Houlihan Lokey

# From Boom to Bust—and Back Again?

## Why the Bike Industry Is Ripe for a New Wave of M&A Deals

Bike Industry and M&A Study—July 2024

KEARNEY

# Executive Summary

The bicycle industry has been on a rollercoaster ride over the past few years, going from unprecedented highs to staggering lows.

The "boom phase" was the result of a combination of effects, including the increasing adoption of e-bikes, the breakthrough of relatively new bike concepts (such as gravel, e-cargo), public efforts to get people on bikes for urban commuting, and—most importantly—the "COVID-19 effect." This not only caused a huge spike in demand for bikes, but it also temporarily brought the manufacturing facilities, supply chains, and logistics networks responsible for getting them to consumers to a halt: a supply and demand mismatch of historic proportions.

Rising demand for bikes also fostered an equally impressive M&A boom within the industry. However, as demand became saturated and increased cost of living pressured consumer spending, conditions turned—right as supply chains started to ramp up after COVID-19 disruptions. Stock surpluses began to multiply in what is often described as the "bullwhip effect." Brands and retailers across all markets were forced to apply heavy discounts on bikes, squeezing margins. As a result, the industry became less of a draw for many investors, and deal activity, having peaked in 2021 and 2022, dropped off a cliff in 2023.

Today, most of the pandemic's effects on supply and demand have been left behind, and the market is gradually working through the excess inventory, with normalization slowly coming into sight. However, as always, the future remains uncertain. The key question for investors now is how the bike industry will evolve in the years ahead and which insights will be essential for making sound future investment decisions.

To answer these questions, we—Houlihan Lokey Inc., a leading global investment bank, and Kearney, a leading global management consultancy—have drawn on our own experience and expertise in the bike industry from the last decade, covering insights generated before, during, and after the boom. By collecting public data and carrying out our research, including a quantitative survey and qualitative interviews with more than 30 industry executives and over 10 industry-relevant financial investors, we have a solid foundation to explore potential future trends in the bike industry and what might be ahead for investors and the M&A landscape.

Based on our findings, we forecast a gradual recovery with significant upside in the medium to long term, with 2026 and 2027 marking pivotal years for increased M&A activity and investment opportunities. As such, smart investors will start the search for promising targets now, to be in prime position when the market bounces back.

