MARAN CAPITAL MANAGEMENT

Clarus Corp (CLAR - $8)

June, 2018

Market Cap: $240mm | Enterprise Value: $250

- Outdoor equipment holding company with top brands and strong secular growth
- Path to ~$1/sh of FCF over next 2-3 years while net cash builds on balance sheet (absent M&A/share buyback)
- Numerous corporate, management, and strategy changes over the last few years obscure and distract from improving execution and cheap valuation
- Aligned management/board with strong capital allocation track record; ~25%+ inside ownership
- I believe intrinsic value today is in the mid-teens, with upside to $20-30+ over the next five years

Please see important disclosures on Page 14

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Introduction

Warren Kanders, the Chairman of Clarus Corp, had incredible success with his previous public vehicle, Armor Holdings, from the mid-90s to the mid-00s. Armor Holdings appreciated from under $0.75 per share to $88 per share, the price at which the entire business was sold, in slightly over a decade. In the midst of growing Armor Holdings into a 100-bagger, Kanders took control of a NOL-rich shell corporation called Clarus Corp (which was a remnant of the dot com era). He used it to purchase Black Diamond equipment in 2010. He used the Clarus vehicle to purchase and sell several business over the last seven to eight years (creating some confusion about the corporate strategy and thus partially creating the current opportunity, more on which below).

Today, Clarus owns two operating businesses, Black Diamond Equipment and Sierra Bullets.

Black Diamond Equipment ("BD") is a brand with a 50-year legacy (tracing its roots to Yvon Chouinard's Chouinard Equipment, Ltd, which split into Patagonia and Black Diamond in the late 80s), that has grown sales at a 10% CAGR for the last thirty years. It is number one or two in many of its 30+ categories, which include climbing equipment (ropes, protection devices such as cams and hexes, carabiners, helmets, harnesses), mountaineering equipment (headlamps, packs, trekking poles, gloves), back country ski equipment, as well as apparel and recently, via their launch of a climbing shoe line, footwear. BD should do about $175mm of sales this year, up from $90mm or so when Clarus bought the business in 2010.

Sierra Bullets ("Sierra") is a 70-year old maker of precision bullets for the hunting, target shooting, law enforcement and military markets, and is the number one brand in its niche. It was purchased last year by Clarus for $79mm, and should do revenues in the mid-$30mm range this year. It is very profitable – TTM EBITDA at purchase was $12.5mm.

Investment Summary

1) Black Diamond is on the cusp of S-Curve growth in two emerging categories, apparel and footwear, and the market has not yet caught on to the potential in either.
2) We are betting with proven operators and capital allocators who have substantial track records of value creation.
3) I believe Clarus is substantially mispriced in large part due to its size/illiquidity, as well as prior operational mis-steps that have since been rectified. The company is seeking to buy back its own stock at today's prices (via a Dutch Tender); we have the opportunity to buy alongside the company at a price where they love it.
4) I believe there are numerous ways to win at Clarus and see a roadmap to realizing substantial value over the next five years. Catalysts include successful growth of apparel and footwear categories, expansion of retail, realization of low-hanging fruit at previously-undermanaged Sierra Bullets, the potential to create value via capital allocation (given management history), and eventually an outright sale of the business. In a steady state environment without any value ascribed to these numerous catalysts, I see limited risk of permanent capital loss given FCF generation, the strong secular backdrop, the clean balance sheet, the high quality underlying brand portfolio, significant insider alignment, and a cheap valuation of roughly half of private market value.

Downside Case: 8% IRR and 1.5x MOC. Very little risk of permanent capital impairment.

Base Case: 25% IRR over five years; 3x MOC.

Upside Case: 35% IRR over five years; 4.5x MOC. Potential for further asymmetric upside – we are positively exposed to potential black swans – Olympics catalyst, M&A, etc.

