known for its homogenous products among many providers, it leads to an intense price competition to differentiate themselves from their competitors. Customers are price sensitive for similar products. Standardized products contribute to price being a key factor in customers choices (Lien, Knudsen, & Baardsen, 2016). XXL has a concept where economies of scale enable them to set prices low. The rise of the internet and price comparison tools have made it easier for customers to choose where to buy products based on price. For example, Norway has websites such as Prisguiden.no and Prisjakt.no which compares prices and price history for all kinds of products. This contributes to increased transparency on the price side. A more digitized market reduced the information asymmetry between the customer and seller, where customers have access to more information. This gives customers high bargaining power now and in the future.

On the other hand, there are a high number of customers that significantly weakens their bargaining power. XXL and other players in the sports industry are not dependent on a single customer. Therefore, a customer will not have much power as each customer represent an insignificant portion of the total revenue. This significantly reduces the customers bargaining power.

Based on the concentration of industry actors relative to the customers, the degree of product standardization, customers switching costs, and price sensitivity of customers, it can be concluded that the threat from the bargaining power of buyers will have a high impact on XXL in the forecasted period.

Competitive forces	Very low	Low	Neutral	High	Very high
Bargaining power of buyers				X	

Table 12: Threats from bargaining power of buyers

4.1.2.5 Rivalry among existing competitors

Porter's final competitive force is rivalry among existing competitors and how this influences a company's profitability, growth, and future potential. Porter identifies several factors that influence how companies that compete in the same market are impacted by this competition,

highlighting how intense the competition is and how price competition is based on this intensity (Porter, 2008).

Today's sports industry is characterized by a handful of companies who hold a large portion of the market. This is true in each of the nations where XXL operates. As a result, competition for market shares in the market increases, which has an impact on companies' potential for making profit. In Norway, there are three other major competitors to XXL in the sport industry: Sport 1, Intersport, and Stadion. All four of these players control large portions of the industry, and some of them are nearly identical in size. High competition and lower profitability are common characteristics of such a market (Porter, 2008). Bjørn Rune Gjelsten, the owner of Sport 1, confirmed this to Dagens Næringsliv in 2021 and mentioned, among other things, that there were intense competitions for market shares in the sport industry (Kværnes, 2021). Such conflicts among a few players in an industry will lead to large product price reductions, marketing initiatives, or the introduction of new products. This, in turn, will have an impact on the profitability of sports chains, as competitors must react to the actions of another player to keep customers.

The sports industry was introduced in Chapter 2, and it was made clear that this industry has been growing steadily and slowly over the recent years. According to Porter, this additional element increasing the intensity of rivalry between market players (Porter, 2008). Fewer new customers enter the market because of slow growth, forcing competitors to compete for existing customers and the market's share. This is something that is also notable at XXL, which uses a pricing strategy to offer the lowest prices for its products in the market. This is made possible by their effective logistics, control systems that monitor and report on the majority of purchasing and sales activities, and other systems that maintain focus on possibilities for improving efficiency and reduce costs (XXL, 2021).

All the major sports equipment retailers sell products that are identical or nearly identical to one another. This means that if the prices for the same item are different, it does not cost as much for a consumer to purchase the product they want from another sports chain. As a result, there becomes intense rivalry among the players, particularly when it comes to of price, and the importance on offering excellent service to customers and customer guidance may increase to the top of the list of priorities. Furthermore, selling identical products can result in major price wars as prices are reduced to attract new customers or convince existing customers to switch to

competitors (Porter, 2008). Again, this will result in lower profitability for market players, but they can view it as an opportunity for customers to return to them for their future purchases, making it profitable over the long run.

Additionally, modern technology allows the continuous improvement and development of products. This implies the production of new models as well as new and improved types of currently available products. Older products will become outdated because of the introduction of newer products and models, which will cause a decline in interest in the older products and models. As a response, XXL and other sports retailers may lower the price on "outdated" products to sell them at a marginal profit or loss while they still have value (Porter, 2008). The results of not doing this could be that they have a lot of products in storage that they are unable to sell and risk ending up losing more money.

Given the small number of major market players in the sport industry, recent years' slow growth, sales of identical products, and probabilities of product replacement by new and better products, the rivalry among existing competitors is considered to be high. It should be noted that this competitive force may change to very high in the future, as XXL is currently the market leader and thus a target for the other competitors.

Competitive forces	Very low	Low	Neutral	High	Very high
Rivalry among existing competitors				X	

Table 13: Threats from existing competitors

4.1.2.6 Summary of Porters five forces

Based on Porters five forces model as an analytical tool for assessing competitive forces in the sports industry, we have evaluated the level of competition intensity as high rivalry in the sports industry. This indicates a moderately attractive industry and moderate profitability. The industry is characterized by high rivalry among existing suppliers, especially in price. Furthermore, this ongoing price competition between existing competitors lead to high bargaining power of buyers, and high threats of substitutes mainly because of digitization and the rise of large digital shopping platforms. This will make the sports industry less attractive.

Competitive forces	Very low	Low	Neutral	High	Very high
Threats of new entrants		X			
Bargaining power of suppliers			X		
Threats of substitutes				X	
Bargaining power of buyers				X	
Rivalry among existing competitors				X	

Table 14: Summary of porter five forces

## 4.2 Internal analysis

Internal analysis is important to map the company's current performance and market position. This internal analysis should identify XXL's resources and capabilities and evaluate the extent to which the company can create competitive advantages. According to Barney (2013), resources can represent different characteristics in a company, and therefore be divided into four categories: 1) financial capital, 2) physical capital, 3) human capital, and 4) organizational capital. To identify which resources creates a competitive advantage for XXL and which do not, VRIO analysis framework will be used.

### 4.2.1 VRIO

VRIO analysis is a strategic tool first introduced by Jay B. Barney in his 1991 paper "Firm Resources and Sustained Competitive Advantage" (Barney, 1991). The framework helps analyze the internal resources and capabilities of a company. VRIO stands for Value, Rarity, Imitability and Organization. The framework will be used on XXL to obtain a clear overview of the areas where XXL has a competitive advantage and the potential areas for improvement. Any company wants to have resources that provide sustainable competitive advantages. Therefore, to have sustainable competitive advantages, a resource must meet all four criteria of the framework:

- 1) Valuable
- 2) Rarity
- 3) Imitability
- 4) Organization

Table 15 summarize the VRIO-framework.



Valuable	Rare	Inimitable	Organized	Resource advantage
No	-	-	-	Competitive disadvantage
Yes	No	-	-	Competitive parity
Yes	Yes	No	-	Temporary competitive advantage
Yes	Yes	Yes	Yes	Sustained competitive advantage

Table 15: VRIO-framework

Furthermore, we will present and analyze the resources that we believe are most significant for XXL now and in the future, and then evaluate whether these provide a competitive advantage to the company or not. The resources that will be analyzed are big box concept, procurement and logistics, brand, employees, and management.

#### 4.2.1.1 Big Box concept

One of XXL's most important success factors has been the big box concept because it has allowed the company to offer a wide range of sports products under one roof. In Norway, XXL was the first company in the sports industry to make use of the concept. The concept is about having large stores with good locations. As discussed in chapter 2, each store is between 3000 and 5300 square meters, with an average size of 3900 square meters (Sveen, 2016). Compared to its competitors, XXL's stores are large. This makes it easier for customers and their shopping experience having a wide range of products and services in one place. For XXL, this means that they generate more sales per store than its competitors.

All stores are designed with an attractive "one-stop-shop" experience. The stores are divided into four categories to make it easier for customers to navigate while shopping. Each product category has its own sales specialists in its area to provide the best possible assistance to customers during their purchasing process (XXL, 2021). Thus, the big box concept of XXL also creates a "store-in-store" experience for its customers. Until now, XXL has focused having its stores in countries that have four distinct seasons. Norway, Sweden, Finland, and Austria have all four similar seasons in a year. Therefore, XXL has changed its range of products in the stores according to the time of year. The store concept helps on XXL's strategy of selling products at lower prices than its competitors, as the company operates efficiently keeping costs as low as possible. Large warehouses create economies of scale that enable the company to

make large purchases from suppliers at lower purchasing prices than its competitors. Based on this, the concept is considered to be a *valuable* and *organized* resource for XXL.

There are several large chains that have imitated XXL’s big box concept in past years. For example, Intersport in Norway, Stadium in Sweden, and Budget Sport in Finland. This indicates that the concept can be copied and thus not defined as an *inimitable* resource for the company. Nevertheless, only a few large chains in the sports industry are today built on the big box concept, which makes the resource still considered *rare*.

To conclude, the resource meets the criteria of being valuable, rare, and organized. However, the big box concept can be copied and thus not inimitable. Therefore, this resource gives XXL only a temporary competitive advantage.

Resource	Valuable	Rare	Inimitable	Organized	Competitive value
Big Box concept	Yes	Yes	No	Yes	Temporary competitive advantage

Table 16: VRIO analysis of the big box concept

4.2.1.2 Procurement and logistics

The next significant resource XXL possesses is its procurement and logistics. XXL has the Nordics most advanced omnichannel order management system, where products are sold across several channels (Vanebo, 2020). This utilizes both the central warehouses and each store warehouse to work in the same direction and function as an internet warehouse. In this way, customers get a higher degree of flexibility when shopping at XXL, using the omni-channel platform. The company’s products are thus available in all stores, both online and physically.

The company has today three centralized warehouses, one at Gardermoen in Norway, one in Örebro in Sweden, and one in Vienne, Austria (XXL, 2021). All these warehouses are robotic, which is valuable for XXL as it operates efficiently at low costs. To deliver the goods from the central warehouses to the stores, XXL uses third party transport providers. The warehouses are strategically located in relation to delivery routes, main roads, railways, and airports. Thus, transport providers normally use one day to deliver from the central warehouses to most of the stores and E-commerce delivery points (XXL, 2021). In addition, the IT infrastructure in XXL is algorithm-driven which allows XXL to have access to real-time data from all stores and

channels. This has contributed to a more efficient distribution of goods, where all transactions are more predictable throughout the value chain. For example, every time a product is sold from an XXL store, this product is reordered from the supplier. For XXL, this is a *valuable* resource as good routines and systems related to procurement and logistics are key attributes for having success in the sport industry.

Effective logistic systems are necessary to operate profitably in the sports industry. Most of XXL’s competitors have established good routines for procurement and logistics, which indicates that the rarity of XXL’s logistics and IT-systems are moderate. Comparable competitors with similar procurement and logistics routines for XXL are Intersport in Norway and Stadium in Sweden. They use a similar business model, including joint purchasing. As there are only a few sports retailers that operate with fully integrated value chains, the procurement and logistics resource for XXL are considered to be *rare*. However, with XXL’s omni-channel platform, logistics and distribution routines, and IT-systems, the company appears to have advanced further than its competitors. Therefore, we could say that XXL has a slight advantage regarding this resource. Nevertheless, this slight advantage can easily be copied by its competitors, and the resource is therefore considered *imitable*.

Regarding market conditions, XXL has experienced disruptions in the value chain over the past year. The company has had a higher inventory than desired. This has led to cost cutting, where good are sold at large discounts. This is poor utilization of resources. A tough start of 2023 is expected (Molland, 2023). Therefore, we consider the XXL not to be fully *organized* at the time of writing.

To conclude, the procurement and logistics resource for XXL meets VRIO’s criteria of being rare and valuable but are not seen as inimitable and organized. Therefore, this resource gives XXL only a temporary competitive advantage.

Resource	Valueable	Rare	Inimitable	Organized	Competitive value
Procurement and logistics	Yes	Yes	No	No	Temporary competitive advantage

Table 17: VRIO analysis of procurement and logistics

#### 4.2.1.3 Brand

Since its founding in 2000, XXL has established itself a strong brand, particularly in the Scandinavian region. They have done this for a long time by building their brand through effective marketing across a variety of platforms and using their big box concept as a blue ocean strategy. The blue ocean strategy is about finding new untouched market spaces and creating new demand so that you are in a situation where there is no competition (Kim & Mauborgne, 2005). By doing this, XXL was able to build a large customer base by offering a broad selection of well-known brands at reasonable prices. According to Sporting Goods Intelligence (SGI), XXL was the world's fastest growing sports chain in 2013, with the most growth in online shopping, warehouses, and sales to existing customers (Finansavisen, 2014). According to XXL themselves, after opening new stores in the largest cities in the Nordics, they were able to take advantage of local marketing synergies and benefit from them (XXL, 2021). Further, in several Norwegian surveys, XXL had the biggest improvement among retailers in Norway in 2020, and that the company is considered to have a good reputation among the people (XXL, 2021).

The XXL brand is considered as *valuable* because they obtain such a large share of the market in the Nordic countries, widely known by consumers thanks to its name and bright green logo and is associated with high-quality products. On the other hand, the XXL brand is not *rare*. The reason is because all the other large sports chains in the Nordics are very identical to XXL in size and offer the same variety of products. When consumers must choose where to purchase sports and outdoor equipment, the XXL brand, which is not unique, essentially becomes one of several options as the other sports chains also have good reputations.

Whether XXL's brand is challenging to imitate depends on which markets we compare it to. XXL as a brand in Norway was built over a long period of time with many resources, which they were later able to pass on to Sweden and Finland. Since XXL is so well-known among the population and has been in the market for such a long period of time, it might be difficult to imitate them in these countries. To establish something similar in these countries, a lot of capital, time, and patience would be required. However, compared to other brands in Europe and the rest of the world, the XXL brand will be defined as not *inimitable*. The reason for this is that there are larger sports chains all over the world that are on a higher “top of mind” level than XXL. One company that exemplifies this is Decathlon, which owns 1,747 sports stores worldwide and generated a revenue of EUR 13.8 billion in 2021 (Decathlon, 2021). Moreover,

XXL is good at maximizing on their brand and using it to their advantage. The management of XXL wants to encourage a performance-based culture throughout the organization and spends a lot of focus and resources to promoting the XXL brand through advertising, publications, and the skills of its employees (XXL, 2021). Based on this, the XXL brand is estimated to be *organized*.

To sum up, the XXL brand is valuable and organized, but is not seen as rare and inimitable. As a result, the resource of XXL brand is pushed towards in the direction of competitive parity.

Resource	Valuable	Rare	Inimitable	Organized	Competitive value
Brand	Yes	No	No	Yes	Competitive parity

Table 18: VRIO analysis of the brand

#### 4.2.1.4 Employees

Success in a company depends on having workers who are competent at the tasks they are given, passionate about their job, pleased at work, and motivated. In a position where employees are constantly in contact with customers and provide assistance and guidance, such as the one offered by those at XXL, this is important. The recruiting, training, and personal development of employees is one of the key aspects that XXL puts a lot of weight on. Due to the significant investments, they make in this area, XXL claims in their annual reports that they have the best-trained employees in the industry (XXL, 2021). Based on this, XXL employees are viewed as *valuable* because they play a major role to the company's success.

Although XXL has well-trained employees in its different departments throughout the stores, this is not unusual in the industry. All the other big players in the industry have similar concepts to XXL and have well-trained employees, so this resource is not considered *rare*. It is not difficult for another company to acquire employees who are similarly trained as the ones who XXL has. It all comes down to how much money and effort a company is willing to invest in this field. Employees of XXL are therefore not considered to be *inimitable*. In 2021, the XXL group had a total of 5,789 employees, including both part-time and full-time jobs (XXL, 2021). Having so many employees and still managing to have such a strong commitment to constantly improving your employees through courses and training commands a great deal of admiration.

Due to the large resources and well-established systems required to make this work, XXL employees are seen as being *organized*.

As XXL's employees are seen only as valuable and organized, and not as rare and inimitable, the sum of this gives XXL a competitive parity.

Resource	Valuable	Rare	Inimitable	Organized	Competitive value
Employees	Yes	No	No	Yes	Competitive parity

Table 19: VRIO analysis of employees

4.2.1.5 Management

Another important resource that plays a crucial role in a company’s success is the management. XXL’s management team has a wealth of experience in the retail industry and is composed of diverse individuals holding various positions, responsible for different areas such as IT, operations, HR and digital commerce. Each country has its own managing director in charge of the company’s operations (XXL ASA, n.d.). Based on this, management is a *valuable* resource for XXL. In the sports industry, this is also seen as a competitive advantage as it can be difficult for competitors to replicate a diverse and experienced management team quickly. It takes time to build a management team with similar experience and capabilities as XXL. Therefore, the management resource is composed of unique expertise and experienced leaders, which is considered to be *rare* and *inimitable*. The company is also *organized* and structured in the way to maximize the potential of its management. Thus, the management fulfills all four criteria according to the VRIO analysis. The management gives XXL a sustained competitive advantage.

Resource	Valuable	Rare	Inimitable	Organized	Competitive value
Management	Yes	Yes	Yes	Yes	Sustained competitive advantage

Table 20: VRIO analysis of management

4.2.1.6 Summary of VRIO

To summarize the VRIO analysis, XXL has a sustainable competitive advantage in its management. The management resource is considered to be valuable, rare, difficult to imitate,

and leveraged through effective organization. Furthermore, we conclude that the Big Box concept and procurement and logistics give XXL a temporary competitive advantage, while the brand and employees only contribute to competitive parity. The analysis gives XXL an overview of which areas the company has a sustained or temporary competitive advantage, and which areas they should improve. Table 21 shows the competitive value outcome of each analyzed resource.

Resource	Valuable	Rare	Inimitable	Organized	Competitive value
Big box concept	Yes	Yes	No	Yes	Temporary competitive advantage
Procurement and logistics	Yes	Yes	No	No	Temporary competitive advantage
Brand	Yes	No	No	Yes	Competitive parity
Employees	Yes	No	No	Yes	Competitive parity
Management	Yes	Yes	Yes	Yes	Sustained competitive advantage

Table 21: Summary table of VRIO analysis

### 4.3 SWOT

In this section, we will use SWOT analysis to summarize both the external and internal factors from the strategic analysis. A SWOT analysis is an overall assessment of a company’s strengths, weaknesses, opportunities, and threats (Kotler & Keller, 2012). The external analysis maps out XXL’s opportunities and threats in the sports industry using PESTEL and Porter’s Fives Forces frameworks, while the internal analysis maps out the company’s strengths and weaknesses using the VRIO framework. The SWOT analysis will therefore serve as a summary of the strategic analysis.

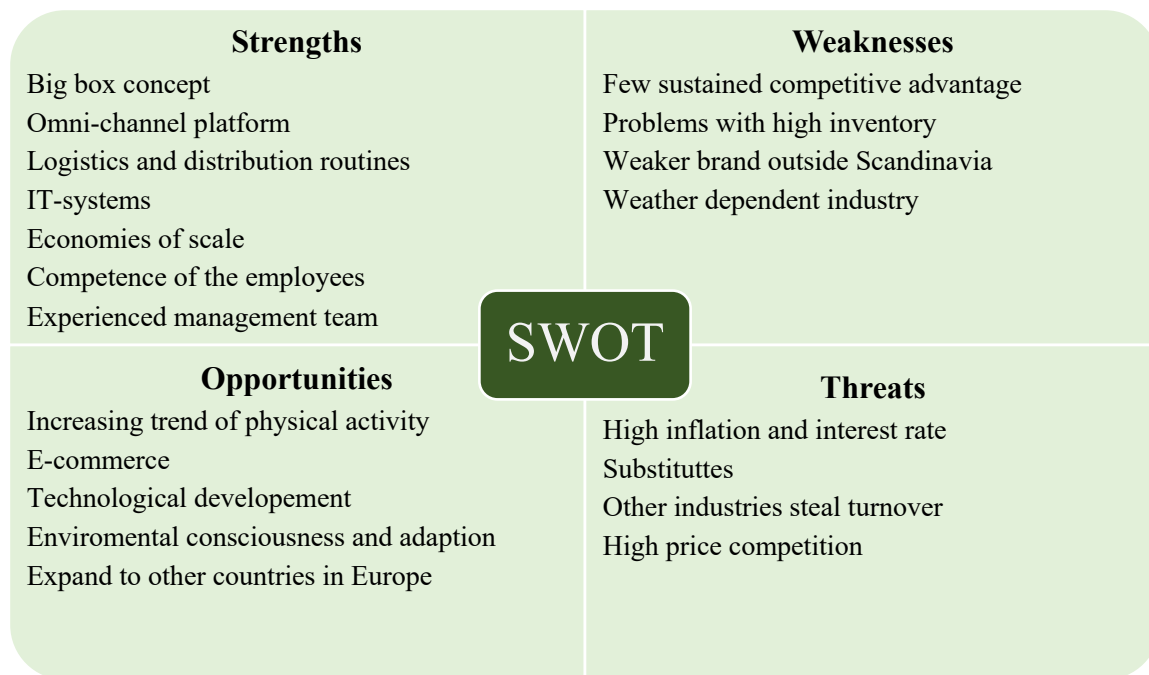


Figure 19: Strategic analysis summarized in SWOT

As figure 19 shows, XXL has more strengths than weaknesses. XXL possesses several resources seen as strengths and which they can benefit from. Therefore, it can be considered as an attractive investment for shareholder by looking at XXL's internal resources. In addition, the opportunities seem to be greater than the threats. This indicates that the sports industry has established an industry advantage and thus a profitable industry to operate in.

In the internal analysis, we concluded that the management team is the greatest strengths of XXL. The company has managers at all levels with unique experience and expertise, which has led XXL to where it is today. Therefore, this is a resource that has created XXL a sustainable competitive advantage. Furthermore, the company has a temporary competitive advantage in their big-box concept, and in procurement and logistics. The big box concept allows XXL to order large quantities of goods from their suppliers. This enables XXL to push down procurement costs and thus achieve economies of scale. Procurement and logistics have been strengthened by the omni-channel strategy and the use of algorithm-driven IT-systems that have contributed to an integrated value chain and efficient logistics.

The weaknesses with XXL are that they have few sustainable competitive advantages. Thus, XXL may lose their current advantages over competitors in the future. Another problem the company currently possesses is high inventory, which is an effect of macro conditions, weather, and poor management. The company operates in a very weather dependent industry, which is another weakness of XXL. The weather can significantly affect sales. In addition, XXL has a



weaker brand outside Scandinavia, which will make it more challenging to expand into other countries in Europe.

The findings from the external analysis indicates that there are more opportunities for future growth for XXL in the sports industry. The company already appears to be exploiting some of the opportunities, which are essential to be competitive in the coming years. The increasing trend of physical activity will lead to higher demand for training clothes and equipment in the coming years. Furthermore, there is an opportunity through technological development and E-commerce. In recent years, XXL has developed a well-functioning online platform to meet the threats from big shopping platforms, which has resulted in positive returns for XXL. Another opportunity is the growing consumer demand for sustainability which leads to a preference for retailers that prioritize environmentally conscious values, driving increased demand for sustainable products. In addition, to grow even more, XXL can expand to other countries in Europe.

The biggest threat to XXL is the intensive competition between existing players and online stores. The sports industry is characterized by homogenous products, which means that switching costs are low. Therefore, high price competition is a big threat for XXL as it pushes the margins down. Furthermore, substitutes and other industries are stealing turnover for XXL is also a threat they are facing in the coming years. In addition to this, due to economic factors such as high inflation and interest rates, it is expected that customers have less money left for everything else. This will affect the entire sports industry, and it will therefore weaken the sales of XXL in the coming years.