# Five Years in Flux:
## The Bicycle M&A Market 2018–2023

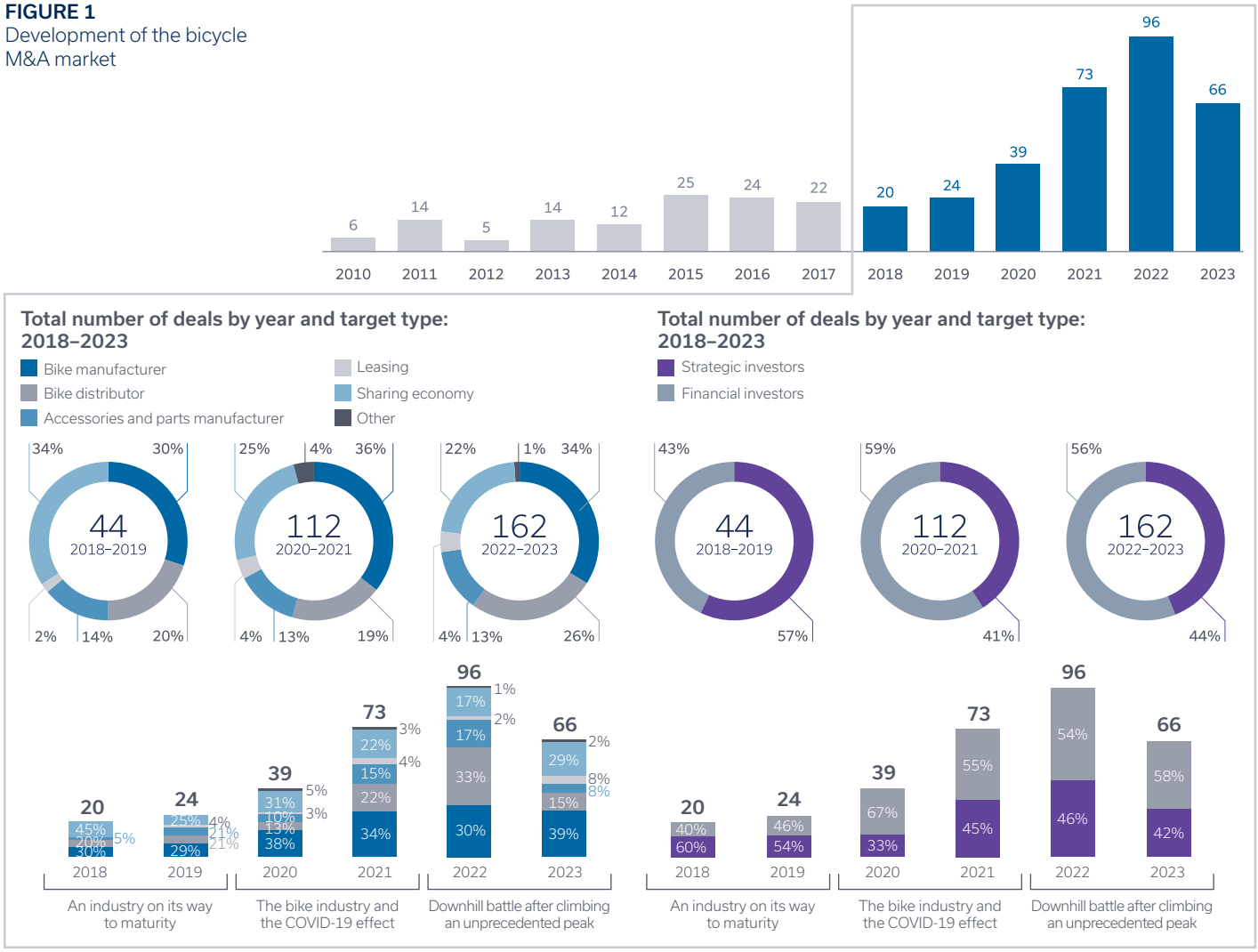
In 2023, the global bike M&A market saw the announcement of 66 deals, a drop of almost a third from an all-time high of 96 transactions the previous year (see figure 1).

**66 deals**

Global Bike M&A Market in 2023

96 transactions in 2022

**FIGURE 1**
Development of the bicycle M&A market



## 2018/19: An industry on its way to maturity

Between 2018 and 2019,

**44 M&A deals**

were recorded across the bike industry.

With mobility preferences changing and new technologies such as more powerful and efficient e-bike motors starting to become available, bike-sharing schemes accounted for the highest proportion of these—15 deals—predominantly driven by the Asian market. To illustrate this, by 2019, bike-sharing was already the third largest mode of transportation in China.

During this period, strategic investors dominated the market, pointing to an emphasis on consolidation and strategic realignment. The focus on acquiring both complementary and adjacent businesses, and expanding market share, drove much of the activity observed.

Financial investors, however, had only limited interest and involvement in the industry,[1] which can be explained by a number of factors. First, at this point, the bike market was often viewed as being relatively niche and mature, characterized by modest growth prospects compared to other sectors. It was also highly fragmented and commoditized, with numerous small and medium-sized companies crowding the market and fighting against one other—leading to relatively low profit margins and seemingly limited potential for future profitable growth. Finally, despite the growing popularity of e-bikes, as a whole, the industry was viewed as being largely constrained in terms of innovation.

[1] *Based on total M&A activity in terms of number of deals.*

# 2020/21: The bike industry and the COVID-19 effect

During the pandemic, M&A activity skyrocketed, with the number of transactions across the bike market more than doubling to 112 and financial investors increasing their share from 43% to almost 59%.

Key transactions included GBL and Canyon, Naxicap Partners and Stromer, and Ardian and YT Industries, as well as Pon's acquisition of Dorel Sports.

This explosive rise in interest and related M&A activity was mainly driven by three factors:

## 01

### Favorable monetary and macroeconomic conditions

As central banks moved to protect the economy, interest rates were reduced and kept at historically low levels, making borrowing and financing acquisitions cheaper and more attractive for investors. Quantitative easing measures also lowered the cost of long-term borrowing, injecting even more liquidity into financial markets and adding to an already rich source of capital for M&A activity.