The upside case is predicated on the following:

- The business as it stands today is worth $15/sh (midpoint of recent comparable transaction multiples)
- Black Diamond apparel business worth $5/sh ($150mm) over the next five years (on $70-100mm of revenues)
- Black Diamond footwear business worth $5/sh ($150mm) over the next five years (on $70-100mm of revenues)
- Sierra Bullets can create $3/sh in value over the next five years (as mid-cycle EBITDA grows from $12mm to $20mm)
- FCF generation and capital allocation can add $7/sh in value over the next five years

$$15 + 5 + 5 + 3 + 7 = \$35/sh$$

Given the history of the chairman (prior company up 100x in 12 years), there is potential for further value creation beyond these scenarios.

Importantly, I believe that downside is limited at current levels; investors can be exposed to numerous upside "shots on goal" with limited risk of permanent loss of capital.

Authentic Brands – Heritage, Mission, Innovation

Truly authentic brands resonate with consumers, yet they are very rare. A 2017 Business Insider article highlighted a "2017 Authentic Brands" study, conducted by communications agency Cohn & Wolfe:

> Authenticity is increasingly important to consumers. 91% of consumers globally indicated that they were willing to reward a brand for its authenticity by making a purchase… "Typically, people equate authenticity with heritage, believing that having an established, values-driven reputation is enough to prove yourself in the eyes of consumers. It's not," said Lynn Fisher, EVP and global director of the Branding & Insights Group at Cohn & Wolfe. "While many of the brands topping our United States index this year have an established history, they also continuously demonstrate a commitment to innovation."

Black Diamond has both heritage, again tracing its roots to Yvon Chouinard's Chouinard Equipment Ltd (founded in 1957, and responsible for essentially *inventing* the entire category of removable rock climbing protection), as well as an ongoing reputation for innovation, technology, engineering and design (their logo speaks to this focus: "Use. Design. Engineer. Build. Repeat.)" At a recent industry trade show event, a BD employee described the passion with which BD employees approach the brand: "At BD, the employees are the customers; we design and build things that we want to use." That may mean lighter-weight, stronger, more breathable, more waterproof, warmer, or better-fitting. BD approaches apparel as equipment. If your shell layer malfunctions above 20k feet, you would be in as much trouble as if your harness system malfunctioned. BD products are used to save lives. You don't skimp on an unknown brand when your life is at stake.

In the outdoor equipment industry, success above a certain level can be a double-edged sword. A Guardian article from last year included the following quotes:

> "North Face has the misfortune of being east-coast prep-school girls wearing black puffers and Uggs."
>
> "Let's be honest – Patagonia appeals to people driving Range Rovers who shop at Whole Foods."

Again, these are both huge brands, and ubiquity is a good problem to have, yet their success has potentially diminished some of their brand reputation among the die-hard outdoor set. Black Diamond seems to be in a unique position to fill the void as a true climber's brand. John Walbrecht, president of BD, is fond of the following anecdote. "If you see kids wearing Hurley or Billabong, they're probably into surf culture. If they are a team sports fan, perhaps they're wearing Under Armor. If they are wearing Vans, they're telling you they are a skater. But what logos are people wearing if their sport of choice is climbing? BD has the chance to be that brand…to be the category-defining reference brand of choice for climbers."

In BD, we have a brand with an unparalleled legacy and brand positioning that has been growing at a 10% CAGR for 30 years on the strength of its technical hard goods categories alone. Now, with the right team and capital backing, the company is embarking on building an apparel and footwear business. They have the brand *license* to enter these categories and the resources, know-how and team to execute.

I believe that this has created a truly unique investment opportunity. Not only do we have the opportunity to acquire a position in a number-one brand in a rapidly growing, secularly-advantaged niche, we have the opportunity to do so at a multiple that is at roughly half of current private market valuation, and which doesn't price in any future benefit from success in apparel or footwear.

Outdoor Industry Secular Backdrop

The secular backdrop for Black Diamond is particularly strong. Outdoor equipment and apparel are large and growing markets, which fit squarely into several concurrent secular growth trends. We've all heard that millennials value "experiences" over "things;" Black Diamond makes equipment that supports these experiences.

The retail outdoor equipment market and US climbing gym market are each growing at a mid-teens CAGRs. Black Diamond alone is supplying equipment to 40 new gyms this year (on a base of around 600).