To conclude, XXL has solid position in the sport industry in the Nordics and has created strategic advantages for the company.

## **5. Analysis of financial statements**

In this chapter, an analysis of XXL's financial statements will be presented. The purpose of analyzing the financial statements is to obtain insight into the past in order to have a better overall view of the company's financial situation, important historical data, and previous results. The financial statement presentation will serve as a benchmark for the health and success of the company and serve, together with the strategic analysis, as a foundation for forecasting XXL's future (Fridson & Alvarez, 2011). The chapter's content will begin with a presentation of the framework for the analysis before moving on to the income statement and balance sheet of XXL. Furthermore, the company's accounts will be reformulated before the analysis and adjustment of measurement errors will be explained. Finally, the free cash flow estimation will be presented.

### **5.1 Framework for the analysis**

The framework of Penman (2013) and Palepu et al., (2010) will be used for conducting the financial analysis. Through the analysis of financial statements, value generation in XXL will be identified and provide information for forecasting. Financial statements are the lens on the business (Penman, 2013, s. 234). Financial analysis is a quantitative analysis of the underlying financial conditions of XXL. Furthermore, we will explain the choice of analysis perspective, analysis level, analysis level, and XXL's comparative companies.

#### ***5.1.1 Analysis perspective***

Several users can benefit from using financial statements as a source of information. Creditors, tax authorities, customers, suppliers, and investors might all have an interest in the accounting. For example, a creditor uses the accounts to investigate whether XXL can repay their loan in the future, while an investor can use the accounts to evaluate whether XXL's market value will increase and provide future positive cash flows. In this master thesis, the financial analysis will be viewed from an investor's perspective. Therefore, we will be valuing XXL's equity. To value the capital that accrues to the owners, we need to find the net value of XXL, which is assets minus liabilities (Penman, 2013). In subchapter 5.4, a reformulation of the financial statements will be conducted to obtain a more investor-oriented perspective of the financial statements.

### ***5.1.2 Analysis level***

When analyzing the financial statements, this can be done either collectively or separately. What determines this is whether a company has one or more business areas. XXL is a group that only operates within one business area, which is the sale of sports and leisure equipment. The level of analysis for XXL will therefore be at the group level. A consolidated financial statement combines the financial statements of the parent company and its subsidiaries, excluding intercompany transactions. By analyzing this for XXL, it will provide a comprehensive overview of the entire company collectively.

### ***5.1.3 Analysis period***

The analysis will focus on public data from annual reports for the years 2014 through 2022. The reason for selecting this period is that XXL went public in 2014, and a review of a longer time frame than 3-5 years will be able to offer a broader understanding of the company's past results and compensate for high volatility in some financial items. Therefore, an analysis period of 8 years is seen as sufficient as XXL has delivered stable figures in recent years.

### ***5.1.4 Comparative companies***

As explained in chapter 3.2, we have chosen to supplement our fundamental valuation with a comparative valuation approach to increase the accuracy of the value estimate. Therefore, the accounting figures of XXL must be compared with comparative companies in the same industry. Then, the selected comparable will be used as industry average to get XXL's value (Penman, 2013). To find the optimal industry average, we should include all comparative companies in Norway, Sweden, Finland, and Austria with similar operations to those of XXL. Most of XXL's competitors are not listed, which makes the comparison more challenging. However, it is not possible to include all comparative companies due to practical constraints such as access to information and time availability. Therefore, we have selected the most comparable companies with similar characteristics as XXL. The following analysis of comparable will be based both on listed and not listed companies. These are Sport 1 Gruppen AS, Stadion AS, Stadium AB, Footway Group, Sportmaster ApS, JD Sport Fashion, Thule Group, Dick's Sporting Goods, and Academy Sports and Outdoor.

## 5.2 Presentation of the income statement

In this section, the income statement for XXL will be presented for the period 2014 to 2021. All the numbers and the financial items are taken directly from the company's own annual reports for the corresponding period and will be presented in the same way as in the annual reports. It is PricewaterhouseCoopers (PwC) that has audited the annual accounts, which have been prepared in accordance with Norwegian accounting standards, good accounting practice and with the assumption that operations will continue.

<b>Income Statement Reported</b>								
<i>Numbers stated in NOK million</i>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Net sales	5 212	6 486	7 813	8 709	9 474	8 992	10 423	10 006
Other income	3	1	0	0	0	0	0	0
<b>Total Operating Revenue</b>	<b>5 215</b>	<b>6 487</b>	<b>7 813</b>	<b>8 709</b>	<b>9 474</b>	<b>8 992</b>	<b>10 423</b>	<b>10 006</b>
Cost of goods sold	3 083	3 908	4 694	5 265	5 938	5 934	6 519	5 923
Personnel expenses	799	991	1 240	1 416	1 615	1 652	1 862	1 886
Depreciation and amortization	80	91	127	159	189	692	753	810
Other operating expenses	732	863	1 055	1 201	1 380	916	924	996
<b>Total Operating expenses</b>	<b>4 694</b>	<b>5 853</b>	<b>7 116</b>	<b>8 041</b>	<b>9 122</b>	<b>9 194</b>	<b>10 058</b>	<b>9 615</b>
<b>Operating Income</b>	<b>521</b>	<b>634</b>	<b>697</b>	<b>668</b>	<b>352</b>	<b>-202</b>	<b>365</b>	<b>391</b>
Net financial expenses	-182	-28	-55	-42	-57	-183	-172	-146
<b>Net Financial Income (Expense)</b>	<b>-182</b>	<b>-28</b>	<b>-55</b>	<b>-42</b>	<b>-57</b>	<b>-183</b>	<b>-172</b>	<b>-146</b>
<b>Profit before income tax</b>	<b>339</b>	<b>606</b>	<b>642</b>	<b>626</b>	<b>295</b>	<b>-385</b>	<b>193</b>	<b>245</b>
Income tax expense	77	179	126	114	58	-57	66	52
<b>Net income</b>	<b>262</b>	<b>427</b>	<b>516</b>	<b>512</b>	<b>237</b>	<b>-328</b>	<b>127</b>	<b>193</b>
<b>Total Other Income and Expense</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>4</b>	<b>9</b>	<b>-26</b>	<b>22</b>	<b>-61</b>
<b>Total comprehensive income for the year net of tax</b>	<b>262</b>	<b>427</b>	<b>519</b>	<b>516</b>	<b>246</b>	<b>-354</b>	<b>149</b>	<b>132</b>

*Table 22: Income statement of XXL 2014-2021, numbers in NOK million*

Table 22 above shows that there has been an increase in the total operating revenue for the XXL group over this period. If we compare the years 2014 and 2021, it has almost doubled. Furthermore, in parallel with the increase in revenue, the total expenses have increased by nearly the same amount. The item "Depreciation and amortization" has experienced the largest percentage rise, followed by "Personnel expenses." The increase in "Personnel expenses" can be attributed to XXL's strong focus on investing heavily in its employees through training, courses, and competence. Moreover, we can see that, with the exception of 2019, XXL has experienced a positive after-tax profit during this particular time period, although the profit has decreased recently in comparison to earlier years. In 2016 the group had the largest profit after taxes of NOK 519 million, and the worst year was in 2019 with a loss of NOK -354 million.

## 5.3 Presentation of the balance sheet

The XXL balance sheet will be presented in two parts in this section. One part will consist of XXL's assets, and the other part will consist of the company's equity and liabilities. The intention of the separation is to provide a clearer overview of all the various financial items and both parts will be discussed in both sections.

### 5.3.1 Balance sheet reported – Assets

<b>Balance Sheet Reported - Assets</b>								
<i>Numbers stated in NOK million</i>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Noncurrent Assets</b>								
<b>Intangible Assets</b>								
Trademarks	191	191	195	199	198	194	194	193
Proprietary software	20	24	47	43	41	47	50	50
Software	10	10	10	12	12	12	14	18
Deferred tax asset	0	0	0	6	0	27	18	64
Goodwill	2 734	2 734	2 734	2 734	2 734	2 744	2 744	2 744
<b>Total Intangible Assets</b>	<b>2 955</b>	<b>2 959</b>	<b>2 986</b>	<b>2 994</b>	<b>2 985</b>	<b>3 024</b>	<b>3 020</b>	<b>3 069</b>
<b>Property, Plant and Equipment</b>								
Construction in progress	3	8	5	7	4	15	18	17
Machinery and equipment	57	54	52	105	75	62	59	49
Land and buildings	8	8	8	7	24	23	22	21
Transport and vehicles	1	1	1	1	1	1	1	0
Fixtures and fittings	404	499	615	737	804	755	739	738
Right-of-Use Assets	0	0	0	0	0	2 827	2 569	2 126
<b>Total Property, Plant and Equipment</b>	<b>473</b>	<b>570</b>	<b>681</b>	<b>857</b>	<b>908</b>	<b>3 683</b>	<b>3 408</b>	<b>2 951</b>
<b>Financial Assets</b>								
Other Investments	0	0	2	4	9	0	0	0
<b>Total Financial Assets</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>4</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Non-current Assets</b>	<b>3 428</b>	<b>3 529</b>	<b>3 669</b>	<b>3 855</b>	<b>3 902</b>	<b>6 707</b>	<b>6 428</b>	<b>6 020</b>
<b>Current Assets</b>								
<b>Inventory</b>								
Inventories	1 397	1 928	2 610	3 152	3 211	2 843	1 835	2 220
<b>Total Inventory</b>	<b>1 397</b>	<b>1 928</b>	<b>2 610</b>	<b>3 152</b>	<b>3 211</b>	<b>2 843</b>	<b>1 835</b>	<b>2 220</b>
<b>Trade and Other Receivables</b>								
Trade receivables	93	78	186	180	258	153	166	161
Other receivables	192	217	91	195	96	107	118	440
<b>Total Trade and Other Receivables</b>	<b>285</b>	<b>295</b>	<b>277</b>	<b>375</b>	<b>354</b>	<b>260</b>	<b>284</b>	<b>601</b>
<b>Cash and Cash Equivalents</b>								
Cash and Cash Equivalents	222	87	115	314	194	433	830	173
<b>Total Cash and Cash Equivalents</b>	<b>222</b>	<b>87</b>	<b>115</b>	<b>314</b>	<b>194</b>	<b>433</b>	<b>830</b>	<b>173</b>
<b>Total Current Assets</b>	<b>1 904</b>	<b>2 310</b>	<b>3 002</b>	<b>3 841</b>	<b>3 759</b>	<b>3 536</b>	<b>2 949</b>	<b>2 994</b>
<b>Total Assets</b>	<b>5 332</b>	<b>5 839</b>	<b>6 671</b>	<b>7 696</b>	<b>7 661</b>	<b>10 243</b>	<b>9 377</b>	<b>9 014</b>

Table 23: Balance sheet – Assets of XXL 2014-2021, numbers in NOK million

According to table 23, the company's total assets grew consistently up until 2019, after which they began to slightly decline until 2021. Compared to prior years, the assets related to property, plant, and equipment have significantly grown the recent years. This is because XXL has taken

advantage of the financial benefit of being able to list the rental of property as an asset, which has led to an increase in the item "Right-of-Use Assets" (ROU assets). This item has also decreased from 2019 to 2021 because of several physical store's closings, particularly in Austria (XXL, 2021). The closing of several physical stores and increased investment in central warehouses in the big cities and e-commerce are also reasons for the fact that total inventory in 2021, at NOK 2,220 million, is relatively low compared to previous years. Additionally, the item "Other Receivables" has increased in 2021, which can be related to an increase of NOK 287 million in public duties receivables (XXL, 2021). It is also shown that XXL's total cash holdings decreased significantly from NOK 830 million in 2020 to NOK 173 million in 2021.

### 5.3.2 Balance sheet reported – Equity and Liabilities

<b>Balance Sheet Reported - Equity and Liabilities</b>								
<i>Numbers stated in NOK million</i>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Shareholders Equity</b>								
<b>Paid-in Capital</b>								
Share capital	55	48	38	55	56	66	102	101
Share premium	2834	2834	2834	2806	2697	3264	3609	3049
Other paid-in equity	0	4	14	23	37	29	31	36
Non-Controlling Interest	0	0	0	0	0	0	26	30
<b>Total Paid-in Capital</b>	<b>2889</b>	<b>2886</b>	<b>2886</b>	<b>2884</b>	<b>2790</b>	<b>3359</b>	<b>3768</b>	<b>3216</b>
<b>Retained Earnings</b>								
Other equity	330	480	721	961	920	467	417	537
<b>Total Retained Earnings</b>	<b>330</b>	<b>480</b>	<b>721</b>	<b>961</b>	<b>920</b>	<b>467</b>	<b>417</b>	<b>537</b>
<b>Total Shareholders Equity</b>	<b>3219</b>	<b>3366</b>	<b>3607</b>	<b>3845</b>	<b>3710</b>	<b>3826</b>	<b>4185</b>	<b>3753</b>
<b>Liabilities</b>								
<b>Non-Current Liabilities</b>								
Deferred tax liability	52	61	51	42	41	9	3	0
Non-Current interest bearing debt	1097	1116	1051	1089	1081	767	483	485
Non-Current lease liabilities	0	0	0	0	0	2428	2180	1925
<b>Total Non-Current Liabilities</b>	<b>1149</b>	<b>1177</b>	<b>1102</b>	<b>1131</b>	<b>1122</b>	<b>3204</b>	<b>2666</b>	<b>2410</b>
<b>Current Liabilities</b>								
Accounts payable and supplier finance	455	578	639	842	861	980	532	644
Current Lease liabilities	6	0	0	0	0	553	593	567
Current interest bearing debt	0	8	563	916	994	889	418	395
Tax payable	75	193	123	143	53	0	16	102
Public duties payable	185	228	255	326	385	385	391	544
Other current liabilities	245	289	383	491	538	405	574	600
<b>Total Current Liabilities</b>	<b>966</b>	<b>1296</b>	<b>1963</b>	<b>2718</b>	<b>2831</b>	<b>3212</b>	<b>2524</b>	<b>2852</b>
<b>Total Liabilities</b>	<b>2115</b>	<b>2473</b>	<b>3065</b>	<b>3849</b>	<b>3953</b>	<b>6416</b>	<b>5190</b>	<b>5262</b>
<b>Total Equity and Liabilities</b>	<b>5334</b>	<b>5839</b>	<b>6672</b>	<b>7694</b>	<b>7663</b>	<b>10242</b>	<b>9375</b>	<b>9015</b>

Table 24: Balance sheet – Equity and Liabilities of XXL 2014-2021, numbers in NOK million

Until 2021, there have not been any significant fluctuations in XXL's total shareholders' equity. Table 24 above displays this. The company's liabilities, on the other hand, has experienced larger fluctuations over this period. As depicted, the overall non-current liabilities show that the

amount of "non-Current Interest-Bearing Debt" has decreased by over half between 2014 and 2021. Additionally, the item "Non-Current Lease Liabilities" did not appear on the balance sheet of XXL until 2019 but has seen a decline until 2021. This is associated with the long-term leases that came to an end because of the closure of numerous physical stores (XXL, 2021). Furthermore, while there has been a relatively large decrease in "current interest-bearing debt" in recent years, the total current liabilities in 2021 is still the second highest ever in this period.

## **5.4 Reformulation of financial statements**

A reformulation of the financial statements will be conducted to correctly measure the results of XXL's activities (Penman, 2013). The three business activities financing, investing, and operating activities are depicted in the financial statements, and need to be redesigned in order to prepare them for analysis. The reformulated statements provide a template designed for an investor-oriented analysis.

### ***5.4.1 The Reformulated Income Statement***

According to Penman (2013), reformulating the income statement is based on the idea of separating operating activities from financing activities. The purpose of regrouping the income statement and balance sheet is to make it ready for further analysis by discover the drivers of ROCE (return on common equity) and growth. This information will then be used as preparation for forecasting and valuation.

The income statement reports a company's revenues and expenses for a specific period that net operating assets (NOA) and net financial assets (NFA) have produced (Penman, 2013). Seen from an investor-oriented perspective, an investor wants to distinguish between financing and operating activities in order to gain a better understanding of the value creation in the company. Therefore, the reformulated income statement is divided into operating-related items, non-operating items, and sources of financing. Reformulating the income statement allows us to identify trends and changes in XXL's performance over time. It is important to consider whether revenues and costs are incidental, and whether they can be counted on in the future (Kaldestad & Møller, 2016, s. 64). This improves the relevance and usefulness of the income statement for investors and analysts.

Another reason for reformulating the income statement is to have better comparability. The reformulated income statement makes it easier for analysts to compare the operating performance with other companies in the same or other industries. Additionally, it provides a more accurate basis for forecasting future earnings when removing non-recurring items. This involves projecting revenue growth and cost savings based on XXL's historical performance. Furthermore, a presentation of the evaluations made regarding the restructuring of XXL's income statement is shown in table 25 below.

Reformulated Income Statement								
Numbers stated in NOK million	2014	2015	2016	2017	2018	2019	2020	2021
<b>Operating revenue</b>	<b>5 215</b>	<b>6 487</b>	<b>7 813</b>	<b>8 709</b>	<b>9 475</b>	<b>8 993</b>	<b>10 423</b>	<b>10 006</b>
Cost of Goods Sold	3 083	3 908	4 694	5 265	5 938	5 887	6 519	5 923
Personnel Expenses	799	991	1 240	1 416	1 615	1 652	1 863	1 886
Depreciation and Amortization	80	91	127	159	189	691	753	810
Impairment Losses	0	0	0	0	0	0	0	136
Other Operating Expenses	732	863	1 055	1 201	1 380	916	924	860
<b>Operating Income</b>	<b>521</b>	<b>634</b>	<b>697</b>	<b>668</b>	<b>353</b>	<b>-153</b>	<b>364</b>	<b>391</b>
Tax Expense	77	179	126	114	58	-47	66	52
Tax Shield	40	6	12	9	13	40	38	32
Tax on Operations	117	185	138	123	71	-7	104	84
<b>Net operating income after tax (NOPAT)</b>	<b>404</b>	<b>449</b>	<b>559</b>	<b>545</b>	<b>282</b>	<b>-146</b>	<b>260</b>	<b>307</b>
Financing income	93	141	366	12	1	6	5	0
Financing expenses	88	170	421	54	58	189	177	146
Net Financial Expense (NFE)	181	29	55	42	57	183	172	146
Tax shield	40	6	12	9	13	40	38	32
<b>Net Financial Expense after tax (NFEat)</b>	<b>141</b>	<b>23</b>	<b>43</b>	<b>33</b>	<b>44</b>	<b>143</b>	<b>134</b>	<b>114</b>
<b>Net Income</b>	<b>263</b>	<b>426</b>	<b>516</b>	<b>512</b>	<b>238</b>	<b>-289</b>	<b>126</b>	<b>193</b>
Other Comprehensive Income	0	0	3	4	9	-25	22	-61
<b>Comprehensive Income (CI)</b>	<b>263</b>	<b>426</b>	<b>519</b>	<b>516</b>	<b>247</b>	<b>-314</b>	<b>148</b>	<b>132</b>

Table 25: Reformulated income statement, numbers in NOK million

By using Penman's way of reformatting the income statement, the income statement is separated into two sections, such as operating activities and financing activities (Penman, 2013). When preparing the reformulated income statement, we had to start with the financing section because of the tax allocation.

The financing income and expenses are stated in note 19 of the consolidated financial statement in the annual report (XXL, 2021). Net financial expense (NFE) is calculated by financial expenses minus financing income. This is the amount of money XXL has spent on financing its operations. The net position of the financing activities is the loss XXL has made from borrowing money and paying interests. Because XXL have higher financial expenses than financial income, the company is making a loss and it lowers the profit by the NFE amount. However,



this reduced the amount of tax XXL must pay. This reduction due to financing the company with debt is called a tax shield. The tax shield is calculated by multiplying the NFE by the tax rate (Penman, 2013). The tax rate used is the Norwegian tax rate which is 22%. Thereafter, net financial expense after tax (NFEat) was calculated by taking NFE minus the tax shield. The financing section needed to be done first because of the tax shield calculations, which is then used in the operating section.

In the operating section, operating income is calculated by operating revenues minus the different operating expenses. Furthermore, the income tax expense item includes both operational and financing activities. Therefore, this number need to be split up into components, which is tax due to operations and tax due to financing. The tax on operations is the tax expense given in XXL's consolidated statement of total comprehensive income plus the tax shield calculated in the financing section. This is the tax XXL would have had to pay on their operations without having any tax deductions from using debt and interest expense. Further, the net operating profit after tax (NOPAT) can then be calculated by taking operating income minus tax on operations.

Finally, net profit is calculated by subtracting NOPAT with NFEat, which should be equal to the net income after tax in XXL's income statement. The reformulated income statement shows that the profit of XXL have not changed, we have only reclassified where the different accounts go.

#### ***5.4.2 The Reformulated Balance Sheet***

The main purpose of the reformulation balance sheet is to provide a more accurate picture of XXL's current financial position and the profitability potential. This reformulation distinguishes between the financial assets and liabilities of the business and its operating assets and liabilities (Penman, 2013). The operative assets are separated into non-current operating assets and current operating assets, and the operative liabilities are separated into non-current operating liabilities and current operating liabilities. With these numbers available, one can calculate the Net Operating Assets (NOA). This can be achieved by taking the operative assets and deducting the operative obligations. The NOA is a key component number to evaluate XXL's operational effectiveness and could affect investors' and creditors' choices about investing. Taking the financial obligations and subtracting the financial assets results in the estimation of the

company's Net Financial Obligations (NFO), which is another metric in addition to NOA (Penman, 2013).

The calculation of NOA and NFO in a company's financial statements could provide several advantages especially for investors, creditors, and the company itself. First, these calculations demonstrate the extent to which XXL uses its assets to produce income and the level of their financial risk. Additionally, by comparing these key numbers, one can get a clearer idea of XXL's financial situation and risk profile. The third benefit is that it can evaluate the company's financing and investment decisions, which can then be used to determine how much of an effect they have on the risk profile. The final advantage is that changes in these key measurements over time can help discover trends in operational effectiveness and financial risk, as well as identify potential issues before they arise and take action to fix them (Penman, 2013).