## 02

### The bike market boom

At the height of the pandemic, demand for bikes soared as spend on travel and entertainment evaporated, and people sought outdoor activities and alternative transportation methods to maintain social distancing. Strava, a social media and activity tracking platform for cyclists, recorded a growth of 63% in kilometers driven in Germany alone during 2020. The same year, overall market growth in Europe and North America reached 37%, with disappearing bike discounts and the popularity of e-bikes also contributing.

## 03

### New interest from financial investors

Financial investors also sat up and started to show an interest in bike brands due to favorable market conditions, the high demand for bikes, and the increased profits brought about by the supply and demand mismatch. In fact, there was a 247% jump in the number of completed and announced deals with financial investors at the helm, while strategic investors made comparatively modest gains, getting involved in 84% more deals.

# 2022/23: A downhill battle after climbing an unprecedented peak

As the world started to recover from the effects of the pandemic, M&A activity in the bike market began to falter. Conditions remained favorable during the first half of 2022, as evidenced by KKR's acquisition of Accell Group, and 162 deals were completed over the 2022/23 period. However, the annual deal count started to decline, with 96 recorded in 2022 and 66 in 2023.

Three primary factors contributed to this cooling:

## 01

### Macroeconomic softening, geopolitical tensions, and a stricter monetary regime

In the second half of 2022, interest rates started to accelerate. Coupled with rising inflation, the threat of a recession, and new geopolitical tensions, including the Russia-Ukraine war, increased economic uncertainty put a chill on the overall deal market. Acquirers, and particularly financial investors, already heavily reliant on debt for financing deals, were particularly exposed to capital constraints and rising costs. In 2023, the total M&A market dropped to its lowest level[2] in a decade as sellers held back, hoping for a decrease in macroeconomic uncertainty and interest rates.

## 02

### The bullwhip effect

As we have discussed, supply was unable to keep pace with demand during the pandemic, largely due to an inflexible and flawed supply chain. In response, bike dealers resorted to ordering higher volumes through multiple brands to secure maximum product levels. And brands, not having enough product, did the same with their suppliers. The result was mass cumulative ordering that quickly outpaced the original demand. What's more, as supply chains normalized, the market was flooded, creating surplus stock. Now, sky-high inventories totaling 6–12 months' worth of sales, and even 18 months' worth in some cases, became the new problem. With interest rates riding high and brands strapped for cash, hefty discounts of 20%–40% became common from late 2022, eroding not only margins but overall market value, which dropped by 19% in Europe.

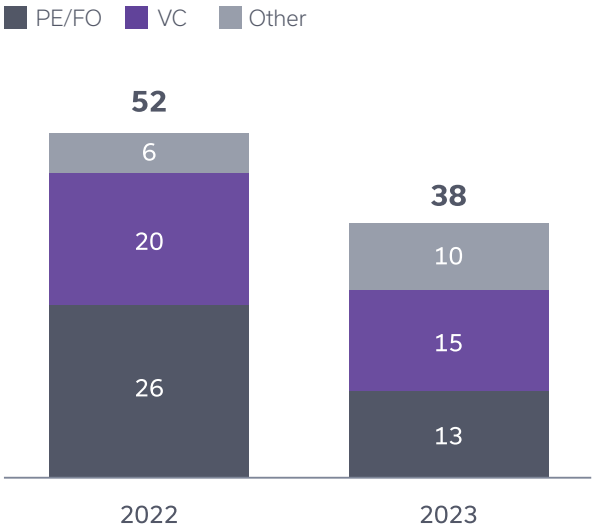
[2] *Based on total M&A activity in terms of deal value.*

## 03

## Reduced investor interest

While all types of financial investors showed increased interest in the bike industry after the start of the pandemic, their appetite tumbled in 2023, with venture capital (VC) firms seeing a decline of 25% and private equity (PE) and family office (FO) firms experiencing a sharper drop of 50%. This fell in line with a global downward trend in PE activity, which saw deal value, exit value, and private capital fundraising all decrease significantly.

**FIGURE 2**
Total number of deals by financial investor type: 2022–2023




Despite these developments, it's notable that the number of deals being announced and completed still rose by 175% between 2023 and the last pre-pandemic year of 2019. This was down to strategic and financial investors continuing to invest in European and North American bike brands and in the bike-sharing market in both Europe and Asia, providing signs that the bike M&A market, while complex, remains resilient. What's more, with continuing interest from investors, this points to promising conditions for market recovery and increased M&A activity in the years ahead as market conditions stabilize.