Climbing walls are increasingly becoming a "mandatory" amenity at college campuses, fitness centers, and even some apartment buildings. REI, a major outdoor equipment retailer, has grown sales consistently for the last 15+ years; there is no hint of the great recession in a chart of REI's revenues (nor in BD's). One example of the growth aspirations and capital chasing the climbing sector: Brooklyn Boulders, a Brooklyn-based climbing gym company, raised $50mm from private equity, and has expanded to five locations nation-wide (including Boston and Chicago).

Patagonia has added $500mm of revenues since 2009 (to grow to $800mm recently), and the North Face is a $2bn+ (revenues) brand.

Climbing will become an Olympic sport for the first time in 2020. BD president John Walbrecht was at Spyder in 2002 (they were the official sponsor of the US ski team for the Salt Lake City winter Olympics that year); he's seen firsthand what the Olympics can do to bring global attention to sports, athletes, and brands.

Changes Implemented Under New Brand President John Walbrecht Bearing Fruit

John Walbrecht is a vastly undiscovered element of the investment case for Clarus; he is very impressive. His background is as a brand and company-builder. He helped grow the Doc Martens brand in the late-90s, then helped grow Spyder over 20-fold (from ~$6mm to ~$135mm) before its sale to private equity firm Apax in 2004. He later helped build Fjallraven into the hipster backpack brand of choice across Brooklyn (and worldwide). He is smart, driven, well-connected in the outdoor industry, and has large aspirations for Clarus.

It would probably overstate things to say that Black Diamond has been undergoing a turnaround – again, sales have grown solidly over the past five years and the business was certainly never distressed – but a number of operational improvements have been implemented over the last 18 months under the new president John Walbrecht, and they are beginning to show up in the numbers. He has already made changes to sales (outgoing calls), marketing (many more impressions across key platforms), supply chain, pricing, ease of doing business with, and more. I believe that the benefits on the topline are already apparent (a reacceleration from flattish to slightly negative results in 2015/2016 to HSD/LDD topline growth the past few quarters), and improvements are the margin line are imminent. Historically BD had been solid/stable 10% EBITDA margin business. I think BD will get back to that level next year, and Clarus as a whole can surpass that. Clarus is guiding to 8% EBITDA margins this year; I think that can expand to 10% next year and then into the low teens over the next 3-5 years, especially if apparel and footwear grow as a portion of the mix.

Limited Downside…

I get this may be overused to the point of being a cliché, but I think that risk reward is asymmetric in CLAR. In this market, if I can find a company where I'm fairly confident that I won't lose money over the next 3-5 years, but in which I have opportunities of 2x-5x on the upside if things go my way, I'll take it.

Why is downside limited? We've got a business and brand (in BD) with a 50-year legacy with increasingly strong secular tailwinds, a clean balance sheet, a leadership team with significant skin in the game (the chairman owns over $50mm of the company), and a valuation that is roughly half of private market value.

The current market cap is $240mm, and net debt should be de minimis by year end. If we value Sierra at its cost of $80mm, it implies BD is trading at a value of $160mm (0.9x sales or 9x EBITDA assuming 10% EBITDA margins, which I forecast for 2019). Comps (including two good comparable transactions in the last few weeks: Helly Hansen and Peak Performance) have exchanged hands at 1.75x – 2.6x sales. The implied BD valuation is currently half of the bottom end of that range. Apparel majors (ie, potential purchasers of BD down the road) trade for 2-3x+ sales and mid-teens EBITDA multiples; high-growth, high margin peers trade for as much as 10x+ sales (Canada Goose, for example).

Select Outdoor Industry Comparable Transactions

Brand	Acquirer	Revenue Multiple
Gregory	Samsonite	2.4x
POC	Dainese	1.9x
Camelback	Vista Outdoor	2.6x
Helly Hansen	Canadian Tire	2.25x
Peak Performance	Amer Sports	1.75x
Average		**2.2x**
Implied Black Diamond Equipment		0.9x

Warren Kanders put BD up for sale in mid-2015, and despite various operational mis-steps by the prior management team at the time, likely received bids of around 1.5x sales. (I believe Kanders may have been holding out for something closer to 2x sales, which is again where many comps have changed hands – hence the decision not to transact). Remember, in mid-2015 the business was in moderate disarray (GMs under pressure due to revamping the supply chain, the prior brand-level management team was executing poorly, etc).