Reformulated Balance Sheet								
Numbers stated in NOK million	2014	2015	2016	2017	2018	2019	2020	2021
<b>Non-current Operating Assets</b>								
<b>Intangible Assets</b>								
Trademarks	191	191	195	199	198	194	194	193
Proprietary software	20	24	47	43	41	47	50	50
Software	10	10	10	12	12	12	14	18
Deferred tax asset	0	0	0	6	0	27	18	64
Goodwill	2734	2734	2734	2734	2734	2744	2744	2744
<b>Total Intangible Assets</b>	<b>2955</b>	<b>2959</b>	<b>2986</b>	<b>2994</b>	<b>2985</b>	<b>3024</b>	<b>3020</b>	<b>3069</b>
<b>Property, Plant and Equipment</b>								
Construction in progress	3	8	5	7	4	15	18	17
Machinery and equipment	57	54	52	105	75	62	59	49
Land and buildings	8	8	8	7	24	23	22	21
Transport and vehicles	1	1	1	1	1	1	1	0
Fixtures and fittings	404	499	615	737	804	755	739	738
Right-of-Use Assets	0	0	0	0	0	2827	2569	2126
<b>Total Property, Plant and Equipment</b>	<b>473</b>	<b>570</b>	<b>681</b>	<b>857</b>	<b>908</b>	<b>3683</b>	<b>3408</b>	<b>2951</b>
<b>Total Non-current Operating Assets</b>	<b>3428</b>	<b>3529</b>	<b>3667</b>	<b>3851</b>	<b>3893</b>	<b>6707</b>	<b>6428</b>	<b>6020</b>
<b>Current Operating Assets</b>								
<b>Inventory</b>								
Inventories	1397	1928	2610	3152	3211	2843	1835	2220
<b>Total Inventory</b>	<b>1397</b>	<b>1928</b>	<b>2610</b>	<b>3152</b>	<b>3211</b>	<b>2843</b>	<b>1835</b>	<b>2220</b>
<b>Trade and Other Receivables</b>								
Trade receivables	93	78	186	180	258	153	166	161
Other receivables	192	217	91	195	96	107	118	440
<b>Total Trade and Other Receivables</b>	<b>285</b>	<b>295</b>	<b>277</b>	<b>375</b>	<b>354</b>	<b>260</b>	<b>284</b>	<b>601</b>
<b>Cash and Cash Equivalents</b>								
Cash and Cash Equivalents	222	87	115	314	194	433	830	173
<b>Total Cash and Cash Equivalents</b>	<b>222</b>	<b>87</b>	<b>115</b>	<b>314</b>	<b>194</b>	<b>433</b>	<b>830</b>	<b>173</b>
<b>Total Current Operating Assets</b>	<b>1904</b>	<b>2310</b>	<b>3002</b>	<b>3841</b>	<b>3759</b>	<b>3536</b>	<b>2949</b>	<b>2994</b>
<b>Non-Current Operating Liabilities</b>								
Deferred tax liability	52	61	51	42	41	9	3	0
<b>Total Non-Current Operating Liabilities</b>	<b>52</b>	<b>61</b>	<b>51</b>	<b>42</b>	<b>41</b>	<b>9</b>	<b>3</b>	<b>0</b>
<b>Current Operating Liabilities</b>								
Tax payable	75	193	123	143	53	0	16	102
Public duties payable	185	228	255	326	385	385	391	544
<b>Total Current Operating Liabilities</b>	<b>260</b>	<b>421</b>	<b>378</b>	<b>469</b>	<b>438</b>	<b>385</b>	<b>407</b>	<b>646</b>
<b>Net Operating Assets (NOA)</b>	<b>5020</b>	<b>5357</b>	<b>6240</b>	<b>7181</b>	<b>7173</b>	<b>9849</b>	<b>8967</b>	<b>8368</b>
<b>Financing Assets</b>								
Other Investments	0	0	2	4	9	0	0	0
<b>Total Financial Assets</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>4</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Financing Liabilities</b>								
Non-Current interest bearing debt	1097	1116	1051	1089	1081	767	483	485
Non-Current lease liabilities	0	0	0	0	0	2428	2180	1925
Accounts payable and supplier finance	455	578	639	842	861	980	532	644
Current Lease liabilities	6	0	0	0	0	553	593	567
Current interest bearing debt	0	8	563	916	994	889	418	395
Other current liabilities	245	289	383	491	538	405	574	600
<b>Net Financial Obligations (NFO)</b>	<b>1803</b>	<b>1991</b>	<b>2634</b>	<b>3334</b>	<b>3465</b>	<b>6022</b>	<b>4780</b>	<b>4616</b>
<b>Total equity</b>	<b>3217</b>	<b>3366</b>	<b>3606</b>	<b>3847</b>	<b>3708</b>	<b>3827</b>	<b>4187</b>	<b>3752</b>

Table 26: Reformulated balance sheet, numbers in NOK million

The completed reformulated balance sheet of XXL for the period 2014-2021 is shown in table 26 above. The figures show that the items "Non-current Operating Assets" and "Current Operating Assets" in the reformulated balance sheet are nearly identical to those in the balance sheet originally presented in Table 23, except for the item "Financing asset". This implies that the NOA calculation can be completed. The company's overall financial activities are collected and split between "financing assets" and "financing liabilities". The table reveals that XXL does not have notable financial assets during this time. In reality, except for 2016–2018, most years are zero. On the other side, there are plenty of activities related to financial liabilities. Here, all accounts related to any form of debt or liability are collected (Penman, 2013). This makes it

possible to carry out the NFO calculation. To ensure that the reformulated balance sheet is correct, we calculate NOA and subtract NFO. This should result in the same amount as total shareholders' equity as shown in table 24 earlier. The comparison will show that it is accurate.

**5.5 Free cash flow calculation**

The cash flow statement provides an overview of a company’s inflows and outflows and explains liquidity changes over a period (Kristoffersen, 2014). These inflows and outflows are divided into three types of activities which are operational-, investment-, and financing activities. XXL is a large company and is thus under the requirement to prepare a cash flow statement according to §3-1 of the accounting act (Lovdata, 1999). The purpose of the cash flow statement is to explain the changes in the cash balance over a period, and thus acts as a link between the income statement and the balance sheet.

An important accounting identity known as the cash flow equation shows the relationship between company’s cash inflows and outflows. The equation is given by (Penman, 2013, s. 238):

$$\begin{aligned}
 \text{Free cash flow} &= \text{Net dividends to shareholders} \\
 &+ \text{Net payments to debtholders and issuers} \\
 C - I &= d + F
 \end{aligned}$$

The equation shows that free cash flow from operations (C – I) should be equal to net dividends paid to shareholders (d) and net payments to debtholders and issuers (F). However, seen from an investor perspective we use the cash flow statement to assess XXL’s ability to generate free cash. This free cash is the amount of cash available to invest in new projects, pay dividends to shareholders, and repay investors and creditors. Further in this thesis, we will concentrate on C – I, as there is often a lack of enough information to calculate F accurately (Penman, 2013). Table 27 shows XXL’s free cash flow in the analysis period. XXL had more cash generated from operations than it invests in all years except of 2016. The free cash flow is therefore positive these years as XXL generates more cash than it invests.

	Free cash flow							
	2014	2015	2016	2017	2018	2019	2020	2021
Cash from operations (C)	325	352	31	490	460	938	1 653	905
Cash investments (I)	142	169	239	304	243	168	159	261
<b>Free cash flow (C-I)</b>	<b>183</b>	<b>183</b>	<b>-208</b>	<b>186</b>	<b>217</b>	<b>770</b>	<b>1 494</b>	<b>644</b>

Table 27: Calculated free cash flow

As an analyst or investor, you want to value the equity of XXL. This can be done through the discounted cash flow model, which is a well-known valuation model for valuing long time horizon investments. Here, one forecast the cash flowing from XXL’s investing and operating activities and then value the company’s operations based on present value of future expected free cash flows. The DCF model considers both the time value of money and the uncertainty associated with expected future cash flows (Penman, 2013). Nevertheless, the DCF model has its limitations due sensitivity to assumptions such as discount rate, terminal growth rate and forecast horizons. According to Penman (2013), analysts forecast earnings and not free cash flows. Therefore, the FCF calculation need to be adjusted to include figure from income statement and the balance sheet. The formula for calculating FCF is thus:

$$Free\ cash\ flow = EBIT * (1 - tax) + Depreciation - CAPEX - \Delta NWC$$

Using this formula, historical free cash flows of XXL from 2014 to 2021 is calculated as shown in table 28. EBIT represents earnings before interest and taxes, which is taxed and used in calculation on FCF. Then, we add back depreciation as it is a non-cash expense, and to get a true picture of the operating cashflows. Next, we deduct capital expenditures (CAPEX) in the calculation of FCF. These are amounts that XXL spends on improving long-term assets, such as land and buildings, transport and vehicles, and machinery and equipment (XXL, 2021). To determine XXL’s CAPEX for the years, we have looked at the change in property, plant, and equipment (PPE) from year to year and added on depreciation. Lastly, the change in net working capital (NWC) is subtracted from the calculation to get FCF, which represents the company’s difference between current asset and current liabilities. The change in NWC says something about XXL’s liquidity and ability to pay and is therefore included in the calculation of FCF. By using the historical free cash flow as a basis, we will in chapter 8 and 9 use this information and make assumptions for forecasting future free cash flows and discount it to present value.

Historical free cash flow								
	2014	2015	2016	2017	2018	2019	2020	2021
EBIT(1 - t)	406	495	544	521	275	-158	285	305
Depreciation	80	91	127	159	189	692	753	810
CAPEX	140	198	238	335	240	3 467	478	354
Change in NWC	382	76	25	84	-195	-604	101	-283
<b>FCF</b>	<b>-36</b>	<b>312</b>	<b>408</b>	<b>261</b>	<b>419</b>	<b>-2 329</b>	<b>459</b>	<b>1 044</b>

Table 28: Historical free cash flow for XXL

## 6. Analysis of credit risk

In this section, an analysis of XXL's credit risk will be made by using financial key figures. The analysis of credit risk is divided into two parts, where the short-term credit risk is first analyzed by looking at liquidity and interest coverage ratios. Then, a solvency analysis is carried out when analyzing XXL's long-term credit risk. Finally, the total credit risk will be summarized through synthetic rating. Here, XXL is given a grade based on the underlying company-specific risk.

### 6.1 Analysis of short-term credit risk

In the analysis of short-term credit risk, XXL's payment situation is examined. Normally, short-term refers to obligations that fall due within the framework of an accounting period. Liquidity analysis says something about XXL's ability to pay its obligations when they fall due (Langli, 2016). Therefore, this analysis examines whether XXL can meet its short-term obligations or if there is a risk of bankruptcy.

#### 6.1.1 Current ratio

Current ratio shows the ratio between current assets and current liabilities. In other words, how much of the current assets that are financed with short-term debt. However, XXL operates in an industry where the current assets are relatively large. Therefore, key figures are used to look at the company's ability to pay the short-term debt with the current assets. The formula for finding the key figure for current ratio is as follows (Penman, 2013, s. 685):

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Current assets are assets that are expected to be converted into cash during the coming financial year, while current liabilities are obligations that are expected to lead to payments during the year. A company with higher current assets than current liabilities is positive, as it shows the inflows are greater than the outflows. In general, current ratio should be above 2, which implies 200% more current assets than short-term liabilities (Langli, 2019). However, a good liquidity

ratio depends on the industry being analyzed. Therefore, an industry average including similar companies is used as a basis for comparison. Table 29 below shows the development in current ratio for XXL, comparative companies and the industry average.

As shown in table 29, XXL’s liquidity ratio is higher or close to the industry average until 2019. Furthermore, it can be observed that the key figure for XXL is decreasing over the years, and together with Sportmaster, it brings down the industry average. Over the years, Footway Group has had the highest average and contributes to pulling up the industry average. Based on the figures in the balance sheet, it can be seen that XXL’s current assets increased from 2014 to 2017, before they decreased again from 2018 to 2021. At the same time, short-term debt has increased steadily from 2014 to 2021. This means that XXL’s liquidity ratio has decreased from 2017 to 2021. The low figures for XXL in recent years are mainly due to problems with the inventory. The inventory had a steady increase from 2014 to 2018, but in 2019 and 2020 the inventory was heavily reduced, before it increased sharply again in 2021. As previously discussed, this shows that XXL has had challenges in selling out their inventory. Therefore, the company has not been able to manage its inventory in an efficient manner in recent years, which has weakened the liquidity of the company.

Current ratio	2014	2015	2016	2017	2018	2019	2020	2021
XXL ASA	1,97	1,78	1,53	1,41	1,33	1,10	1,17	1,05
Stadium AB	1,99	1,93	1,89	1,76	1,59	1,47	1,34	1,71
Sport 1 Gruppen AS	1,25	1,25	1,24	1,32	1,21	1,26	1,33	1,06
Stadion AS	1,48	1,53	1,46	1,35	1,32	1,42	1,71	1,44
Footway Group	1,29	2,73	2,44	2,13	1,65	1,53	2,13	1,99
Sportmaster ApS	1,31	1,25	1,32	1,17	0,68	0,69	0,89	0,92
<b>Industry average</b>	<b>1,55</b>	<b>1,75</b>	<b>1,65</b>	<b>1,52</b>	<b>1,30</b>	<b>1,25</b>	<b>1,43</b>	<b>1,36</b>

Table 29: Current ratio

Figure 20 shows the graphic development of XXL’s current ratio compared to the industry average. It shows that XXL has had a declining trend since 2014, while the industry average has a greater degree of fluctuation in the key figure. However, XXL is overall close to the industry average, except for the years after 2019.

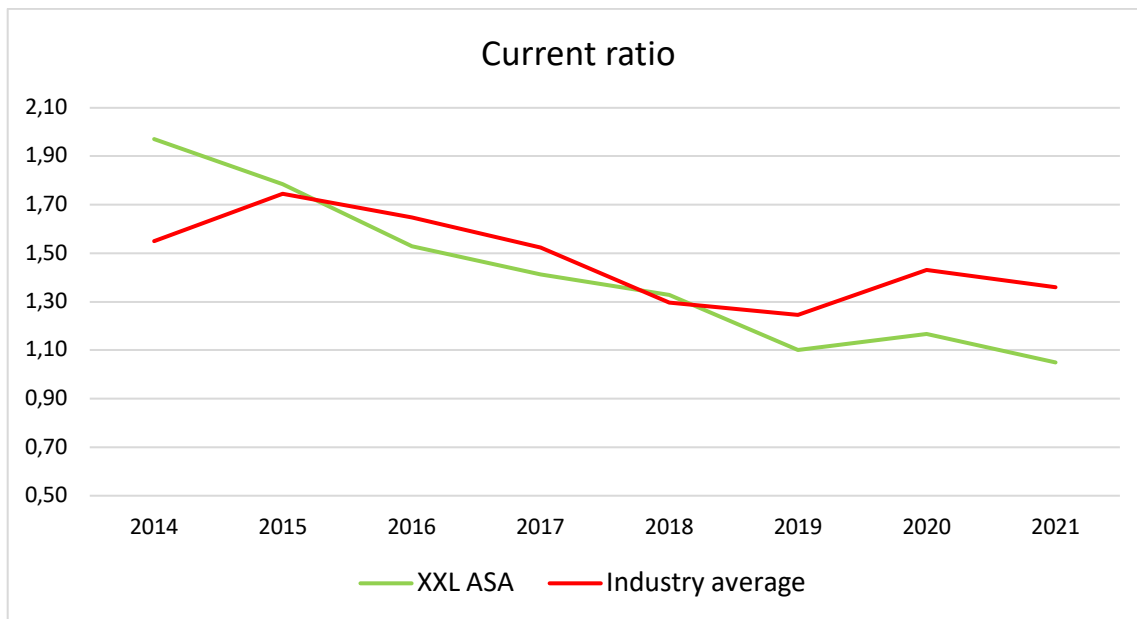


Figure 20: Current ratio

### 6.1.2 Quick ratio

As current ratio, quick ratio also describes the company's ability to pay the short-term debt but focus on the most liquid current assets (Kristoffersen, 2014). Therefore, inventory is excluded, and the focus is on the financial current assets.

$$\text{Quick ratio} = \frac{(\text{Current assets} - \text{Inventories})}{\text{Current liabilities}}$$

Historically, it has been common to say that quick ratio should be greater than 1 (Kristoffersen, 2014). Nevertheless, it is rare that the liquidity ratio is as high as the norm figure. This also applies to the sport industry. As seen in table 30, both XXL and the industry average are below the norm figure in all years. XXL has had a lower quick ratio than the industry average since 2015. The company's quick ratio has varied significantly in recent years, with a value as high as 0.52 in 2014, and as low as 0.19 in 2018. This indicates that XXL has challenges managing its holdings and most liquid assets. The current liabilities have increased more than the most liquid current assets in this period. In the sports industry, inventory makes up a significant proportion of current assets, and it is expected that the sport industry average will be below 1. Therefore, it would be appropriate to use the industry average as a benchmark for measuring the liquidity.



Quick ratio	2014	2015	2016	2017	2018	2019	2020	2021
XXL ASA	0,52	0,29	0,20	0,25	0,19	0,22	0,44	0,27
Stadium AB	0,46	0,35	0,45	0,34	0,23	0,22	0,26	0,63
Sport 1 Gruppen AS	0,75	0,83	0,81	0,81	0,86	0,77	1,02	0,74
Stadium AS	0,57	0,48	0,39	0,38	0,46	0,41	0,86	0,64
Footway Group	0,20	0,51	0,24	0,17	0,38	0,22	0,87	0,84
Sportmaster ApS	0,27	0,14	0,11	0,10	0,07	0,13	0,27	0,38
<b>Industry average</b>	<b>0,46</b>	<b>0,43</b>	<b>0,37</b>	<b>0,34</b>	<b>0,36</b>	<b>0,33</b>	<b>0,62</b>	<b>0,58</b>

Table 30: Quick ratio

Figure 21 shows the graphic development of XXL's quick ratio compared to the industry average. It shows that XXL has had a lower ratio than the industry, which indicates that the company has had more difficulties meeting short-term obligations compared to competitors. In 2020, the sports industry including XXL saw a significant increase in quick ratio due to the COVID-19 pandemic. The pandemic caused several economic problems such as changes in consumer behavior and demand, and supply chain disruptions.

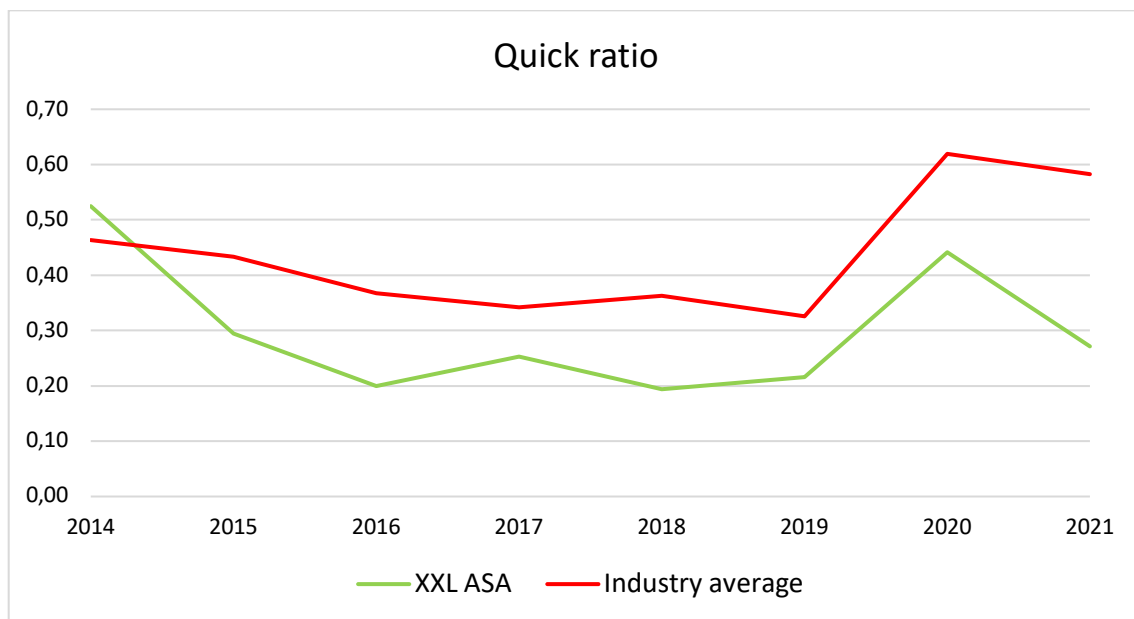


Figure 21: Quick ratio

### 6.1.3 Interest coverage ratio

Damodaran (2012) emphasizes that the interest coverage ratio measures a company's ability to meet the interest expenses related to its outstanding debt. The intention of calculating the interest coverage ratio is to acquire a better understanding of the company's financial risk. A low interest coverage ratio could suggest that a company may have trouble meeting its debt

commitments and, in addition, it might suggest that the company is more vulnerable to defaulting on its debt during a period of decreasing earnings. A high interest coverage ratio, on the other hand, indicates that the company is providing sufficient earnings to cover its interest expenses, and hence the financial risk is significantly smaller (Damodaran, 2012). The interest coverage ratio is calculated by dividing the company's earnings before interest and tax, EBIT, by the company's interest expenses, as illustrated in the following formula:

$$\text{Interest coverage ratio} = \frac{\text{EBIT}}{\text{Interest expenses}}$$

An overview of the interest coverage ratio for XXL and other companies in the industry is given in table 31 below. As Stadium AB's interest coverage ratio was unusually high in comparison to the other companies in the industry, it was chosen to leave them out of the calculation. A false impression of the interest coverage ratio above the industry would have been presented by including Stadium AB in the calculation, which would have had a major adverse effect on the industry average. By removing Stadium AB, the average becomes more accurate and so provides a better overall picture.

The table shows that XXL has experienced an interest coverage ratio varied from -1.09 at the lowest point to as high as 6.07 at the highest point. When compared to its competitors in the industry, Sport 1 Gruppen AS has had a higher coverage ratio in recent years, except for 2018. In every year of the period, except for 2018, Stadion AS has also outperformed XXL in terms of this ratio. On the other hand, when compared to Footway Group and Sportmaster ApS, it can be noticed that XXL performed better and had a significantly higher interest coverage ratio, especially compared to Sportmaster ApS. Only in 2019 with a -1.09 ratio did XXL experience a negative interest coverage ratio. This key figure increased after the year 2019 and was at 2.06 and 2.68 in 2020 and 2021.

Interest coverage ratio	2014	2015	2016	2017	2018	2019	2020	2021
XXL ASA	1,84	3,73	1,66	0,87	6,07	-1,09	2,06	2,68
Stadium AB	167,69	102,73	146,67	66,15	65,63	24,63	19,67	127,1
Sport 1 Gruppen AS	1,46	1,88	3,44	3,53	3,04	4,19	7,35	16,14
Stadion AS	19,00	7,29	2,00	2,00	4,00	5,20	3,70	3,11
Footway Group	-3,47	-0,80	1,90	7,32	0,97	2,47	-0,12	-1,85
Sportmaster ApS	-0,59	1,22	0,61	-0,18	-2,34	-19,74	-3,00	-3,00
<b>Industry average</b>	<b>3,65</b>	<b>2,66</b>	<b>1,92</b>	<b>2,71</b>	<b>2,35</b>	<b>-1,80</b>	<b>2,00</b>	<b>3,42</b>

Table 31: Interest coverage ratio

In addition, figure 22 compares the interest coverage ratio for XXL to the average for all the companies that were included in table 31. The graph illustrates how closely XXL follows the industry's average during this period. However, there are some notably larger differences between them, particularly for the years 2015, 2017, and 2018. XXL was largely above the industry average in 2015 and 2018, but drastically below it in 2017. Looking at the graph, the interest coverage ratio between XXL and the industry average has fluctuated more from the years 2014 to 2019 than it did from 2019 to 2021.