# Looking Ahead

Having come out the other side of the pandemic, it's time for the bike industry to take a look to the future. Where is the market headed? And who stands to win as the industry further matures and consolidates?

Our extensive research, including surveys and interviews with industry executives and investors, reveals six distinct factors that players in the bike ecosystem should be prepared to act on.

## Six factors shaping the future of the bike industry

As the market gradually recovers, supported by the continuing popularity and uptake of e-bikes, we will start to see brand positioning becoming more prominent as a competitive differentiator. In addition, as bike brands mature, they will be able to handle more complexity, enabling them to expand across the value chain and capture a higher share of margin. With increasing maturity comes a trend towards professionalization across the industry, improving core capabilities such as volume planning and data management, as well as online and offline retail presence. Finally, moves to take risk out of the supply chain, such as near-shoring, will help companies become more resilient to future shocks. Let's look at each factor in more detail.

### 01
### A clear path to market recovery

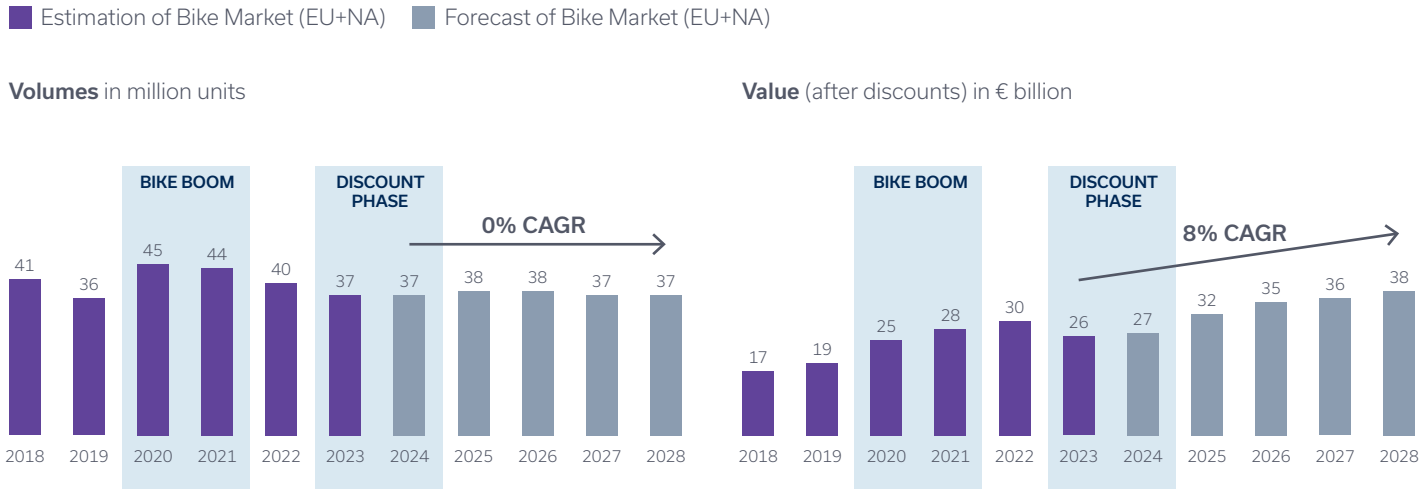
With inventory levels slowly starting to normalize, dealers and bike brands are expected to go into the 2025 season with a more balanced working capital position. Although still high, discount levels are expected to gradually balance out, lifting margins significantly over time. In fact, 68% of bike executives have positive profitability expectations in the medium term, citing healthy inventory levels and industry consolidation as key drivers for a return to healthy profitability levels.

> "At the moment, the main issue is bringing down the large stock levels currently in the market. It will take until the end of the year until we are more or less on normal levels again.
>
> *Anonymous*

However, the recovery will be characterized by value rather than volume. While total units sold are expected to remain flat in both Europe and North America, revenues will make a comeback as e-bike sales continue to grow. Market value across both regions, Europe and North America, is expected to grow at ~8% CAGR, reaching ~€38 billion in 2028 (see figure 3), spurred by electrification (see chapter 02: "E-bikes drive market growth and revenues") and moves by governing authorities to push cycling among their citizens. One example of the latter is the European Parliament's resolution to double the number of kilometers cycled in Europe by 2030.