If they could have sold this business in 2015 for $10+/sh, I think it is reasonable to triangulate that today it is worth more. At 1.5x 2018 BD sales + Sierra at cost, the business would be worth ~$11.50/sh today (44% more than where it currently trades). I forecast the company should approach $1/sh of FCF by 2020 (around $250mm of sales and an EBITDA margin of 12 - 13%). A conservative multiple would put value in the low to mid-teens. Again, I think fair value is higher than that, and will walk through a number of upside cases below, but for the moment I am trying to argue that risk of permanent capital loss is limited.

As part of my due diligence, I have spoken with a number of public and private companies and investment firms that invest in brands, to get a sense for the external perception of quality of the Black Diamond business and brand. Several groups that I spoke with indicated that they would be happy to purchase Black Diamond at its current implied trading price (or higher). Again this doesn't speak to the magnitude or timing of the upside of the stock price in the future, but it at least helps give me a sense of the margin of safety of buying at this price. Let's just say this passes the "I would buy the whole company at the current price today and leave current management in place to execute the current strategy" test.

…Significant Upside

As I stated, the minimum private market value I can imagine for the business today is something in the low double digits.

Now let's assume the business continues to grow at recent high single digit rates, with some operating leverage – basically a continuation of the status quo. If in three years the company decided to sell itself, and received 1.5x sales (still carrying Sierra at just $80mm), we would have a ~$15 stock. At 2x sales – again, where many comps have traded: $18/sh. These are values I could see without too many heroics.

Case Study – Apparel Major Purchase of Black Diamond

If VF Corp or another apparel major were to purchase Black Diamond, there would be gross margin synergies, selling & marketing synergies, the elimination of the majority of corporate costs and G&A, as well as likely revenue synergies (VF could immediately start selling BD product/apparel through a number of its existing channels). Even excluding many revenue synergies, I think it is reasonable that Black Diamond EBITDA to a large buyer could approach $50mm. VF Corp trades at around 18x EV/EBITDA (yikes!), but assuming they would pay a reasonable 10x the $50mm of EBITDA that BD would add to their bottom line, they could pay $500mm, or $17/CLAR share (and let's not forget that Sierra is worth at least another $3/sh or so). Of course, BD is probably too small to move the needle at a $10bn+ revenue apparel company, but I think my point stands. Desirable, growing, secularly-advantaged brands, with major synergies to a buyer, could likely be sold for dramatically more than 0.9x sales/3x post-synergy (to a buyer) EBITDA. Again, that is where BD is implied to trade based on the current Clarus stock price.

Small Bets – Three Shots on Goal

As propounded by Nassim Taleb among others, Black Diamond seems to be employing the approach of making many small bets, any of which could pay off in a large way. If a few of the bets don't pay off, they won't lose much. There is limited capital and expense associated with each bet. But if one or two of the bets pay off, then big things could come of it. For example, BD has entered apparel, footwear, and retail stores (I know, I know – retail is a four letter word these days, but rents are cheap and the size of the "bet," in terms of capital outlay, is very small), to name a few examples.

Apparel – Building a Business Worth BD's Current Implied Value?

Following a similar playbook to The North Face, Black Diamond has entered the apparel and footwear markets on the strength of its 50+ year legacy as one of the best climbing equipment brands in the industry. They have the brand *license* to enter apparel, and seem to be going about it in a sensible way (with a focus on areas in which their engineering strength can truly crate differentiated products – the lightest wind- and water-proof products on the market, stretch rainwear, the only company using engineered knit technology in climbing shoes, etc).

While BD's initial foray into apparel struggled under the prior management team (2013-2016), the relaunch under John Walbrecht has been impressive, with growth rates in the 70% range in a few recent quarters (which should settle down to somewhere in the 30% range as it grows).

Walbrecht has built large apparel businesses in the past (including Spyder from something like $6mm to over $130mm in sales in 6 years). The BD apparel business is probably in the $15-20mm range this year; I think there is a long runway ahead.