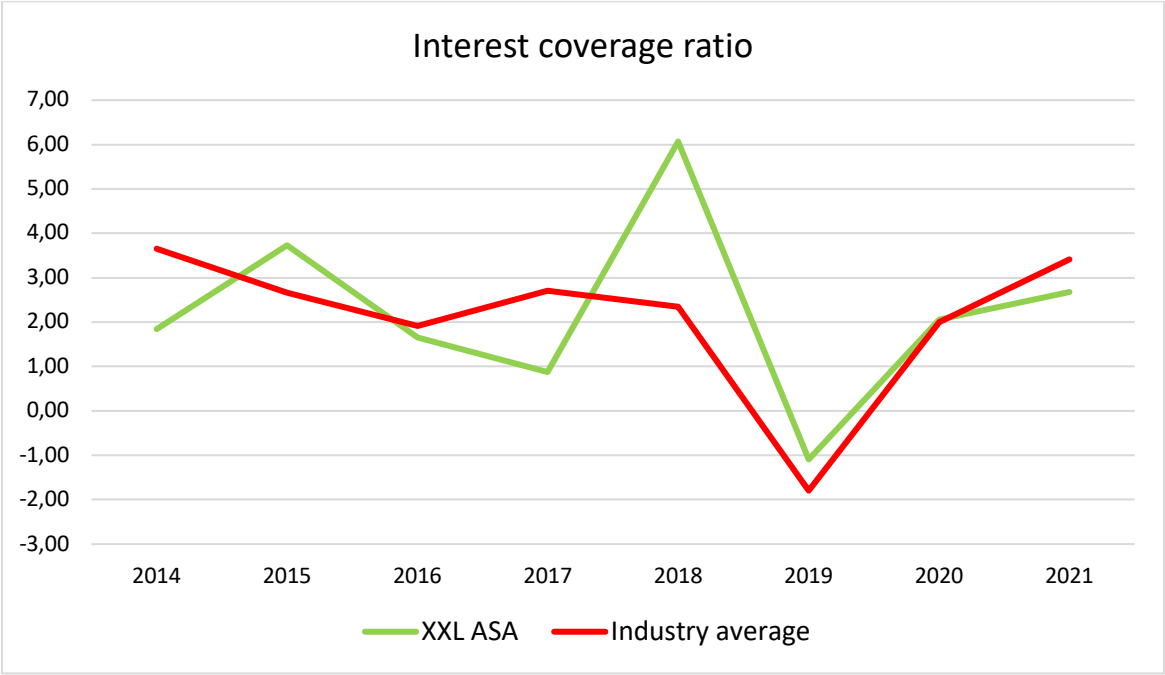


Figure 22: Interest coverage ratio

### 6.2 Analysis of long-term credit risk

The second section of the credit risk analysis focuses on the risk related to long-term credit risk and the company's ability to deal with any future losses. This will be done through a solvency analysis. From the standpoint of an investor, the primary intention of analyzing the key numbers in a solvency analysis is to evaluate the company's ability to meet its obligations many years into the future (Penman, 2013). Therefore, this part will look at key information such the equity ratio, return on assets, and capital structure. With the support of these numbers, it will be possible to determine XXL's potential for meeting its obligations in the future and gain a general understanding of the company's financial situation now and in the past.

### 6.2.1 Equity ratio

The first key figure in this solvency analysis is the equity ratio, which represents how much the company depends on shareholder funding. Additionally, this figure could give a useful indication of how well-prepared the company is for handling any future losses (Damodaran, 2012). A high equity ratio indicates that the company has financed its assets mainly with its own resources, showing that little debt has been used and indicating that the company has the capability to deal with any losses. It will also provide the company with greater opportunities to secure further funding in the future, if necessary. The opposite will also be true if the equity ratio is low, as more debt is used to finance the company's assets, and this signals a higher risk in regard to the financial side of the company as a whole. Greater risk implies that the company could face greater difficulties in the event of a deficit, and the opportunities for additional funding are minimized (Müller & Zimmermann, 2009). The formula for calculating the equity ratio is as follows:

$$\text{Equity ratio} = \frac{\text{Total equity}}{\text{Total assets}}$$

Table 32 below summarizes the changes in equity ratio for XXL and the other companies in the industry. As shown, XXL had a decreasing tendency from the year 2014 to 2019 but has recently had some improvement again. Only Footway Group has had a greater equity ratio when XXL is compared with the other companies in the industry. This is particularly apparent in the years leading up to 2017. Sport 1 Gruppen AS also appears to have had the weakest equity ratio in general all through this time period. Furthermore, it also shows that Sportmaster ApS had a strong equity ratio up until 2019. The equity ratio for the years after that was just over zero, and in 2021 it was negative. It has nevertheless been chosen to include the company's figures for these years, as it did not make the biggest impact on the industry average.

Equity ratio	2014	2015	2016	2017	2018	2019	2020	2021
XXL ASA	0,60	0,58	0,54	0,50	0,48	0,37	0,45	0,42
Stadium AB	0,53	0,52	0,51	0,47	0,41	0,28	0,29	0,43
Sport 1 Gruppen AS	0,27	0,34	0,32	0,36	0,31	0,36	0,37	0,40
Stadion AS	0,41	0,43	0,40	0,42	0,39	0,41	0,39	0,36
Footway Group	0,60	0,73	0,69	0,61	0,40	0,35	0,46	0,48
Sportmaster ApS	0,58	0,60	0,50	0,48	0,39	0,10	0,00	-0,10
<b>Industry average</b>	<b>0,50</b>	<b>0,53</b>	<b>0,49</b>	<b>0,47</b>	<b>0,40</b>	<b>0,31</b>	<b>0,33</b>	<b>0,33</b>

Table 32: Equity ratio

An overview of XXL's equity share and the industry average is presented in figure 23. The graph clearly shows that both lines follow each other over this time period. It is worth mentioning that XXL's equity ratio is higher than the industry average for all years. This can be an attractive indicator, sending positive signals to potential future investors. A limited company cannot pay dividends under the Norwegian Companies Act if its equity ratio is below 10 percent, therefore a ratio below this is considered as very low. Different industries have various standards for how high an equity ratio should be, although most companies are pleased with an equity ratio ranging from 30 and 35 percent (Kristoffersen, 2014). One can also notice that there has been a downward trend for both XXL and the industry from the beginning in 2014 to the end in 2021. This can be explained by the fact that companies in the sports industry have experienced increasing revenues during the same time period. This has opened the opportunity of getting larger financing, which has helped the companies being able to grow (Langli, 2019).

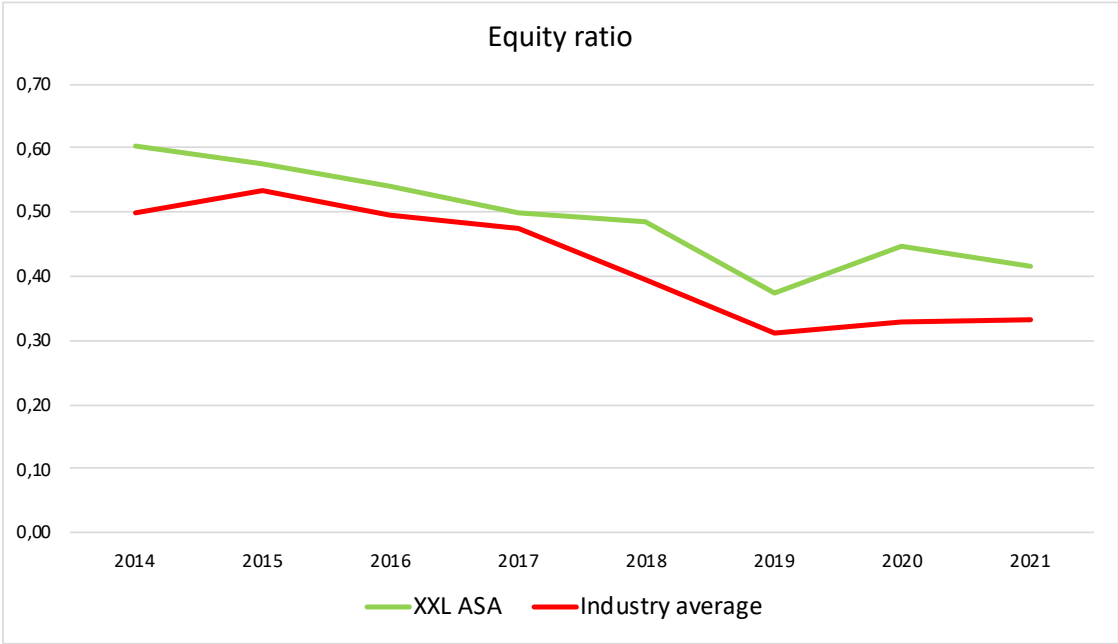


Figure 23: Equity ratio

**6.2.2 Analysis of profitability**

Profitability reflects a company's ability to generate profits. Analyzing profitability is about examining the company's ability to create value by using the resources it has at its disposal (Langli, 2019). Profitability is also a measure of solvency as it affects the company's equity and equity ratio. For instance, if the profitability is low, this will gradually reduce the

company's equity and equity ratio over time. Therefore, XXL's profitability will also be analyzed in this section. To analyze the profitability of XXL and its competitors, Return on Assets (ROA) will be used as a measure for returns on the total capital tied up in the company. ROA is calculated by using figures from the income statement in the numerator and figures from the balance sheet in the denominator. Thus, the formula for ROA is as follows:

$$\text{Return on Assets (ROA)} = \frac{\text{EBT} + \text{interest expenses}}{\text{Average total assets}}$$

Table 33 shows an overview of ROA in percentage for XXL and its close competitors in the sports industry from 2014 to 2021. XXL had a fluctuating ROA during this period, with a peak of 17% in 2016 due to high profit before tax and interest expenses. The company also had a low of -2.2% in 2019 as the group lost NOK 384 million in earnings before tax (EBT) this year. According to proff.no, a reasonable level for ROA should be between 10-15% (Proff, u.d.). However, to determine the level of profitability, we need to compare XXL's ROA to a benchmark, which is the industry average. Comparing the ROA of XXL with the industry average, it turns out that the return on XXL's total assets was higher than the industry average in the entire period, except for 2021.

Sportmaster ApS which is Denmark's largest sport chain had the worst performance with negative profit before tax in almost all years, and the company's ROA was therefore negative in five out of eight years. The company has had problems in the past, and in 2018 they reported significant losses and write-downs. The reason behind Sportmaster's problems was the high costs associated with renting store locations and increased competition from e-commerce and other sports stores. This led to Sportmaster being acquired in December 2019 by the Sportmaster Group, which saved the company from going bankrupt. Furthermore, Sportmaster's weak results contribute to pulling down the industry average (Jensen, 2022).

Return on Assets	2014	2015	2016	2017	2018	2019	2020	2021
XXL ASA	12,2 %	13,9 %	17,0 %	9,5 %	4,6 %	-2,2 %	7,1 %	4,3 %
Stadium AB	12,5 %	6,5 %	8,5 %	4,7 %	5,4 %	6,3 %	5,7 %	26,6 %
Sport 1 Gruppen AS	7,8 %	8,7 %	8,9 %	9,3 %	9,1 %	7,8 %	11,7 %	28,1 %
Stadion AS	6,4 %	8,1 %	12,2 %	7,1 %	4,4 %	2,8 %	5,0 %	13,6 %
Footway Group	-0,02 %	-0,002 %	3,9 %	4,9 %	3,6 %	2,3 %	-0,2 %	-3,2 %
Sportmaster ApS	-2,08 %	3,75 %	1,96 %	-0,36 %	-8,33 %	-49,76 %	-6,57 %	-7,23 %
<b>Industry average</b>	<b>6,13 %</b>	<b>6,82 %</b>	<b>8,75 %</b>	<b>5,84 %</b>	<b>3,11 %</b>	<b>-5,47 %</b>	<b>3,77 %</b>	<b>10,34 %</b>

Table 33: Return on Assets

Figure 24 provides a visual comparison of ROA over time for XXL compared to the industry average. It shows that the return on total assets for XXL is close to the industry average. Furthermore, it shows that there was a trend in the return both for XXL and the industry average, where some years the returns were particularly high or low. This indicates that changes in the market and economic conditions affect the entire sports industry. Overall, the line chart can be used to assess XXL's ability to generate returns on invested capital compared to the industry.

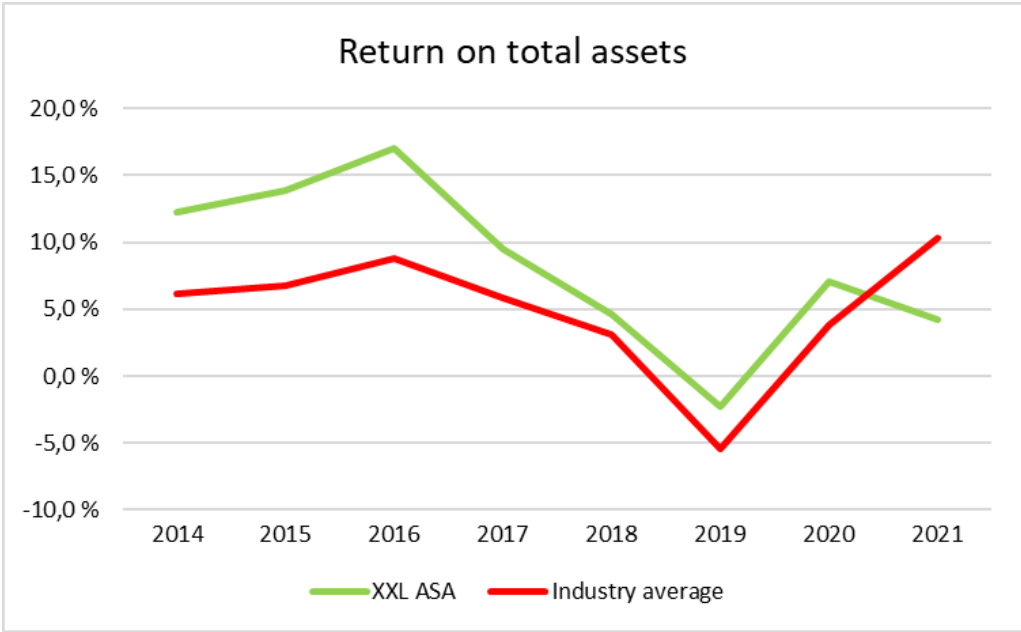


Figure 24: Return on total assets

### 6.2.3 Synthetic rating

In conclusion, this chapter on credit risk analysis will be summarized in a rating system. Together, the short-term analysis (liquidity analysis) and the long-term analysis (solidity analysis) form the basis for attributing a synthetic rating to XXL and the industry. Ulriksen and Johannessen (2022) refer to a rating model prepared by Professor Kjell Henry Knivsflå for a course at Norwegian School of Economics (NHH). The model is based on Standard & Poor's (S&P) system for rating classes, which determines a company's credit premium. This form of rating is known as a synthetic rating based on financial ratios (Damodaran, 2012). Therefore, we choose to use Knivsflå's model to classify XXL's synthetic rating. The model uses four key figures: current ratio, interest coverage ratio, equity share and return on assets. Table 34 shows

how the key figures are converted to a credit rating based on the S&P ratings system, and framework of Knivsflå.

Rating	Current ratio	Interest coverage ratio	Equity ratio	Return on Assets	Probability of bankruptcy
AAA	11,600	16,900	0,940	0,35	0,00 %
	8,900	11,600	0,895	0,308	
AA	6,200	6,300	0,850	0,266	0,02 %
	4,600	4,825	0,755	0,216	
A	3,000	3,350	0,660	0,166	0,08 %
	2,350	2,755	0,550	0,131	
BBB	1,700	2,160	0,440	0,096	0,26 %
	1,450	1,690	0,380	0,082	
BB	1,200	1,220	0,320	0,068	0,97 %
	1,050	1,060	0,270	0,054	
B	0,900	0,900	0,220	0,04	4,93 %
	0,750	0,485	0,175	0,026	
CCC	0,600	0,070	0,130	0,012	12,61 %
	0,550	-0,345	0,105	-0,002	
CC	0,500	-0,760	0,080	-0,016	27,96 %
	0,450	-1,170	0,030	-0,03	
C	0,400	-1,580	-0,020	-0,044	50,99 %
	0,350	-1,995	-0,100	-0,058	
D	0,300	-2,410	-0,180	0,072	85,54 %

Table 34: Framework of Knivsflå for synthetic rating

The credit score for XXL has been put together in table 35 below and is calculated using the credit rating and the number intervals in table 34. What appears from the table is that XXL had a falling summary rating from 2014 to 2019, where they had a synthetic rating that ranged from BBB to CCC. Nevertheless, it got better the following year, and in 2021, XXL was back to a rating of BB+. Based on the strong credit scores in the beginning of the period, the average for the entire period is yet estimated to have a rating of BBB. Furthermore, it is clear that 2019 was a negative year in general for XXL based on the rating, as all of the key figures listed in this table result in the lowest credit score for the entire time period. This year's interest coverage ratio got a score as low as C, which according to table 35 gives a probability of bankruptcy of 50,99%. This is in great contrast to the previous year where the score was A. Throughout the period, the average synthetic rating for all the key figures generated a score of BB or BBB.

XXL	2014	2015	2016	2017	2018	2019	2020	2021	Average
Current ratio	1,97	1,78	1,53	1,41	1,33	1,10	1,17	1,05	<b>1,42</b>
	BBB	BBB	BB	BB	BB	B	B	B	<b>BB</b>
Interest coverage ratio	1,84	3,73	1,66	0,87	6,07	-1,09	2,06	2,68	<b>2,23</b>
	BB	A	BB	CCC	A	C	BB	BBB	<b>BBB</b>
Equity ratio	0,60	0,58	0,54	0,50	0,48	0,37	0,45	0,42	<b>0,49</b>
	BBB	BBB	BBB	BBB	BBB	BB	BBB	BB	<b>BBB</b>
Return on Assets	0,12	0,14	0,17	0,09	0,05	-0,02	0,07	0,04	<b>0,08</b>
	BBB	BBB	A	BB	B	CC	BB	B	<b>BB</b>
<b>Summarized rating</b>	<b>BBB</b>	<b>BBB</b>	<b>BBB</b>	<b>BB-</b>	<b>BBB-</b>	<b>CCC</b>	<b>BB</b>	<b>BB+</b>	<b>BBB</b>

Table 35: Synthetic rating for XXL



Table 36 provides the industry average credit score. With the exception of 2019, the table demonstrates that the industry average has had a rather stable summary average rating during this period. The synthetic rating fluctuated between BB and BBB, while the rating was CC in 2019. The interest coverage ratio and return on assets both received ratings of D in the year 2019. This can be explained by the fact that Sportmaster ApS key figures were extremely low this year, which in turn pushed the industry average to go down.

In conclusion, it is important to point out that XXL had a higher summarized rating and average rating on every key figure for the time period when compared to the synthetic rating of the industry average. Only in 2017, with a summary rating of BB- as compared to BB+, did XXL perform worse than the industry average. Even in years when XXL and the industry got an identical rating, XXL has consistently performed slightly better on the numerical score.

Industry average	2014	2015	2016	2017	2018	2019	2020	2021	Average
Current ratio	1,55	1,75	1,65	1,52	1,30	1,25	1,43	1,36	<b>1,31</b>
	BB	BBB	BB	BB	BB	BB	BB	BB	<b>BB</b>
Interest coverage ratio	3,65	2,66	1,92	2,71	2,35	-1,80	2,00	3,42	<b>1,69</b>
	A	BBB	BB	BBB	BBB	D	BB	A	<b>BB</b>
Equity ratio	0,50	0,53	0,49	0,47	0,40	0,31	0,33	0,33	<b>0,38</b>
	BBB	BBB	BBB	BBB	BB	B	BB	BB	<b>BB</b>
Return on Assets	0,06	0,07	0,09	0,06	0,03	-0,05	0,04	0,10	<b>0,04</b>
	B	BB	BB	B	CCC	D	B	BBB	<b>B</b>
<b>Summarized rating</b>	<b>BB+</b>	<b>BBB</b>	<b>BB+</b>	<b>BB+</b>	<b>BB</b>	<b>CC</b>	<b>BB</b>	<b>BBB</b>	<b>BB</b>

Table 36: Synthetic rating for the industry average

## 7. Required rate of return

In the following, XXL's required rate of return is calculated. The purpose of the required rate of return is to compensate for risk, inflation, and time value. It should represent the expected return that the owners have on their investment in the company (Kaldestad & Møller, 2016). The required rate of return will later be used in chapter 9 to discount forecasted free cash flows to find the value of the company in line with the DCF method. Since XXL is a levered company, the correct discount rate is the firm's weighted cost of capital (WACC). Hence, this chapter will separately determine the cost of equity and the cost of debt, which will be summarized in the WACC and represent the required rate of return.

### 7.1 Cost of equity

It is normal practice for companies to seek funding from both equity investors and lenders when they need capital for investments. The intention of equity investors' and lenders' invested capital is to make money; therefore, they expect a return on their investment. Depending on whether the funds have been raised through equity or debt, each method of raising money has a separate rate of return. The compensation investors should demand in exchange for taking on the risk of ownership of assets is referred to as the cost of equity and is the return that investors require through an equity investment (Damodaran, 2012).

There are several methods to estimate the cost of equity, such as the Fama-French three factor model, Arbitrage Pricing Theory, and Capital Asset Pricing Model (CAPM) (Koller et al., 2020). However, the most widely used method is the CAPM (Fama & French, 2004), which also will be used in thesis to calculate the cost of equity for XXL. The CAPM was first introduced by Jack Treynor (1962) and William Sharpe (1964) in early 1960s, then further developed by John Lintner (1965) and Jan Mossin (1966) (Perold, 2004). The model explains the relationship between market risk and expected return of the stock, and the return requirement depends on three factors: risk-free rate, markets risk premium and a firm-specific risk adjustment (Koller, Goedhart, & Wessels, 2010, s. 237). The CAPM formula used to calculate XXL's required rate of return is thus:

$$R_e = R_f + \beta_i (R_m - R_f)$$

Where:

$R_e = \text{Expected return of investment}$

$R_f = \text{Risk free rate}$

$\beta_i = \text{Beta of the investment}$

$ER_m = \text{Expected return of the market}$

$(ER_m - R_f) = \text{Market risk Premium}$

(Penman, 2013, s. 107).

According to the CAPM, risk-free rate and market risk premium is common for all companies. Hence, the only differentiating factor among companies is their beta, which represent unsystematic or company-specific risk. For an investor, CAPM can help identify and evaluate investments based on their risk and expected return. Furthermore, the various components of CAPM will be discussed and used to calculate the cost of equity for XXL.

### **7.1.1 Risk-free rate**

According to Damodaran (2012), risk-free interest is the expected return on an investor's investments that could be achieved without taking on any type of risk or the potential for financial loss. Identifying potential investments with an expected return that is equal to the risk-free interest rate can be tough since there will always be a small amount of default risk. Government bonds come the closest to offering risk-free interest rates considering it is the government that is in control of printing currency (Damodaran, 2012). We have made the choice to use Norwegian government bonds as the foundation for the risk-free interest rate due to the fact that XXL trades on the Oslo Stock Exchange and the group's financial statements, balance sheet, and cash flow are all posted in Norwegian kroner.