**68%** of bike executives have positive profitability expectations in the medium term.

**FIGURE 3**
Bike market volume (in million units) and value (in € billion), 2018–2028




*Note: Europe includes EU 27 plus U.K., Switzerland and Norway.*
*Sources: Expert interviews, National Bicycle Associations, CONEBI, market reports, web and press research, Kearney Bike Market Model.*

> New concepts will allow reduced price levels of e-bikes to an extent that it doesn't make sense to buy a normal bike anymore.
>
> ADVANCED BIKES

## 02
## E-bikes drive market growth and revenues

The emergence of e-bikes is one of the major recent developments in the market, with adoption accelerating and even outnumbering that of pedal bikes in select markets. This includes Germany, where e-bikes accounted for just 8% of all bikes sold in 2011 but rose to 53% in 2023. Next to a culture of using bicycles as a form of mobility and leisure activity, the right topography for e-MTB usage and relatively high purchasing power, the success in the German market can be attributed to government-backed tax incentives promoting employee bike leasing schemes.

The vast majority of the industry executives we interviewed confirmed the growing relevance of this trend.

88%

**agreed that a compelling e-bike portfolio will be paramount to remain competitive going forward.**

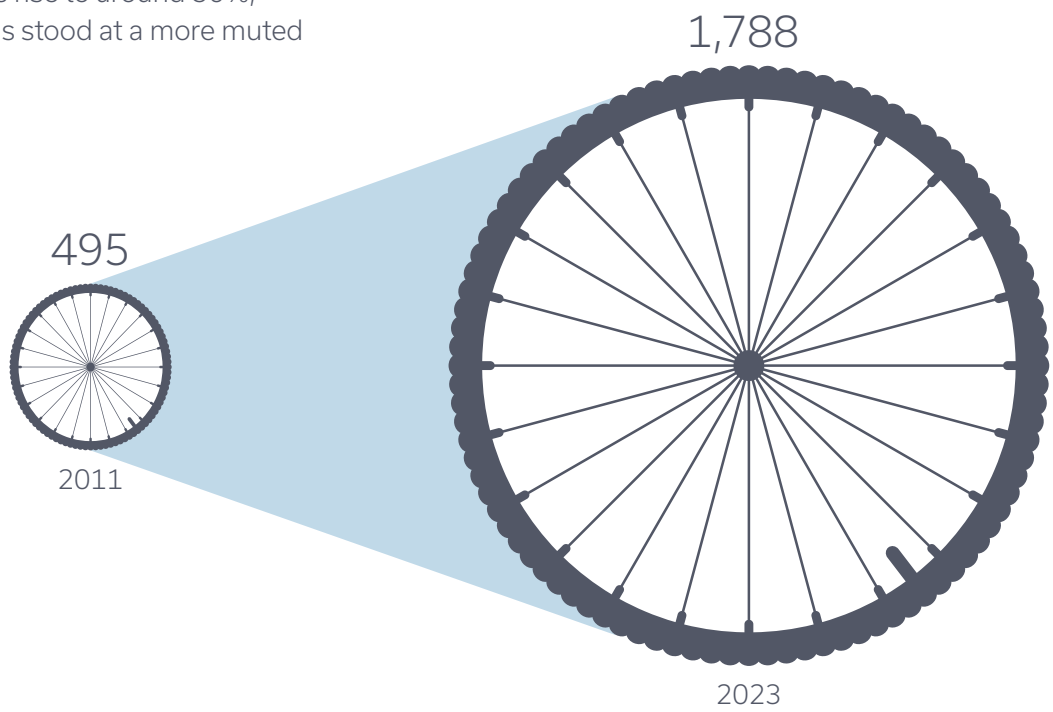
In fact, recent growth within the industry can almost entirely be attributed to the rise of the e-bike. These typically have substantially higher prices because of their advanced components, such as electric motors, battery technology, and more complex manufacturing. To put this in context, between 2011 and 2023, the average price of a new bike in Germany multiplied by a factor of 3.6 going from €495 to €1,788. As bike leasing schemes continue to pick up across Europe, we expect to see even more momentum on increasing average prices.