Apparel, from logo-wear to outerwear, could be a $100mm+ revenue business over time. Consider that if BD added just $12mm in logo wear (t-shirts, etc), about $6mm incremental would drop to the EBITDA line (logo wear is high gross margin to begin with (60-70%), and would presumably require limited incremental SG&A). At a 10x multiple, that is $60mm in additional value to the company, or $2 per share. From the base of an $8 stock, I think the upside optionality is fairly clear. If they can build a $50-100mm revenue apparel business over time, that could be worth ~$3-6+/sh to the stock value. $70mm in apparel sales at a 2x revenue multiple would yield $140mm in value: $5/sh and where BD as a whole is currently implied to trade.

Footwear – Building a Business Worth BD's Current Implied Value?

You can run similar math on BD's nascent footwear business. BD launched climbing shoes last summer, and has already made significant strides in building the business, including prime placement in strong national retailers such as REI. BD has assembled a very strong footwear team, including two key employees from Nike Kitchen (Nike's development "lab"). John Walbrech, BD's president, also has a history in footwear from his time with Timberland/Doc Martens.

BD is estimated to have sold ~60k pairs of climbing shoes in 2017 (their first, partial, year in the business), and is on track to do ~165k pairs in 2018 (175% growth). John Walbrecht recently commented that they are working like crazy to keep up with the demand. They forecast a doubling of the climbing shoe business in 2019. If we assume they grow from 165k pairs in 2018 to even 300k pairs in 2019 (82% growth, which lags their target), at a $50/pair wholesale, that means the business can grow ~$7mm y/y next year, to $15mm. Climbing shoes alone could be a $30-40mm business over five years even as growth rates slow from the current very high levels.

Footwear, beginning with climbing shoes, but eventually expanding to approach shoes, trail running shoes, mountaineering boots, etc, could grow to be a $50-100mm revenue business over the next five years (approach shoes and trail running could each be $30-$40mm categories). It would be another way to build a $3-6/sh business.

Retail – Another Small Bet That Could Have a Big Payoff

Even the opening of Black Diamond Equipment retail stores could move the needle. 10 stores globally by 2020 (3-4 stores per year for the next few years is reasonable) could add $25-30mm of incremental sales to BD's top-line. Assuming 20% incremental EBITDA margins and a 10x multiple, that's $2 per share of incremental value.

Importantly, I reiterate that we don't have to count on success at all or any of these BD initiatives to preserve and grow our capital. Perhaps apparel works, footwear beyond climbing shoes doesn't, and retail expansion proves not to generate the hoped-for incremental returns. I still think investors in the stock from these levels will wind up doing reasonably well (maybe they only double or triple their capital).

Sierra – A Path to Doubling in Value

Clarus purchased Sierra bullets for $80mm. Sierra is a ~70 year old premium bullet company that had previously been family-run. It is a good business, though somewhat cyclical. I think that EBITDA has ranged between $8mm and $16mm over the last 5-7 years. TTM EBITDA at purchase was ~$12mm, and it has since cyclically declined slightly (though I believe the trough is behind us). I think the business was somewhat capital-constrained prior to Clarus' purchase, and was basically run for cash. The business lacked certain systems and technology, such as inventory and order management software. Clarus should bring more capital, know-how, ambition, and connections to the business. There are opportunities with pricing, brand extensions, ease of doing business with (a key priority at BD over the past 18 months under John Walbrecht), international (via distributors with whom members of management have existing connections), vertical integration, and larger national/international customers (who now may have reduced fears about Sierra's ability to service them given their new parent).

By working on these various levers over the next few years, I think there are paths for Clarus to improve Sierra's mid-cycle EBITDA from ~$12mm to ~$18-20mm. While some of the improvements may require moderate capital expenditures (as well as some inventory build), the vast majority of Sierra's EBITDA should fall to Clarus' bottom line (capex, interest and taxes are minimal). As part of a growing, integrated Clarus (or once the assets are "fixed" and demonstrating sustainable growth), I think these assets could warrant a 10x EBITDA multiple, meaning Sierra could ultimately be worth ~$200mm of value to Clarus ($6.50/sh, against the current $8/sh stock price!). I'll discuss various scenarios for both Sierra and Clarus as a whole below ($200mm of value at Sierra would be at the "blue sky" end of the spectrum, to be clear), but I think there are many more ways that Sierra could be worth $100mm, $150mm, or $200mm, than it could be worth much less than $60mm or $70mm.