In Norway, government bonds have a maturity of either 3, 5, 7 or 10 years. The 10-year government bond is the bond that is most commonly used in the Norwegian market as a risk-free interest rate among different government bonds. This is also supported by a study conducted by PricewaterhouseCoopers (PwC) together with the Association for Finance Norway (FFN), where more than half of respondents recommended that the 10-year government bond should be used (PwC, 2022). In the previous year, the Norwegian 10-year

government bond varied between 2.65% and 3.76%. The Norwegian 10-year government bond is currently yielding **3.2%** as of today, April 19, 2023, and we will use this as the risk-free interest rate for calculating XXL's return on equity (Norges Bank, 2023).

### ***7.1.2 Market risk premium***

The market risk premium (MRP) is the difference between the markets expected rate of return holding all risky asset and the risk-free interest rate (Penman, 2013, s. 107). The expected excess return that investors expect to receive beyond the risk-free rate is one of the most discussed issues in finance (Koller et al., 2010). The formula for calculating MRP is as follows:

$$\begin{aligned} \text{Market risk premium (MRP)} \\ = \text{Expected return on the market (ER}_m\text{)} - \text{Risk free return (R}_f\text{)} \end{aligned}$$

(Penman, 2013, s. 107).

Calculating MRP is complicated as there is no specific way to calculate it. However, despite the complexity, there are several methods that can be used to calculate the MRP. The three most commonly used approaches to estimate MRP are through using historical premium, implicit premium, and use of survey (Kaldestad & Møller, 2011, s. 117). In this thesis, we have chosen to base our analysis on the historical premium. Oslo stock exchange (OSEBX) will be used as a measure of the market's required return over the analysis period. PwC in collaboration with FFN conducts an annual survey on the risk premium in the Norwegian market (PwC, 2022). According to the survey, the median level of MRP has remained unchanged at **5%** in the period from 2014 to 2022, with only minor fluctuations on average (PwC, 2022). Therefore, this figure will be used to further calculate the required rate of return on equity.

### ***7.1.3 Beta***

A beta value measures systematic risk. A stock's beta value considers the correlation between the individual stock and the market. Instead of expressing this through covariance, it is expressed as covariance per unit of market variance. Thus, this relative measure of risk shows the stocks systematic risk in relation to the market portfolios risk. However, there are two types of beta, such as levered beta (asset beta) and unlevered beta (equity beta) (Damodaran, 2012). To calculate the required rate of return on equity, a regression analysis will be carried out and

will represent the levered beta for XXL. Beta measures the systematic risk in equity, and can be expressed mathematically as follows:

$$\beta_i = \frac{SD(r_i) * corr(r_i, r_m)}{SD(r_m)} = \frac{cov(r_i, r_m)}{var(r_m)}$$

Where:

$SD(r_i)$  = *the total risk of the stock*

$cov(r_i, r_m)$  = *covariance between the stock and market portfolio*

$var(r_m)$  = *variance of the market portfolio*

(Penman, 2013, s. 107).

Beta is the measurement of a stock's volatility relative to the market. The higher the systematic risk, the higher the cost of equity. As XXL is publicly traded, historical data is readily available. To estimate XXL's beta, we have collected historical data from XXL's return and the market's return, where the market is represented by the S&P 500 index. The S&P 500 is a value-weighted stock index consisting of the 500 largest US companies. According to Koller et al., (2020, p.334), a financial analyst should not use a local market index since these are often weighted within a few industries or specific companies. Hence, we choose not to use Oslo Børs (OSEBX) as our market index as it is heavily oil weighted and thus not measures systematic risk but rather XXL's sensitivity to the oil industry (Johansen, 2020). The collected historical data of XXL and S&P500 will be used in a regression analysis to estimate the beta coefficient. The market model for estimating company's raw beta is:

$$R_i = \alpha + \beta R_m + \varepsilon$$

(Koller et al., 2020, s. 332)

The return of XXL will be the dependent variable, and the return of S&P will be the independent variable. It is recommended to use a 5-year analysis period with monthly observations, as daily or weekly data lead to systematic errors (Koller et al., 2020, s. 333). Therefore, our analysis contains monthly data from April 1, 2018, to April 1, 2023. This gives a total of 55 observations over a 5-year period. The slope of the trend line in figure 25 indicates the beta.

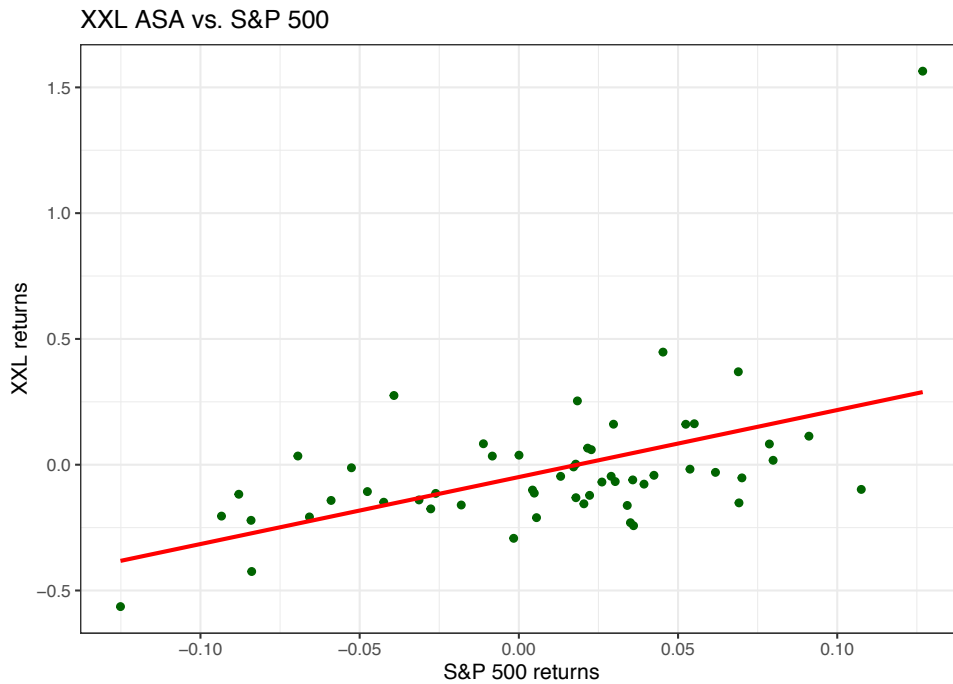


Figure 25: Regression analysis – XXL vs. S&P 500 (monthly returns: April 2018-2023)

The beta coefficient of the return on S&P500 is **2.66**, as shown in table 37. This number represents the slope of the trend line in figure 25 and is the unadjusted company’s raw beta. A beta of 2.66 implies that if S&P 500 increase or decrease by 1%, XXL is expected to increase or decrease by 2.66%. Thus, XXL is expected to be more than twice as volatile as the market return, and likely to have larger pricing swings than the overall market. Furthermore, the reported R-square ( $R^2$ ) of 26.6% in table 37 indicates that the variance of the dependent variable can be explained by 26.6% by the independent variable in the regression.

<i>Dependent variable:</i>	
XXL_returns	
sp500_returns	2.663*** (0.607)
Constant	-0.049 (0.033)
Observations	55
R <sup>2</sup>	0.266
Adjusted R <sup>2</sup>	0.253
Residual Std. Error	0.241 (df = 53)
F Statistic	19.250*** (df = 1; 53)
<i>Note:</i>	*p<0.1; **p<0.05; ***p<0.01

Table 37: Regression

According to Berk and DeMarzo (2017, p.471), the beta estimations fluctuate over time due to estimations errors and tend to move towards the overall market beta of 1. Therefore, the process of Bloomberg for adjusting betas is a commonly used method to adjust the beta calculation and get closer to the mean of all companies:

$$\beta_a = \frac{2}{3} * \beta_{est} + \frac{1}{3}$$

Where:

$\beta_a =$  Adjusted beta of a security

$\beta_{est} =$  Unadjusted beta

(Berk & DeMarzo, 2017, s. 472).

Using the formula for calculating the adjusted beta gives us a new beta of 2.11. To compare the estimated beta, we refer to Damodaran’s global industry beta (Damodaran, 2023). XXL is included under the industry “Retail (special lines)” for EU, which is an average of regression betas for 72 publicly traded companies in the particular industry. As shown in table 38, the industry average in EU is 1.30 and 1.48 in US. Thus, the beta of XXL is relatively high compared to the industry for publicly traded firms. However, given that XXL’s stock price has fallen by approximately 95% over the past five years, we consider our estimate to represent the company’s systematic risk. The adjusted beta of **2.11** will therefore be used to estimate the CAPM model.

Beta	Value
Unadjusted	2,66
Adjusted	2,11
Industry EU	1,30
Industry US	1,48

Table 38: Beta values

**7.1.4 Cost of equity calculation**

Now that every component of the CAPM has been determined, it is possible to calculate the required rate of return for XXL. The first variable is the risk-free interest rate, which has been estimated at 3.2%. Furthermore, the risk premium has been considered to be 5%, and thus the

beta has been estimated to be 2.11. This results in the required return on XXL's equity being the following when using the CAPM formula:

$$R_e = 3.2\% + 2.11 * 5\% = 13.75\%$$

## **7.2 Cost of debt**

The interest a company pays on all forms of borrowed capital is referred to as the cost of debt and is the cost related to borrowing (Damodaran, 2012). In contrast, this interest rate will be the rate of return required by investors or lenders in order to provide a loan. According to Damodaran (2012), there are three important variables that must be taken into consideration when working out the cost of debt: the risk-free rate, the company's default risk (Credit risk premium), and the tax advantages of debt financing. Calculating a company's cost of debt could be done in a number of different ways: one could use the rating provided by rating agencies, look at the company's most recent loan history, or one could produce a synthetic rating using the company's financial data (Damodaran, 2012). We have chosen to compute the average interest cost of XXL's total loan commitment. By combining short-term and long-term debt as well as utilizing the various interest rates on these loans as a foundation, we can generate a reasonable estimation of the company's total cost of debt after taking the tax rate into account. The following formula has been chosen for calculating XXL's cost of debt:

$$\textit{Cost of debt} = \textit{Interest rate} * (1 - \textit{tax rate})$$

(Koller et al., 2020)

Before a final calculation of the cost of debt is computed, a closer review of the variables included in the formula will be conducted.

### **7.2.1 Interest rate**

According to XXL's annual report, the company has a total credit commitment of NOK 1,800 million with the banks DNB Bank ASA and Nordea Bank Norge ASA. This total loan consists



of a NOK 150 million overdraft that serves as XXL's short-term loan. The remaining NOK 1,650 million is made up of a revolving credit facility, which serves as the long-term loan. The overdraft had an interest rate of 3.76% as of December 31, 2022, while the bank syndicate had an interest rate of 4.32% (XXL, 2022). We have decided that the weights of the short- and long-term loans, multiplied by the various interest rates, will be used to calculate the XXL interest rate. The following method has been used for estimating the various weights for the loans:

$$\text{Weight of overdraft} = \frac{\text{Overdraft loan}}{\text{Total loan}} = \frac{150 \text{ million NOK}}{1800 \text{ million NOK}} = 0,0833$$

$$\text{Weight of bank syndicate} = 1 - \text{Weight of overdraft} = 1 - 0,0833 = 0,9167$$

Thus, the formula and method for calculating interest rate are as follows:

$$\begin{aligned} \text{Interest rate} &= (\text{weight of overdraft} * \text{interest rate overdraft}) \\ &+ (\text{weight of bank syndicate} * \text{interest rate bank syndicate}) \end{aligned}$$

$$\text{Interest rate} = (0,0833 * 3,76\%) + (0,9167 * 4,32\%) = \mathbf{4,27\%}$$

### **7.2.2 Tax rate**

In terms of what tax rate is to be utilized for XXL, the Norwegian corporation tax rate has been chosen as an initial rate. Despite the fact that XXL operates in several nations with different corporate taxes, the company has the most dialogue and corresponds with the Norwegian tax authorities (XXL, 2022). Additionally, it can be observed in XXL's annual reports that they estimate their expenses using the applicable corporate tax rate in Norway. The Norwegian corporate tax currently stands at 22%, and this tax rate will be used in our WACC calculations in this chapter and further on in the thesis.

### **7.2.3 Cost of debt calculation**

It is now possible to conduct the calculation after identifying all the variables in the cost of debt formula. With an estimated interest rate of 4.27% and a tax rate of 22% for XXL, the company's cost of debt will be as follows:

$$\text{Cost of debt} = 4,27\% * (1 - 0,22) = 3,33\%$$

### 7.3 Weighted Average Cost of Capital

Considering that the valuation of XXL will be done by discounting future cash flows, the WACC must be determined. WACC will be used as the discount rate in the cash flow analysis and is the expected rate of return that all investors are expecting when investing capital in a specific company (Koller et al., 2020). It is composed of cost of equity, cost of debt, and the intended capital structure of the company. The WACC is calculated by multiplying the cost of equity and the cost of debt by the company's weight in market value, which equals the equity and debt ratio values. Finally, these are put together to generate the final WACC estimate. The following formula will be used to calculate the WACC:

$$WACC = \frac{E}{E + D} R_e + \frac{D}{E + D} R_d * (1 - T)$$

(Koller et al., 2020)

Using this formula for calculating WACC, we need to find the market weights for equity and debt at the time of valuation. Market values will be used instead of book values as it gives a more accurate value of the company's capital structure and should be an expression of the capital alternative cost. In addition, market values consider the markets expectations of future earnings, risk and liquidity, which we would not get by using book values (Koller et al., 2020). However, the book value of debt is used in the calculation since it is a good estimate of fair value for the market value of debt. Thus, to determine the market value of debt, we add the total amount of short-term and long-term debt, which is 3 371 000 000, as of December 31, 2021 (XXL, 2021). Furthermore, to calculate the market value of equity, we multiply the share price by the total number of outstanding shares. At the valuation date, there were 252 436 658 shares outstanding, and the stock price was NOK 14.03 resulting in a market value of equity of NOK 3 541 686 312 (XXL, 2021).

Now that all of the WACC formula's variables have been approximated, we are able to calculate our WACC. The market value of the equity is divided by the total capital to calculate the weight of the equity capital. Similarly, dividing the market value of the debt by the total capital to determine the debt's weight. Total capital is calculated by adding the market value of equity and

the market value of debt. The calculation of WACC is presented in Table 39 below. The outcome of the WACC will be applied as a discount rate in the forecast to discount the future cash flows of XXL.

<b>Weighted average cost of capital for XXL</b>	
Cost of equity (Re)	13,75 %
Cost of debt (Rd)	4,27 %
Market value of equity (E)	3 541 686 312
Market value of debt (D)	3 371 000 000
Corporate tax	22 %
<b>WACC</b>	<b>8,67 %</b>

*Table 39: Weighted average cost of capital for XXL*

## **8. Forecasting future cash flows**

In this chapter, a forecast of future cash flow will be presented. The information and findings from the strategic analysis in chapter 4, the analysis of financial statements in chapter 5, and the analysis of credit risk in chapter 6 will be used to estimate future cash flow projections. The strategic analysis has provided insight into the development and resources of XXL, as well as the opportunities and challenges in the sports industry. Additionally, the financial statement and credit analysis gave us an insight into XXL's financial situation compared to the industry. This will serve as a foundation for forecasting XXL's future revenues, costs, investments, and working capital. Along with the projected future tax rate and long-term growth rate, we can estimate the value of equity and the stock price of XXL as of 31.12.2021.

### **8.1 Choice of forecasting horizon**

Determining the forecast length is important when forecasting performance. The forecasting horizon must be long enough for the company to reach a steady rate (Koller et al., 2020). From this point, XXL will no longer generate higher profits than the market, and the revenue growth turns into a constant growth rate (Kaldestad & Møller, 2016). The duration it takes to reach the steady rate stage depends on which phase XXL and industry is in. To clarify which phase XXL and the industry are in, one can look at the revenue growth explained in chapter 2.2. Here it is shown that XXL and the industry have had a relatively high growth over the past 5-8 years. XXL's high growth is due to the establishments abroad and the expansion of warehouses in Norway. In addition, XXL's E-commerce sales have had the biggest growth in recent years. However, the total revenue growth for the company has slowed in recent years to the characteristics of a mature company.

Based on this, the growth gives indications that XXL is still growing and not in a steady rate stage. Therefore, we choose to set the forecast horizon to 10 years. This is also supported by Koller et al., (2020) which recommend using a general forecast period of 10 to 15 years. Thus, the forecast period will be from 2022 through 2031. It is therefore assumed that XXL will continue to grow steadily beyond 2031. However, this is a discretionary assessment since knowing exactly when XXL reach a steady rate is impossible to forecast. Therefore, it will be a weakness of the value estimate as the forecast period has a significant impact on it.

## 8.2 Future expectations

The presentation of the sports industry disclosed that the industry has been growing steadily over the past several years. It was additionally revealed that XXL has seen an increase in income in each of the nations where the company operates. According to the presentation of the income statement in chapter 5, the group has had a total revenue increase since the year the company were listed on the Oslo stock exchange. Although XXL experienced steady growth up until 2021, this does not guarantee that it will continue to grow in the same direction going forward. The strategic analysis highlights a selection of factors that indicate XXL has promising prospects for future growth, but it also identifies a number of threats and weaknesses that could negatively impact the prospects.

The socio-cultural component of the PESTEL analysis is a factor that is favorable for XXL and the future of the sports industry. Increased future sales opportunities for the company and the industry in general result from statistics showing that more people are exercising more and spending more time on sports-related activities. Additionally, the growing awareness of the importance of maintaining an active lifestyle among older people could result in more opportunities for sales among this age group.

In addition to the sociocultural aspect, PESTEL's technological element may have a major effect on XXL's future income. It emerged that the development of purchasing products online has been growing rapidly, with increasing numbers of consumers choosing to buy things online on a regular basis. Technology is continuously changing, and new ways for improving productivity, sales, product availability, marketing, and more will be of greater significance in the future. Therefore, there is a lot of opportunities for growth in this category going forward.

The analysis of Porter's five competitive forces revealed that there is an intense rivalry from both existing rivals and substitutes in the sports industry as of today. The competition between XXL and the other market players is intense because a few numbers of dominant players control a significant amount of the sports industry's market. It is projected that market competitiveness will remain high, and that rivalry between companies will grow to a higher level, given that many smaller firms will have greater opportunity for expanding their business online. The same applies for substitutes and their possibilities of capturing market shares and expanding their product offerings.

Another factor that will have an important impact on XXL's future prospects is the economies of each country. In the PESTEL analysis, it is mentioned under the economic element that there are currently substantial inflation rates in the group of nations, which has resulted in high price increases and interest rates. The purchasing power of consumers will be affected, which will have a negative impact on the demand for goods and services. Since it is anticipated that inflation and key interest rates will continue to be high in the near future, it must be assumed that this will also have a detrimental effect on XXL's income in the near future. On the other hand, if inflation and the key interest rate decrease to lower levels, this could potentially have beneficial effects on XXL's income further in the future.

Stein Alexander Eriksen, the current CEO of XXL, has recently made statements regarding how the company would face challenges in the near future due to weak macroeconomic conditions and decreased purchasing power (XXL, 2022). One of the company's main tasks in the near future will be to reduce its excessive inventories by decreasing the purchase of goods and increasing sales. Major financial losses in 2022 were partially caused by the decision made by XXL to cease operations in Austria in the future (XXL, 2022). In the past, the company's future goals consisted of establishing a presence in Austria with the goal of gaining an increasing share of the market there (XXL, 2021). Additionally, there were intentions to continue expanding into Europe following this. Due to the company's financial losses over the three years that XXL operated in Austria, this can now be considered as a failed operation. In recent statements, the company stated that the decision to end operations in Austria was necessary and that doing so will provide them more time and space to protect and grow as a company in the Nordic region (XXL, 2022).

The company's stated intention to focus on the Nordic region in the future leads us to assume that XXL is unlikely to attempt expanding into other European countries in the years to come. In the long run, this is certainly a great opportunity for the company, but since they have already begun to lose market share in the Nordic region, it is only reasonable to focus on minimizing further market share losses to rivals. By focusing mainly on the Nordic region, they have the opportunity of improving their strong brand and battle against rivals that have just taken a larger share of the market.

In their future strategic plans, their main focus will be to get even greater share of the market in all areas while continuing to grow and develop in e-commerce (XXL, 2022). They additionally conducted a number of strategic strategies and initiatives to improve the company's profitability. Making some of the physical stores smaller is one of the ways they want to do

this, among other things (XXL, 2022). At the same time, XXL will continue to invest in new store openings, with an aim to open 2-3 new stores per year in the next years. Optimizing its store portfolio is a top priority for XXL (XXL, 2022).

In today's market, XXL is the market leader in Norway, and they also have significant amounts of market in the other Nordic countries. In the Nordics, they are the market leader in e-commerce. They claim that they intend to increase their market share in all of the countries in which they operate while continuing to preserve their position in e-commerce. In the future, we believe this will be difficult for XXL. The reason for this is that XXL is more threatened than ever by competitors who have outlet concepts, and an increasing number of smaller companies with a primary focus on e-commerce.

In recent years, XXL has seen its market share decrease, while competitors like Sport Outlet and Sport 1, particularly in Norway, have gained significant growth. We anticipate that XXL will struggle to hold on to its market leader position in Norway but continue to be seen as one of the industry's leading players, thereby serving as a market challenger. Although XXL is investing heavily in e-commerce now and in the future, we anticipate that they will be losing more market share to multiple smaller and larger competitors in the e-commerce market. This is supported by the fact that holding such a significant share of the market can be difficult because technology constantly opens up new opportunities for competing companies to expand in this sector.

### **8.3 Like for Like Growth**

Like for like (LFL) method of measuring the growth of a company is widely used in the retail industry. The method gives an indicator of a company's current trading performance. For XXL, we will use the method to predict future operating revenues based on information and findings from the strategic analysis. Therefore, the basis for LFL growth in the estimated years is based on historical data, identified market trends, potential drivers, and internal analysis of the company. Table 40 shows the predicted change in operating income distributed among the different geographical areas in which XXL operates.

The year 2022 is included as real figures since the annual report for 2022 came out in late April 2023. However, this year has historically delivered the worst results in XXL's history, explained by difficult market conditions, loss of market shares in all countries, inventory build-

up and heavy discount activities (XXL, 2022). Furthermore, in XXL's annual report for 2022 it states that a tough year is expected also in 2023 both for XXL and the total industry. This is mainly due to rising costs, difficult market conditions, and record high inventory levels. Therefore, we have estimated a negative development for all operating countries also in 2023, before we expect the company is back to growing revenues. In addition, it was decided in 2022 that XXL would withdraw from the Austrian market after not being profitable, and thus withdrew completely from the country in 2023. We expect that the company will not expand to Central Europe in the coming years and are thus not included in our future projections.

In the period of 2024 to 2031, we expect the company to grow with an average growth rate between 2.38% - 3.21% as shown in table 40. The long-term growth rate in 2031 has been set equal to the current average inflation level in the various countries.