While other advanced bike markets like the Netherlands, Belgium, Austria, and Switzerland have also seen the share of e-bikes rise to around 50%, across Europe as a whole, this stood at a more muted 27% in 2022. However, as the benefits of e-bikes become more widely understood, technological advancements make electrification relevant for additional use cases, and the entry price for e-bikes is expected to come down, a second wave of e-bike adoption is expected, propelling the share of e-bikes to 39% in Europe by 2028.

As for the North American market, we expect it to follow suit in terms of e-bike adoption, albeit from a lower starting point: The share of e-bikes here is estimated to grow from around 5% to 10% over the next five years.

Speed pedelecs (e-bikes with up to 45 km/h maximum speed) could prove to be a particularly interesting growth segment here. Already prominent in Belgium and Switzerland, deregulation in support of emission-free commuting could open up the market in other countries. Some German states, including North Rhine-Westphalia, Hessia, and Hamburg, are considering trialing the use of speed pedelecs in bicycle lanes. The high price points of speed pedelecs further support the interest in the segment.

**FIGURE 4**
German bicycle market volume by drivetrain (in million units and % of total) and average bike selling prices (in €)




*Source: ZIV.*

## 03
## As branding gains relevance, strong brands will win out

Leaders in the bike industry unanimously told us that brand building is a key priority. In fact, all of the experts we surveyed agreed that brand strength will become more important going forward—the highest level of consensus of all the trends discussed in this chapter.

As the bicycle becomes a more expensive and complex product, there is much more consumer involvement in buying and owning a bike. The simple process of just going to the bike shop nearby and buying what is advised is increasingly replaced by a journey of research in a quest to understand the new complexities like e-motor performance requirements, battery life, and servicing. On top, the heftier financial outlay requires a higher level of certainty that a certain product is a good choice for the consumer's needs.

This means brands have become more important, not only as symbols of self-expression and achievement but also as trusted consumer partners. In the past, the e-drivetrain brands (especially Bosch) have been the primary drivers in creating this trust, but with the e-drivetrain landscape becoming more complex, bike brands need to step up.

As bike companies start to improve their performance and profitability, this will lead to increased brand building as they put more investment into marketing. The trend of brand elevation is further supported by improved means of direct communication channels such as social media, bike apps, flagship stores, and own retail outlets. Bike brands that do this well will gain advantage over competition, which will support a gradual consolidation of market shares in the industry.

> "Growth-driven private equity funds invest in brands.
>
> STROMER

> There is a lot of margin potential in reducing the bill of materials. How many branded components do I really need to put on a bike to fulfill consumer desire?...In many cases, the consumer doesn't care; it just needs to be a good component.
>
> STROMER

## 04
## Capturing more of the value chain will prove a prime differentiator

As bike brands mature and develop the ability to handle more complexity, another key opportunity to improve the margin profile is capturing a higher share of the total bike. While traditionally, bike brands would design the frame and then select off-the-shelf components from a variety of suppliers, some have started to broaden their scope and engineer or collaborate on components, allowing them to add their own stamp via both design and functionality, further strengthen their brand positioning, and increase their share of margin.

To name a few examples, Specialized is developing its own e-drivetrain, Scott is using its Syncros brand to equip many parts of the bike, and Stromer is collaborating with component suppliers on own-brand batteries, brakes, wheels, handlebars, and stems.

The components to focus on will vary by the product category and type of rider. For instance, road and mountain bike riders tend to prioritize performance components like brakes, group sets, and suspension technology from known suppliers such as Shimano, SRAM, FOX, and RockShox,[3] while components including the cockpit, stem, seat post, handlebar, wheel, and fork are less critical and therefore easier to integrate for bike brands.

The bike executives we surveyed confirmed the relevance of this trend.

69%

**A clear majority said that expanding their role in the supply chain and developing, engineering, or partially manufacturing components in-house will be a key topic for their companies in the next few years.**

[3] *RockShox is part of/owned by SRAM.*

## 05
## Growing capabilities bring higher margins

Growing investment in the bike market from both strategic investors and new financial investors has fostered a growing level of professionalization within the industry. This has injected higher levels of sophistication into crucial capabilities like marketing and sales, product development, and engineering.