I understand that the knee-jerk reaction to my claims that in a few years Sierra may be worth more than 2x what CLAR just paid for it will be one of disbelief. But remember, it was just four years between Clarus' purchase of Gregory for $45mm and its sale for $85mm. The capital allocation track record of Clarus management is quite good. Of course, a relatively quick doubling of value at Sierra is not my base-case projection. Clarus is cheap even if Sierra is just worth the $80mm for which they purchased it.

+ 5 + 5 + 3

Putting this all together, if we start with my base case assumptions for Black Diamond (ie, $200mm of sales by 2020 without outsized contributions from apparel/footwear), and add $150mm of high margin footwear/apparel/retail store sales at Black Diamond over next five years, topline would grow to $350mm at BD alone (excluding Sierra), with EBITDA of around $45mm (13% EBITDA margins assuming the implied apparel/footwear mix and overall sales levels seems reasonable). At ~2x sales (and 15x EBITDA, which sounds high, but remember there is limited capex, no interest, and taxes are shielded; or think about value to a buyer with synergies), BD would be worth $23/sh.

As I described above, there is a path to $20mm of EBITDA at Sierra. This could be worth another $6/sh+ of value (at a 9x+ EBITDA multiple).

Even if this scenario would take five years, from $8 to $29 in five years is a 29% CAGR. And this ignores the FCF generation (and associated further buybacks, M&A, etc) that will likely occur between now and then. If the company walked from ~$15mm to ~$60mm of EBITDA over the next five years, it would

generate over $150mm (over $5/sh) in cumulative FCF. If that FCF were used to buy back shares at attractive (but increasing) prices over the next five years, the upside moves from the high $20s to the mid $30s per share.

If things go really right, there is clearly significant upside. But worst case, we muddle along, and Kanders sells the business in a few years for somewhere in the mid-teens (in other words, it may not be the grand slam that I'm hoping for, but we don't permanently impair capital…and still make a reasonable return).

Finally, I don't think these "small bets" are akin to lottery tickets (ie, with very low odds of success). To the contrary, I think there are pretty good odds of success for each of them (the key is that we aren't paying for them, at all, at the current price). Early indications are that apparel and footwear are each off to good starts.

M&A – Bigger Bets

The above scenarios are primarily focused on the current businesses. Success in any one of the company's current primary businesses, and incremental "small" bets could help drive returns (and if a few go right, it should be enough to create our grand slam).

But that said, the current capital structure (debt free by year end) doesn't preclude additional M&A. Given the successful track record of the current management team/chairman in capital allocation, I hope that they can find additional good deals to do. If they can find another acquisition or two like Sierra (paying ~6.5x FCF for good businesses), it should create additional incremental value.

Again, I think the current stock price doesn't reflect much upside in the current business nor in successful capital allocation, each of which seem likely. So what are investors missing?

Why Might Clarus Be Mispriced?

It is not completely surprising that Clarus might be overlooked.

Perception of Muddled Strategy / Fear of Diversification

Clarus has undergone significant change over the past few years. The company purchased several businesses in the outdoor equipment industry, put itself up for sale outright, sold two of the previously-purchased businesses, overhauled its supply chain, and hired a new president. Execution mis-steps in the 2015-2016 timeframe and an unclear strategy turned investors off.

For most of the last two years, the company has included the following language in many of its press releases (emphasis mine):

> On November 9, 2015, the Company announced that it is seeking to redeploy its significant cash and cash equivalent balances. The Company expects to invest in high-quality, durable, cash flow-producing assets **potentially unrelated to the outdoor industry** in order to diversify its business and potentially monetize its substantial net operating losses. The Company intends to focus its search primarily in the United States, while also evaluating international investment opportunities should it find such opportunities attractive.

The idea that Clarus might diversify into a completely unrelated industry, thus raising the possibility that it would become a conglomerate of outdoor equipment *and industrial manufacturing*, or outdoor equipment *and auto parts manufacturing* (just to name a few unrelated industries), was a poison pill to some.