Like for like growth	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Norway	-2,3 %	-10,2 %	-8,5 %	1,8 %	2,0 %	2,0 %	2,0 %	2,5 %	3,0 %	3,3 %	3,3 %
Sweden	-0,4 %	-16,0 %	-11,5 %	2,4 %	2,5 %	2,5 %	2,6 %	2,6 %	2,7 %	2,8 %	3,0 %
Finland	-10,6 %	-11,5 %	-9,0 %	3,0 %	3,0 %	3,2 %	3,2 %	3,5 %	3,5 %	3,6 %	3,8 %
Denmark	-28,1 %	-11,5 %	-8,1 %	2,3 %	2,3 %	2,5 %	2,5 %	2,5 %	2,7 %	2,7 %	2,9 %
Austria/Central Europe	-15,5 %	-	-	-	-	-	-	-	-	-	-
<b>Average</b>	<b>-11,38 %</b>	<b>-12,30 %</b>	<b>-9,28 %</b>	<b>2,38 %</b>	<b>2,45 %</b>	<b>2,55 %</b>	<b>2,58 %</b>	<b>2,78 %</b>	<b>2,98 %</b>	<b>3,09 %</b>	<b>3,21 %</b>

Table 40: Like for like growth predictions

## 8.4 Operating revenue

When forecasting performance, we start by building the revenue forecast since almost every line item will directly or indirectly rely on the company's revenues (Koller et al., 2020). The operating revenues is considered as the most important driver of value in a company. According to Koller et al., (2020), estimating future revenues can be approached through either a top-down method (market-based), or a bottom-up method (customer-based). XXL operates in a mature industry where the overall market is expected to grow slowly with the economic growth and other long-term trends. Therefore, a top-down approach will be applied to the company based on XXL's historical growth and the strategy of the company to positioned for the future.

The future growth of XXL's operating revenues will be strongly influenced by the market conditions and dynamics. As discussed earlier, important factors such as consumer demand, competitive landscape, increasing cost, industry trends, and economic factors will play a significant role in shaping the revenue growth for XXL. The currently challenging market



conditions lead us to believe that the growth in the sports industry will stagnate. The intense competition will result in industry players converging closer to each other. In recent years, there has been a decline in the number of new stores, which may indicate market saturation. In a saturated market XXL must find other ways to grow their revenues. Therefore, operating revenue growth in the future must come from increased sales per store. Examples of this is mapped out in the internal and external analysis.

Looking forward, we assume that 2023 will be a challenging year for XXL and the industry based on some special years for the sports industry, with pandemic, supply problems, and increased costs both for consumers and the company. Therefore, a decline in total operating revenues of -9.3% is estimated in 2023. However, from 2024 onwards we expect the company, competitors, and the economy to be more stabilized. This will lead to gradual improvement and positive growth in operating revenues in the following years. It is expected that the next 5 years growth will derive from increased e-commerce sales. Nevertheless, there is significant uncertainty surrounding our estimate of medium- and long-term growth in operating revenues. Our forecast expects a return to more “normal times” in the sports industry after 2024. Thus, we estimate that XXL will gradually increase its operating revenues by approximately 2-3% each year until reaching a stable state by 2031.

Seen in a long-term perspective beyond 2031, XXL cannot grow faster than the growth rate of the global economy and which the company operates (Damodaran, 2012, s. 359). Therefore, for XXL we have set the long-term growth rate equal to the current average inflation level in the Nordics. This gives us a growth factor of 3.2%. Table 41 illustrates the estimated development in XXL’s operating revenues in the forecasted period.

Year	Growth	Operating revenue
2022	-12,3 %	8 426
2023E	-9,3 %	7 644
2024E	2,4 %	7 826
2025E	2,5 %	8 018
2026E	2,6 %	8 222
2027E	2,6 %	8 434
2028E	2,8 %	8 668
2029E	3,0 %	8 926
2030E	3,1 %	9 201
2031E	3,2 %	9 497

Table 41: Projected total operating revenues, numbers in NOK million

## 8.5 Costs

### 8.5.1 Cost of Goods Sold

The largest cost item in the sports industry is the cost of goods sold (COGS). This is primarily due to expenses such as purchasing and acquiring inventory. There are several factors that influence the future COGS for XXL, such as effective management and optimization of inventory. XXL had in 2022 an inventory build-up which led record high inventories and low gross margins. The COGS was high this year, and it is expected that the high inventory levels will also impact the COGS in 2023. Therefore, we have estimated a gross margin of 35% in 2023, which is quite similar to that of the year 2022.

Despite this, the internal analysis revealed that XXL has established efficient procurement and logistics practices. For instance, XXL has implemented the most advanced omni-channel management system in the Nordic region. Additionally, the company have three central warehouses, which all is equipped with robotic systems to optimize cost savings. Based on this, we assume that the gross margin will improve in the coming years as XXL reorganize its inventory and implements a more effective purchasing model in the future. This will result in XXL gradually moving towards a gross margin of 40%, which is historically consistent with the company's performance. Thus, COGS is estimated to be stable at 60% of operating revenues from 2026 onwards. The projected COGS for the forecasted period are shown in table 42.

Year	Gross margin	Cost of Goods Sold
2022	32,3 %	5 705
2023E	35,0 %	4 969
2024E	38,0 %	4 852
2025E	38,0 %	4 971
2026E	40,0 %	4 933
2027E	40,0 %	5 060
2028E	40,0 %	5 201
2029E	40,0 %	5 356
2030E	40,0 %	5 521
2031E	40,0 %	5 698

Table 42: Projected COGS, numbers in NOK million

### 8.5.2 Personnel expenses

To forecast future personnel expenses, we analyze historical data, industry trends, and XXL's specific conditions. By examining the historical personnel expenses for the company, we can identify patterns and trends in personnel expenses over time. Figure 26 demonstrates that personnel expenses in XXL have increased in line with operating revenues throughout the analysis period. During this period, the personnel expense ratio has remained stable between 15% and 19%. The small increase can be attributed to a combination of growth in operating revenues, expansion and company growth, an increase in the number of employees, and general economic inflation and wage growth. In 2021, XXL reached its highest-ever number of employees at 5 789, including full-time and part-time employees. However, the following year in 2022, the number decreased by 18% to 4 749 (XXL, 2021). The significant decrease in employees was due to the challenging conditions XXL experienced in 2022, as well as XXL's withdrawal from the Austrian market. Therefore, this led to a reduction in stores and a subsequent decrease in overall workforce.

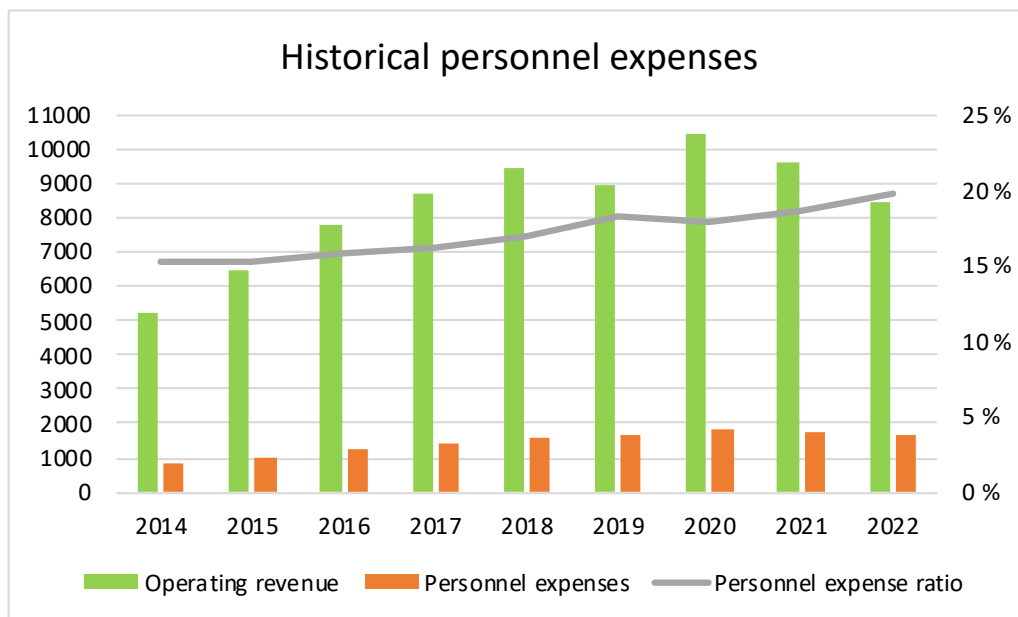


Figure 26: Historical personnel expenses, numbers in NOK million

As XXL has growth plans going forward, we expect an increase in the number of employees. Additionally, factors such as inflation and wage growth will have an impact on raising personnel expenses. Therefore, a future expense ratio of 20% would be considered reasonable

in the forecasted period. Based on this ratio of operating revenues, we can calculate the estimated future personnel expenses up to 2031 as demonstrated in table 43.

Year	In % of revenue	Personnel expenses
2022	19,8 %	1 665
2023E	20 %	1 529
2024E	20 %	1 565
2025E	20 %	1 604
2026E	20 %	1 644
2027E	20 %	1 687
2028E	20 %	1 734
2029E	20 %	1 785
2030E	20 %	1 840
2031E	20 %	1 899

*Table 43: Projected personnel expenses, numbers in NOK million*

### **8.5.3 Other operating expenses**

During the period from 2014 to 2022, XXL's other operating expenses accounted for between 9-15% of their sales revenue. This financial post includes expenses such as cost of premises, marketing cost and other costs associated with maintenance, IT licenses, legal fees, and others. By the annual report from 2022 it was noted that other operating expenses represented 9.7% of the sales revenue (XXL, 2022). Considering XXL's plans to invest heavier in their marketing activities going forward, we expect an increase in costs within this category for the year 2023. Despite that the costs associated to premises will be reduced based on the company exiting Austria, we estimate that XXL will incur other operating expenses equivalent to 13% of their sales revenue this year. Looking forward to the years leading up to 2031, we estimate on the basis of historical figures and XXL's statements regarding expenses on premises and marketing, a percentage of 12% of the sales revenue. We believe that this percentage rate of 12% will be stable until the stable state in 2031. For a more detailed forecasted figures regarding other operating expenses from 2021 to 2031, see table 44 below.

Year	In % of revenue	Other operating expenses
2022	9,7 %	820
2023E	13,0 %	994
2024E	12,0 %	939
2025E	12,0 %	962
2026E	12,0 %	987
2027E	12,0 %	1 012
2028E	12,0 %	1 040
2029E	12,0 %	1 071
2030E	12,0 %	1 104
2031E	12,0 %	1 140

Table 44: Projected other operating expenses, numbers in NOK million

## 8.6 Capital expenditures

According to its latest annual report, XXL will continue to invest in operational efficiency, selective new store openings, e-commerce platform, existing locations, infrastructure, and IT (XXL, 2022). This is also aligned with their current strategy, which we previously covered. This type of investment falls under the definition of capital expenditures (CAPEX) for the company and is known as a type that is essential for companies to make in order to invest in opportunities for growth (Koller et al., 2020). According to table 45, the historical capital expenditure as a percentage of income has ranged between 2.5% - 4.6%, with the exception of 2019, when it was 38.6%. By excluding the decisive year 2019, one gets a historical average of 3.3% for the time period.

Historical	2014	2015	2016	2017	2018	2019	2020	2021
Capital expenditure (CAPEX)	140	198	238	335	240	3467	478	354
Capital expenditure (CAPEX) in % of revenue	2,7 %	3,1 %	3,0 %	3,8 %	2,5 %	38,6 %	4,6 %	3,5 %

Table 45: Historical capital expenditures, numbers in NOK million

Further, we calculated a forecast for XXL's capital expenditures until it reached its stable state in 2031. Table 46 shows that in 2022, CAPEX becomes NOK 206 million. This estimate is taken from XXL's most recent annual report. In the same annual report, XXL predicted that their CAPEX for 2023 will be between NOK 150 and 200 million (XXL, 2022). We projected it at NOK 200 million since we thought NOK 150 million was a bit low in light of the price increase that has occurred. For the remaining years we have decided to employ a 3% percentage rate on CAPEX compared to revenue. This is slightly below the previously indicated historical average. But we consider this to be a reasonable estimate of future expenses in CAPEX given

the reduced sizes of the physical stores and potential limited investments in the previously mentioned categories in XXL's CAPEX.

Year	In % of revenue	CAPEX
2022	2,4 %	206
2023E	2,6 %	200
2024E	3,0 %	235
2025E	3,0 %	241
2026E	3,0 %	247
2027E	3,0 %	253
2028E	3,0 %	260
2029E	3,0 %	268
2030E	3,0 %	276
2031E	3,0 %	285

Table 46: Forecasted capital expenditure, numbers in NOK million

## 8.7 Net working capital

Net working capital is a measure of a company's capacity to meet current obligations and analyzes its short-term liquidity. Net working capital is calculated by taking the company's currently assets and subtracting its current short-term liabilities (Sagner, 2014). Table 47 reveals the development of XXL's net working capital for the period 2014 to 2021. Using net working capital as a metric against revenue, there has been a definite downward trend throughout the period, with net working capital falling to 1.4% in 2021. The reason for this is that accounts payable and credit facilities have increased significantly in recent years (XXL, 2021). Additionally, as previously mentioned, XXL has experienced challenges with a very large inventory, which has only worsened the situation. All of these factors had an impact and contributed to the company's poor net working capital development.

Historical	2014	2015	2016	2017	2018	2019	2020	2021
Net working capital	938	1014	1039	1123	928	324	425	142
Net working capital in % of revenue	18,0 %	15,6 %	13,3 %	12,9 %	9,8 %	3,6 %	4,1 %	1,4 %

Table 47: Historical net working capital, numbers in NOK million

Furthermore, table 48 shows that XXL will have a negative net working capital in 2022. Again, high inventories, higher accounts payable, and credit facilities are to blame for the figures, which is taken from the company's most recent annual report (XXL, 2022). We forecasted that XXL will continue to struggle to reverse this trend in 2023, which is why we also predicted that

the company would have negative net working capital for an additional year. We predict that the company will reverse this negative trend starting in 2024, as the company will, among other things, focus strongly on reducing its inventory (XXL, 2022). From 2025 to 2031, we expect a steadier net working capital, which we have calculated to represent 4% of the company's revenue in that period. This is justified by the fact that, in our opinion, the company will continue to be identified by significant short-term liabilities while maintaining higher current assets. This table additionally illustrates the yearly change in net working capital for the years 2022 through 2031.

Year	In % of revenue	NWC	Δ NWC
2022	-7,2 %	-605	-747
2023E	-3,1 %	-237	368
2024E	1,5 %	117	354
2025E	4,0 %	321	203
2026E	4,0 %	329	8
2027E	4,0 %	337	8
2028E	4,0 %	347	9
2029E	4,0 %	357	10
2030E	4,0 %	368	11
2031E	4,0 %	380	12

Table 48: Forecasted net working capital, numbers in NOK million

### 8.8 Depreciation and Amortization

Historically, depreciation and amortization have varied between 1.5% and 8.3% of operating revenues from 2014 to 2022. Since 2019, the ratio has been relatively stable with a range of 7% - 8%. This stability indicates that XXL has maintained a consistent approach to depreciating its assets in relation to its operating revenues. The high depreciation and amortization ratio may be due to XXL’s significant asset acquisitions during this period. The company expanded into Austria by opening new stores. Furthermore, XXL made substantial investments in technology and infrastructure, such as e-commerce platforms and omnichannel capabilities. Looking forward, we expect a decrease in depreciation and amortization in percentage of operating revenues from 7-8% to 5% starting from 2025. This can be explained by the expectation that XXL will reduce its capital investments in the coming years and that the company’s long-term assets are aging and approaching the end of their useful lives. Additionally, changes in XXL’s depreciation policy, which currently relies on a straight-line depreciation, could also contribute

to a decrease (XXL, 2022). Table 49 shows the depreciation and amortization expense in percentage of revenues for the forecasted period.

Year	In % of revenues	Depreciation and Amortization
2022	8,3 %	703
2023E	7 %	535
2024E	7 %	548
2025E	5 %	401
2026E	5 %	411
2027E	5 %	422
2028E	5 %	433
2029E	5 %	446
2030E	5 %	460
2031E	5 %	475

Table 49: Forecasted depreciation and amortization ratio, numbers in NOK million

### 8.9 Tax

From the PESTEL analysis, we discovered that the tax rate in the countries where XXL operates are converging due to international tax competition. Given XXL’s operations in several countries, we could have calculated an effective tax rate taking into account the tax rates in each country. However, considering XXL’s significant presence and operations in Norway, we have decided to use the Norwegian tax rate in the calculation of FCF going forward. The impact of using different tax rates in our calculations would likely be minimal. Therefore, the Norwegian tax rate of 22% will be used and stay constant from 2022 to 2031.

### 8.10 Forecasted free cash flow

Based on the forecasts for operating revenues, COGS, personnel expenses, other operating expenses, investments, net working capital, depreciation, and taxes, we can now estimate future cash flows. The estimated forecasts indicate a negative cash flow until 2025. A negative cash flow during this period means that XXL is using more cash than it generates and poses financial challenges for the company in the short-term. However, we expect the company to implement measures to restore healthy and positive free cash flows in the years after 2025. Table 50 provides an overview of all the estimated forecasts and future cash flows.



Estimated projections	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Operating revenue	8 426	7 644	7 826	8 018	8 222	8 434	8 668	8 926	9 201	9 497
Cost of Goods Sold	5 705	4 969	4 852	4 971	4 933	5 060	5 201	5 356	5 521	5 698
Personnel Expenses	1 665	1 529	1 565	1 604	1 644	1 687	1 734	1 785	1 840	1 899
Depreciation and Amortization	703	535	548	401	411	422	433	446	460	475
Other Operating Expenses	820	994	939	962	987	1 012	1 040	1 071	1 104	1 140
<b>EBIT</b>	<b>-467</b>	<b>-382</b>	<b>-78</b>	<b>80</b>	<b>247</b>	<b>253</b>	<b>260</b>	<b>268</b>	<b>276</b>	<b>285</b>
EBIT (1-t)	-103	-84	-17	18	54	56	57	59	61	63
Depreciation	703	535	548	401	411	422	433	446	460	475
CAPEX	206	200	235	241	247	253	260	268	276	285
Δ NWC	-747	368	354	203	8	8	9	10	11	12
<b>FCF</b>	<b>-353</b>	<b>-117</b>	<b>-59</b>	<b>-25</b>	<b>211</b>	<b>216</b>	<b>221</b>	<b>227</b>	<b>234</b>	<b>241</b>

Table 50: Forecasted free cash flow, numbers in NOK million

## 9. Fundamental valuation

### 9.1 Terminal value

The terminal value represents a significant portion of a company's total value and captures the value from the end of the forecast period into perpetuity (Penman, 2013). To calculate the terminal value of XXL, we use the following formula:

$$\text{Terminal value} = \frac{FCF_n * (1 + g)}{WACC - g}$$

Using this formula, we assume that XXL will maintain a constant growth in annual free cash flows of 3.2% after 2031. This growth rate is equal to the current average inflation level in the various countries XXL operates. A general rule is that the long-term growth of a XXL cannot exceed the growth of the economy in which the company operates (Damodaran, 2012, s. 359). Thus, we assume that XXL will reach steady state in year 2031. Using the estimated FCF in 2031 of approximately NOK 241 million and the WACC of 8.67%, we can calculate the terminal value as shown in table 51. The present value of the terminal value accounts for NOK 1 978 million, which corresponds to 89% of the enterprise value of 2 216 as shown in table 52. This highlights the importance of terminal value in a valuation.

Terminal value	
Estimated FCF in 2031	240,78
g	3,2 %
WACC	8,67 %
<b>Terminal value (TV)</b>	<b>4 543</b>
<b>PV of TV</b>	<b>1 978</b>

Table 51: Terminal value estimation, numbers in NOK million

### 9.2 Valuation

There are a number of calculations that need to be done in order to determine XXL's value estimate per share. Firstly, the value of future free cash flows must be discounted to present value at the time of valuation, and this is done by using the WACC as discount rate. Additionally, the terminal value must be calculated and discounted to the present value in order

to determine the value of XXL beyond the predicted time period of 2022–2031. The enterprise value can then be calculated by adding the present values of the expected future free cash flows and the terminal value. To determine the value of the company's equity, the book value of net debt must be subtracted from the enterprise value. At the time of valuation, XXL's equity was estimated to be NOK 1 509.37 million. This results in a share price for XXL of NOK 5.98. Table 52 below provides a summary of all the calculations. See appendix 6 for a detailed breakdown of the discounting and cash flow calculations for the period.

<b>Value of firm</b>	
Present value of FCF	238,39
Present value of terminal value	1 977,98
Enterprise value	2 216,37
Book value of net debt	707,00
Value of equity	1 509,37
Outstanding shares	252,44
<b>Value per share (NOK)</b>	<b>5,98</b>

*Table 52: Value of firm, numbers in NOK million*

## 10. Sensitivity analysis

In this chapter, a sensitivity analysis will be conducted to assess the robustness and reasonableness of the valuation performed in chapter 9. The results will be analyzed, and it will be tested how the XXL value responds to changes in key inputs. First, we will examine the sensitivity of the results by changing the variables individually. Then, scenarios will be created, one with zero growth and another with high growth. Finally, we will compare the different scenarios and the forecast.

### 10.1 Changes in WACC and growth rate

WACC is an indicator of the company's total cost of capital and should reflect the risk associated with the investment. In the previous chapter, WACC was used twice to calculate the net present value of XXL's equity, both in the discount factor and the terminal value. The growth rate represents the expected annual growth in cash flows and is used to calculate the terminal value into perpetuity. Table 53 shows XXL's value per share based on different combinations of WACC and growth rates. For instance, if we keep the growth rate at 3.2% and increase the WACC from 8.67% to 9.8%, there would be a gradual decrease in cash flow values which in turn leads to a decrease in value per share from NOK 5.98 to NOK 3.82. Similarly, when increasing the growth rate from 3.2% to 4.4% and keep the WACC constant, the cash flow values rise which leads to an increase in value per share from NOK 5.98 to NOK 9.09.

The table is therefore useful for evaluating the sensitivity of the valuation based on different combinations of WACC and growth rate. It provides us with insight into potential risk factors and uncertainties that can impact the calculation of the company's terminal value, which in turn is crucial for determining the present value of XXL's equity.

		WACC						
		7,60 %	8,00 %	8,40 %	8,67 %	9,00 %	9,40 %	9,80 %
Growth	2,0%	6,68	5,77	4,98	4,50	3,96	3,38	2,86
	2,4%	7,36	6,34	5,46	4,93	4,34	3,71	3,15
	2,8%	8,15	6,99	6,01	5,42	4,77	4,08	3,46
	3,2%	9,09	7,76	6,64	<b>5,98</b>	5,26	4,49	3,82
	3,6%	10,21	8,66	7,38	6,63	5,82	4,96	4,22
	4,0%	11,58	9,75	8,25	7,40	6,47	5,51	4,68
	4,4%	13,29	11,07	9,30	8,30	7,23	6,14	5,20

Table 53: Changes in WACC and growth rate

## 10.2 Changes in variables in WACC

To examine changes in the WACC components, we have chosen to focus on those related to the cost of equity. Therefore, we will not analyze changes in the cost of debt and thus stay constant. The sensitivity analysis looks at changes in the risk-free rate, the company's beta, and the expected return on the market. This allows us to gain a better understanding of how variations in these factors impact the expected returns and risks associated with an equity investment in XXL. Table 54 shows an overview of the three components that make up the cost of equity. The sensitivity analysis looks at each component change from -30% to +30% and how the changes affect XXL's share price.