But recently, in the press release announcing John Walbrecht's promotion to President of Clarus (from President of just Black Diamond), they stated:

> [We] reiterate that we remain fully committed to a long-term capital acquisition strategy. As we evaluate further opportunities, we now intend to be focused on the outdoor and consumer industries. We believe straying too far from companies in this space would under-utilize the great people and significant capabilities and goodwill we've built in these industries at both the Clarus corporate and individual brand levels. So, given this focus, and John's well-established and diverse background in the consumer industry, today's promotion is a strong commitment to this strategy.

A further mitigant to the fears surrounding capital allocation risk are the recent announcement of a Dutch Tender (for ~1mm shares or ~3.3% of the shares outstanding and ~5% of the float), as well as the initiation of a dividend (10c per year, or a ~1.4% yield). I believe these actions send several signals:

- First, the buyback is clearly a sign of confidence in the business. Clarus had previously repurchased approximately 10% of its shares outstanding in the $4s and $5s (4Q 2015 – 1Q 2017). The fact that the chairman still sees value at these levels is notable. (Insiders will not be selling any stock into the tender, and will use it to increase their proportional ownership of the business). The company is basically saying it will buy every share anyone wants to sell in the $7s.
- Second, the initiation of the dividend, as well as continued share buybacks, further alleviates concern that the company has cash burning a hole in its pocket to do a deal. They have been, and will continue to be, patient.

Bullet Exposure

The fact that Clarus has diversified into the bullet business has been a deterrent to some investors. I've heard that several funds' "ESG" (Environmental, Social, and Governance) departments required them to exit Clarus because it now owns a bullet company. (That those same funds own large positions in companies that make slightly larger caliber "bullets" – like Lockheed Martin, Northrop Grumman, and General Dynamics – is another matter.)

Small Size, Smaller Float, and 5% Ownership Limit

Finally, despite a more clear and narrow strategic vision and the return to solid execution over the last few quarters, the natural ownership base of the company is still limited. The $220mm market cap is small to begin with, but add in the fact that over a quarter of the stock is owned by the chairman, further reducing the float, as well as the fact that the company's NOL position requires that it limit owners to 5% of the shares ($11mm at recent prices), and you can see why many larger funds might not even bother to start the work on this.

All told, I think these factors have created an attractive opportunity.

Model – Indicative Base Case (prior to capital allocation)

	2014	2015	2016	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Black Diamond	158.3	155.2	148.2	160.3	177.0	194.7	214.2	235.6	259.2	285.1
	12.2%	-2.0%	-4.5%	8.2%	10.4%	10.0%	10.0%	10.0%	10.0%	10.0%
Sierra				10.4	32.0	35.0	40.0	45.0	50.0	50.0
Total Revenue				170.7	209.0	229.7	254.2	280.6	309.2	335.1
					22.4%	9.9%	10.7%	10.4%	10.2%	8.4%
COGS	100.7	101	104.5	108.2	136.9	113.2	121.4	130.4	141.7	157.8
Gross Profit	57.6	54.2	43.7	52.1	72.1	81.5	92.8	105.2	117.5	127.3
Gross Margin	36.4%	34.9%	29.5%	32.5%	34.5%	35.5%	36.5%	37.5%	38.0%	38.0%
SG&A incl corporate	64	58.5	49.9	54.5	58	59	64	74	81	86
Adjusted Operating Income	-6.4	-4.3	-6.2	-2.4	14.1	22.5	28.8	31.2	36.5	41.3
Interest Expense & Other	3.5	2.4	2.4	0	1	0	0	0	0	0
Pre-Tax Income	-9.9	-6.7	-8.6	-2.4	13.1	22.5	28.8	31.2	36.5	41.3
Income Tax Provision				0	0	0	0	0	0.0	2.5
Net Income				-2.4	13.1	22.5	28.8	31.2	36.5	38.8
EPS				-0.08	0.44	0.75	0.96	1.04	1.22	1.29
Shares Outstanding				30	30	30	30	30	30	30
D&A	7.5	5.6	3.3	3.3	3	3	3	4	4	4
EBITDA	**1.1**	**1.3**	**-2.9**	**0.9**	**17.1**	**25.5**	**31.8**	**35.2**	**40.5**	**45.3**
EBITDA Margin				1%	8.2%	11.1%	12.5%	12.6%	13.1%	13.5%
EV/EBITDA					13.1	7.9	5.5	4.1	2.6	1.5
Capex	2.9	2.8	2.6	2.5	3	3.5	3.5	4	4	4
FCF	**-5.3**	**-3.9**	**-7.9**	**-1.6**	**13.1**	**22.0**	**28.3**	**31.2**	**36.5**	**38.8**
FCF/Share					**0.44**	**0.73**	**0.94**	**1.04**	**1.22**	**1.29**
YE Cash & Equivalents				-20	-6.9	15.2	43.4	74.7	111.1	150.0
Fair Value at:										
10x EBITDA						$ 9	$ 12	$ 14	$ 17	$ 20
15x FCF						$ 12	$ 16	$ 18	$ 22	$ 24
2x Sales						$ 16	$ 18	$ 21	$ 24	$ 27