	-30 %	-20 %	-10 %	-5 %	0 %	5 %	10 %	20 %	30 %
<b>Risk-free rate</b>	4,83	5,19	5,57	5,77	<b>5,98</b>	6,20	6,42	6,89	7,39
<b>Beta</b>	11,38	9,13	7,38	6,64	<b>5,98</b>	5,38	4,84	3,90	3,10
<b>Expected return on market</b>	18,19	12,14	8,45	7,10	<b>5,98</b>	5,03	4,22	2,90	1,89

Table 54: Changes in cost of equity variables

### 10.2.1 Beta

The beta coefficient was found through a regression analysis using monthly data over a 5-year period explained in chapter 7. After adjusting, it gave us a beta of 2.11. This beta value constitutes 0% and NOK 5.98 in figure 27. The graph provides valuable insight into the relationship between beta and share price of XXL. It shows that the beta estimate has a strong negative relationship with the share price. If the beta value of the company increases, the share price decreases. However, if the beta value drops by 30% from 2.11 to 1.45, then the share price is NOK 11.38, which is about 90% higher than the forecasted share price in chapter 9. The high sensitivity in beta also applies to an increase in the beta estimate. For instance, an increase of 30% gives a beta value of 2.74 and a share price of NOK 3.10, which is a 93% decrease.

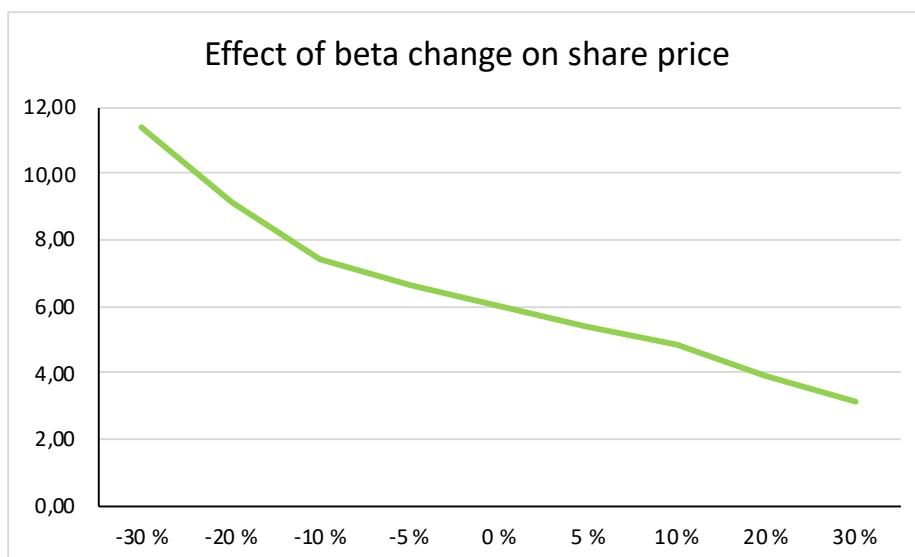


Figure 27: Change in beta

### 10.2.2 Risk-free rate

The risk-free rate has less impact on the share price than the beta value. However, this was expected since the risk-free rate constitutes a less significant part of the equity requirement. Therefore, if it turns out that we have assumed wrong risk-free rate in our forecast in previous chapters, the value will still be relatively close to our share price estimate. The share price of XXL ranges between NOK 4.83 and 7.39, covering the interval from -30% to +30% as illustrated in figure 28. As shown in the figure below, the share price is less sensitive to changes in risk-free rate than changes in beta value.

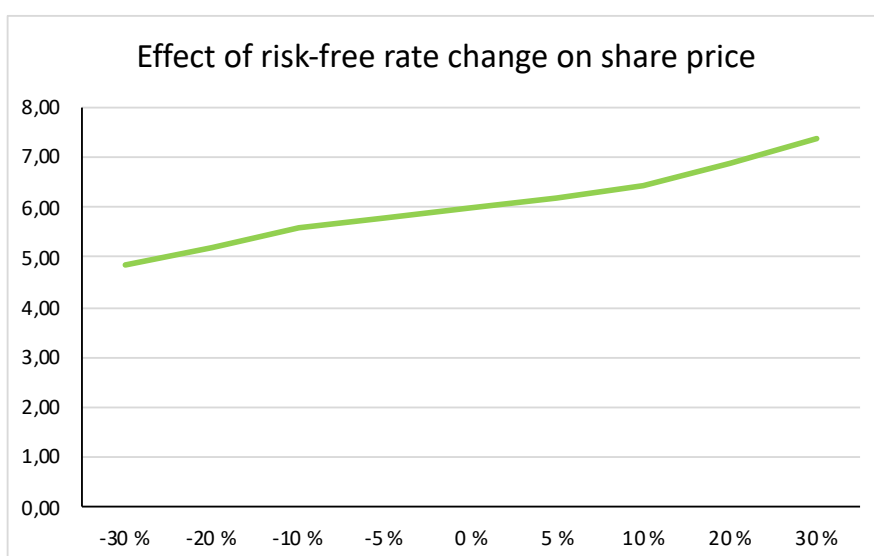


Figure 28: Change in risk-free rate

### 10.2.3 Expected return on market

Changes in the expected return on the market are expected to have significant effect on the equity requirement and the company's value. This is shown in the sensitivity analysis in figure 29, where we observe a variation in share price between NOK 1.89 to 18.19. The interesting aspect of this sensitivity analysis is that a 30% decrease in the expected return on market results in a substantial 204% increase in share price, from NOK 5.98 to 18.19. Conversely, a 30% increase in the expected return on the market leads to a 68% decrease in share price, from NOK 5.98 to 1.89. Thus, a decrease in the expected return on the market has more than twice the impact on the estimated value and share price compared to an increase.

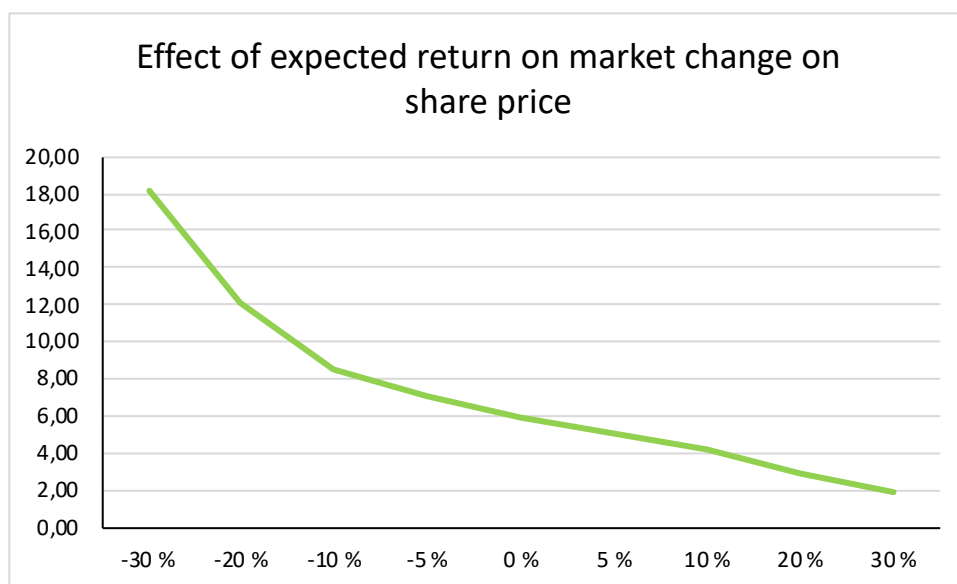


Figure 29: Change in expected return on market

### 10.3 Scenario analysis

It is a common practice to create scenarios when analyzing forecasting results (Koller et al., 2020). The future is never knowable, and we should thus consider making financial projections under different scenarios. Due to a lot of assumptions and uncertainty for the future, we will perform a scenario analysis in addition to the sensitivity analysis. The scenario analysis consists of two scenarios: Scenario 1 assumes zero growth in the forecast period, while Scenario 2 assumes high growth in the forecast period.

### 10.3.1 Scenario 1: Zero growth

The first scenario assumes that XXL will stagnate and have the same figures as in 2021 throughout the whole forecast period. Since XXL had a positive FCF in 2021, the DCF method can be used to calculate the present value of equity given that the company will have zero growth in the forecast period. Table 55 shows that XXL will not experience growth or changes in its financial performance over the forecasted period. Thus, it remains constant at its 2021 levels.

Scenario 1: zero growth	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Operating revenue	10 006	10 006	10 006	10 006	10 006	10 006	10 006	10 006	10 006	10 006	10 006
Cost of Goods Sold	5923	5923	5923	5923	5923	5923	5923	5923	5923	5923	5923
Personnel Expenses	1886	1886	1886	1886	1886	1886	1886	1886	1886	1886	1886
Depreciation and Amortization	810	810	810	810	810	810	810	810	810	810	810
Other Operating Expenses	996	996	996	996	996	996	996	996	996	996	996
<b>EBIT</b>	<b>391</b>	<b>391</b>	<b>391</b>	<b>391</b>	<b>391</b>	<b>391</b>	<b>391</b>	<b>391</b>	<b>391</b>	<b>391</b>	<b>391</b>
EBIT (1-t)	305	305	305	305	305	305	305	305	305	305	305
Depreciation	810	810	810	810	810	810	810	810	810	810	810
CAPEX	354	354	354	354	354	354	354	354	354	354	354
Δ NWC	-283	-283	-283	-283	-283	-283	-283	-283	-283	-283	-283
<b>FCF</b>	<b>478</b>	<b>478</b>	<b>478</b>	<b>478</b>	<b>478</b>	<b>478</b>	<b>478</b>	<b>478</b>	<b>478</b>	<b>478</b>	<b>478</b>

Table 55: Scenario 1 with zero growth, numbers in NOK million

Using the FCF of 478 to calculate the terminal value with zero growth, a high terminal value is expected. Given all other factors remain constant, this scenario yields the following forecasts and valuation calculations, as shown in table 56. The value per share in scenario 1 with zero growth was calculated to be NOK 19.04.

Value of firm with zero growth	
Present value of FCF	3 112,58
Present value of terminal value	2 400,46
Enterprise value	5 513,03
Book value of net debt	707,00
Value of equity	4 806,03
Outstanding shares	252,44
<b>Value per share (NOK)</b>	<b>19,04</b>

Table 56: Value of firm with zero growth, numbers in NOK million

### 10.3.2 Scenario 2: High growth

In the second scenario, growth is anticipated to be higher than originally anticipated when calculating the company's cash flow, which will also have a direct effect on the estimated



calculation of XXL's share value. Looking back at table 41 in chapter 8.3, operating revenue, the projected growth in revenue for the years up to 2031 was presented. We have chosen to increase these estimations in table 41 by an additional 3% in order to account for higher growth rate. Additionally, the 3.2% long-term growth, which is currently implied, will be increased to 5%. Costs are estimated as a percentage of revenue, therefore these are not adjusted. Taking these adjustments into consideration, the estimated value of XXL's cash flow to firm will differ from what it was originally. The calculated amount of free cash flow with a positive growth change of plus 3% and a long-term growth of 5% for the year 2031 and further into the future is shown in table 57 below.

Scenario 2: high growth	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
FCF		-372	-109	-59	-34	244	258	272	287	304	325
Discount factor		1,09	1,18	1,28	1,39	1,52	1,65	1,79	1,94	2,11	2,30
Present value		-342,38	-91,96	-46,23	-24,23	161,26	156,61	151,99	147,79	144,04	141,41
Total PV of FCF	398,30										
Terminal value (TV)											9 292
PV of TV	4 045,82										
Enterprise value	4 444,12										
Book value of net debt	707,00										
Value of equity	3 737,12										
Outstanding shares	252,44										
<b>Value per share (NOK)</b>	<b>14,80</b>										

Table 57: Scenario 2 with high growth, numbers in NOK million

A greater rate of growth results in a larger total present value of free cash flow as well as a higher terminal value. The WACC remains unchanged at 8.67% for the calculation of present values, while the new long-time growth rate of 5% is used as the foundation for the calculation of terminal value. As shown in table 58 below, this results in a value per share for XXL with the up-adjusted growth rates of NOK 14.80.

Value of firm with high growth	
Present value of FCF	398,30
Present value of terminal value	4 045,82
Enterprise value	4 444,12
Book value of net debt	707,00
Value of equity	3 737,12
Outstanding shares	252,44
<b>Value per share (NOK)</b>	<b>14,80</b>

Table 58: Value of firm with high growth, numbers in NOK million

#### 10.4 Value per share under different scenarios

To summarize, we have chosen to present the different values per share for the various scenarios in table 59. It was also decided to include multiple versions of the WACC to examine how the value per share changes in various scenarios. The table shows that scenario 1 with zero growth has the greatest share value of NOK 19.04 with an ordinary WACC estimate of 8.67%. This is due to the fact that we used the year 2021 as our starting point while computing scenario 1. This year, XXL had a positive free cash flow, and when these numbers are carried forward in time, all cash flow calculations will be positive, resulting in a high value per share.

In scenario 2, we anticipated greater growth than the original forecast, but it remains projected that XXL will see a few years of losses in the future. On the other hand, the losses are smaller than forecasted earlier, and as a result, we receive a higher value per share than in the forecast. Furthermore, compared to the forecasting and scenario 1, there are more fluctuations in scenario 2 with high growth. The table 59 presents an informative overview of how sensitive the valuation is to changes in the WACC, and it is clear that a change in the WACC can have a significant influence on the share price of XXL.

WACC	Forecasted (NOK)	Scenario 1 (NOK)	Scenario 2 (NOK)
7,60 %	9,09	22,11	24,00
8,00 %	7,76	20,87	19,78
8,40 %	6,64	19,74	16,57
8,67 %	5,98	19,04	14,80
9,00 %	5,26	18,24	12,97
9,40 %	4,49	17,34	11,13
9,80 %	3,82	16,52	9,59

Table 59: Value per share under different scenarios

## 11. Comparative valuation

In this chapter, a comparative valuation will be conducted by employing financial multiples as an alternative valuation method to the fundamental valuation performed in Chapter 9. The comparable companies selected for this comparative valuation were selected based on that they are publicly traded and operating in the same industry as XXL. The companies that have been selected are JD Sport Fashion, Thule Group, Dick's Sporting Goods, and Academy Sports and Outdoor. This valuation method only uses the information that was obtained directly from the company's annual reports and will be presented in their local currency (Academy Sport & Outdoors, Inc, 2022; Dick's Sporting Goods, Inc, 2022; JD Sports Fashion Plc, 2022; Thule Group AB, 2022).

The multiples chosen for analysis and usage in this valuation correspond to the ones deemed most essential by Damodaran (2012). This leads to the inclusion of the following multiples in the comparative valuation method: price to sales ratio, price to earnings ratio, price to book ratio, enterprise value to sales ratio, and enterprise value to EBITDA ratio. All of these multiples will be analyzed individually before being summed up, and a value estimate per share of the comparative valuation will be calculated.

### 11.1 Price to sales

The price to sales ratio (P/S) is determined by taking the company's market value and dividing it by its annual revenue. In contrast to other multiples like earnings and book values, this ratio has the advantage of being simpler to compare companies to one another across different market sectors. Additionally, because different countries employ various accounting standards and legal frameworks, this ratio makes it easier to compare companies across markets (Damodaran, 2012). Table 60 shows that among the comparable companies, XXL has the lowest P/S ratio. Thule Group has a relatively high ratio, which is mainly caused by the fact that the company's share price was at an all-time high at the time of comparison. Due to this, the industry average is greater than it would be if Thule Group were excluded. However, it was decided to include them in the computation because it is normal for some companies to experience greater growth than others at certain points in time. The industry P/S ratio average was 1.78, resulting in a value estimate per share for XXL of NOK 70.37.

P/S	XXL (NOK)	JD Sport Fashion (GBP)	Thule Group (SEK)	Dick's Sporting Goods (USD)	Academy Sports and Outdoors (USD)
Share value 31.12.2021	14,03	2,75	548,00	114,99	43,90
Outstanding shares	252 436 658	5 158 100 000	104 662 000	83 183 000	87 079 394
Market capitalization	3 541 686 312	14 201 640 000	57 354 776 000	9 565 213 170	3 822 785 397
Annual revenue	10 006 000 000	8 563 000 000	10 386 000 000	12 293 368 000	6 773 128 000
P/S ratio	0,35	1,66	5,52	0,78	0,56
<b>Average P/S ratio</b>	<b>1,78</b>				
Annual revenue XXL	10 006 000 000				
Estimated value XXL	17 765 143 004				
Outstanding shares XXL	252 436 658				
<b>Value per share XXL</b>	<b>70,37</b>				

Table 60: P/S ratio analysis, numbers in local currency

## 11.2 Price to earnings

This ratio illustrates the relation between a company's current share price and earnings per share and is one of the most commonly utilized multiples. The P/E ratio is frequently used by investors and analysts to calculate the relative value of the share price of a company. The P/E ratio is additionally used by companies themselves to ensure that they can evaluate their performance in comparison to historical P/E ratios (Damodaran, 2012). This multiple is calculated by dividing the current share price by the earnings per share of the company. A high P/E ratio could indicate that a company is overpriced or that there are high expectations for the company to have positive future cash flows. The contrary will also be true if a firm has a low P/E ratio, which indicates that there are low expectations for its future cash flows or that the company is underpriced (Damodaran, 2012).

Table 61 reveals that XXL has a P/E ratio of 18.26, which is in the middle of the other comparable companies studied in this analysis. JD Sport Fashion and Thule Group have P/E ratios of more than 30, whereas Dicks Sporting Goods and Academy Sports and Outdoors have P/E ratios in the 5-6 range. This results in an industry average P/E ratio of 18.64, which is similar to the ratio of XXL. Considering this as a foundation, one could wonder whether the companies JD Sport Fashion and Thule Group are overpriced, or whether Dicks' Sporting Goods and Academy Sports & Outdoors are underpriced. Using the average multiple of 18.64, the value of XXL per share is estimated to be NOK 14.32.

P/E	XXL (NOK)	JD Sport Fashion (GBP)	Thule Group (SEK)	Dick's Sporting Goods (USD)	Academy Sports and Outdoors (USD)
Share value 31.12.2021	14,03	2,75	548,00	114,99	43,90
Net income	194 000 000	459 600 000	1 790 000 000	1 519 871 000	671 381 000
Outstanding shares	252 436 658	5 158 100 000	104 662 000	83 183 000	87 079 394
Earnings per share	0,77	0,09	17,10	18,27	7,71
P/E ratio	18,26	30,90	32,04	6,29	5,69
<b>Average P/E ratio</b>	<b>18,64</b>				
Net income XXL	194 000 000				
Estimated value XXL	3 615 587 328				
Outstanding shares XXL	252 436 658				
<b>Value per share XXL</b>	<b>14,32</b>				

Table 61: P/E ratio analysis, numbers in local currency

### 11.3 Price to book

The price to book ratio (P/B) measures the relationship between a company's book value and its share price. The ratio is calculated by taking the market share price of the company and dividing it by the book value per share, and it should provide insight into the company's ability for creating value (Damodaran, 2012). Investors utilize this ratio because it gives them a reliable way to assess the company's value and it allows them to compare it to other comparable companies. This is because the same accounting practices and standards are usually used in the same industry in which the company operates. One downside of this ratio is that accounting decisions adjust a company's book value, which means that this ratio may not be compared if accounting standards differ (Damodaran, 2012).

When comparing the P/B ratios of the similar companies displayed in table 62, it emerges that XXL has by far the lowest ratio of them all at 0.94. The highest ratio belongs to Thule Group at 9.86, which is once more understandable considering their share price is currently at an all-time high. However, it is notable that the P/B ratio for the other companies ranges from 2.66 to 6.07. From the perspective of an investor, XXL is viewed as a company that is struggling to create value, whereas the other companies have significantly better prospects for this (Damodaran, 2012). According to calculations, the industry average P/B ratio is 4.81, which results in an estimated share value for XXL of NOK 71.46.

P/B	XXL (NOK)	JD Sport Fashion (GBP)	Thule Group (SEK)	Dick's Sporting Goods (USD)	Academy Sports and Outdoors (USD)
Total assets	9 015 000 000	7 068 600 000	10 192 000 000	9 041 676 000	4 584 940 000
Total liabilities	5 262 000 000	4 729 000 000	4 377 000 000	6 940 090 000	3 117 994 000
Book value	3 753 000 000	2 339 600 000	5 815 000 000	2 101 586 000	1 466 946 000
Outstanding shares	252 436 658	5 158 100 000	104 662 000	83 183 000	87 079 394
Book value per share	14,87	0,45	55,56	25,26	16,85
Share value 31.12.2021	14,03	2,75	548,00	114,99	43,90
P/B ratio	0,94	6,07	9,86	4,55	2,61
<b>Average P/S ratio</b>	<b>4,81</b>				
Book value XXL	3 753 000 000				
Estimated value XXL	18 040 242 890				
Outstanding shares XXL	252 436 658				
<b>Value per share XXL</b>	<b>71,46</b>				

Table 62: P/B ratio analysis, numbers in local currency

## 11.4 Enterprise value to sales

One of the basic earnings multiples, enterprise value to sales ratio (EV/Sales), provides for the calculation of the value of a company's sales while taking equity and debt into consideration. The enterprise value of a corporation is calculated by taking the market capitalization, adding the long-term debt, and subtracting the cash and bank balances (Damodaran, 2012). One can then calculate the EV/Sales ratio by dividing the enterprise value by the company's annual revenues. In light of the enterprise value takes debt into account, this ratio is intended to be a more accurate and strengthened version of the P/S ratio (Damodaran, 2012).

Referring to table 63, XXL has an estimated EV/Sales ratio of 0.58, which is once again the lowest ratio when compared to the other companies. Dick's Sporting Goods and Academy Sports and Outdoor have slightly higher EV/Sales ratios than XXL, with correspondingly 0.91 and 0.79. Thule Group also has the highest ratio here, at 5.72. XXL's EV/Sales ratio of 0.58 could indicate that the company is underpriced, but it can additionally be a warning to investors that future sales will decrease (Damodaran, 2012). According to calculations, the industry's average EV/Sales ratio is 1.97, leading to a value estimate per share for XXL of NOK 77.89.

EV/Sales	XXL (NOK)	JD Sport Fashion (GBP)	Thule Group (SEK)	Dick's Sporting Goods (USD)	Academy Sports and Outdoors (USD)
Market capitalization	3 541 686 312	14 201 640 000	57 354 776 000	9 565 213 170	3 822 785 397
Long term liabilities	2 410 000 000	2 842 100 000	2 174 000 000	4 227 410 000	1 990 884 000
Cash and Bank balances	173 000 000	1 314 000 000	149 000 000	2 643 205 000	485 998 000
Enterprise value (EV)	5 778 686 312	15 729 740 000	59 379 776 000	11 149 418 170	5 327 671 397
Annual revenue	10 006 000 000	8 563 000 000	10 386 000 000	12 293 368 000	6 773 128 000
EV/Sales ratio	0,58	1,84	5,72	0,91	0,79
<b>Average EV/Sales</b>	<b>1,97</b>				
Annual revenue XXL	10 006 000 000				
Estimated value XXL	19 662 370 860				
Outstanding shares XXL	252 436 658				
<b>Value per share XXL</b>	<b>77,89</b>				

Table 63: EV/Sales ratio analysis, numbers in local currency

## 11.5 Enterprise value to EBITDA

The enterprise value to EBITDA ratio (EV/EBITDA) is a well-known valuation multiple among investors and is frequently used to compare to other similar companies. The advantage of this ratio is that relatively few companies have negative EBITDA, increasing the number of companies that could potentially be included in an analysis. Furthermore, unlike operating income and net income, EBITDA does not account for variations in depreciation methods (Damodaran, 2012). The EV/EBITDA ratio is calculated by dividing the enterprise value by the EBITDA. A high ratio may indicate that a company needs more capital to generate profit, but it is essential to compare a company's EV/EBITDA ratio to that of other companies in the same industry before making any conclusions (Damodaran, 2012).

Table 64 shows that three of the companies, including XXL, have roughly comparable EV/EBITDA ratios of 4.32 to 4.96. With an EV/EBITDA ratio of 15.89 for JD Sport Fashion and 23.82 for Thule Group, they stand out from the other companies in this industry. The industry average is somewhat affected by these two companies' major outcomes, bringing the ratio to be 10.74. This average is far greater than XXL's 4.32 EV/EBITDA ratio. Using this industry average, XXL's value per share is estimated to be NOK 56.90.

EV/EBITDA	XXL (NOK)	JD Sport Fashion (GBP)	Thule Group (SEK)	Dick's Sporting Goods (USD)	Academy Sports and Outdoors (USD)
Market capitalization	3 541 686 312	14 201 640 000	57 354 776 000	9 565 213 170	3 822 785 397
Long term liabilities	2 410 000 000	2 842 100 000	2 174 000 000	4 227 410 000	1 990 884 000
Cash and Bank balances	173 000 000	1 314 000 000	149 000 000	2 643 205 000	485 998 000
Enterprise value (EV)	5 778 686 312	15 729 740 000	59 379 776 000	11 149 418 170	5 327 671 397
EBITDA	1 338 000 000	990 200 000	2 493 000 000	2 374 828 000	1 073 842 000
EV/EBITDA ratio	4,32	15,89	23,82	4,69	4,96
<b>Average EV/EBITDA</b>	<b>10,74</b>				
EBITDA XXL	1 338 000 000				
Estimated value XXL	14 364 518 543				
Outstanding shares XXL	252 436 658				
<b>Value per share XXL</b>	<b>56,90</b>				

Table 64: EV/EBITDA ratio analysis, numbers in local currency

## 11.6 Applying comparable firm's multiples to XXL

Table 65 below presents a summary and greater comprehension of the estimated values of the various multiples calculated for XXL. The estimated value of XXL is estimated to range between NOK 3.6 billion to 18 billion. The average valuation of these multiples results in a valuation for XXL slightly over NOK 13 billion, or a value per share of NOK 51.61. It implies from this comparative valuation that the share price of XXL is significantly underpriced

compared to the share price on December 31, 2021, which was NOK 14.03. It is important to point out that there are large variations in the multiples across the comparable companies, and that XXL has lower multiples than all of the other companies with the exception of the P/E ratio.

Based on the fundamental valuation conducted in Chapter 9, we concluded a value per share for XXL of NOK 5.98. There is a major difference between this share price and the share price that emerged from this comparative valuation of NOK 51.61. This corresponds to a disparity of nearly nine times as much and stands in stark contrast to the predicted value of the share price used in the fundamental valuation. The comparison companies were selected on the grounds that they are publicly traded and operate in the same industry as XXL, but there is no guarantee that they are accurate representations of the typical companies in this industry. Given the large variations in the multiples, it is reasonable to view the estimated price per share of NOK 51.61 determined in this comparative valuation as excessively high.

	Average Multiple for Comparables		XXL's Number	=	XXL's Valuation
Sales	1,78	x	10 006 000 000	=	17 765 143 004
Earnings	18,64	x	194 000 000	=	3 615 587 328
Book value	4,81	x	3 753 000 000	=	18 040 242 890
EV/Sales	1,97	x	5 778 686 312	=	11 355 454 062
EV/EBITDA	10,74	x	1 338 000 000	=	14 364 518 543
<b>Average valuation</b>					<b>13 028 189 165</b>
Outstanding shares					252 436 658
<b>Value per share XXL</b>					<b>51,61</b>

Table 65: Summary of comparative valuation, numbers in NOK



## **12. Conclusion and trading strategy**

The purpose of this study has been to estimate the equity value of XXL ASA and the corresponding stock price. The deviation between the estimated stock price and the market price forms the basis for a trading strategy. Therefore, the objective of this thesis was to address the following research question:

*“What is the fair value of XXL ASA’s equity as of December 31, 2021?”*

To address the research question, we have used a fundamental approach for analyzing information, forecasting payoffs from this information, and arriving at a valuation of XXL based on those forecasts. Additionally, we have supplemented it with a comparative valuation and analyzed the uncertainty associated with the estimate through a sensitivity analysis to enhance the decision-making process.

### **12.1 Main findings**

The strategic analysis in chapter 4 revealed that XXL has a strong brand and a temporary competitive advantage through their big-box concept, as well as in procurement and logistics. Together with an experienced management team and highly competent employees, they build a solid foundation for the company's future growth. Additionally, it emerged that the company's future opportunities primarily lie in the development of technology, e-commerce, and the increasing number of people engaging in physical activity. Among the threats that XXL is currently facing, the sports industry is characterized by intense competition in the market between established players and online retailers, which results in a high price and market share competition. Furthermore, the entire industry is currently affected by economic difficulties like rising inflation and interest rates, which will negatively impact XXL and the industry at the present time and in the near future.

The financial analysis in chapter 5 and the credit risk analysis in chapter 6 both had an impact on the calculation of the required rate of return in chapter 7, which was utilized as a discount rate in the calculation of future free cash flows. Here, the WACC was estimated to be 8.67%. Furthermore, the strategic analysis provided the basis for the anticipated figures and the growth of the various financial components that were projected in chapter 8 for the years 2022 to 2031. As a result, we were able to determine the equity value of XXL along with the value

per share in chapter 9. At the time of valuation, XXL's equity was estimated to be NOK 1 509.37 million. Furthermore, a sensitivity analysis was conducted to assess the robustness and reasonableness of the valuation by changing key variables. In addition, a scenario analysis with zero and high growth rates was conducted. When using zero growth, the calculation generated a value per share of NOK 19.04, whereas using high growth, it generated a value per share of NOK 14.80. Finally, in order to determine a valuation based on actual numbers and share prices at the valuation date of December 31, 2021, a multiple analysis was conducted for comparable companies that are listed on the stock exchange in chapter 11.

## **12.2 Final value estimate**

The fundamental valuation yielded a value estimate of NOK 5.98 per share, while the comparative valuation provided a value estimate of NOK 51.61 per share.

In the determining the final value estimate of XXL's equity and the corresponding stock price, we choose to disregard the comparative valuation due to an excessively high estimate and the specified weaknesses of this valuation method. Based on this, we choose to emphasize the fundamental valuation with 100% and the comparative valuation with 0%. The final value estimate for the XXL is therefore as follows:

$$\text{Value estimate per share} = 100\% * 5.98 + 0\% * 51.61 = \mathbf{NOK 5.98}$$

## **12.3 Trading strategy**

By comparing our value estimate per share with the market price as of December 31, 2021, we want to present a trading strategy. We base our recommendation on a hold interval of +/-10% of the estimated value per share. This means that we provide a hold recommendation if the estimated value is within this estimate. If the value estimate is lower (higher) than the market price, we give a sell recommendation (buy recommendation). This results in the following trading strategy:

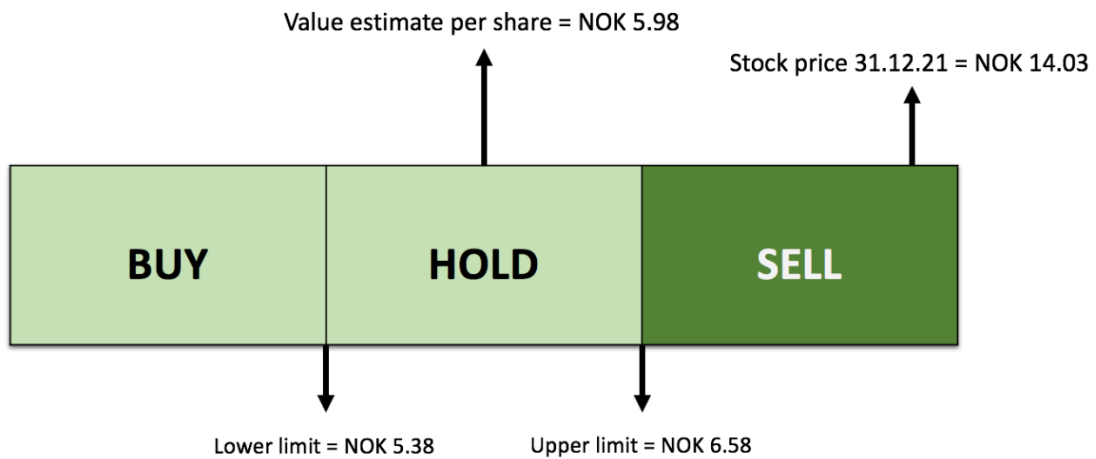


Figure 30: Trading strategy

We have estimated the value per share to be NOK 5.98 as of 31.12.2021. This gives us an upper lower limit of NOK 5.38 and an upper limit of NOK 6.58. The market price per share at the valuation date is NOK 14.03 and therefore falls outside our interval. Our estimate is 57.38% lower than the market price. Therefore, we arrive at the following conclusion:

*The XXL stock is overpriced, and we recommend to **sell** the stock as of December 31, 2021.*

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# Appendix

## 1. Current ratio

Current ratio	2014	2015	2016	2017	2018	2019	2020	2021
XXL ASA	1,97	1,78	1,53	1,41	1,33	1,10	1,17	1,05
Current assets	1 904	2 310	3 003	3 840	3 760	3 536	2 949	2 994
Current liabilities	966	1 295	1 963	2 717	2 831	3 212	2 524	2 852
Stadium AB	1,99	1,93	1,89	1,76	1,59	1,47	1,34	1,71
Current assets	1 475	1 456	1 639	1 516	1 906	1 887	1 894	2 331
Current liabilities	740	753	865	860	1 202	1 283	1 409	1 366
Sport 1 Gruppen AS	1,25	1,25	1,24	1,32	1,21	1,26	1,33	1,06
Current assets	335	377	436	438	501	478	603	650
Current liabilities	269	301	351	331	413	379	452	613
Stadion AS	1,48	1,53	1,46	1,35	1,32	1,42	1,71	1,44
Current assets	45	48	67	66	75	70	85	113
Current liabilities	30	31	46	45	57	49	50	78
Footway Group	1,29	2,73	2,44	2,13	1,65	1,53	2,13	1,99
Current assets	98,00	199,00	217	307	586	692	1 372	1 279
Current liabilities	76,00	73,00	89,00	144,00	354	451	643	644
Sportmaster ApS	1,31	1,25	1,32	1,17	0,68	0,69	0,89	0,92
Current assets	360	283	341	314	325	309	337	363
Current liabilities	274	227	258	269	476	449	378	393
<b>Industry average</b>	<b>1,55</b>	<b>1,75</b>	<b>1,65</b>	<b>1,52</b>	<b>1,30</b>	<b>1,25</b>	<b>1,43</b>	<b>1,36</b>

## 2. Quick ratio

Quick ratio	2014	2015	2016	2017	2018	2019	2020	2021
XXL ASA	0,52	0,29	0,20	0,25	0,19	0,22	0,44	0,27
Current assets	1 904	2 310	3 003	3 840	3 760	3 536	2 949	2 994
Current liabilities	966	1 295	1 963	2 717	2 831	3 212	2 524	2 852
Inventory	1 397	1 928	2 610	3 152	3 211	2 843	1 835	2 220
Stadium AB	0,46	0,35	0,45	0,34	0,23	0,22	0,26	0,63
Current assets	1 475	1 456	1 639	1 516	1 906	1 887	1 894	2 331
Current liabilities	740	753	865	860	1 202	1 283	1 409	1 366
Inventory	1 131	1 194	1 247	1 224	1 635	1 606	1 525	1 470
Sport 1 Gruppen AS	0,75	0,83	0,81	0,81	0,86	0,77	1,02	0,74
Current assets	335	377	436	438	501	478	603	650
Current liabilities	269	301	351	331	413	379	452	613
Inventory	132	127	150	170	147	188	144	199
Stadion AS	0,57	0,48	0,39	0,38	0,46	0,41	0,86	0,64
Current assets	45	48	67	66	75	70	85	113
Current liabilities	30	31	46	45	57	49	50	78
Inventory	28	33	49	49	49	50	42	63
Footway Group	0,20	0,51	0,24	0,17	0,38	0,22	0,87	0,84
Current assets	98	199	217	307	586	692	1 372	1 279
Current liabilities	76	73	89	144	354	451	643	644
Inventory	83	162	196	283	453	593	814	739
Sportmaster ApS	0,27	0,14	0,11	0,10	0,07	0,13	0,27	0,38
Current assets	360	283	341	314	325	309	337	363
Current liabilities	274	227	258	269	476	449	378	393
Inventory	285	252	313	286	292	252	235	213
<b>Industry average</b>	<b>0,46</b>	<b>0,43</b>	<b>0,37</b>	<b>0,34</b>	<b>0,36</b>	<b>0,33</b>	<b>0,62</b>	<b>0,58</b>

### 3. Interest coverage ratio

Interest coverage ratio	2014	2015	2016	2017	2018	2019	2020	2021
XXL ASA	1,84	3,73	1,66	0,87	6,07	-1,09	2,06	2,68
EBIT	521	634	697	668	352	-201	364	391
Interest expenses	283	170	421	768	58	184	177	146
Stadium AB	167,69	102,73	146,67	66,15	65,63	24,63	19,67	127,1
EBIT	218	113	176	86	105	133	118	610
Interest expenses	1,3	1,1	1,2	1,3	1,6	5,4	6,0	4,8
Sport 1 Gruppen AS	1,46	1,88	3,44	3,53	3,04	4,19	7,35	16,14
EBIT	25	33	43	47	51	49	83	205
Interest expenses	17,1	17,6	12,5	13,3	16,8	11,7	11,3	12,7
Stadion AS	19,00	7,29	2,00	2,00	4,00	5,20	3,70	3,11
EBIT	17,1	5,1	1,9	3,0	4,4	7,8	3,7	2,8
Interest expenses	0,9	0,7	1,0	1,5	1,1	1,5	1,0	0,9
Footway Group	-3,45	-0,80	1,90	7,32	0,97	2,47	-0,12	-1,85
EBIT	-57,6	-4,1	11,4	16,1	8,6	14,8	-2,5	-43,7
Interest expenses	16,7	5,1	6,0	2,2	8,9	6,0	20,7	23,6
Sportmaster ApS	-0,59	1,22	0,61	-0,18	-2,34	-19,74	-3,00	-3,00
EBIT	-17	30,5	15,6	-3,5	-82	-454	-45	-51
Interest expenses	29	25	25,6	19	35	23	15	17
<b>Industry average</b>	<b>30,99</b>	<b>19,34</b>	<b>26,05</b>	<b>13,28</b>	<b>12,89</b>	<b>2,61</b>	<b>4,94</b>	<b>24,03</b>

### 4. Equity ratio

Equity ratio	2014	2015	2016	2017	2018	2019	2020	2021
XXL ASA	0,60	0,58	0,54	0,50	0,48	0,37	0,45	0,42
Total equity	3 219	3 366	3 608	3 846	3 710	3 826	4 185	3 752
Total capital	5 333	5 839	6 673	7 695	7 662	10 242	9 375	9 015
Stadium AB	0,53	0,52	0,51	0,47	0,41	0,28	0,29	0,43
Total equity	947 437	918 877	975 428	840 634	873 587	593 226	613 902	1 083 448
Total capital	1 771 581	1 755 637	1 920 989	1 770 418	2 145 727	2 092 755	2 085 949	2 510 458
Sport 1 Gruppen AS	0,27	0,34	0,32	0,36	0,31	0,36	0,37	0,40
Total equity	100 626	164 926	173 749	201 464	210 371	242 615	301 784	423 432
Total capital	372 308	485 279	541 090	558 974	680 211	680 552	807 124	1 064 122
Stadion AS	0,41	0,43	0,40	0,42	0,39	0,41	0,39	0,36
Total equity	24 574	27 179	32 873	36 093	40 132	40 766	44 011	51 128
Total capital	59 570	62 619	81 502	85 239	103 359	98 798	113 403	142 149
Footway Group	0,60	0,73	0,69	0,61	0,40	0,35	0,46	0,48
Total equity	117 379	210 372	201 406	225 463	232	241	636	616
Total capital	195 440	289 808	290 138	369 277	586	692	1 372	1 279
Sportmaster ApS	0,58	0,60	0,50	0,48	0,39	0,10	0,00	-0,10
Total equity	464 760	441 023	414 660	396 870	434 394	60 944	1 077	-66 608
Total capital	800 280	730 024	832 395	827 957	1 105 958	629 133	740 741	666 828
<b>Industry average</b>	<b>0,50</b>	<b>0,53</b>	<b>0,49</b>	<b>0,47</b>	<b>0,40</b>	<b>0,31</b>	<b>0,33</b>	<b>0,33</b>

## 5. Return on Assets (ROA)

Return on Assets	2014	2015	2016	2017	2018	2019	2020	2021
XXL ASA	12,2 %	13,9 %	17,0 %	9,5 %	4,6 %	-2,2 %	7,1 %	4,3 %
Profit before tax	339	606	642	626	295	-384	191	246
Interest expenses	283	170	421	54	58	184	177	146
Average total assets	5 084	5 586	6 256	7 184	7 679	8 952	5 213	9 195
Stadium AB	12,5 %	6,5 %	8,5 %	4,7 %	5,4 %	6,3 %	5,7 %	26,6 %
Profit before tax	219 705	114 026	155 649	85 699	103 838	127 375	113 050	605 753
Interest expenses	1 278	1 070	1 191	1 252	1 638	5 439	6 030	4 787
Average total assets	1 771 581	1 763 609	1 838 313	1 845 704	1 958 073	2 119 241	2 089 352	2 298 204
Sport 1 Gruppen AS	7,8 %	8,7 %	8,9 %	9,3 %	9,1 %	7,8 %	11,7 %	28,1 %
Profit before tax	11 161	19 541	32 969	37 749	39 579	41 310	75 703	250 285
Interest expenses	17 141	17 604	12 491	13 270	16 775	11 680	11 324	12 709
Average total assets	363 060	428 794	513 185	550 032	619 593	680 382	743 823	935 623
Stadion AS	6,4 %	8,1 %	12,2 %	7,1 %	4,4 %	2,8 %	5,0 %	13,6 %
Profit before tax	2 733	4 235	7 855	4 854	3 061	1 352	4 269	16 451
Interest expenses	926	691	947	1 050	1 058	1 479	1 039	877
Average total assets	57 449	61 095	72 061	83 371	94 299	101 079	106 100	127 776
Footway Group	-0,02 %	-0,002 %	3,9 %	4,9 %	3,6 %	2,3 %	-0,2 %	-3,2 %
Profit before tax	-74,1	-9,2	5,4	13,9	10,9	6,1	-23,2	-66,4
Interest expenses	16,7	5,2	6,0	2,2	6,1	8,9	20,7	23,6
Average total assets	239 670,5	242 624,0	290,0	329,7	478,1	639,1	1 032,4	1 325,8
Sportmaster ApS	-2,08 %	3,75 %	1,96 %	-0,36 %	-8,33 %	-49,76 %	-6,57 %	-7,23 %
Profit before tax	-46 028	6 237	-9 187	-21 893	-115 493	-454 893	-59 820	-67 685
Interest expenses	28 968	25 092	25 604	18 896	34 948	23 173	14 807	16 833
Average total assets	819 024	834 583	837 687	830 176	966 958	867 546	684 937	703 785
<b>Industry average</b>	<b>6,13 %</b>	<b>6,82 %</b>	<b>8,75 %</b>	<b>5,84 %</b>	<b>3,11 %</b>	<b>-5,47 %</b>	<b>3,77 %</b>	<b>10,34 %</b>

## 6. Value of firm

Value of firm	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
FCF		-352,74	-117,01	-58,53	-25,34	210,56	215,86	221,21	227,10	233,77	240,78
Discount factor		1,09	1,18	1,28	1,39	1,52	1,65	1,79	1,94	2,11	2,30
Present value		-324,60	-99,09	-45,61	-18,17	138,94	131,07	123,60	116,77	110,61	104,84
Total PV of FCF	238,39										
Terminal value (TV)											4 542,75
PV of TV	1 977,98										
Enterprise value	2 216,37										
Book value of net debt	707,00										
Value of equity	1 509,37										
Outstanding shares	252,44										
<b>Value per share (NOK)</b>	<b>5,98</b>										

## 7. Scenario analysis: Zero growth

Scenario 1: zero growth	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
FCF		478	478	478	478	478	478	478	478	478	478
Discount factor		1,09	1,18	1,28	1,39	1,52	1,65	1,79	1,94	2,11	2,30
Present value		439,85	404,75	372,46	342,74	315,40	290,24	267,08	245,77	226,16	208,12
Total PV of FCF	3 112,58										
Terminal value (TV)											9 018
PV of TV	3 926,50										
Enterprise value	7 039,07										
Book value of net debt	707,00										
Value of equity	6 332,07										
Outstanding shares	252,44										
<b>Value per share (NOK)</b>	<b>25,08</b>										



## 8. Scenario analysis: High growth

<i>Scenario 2: high growth</i>	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Operating revenue	10 006	9 075	8 506	8 963	9 452	9 976	10 532	11 141	11 806	12 525	13 151
Cost of Goods Sold	5923	6 144	5 529	5 557	5 860	5 986	6 319	6 684	7 084	7 515	7 891
Personnel Expenses	1886	1 797	1 701	1 793	1 890	1 995	2 106	2 228	2 361	2 505	2 630
Depreciation and Amortization	810	753	595	627	473	499	527	557	590	626	658
Other Operating Expenses	996	880	1 106	1 076	1 134	1 197	1 264	1 337	1 417	1 503	1 578
<b>EBIT</b>	<b>391</b>	<b>-499</b>	<b>-425</b>	<b>-90</b>	<b>95</b>	<b>299</b>	<b>316</b>	<b>334</b>	<b>354</b>	<b>376</b>	<b>395</b>
EBIT (1-t)	305	-110	-94	-20	21	66	70	74	78	83	87
Depreciation	810	753	595	627	473	499	527	557	590	626	658
CAPEX	354	222	223	269	284	299	316	334	354	376	395
Δ NWC	-283	-794	388	398	244	21	22	24	27	29	25
<b>FCF</b>	<b>478</b>	<b>-372</b>	<b>-109</b>	<b>-59</b>	<b>-34</b>	<b>244</b>	<b>258</b>	<b>272</b>	<b>287</b>	<b>304</b>	<b>325</b>