Model – Indicative Upside Case (prior to capital allocation)

	2014	2015	2016	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Footwear				4.0	8.0	15	25	38	53	68
Apparel				14.0	19.6	25	40	54	67.5	81
Black Diamond	158.3	155.2	148.2	160.3	177.0	198.3	233.2	271.3	313.4	358.3
	12.2%	-2.0%	-4.5%	8.2%	10.4%	12.0%	17.6%	16.4%	15.5%	14.3%
Sierra				10.4	32.0	35.0	40.0	45.0	50.0	50.0
Total Revenue				170.7	209.0	233.3	273.2	316.3	363.4	408.3
					22.4%	11.6%	17.1%	15.8%	14.9%	12.4%
COGS	100.7	101	104.5	108.2	136.9	115.5	133.5	152.7	175.3	203.2
Gross Profit	57.6	54.2	43.7	52.1	72.1	82.8	99.7	118.6	138.1	155.2
Gross Margin	36.4%	34.9%	29.5%	32.5%	34.5%	35.5%	36.5%	37.5%	38.0%	38.0%
SG&A incl corporate	64	58.5	49.9	54.5	58	59	68	80	90	100
Adjusted Operating Income	-6.4	-4.3	-6.2	-2.4	14.1	23.8	31.7	38.6	48.1	55.2
Interest Expense & Other	3.5	2.4	2.4	0	1	0	0	0	0	0
Pre-Tax Income	-9.9	-6.7	-8.6	-2.4	13.1	23.8	31.7	38.6	48.1	55.2
Income Tax Provision				0	0	0	0	0	0.0	7.5
Net Income				-2.4	13.1	23.8	31.7	38.6	48.1	47.7
EPS				-0.08	0.44	0.79	1.06	1.29	1.60	1.59
Shares Outstanding				30	30	30	30	30	30	30
D&A	7.5	5.6	3.3	3.3	3	3	3	4	4	4
EBITDA	**1.1**	**1.3**	**-2.9**	**0.9**	**17.1**	**26.8**	**34.7**	**42.6**	**52.1**	**59.2**
EBITDA Margin				1%	8.2%	11.5%	12.7%	13.5%	14.3%	14.5%
EV/EBITDA					13.1	7.5	4.9	3.1	1.6	0.6
Capex	2.9	2.8	2.6	2.5	3	3.5	3.5	4	4	4
FCF	**-5.3**	**-3.9**	**-7.9**	**-1.6**	**13.1**	**23.3**	**31.2**	**38.6**	**48.1**	**47.7**
FCF/Share					**0.44**	**0.78**	**1.04**	**1.29**	**1.60**	**1.59**
YE Cash & Equivalents				-20	-6.9	16.4	47.6	86.3	134.4	182.0
Fair Value at:										
10x EBITDA						$ 9	$ 13	$ 17	$ 22	$ 26
15x FCF						$ 12	$ 17	$ 22	$ 29	$ 30
2x Sales						$ 16	$ 20	$ 24	$ 29	$ 33

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