Volume planning is just one example. Much of the current profitability crunch in the bike market can be attributed to the bullwhip effect discussed previously, when forecasting was a much more difficult proposition. However, since then, leading players have made massive leaps in their planning capabilities. The establishment of proper bottom-up planning processes, data management, and inventory tracking capabilities is improving volume planning accuracy across the entire value chain. As bike brands and dealers become more accomplished in this respect, the industry as a whole will become more resilient to future market swings.

This is already bearing fruit for larger companies. Trek, for example, was able to react faster to the COVID-19 hype, as its deep connection to retail indicated quickly that people were running for bikes after lockdowns were lifted. This gave them a significant advantage in securing supply early, whereas many competitors were not able to leverage the growth opportunity to the full extent.

> We are preparing to be ready for direct-to-consumer as a sales channel. There is nobody who does not prepare for it. But combining direct-to-consumer with retail is very difficult.
>
> *Anonymous*

However, bike brands will also benefit from upping their retail game by expanding into direct-to-consumer sales, franchise concepts, or flagship stores. Securing high-quality distribution is a key winning factor in the industry. The moves into retail provide tangible benefits but come at the risk of tension with independent bike dealers.

This conflict becomes apparent when asking industry experts: While just over half (56%) said that bike dealers will remain the most important sales channel in the future, more than 80% indicated that traditional bike brands will need to establish or expand direct-to-consumer channels or click and collect capabilities to remain competitive.

**56%**

**said that bike dealers will remain the most important sales channel in the future.**

**80%**

**indicated that traditional bike brands will need to establish or expand direct-to-consumer channels or click and collect capabilities to remain competitive.**

> The new standard will be that the product is produced where it will be used.
>
> ADVANCED BIKES

## 06
## De-risking the supply chain to cope with the great unknown

As the bike industry matures, firms are also de-risking the supply chain by bringing manufacturing and service operations closer to home. To put this in context, almost all lower-end bikes are produced in China, and most of the frames and components for mid-range and high-end models are connected to China and Taiwan, one way or another.

With tensions rising between these two countries and governments around the world starting to place more requirements on companies to prove their ESG credentials, those in the bike industry are looking for ways to increase supply chain resilience. Asian frame and component manufacturers are setting up production plants in Vietnam and Cambodia to become more flexible, as bike brands push towards geographical diversification.

Europe is seeing increased manufacturing activity as well. Triangle and Carbon Team have frame production facilities in Portugal, Bianchi has a frame factory in Italy, and Giant in Hungary. Advanced Technology has manufacturing capability in Germany, and DT Swiss has added suspension assembly, which was previously fulfilled in Taiwan, to its production facilities in Poland. The speed of this shift going forward is strongly dependent on progress in production automation, which is already at a high level for alloy components and is seeing promising concepts for carbon fiber components.

# The Way Ahead for M&A Investors

**81%** of the experts that we surveyed said that they expect more M&A across the industry going forward.

The six factors elaborated in the previous chapter are vital to the industry's recovery and future prosperity. Additionally, these factors will drive more M&A activity and increase consolidation across the bike industry in the medium to long term, pointing the way to a new wave of M&A deals:

01 **Industry recovery and normalized inventory levels allowing higher profitability levels**

02 **Structural long-term growth through electrification**

03 **The growing importance of brand equity and the connected market share potential of strong brands**

04 **Integration of components allowing brands to capture more margin**

05 **More professionalization across the industry enabling more consistent performance**

06 **Redesign of supply chains (e.g. through near-shoring), structurally improving the risk level**

Together, these transformative developments will create a dynamic environment in which firms are motivated to pursue strategic M&A deals to boost their own competitive position and capitalize on emerging capabilities. In fact, 81% of the experts that we surveyed said that they expect more M&A across the industry going forward. But will the investment landscape help or hinder their plans?

The good news for bike firms is that we expect financial investor interest to rebound relatively soon. For one thing, buyout funds are sitting on record reserve levels, with much of the funding having been waiting in the wings for several years. This means that those funds will be feeling the pressure to start investing again.

As the bike industry recovers and professionalizes, creating higher EBITDA margins and healthier cash flows, it will also become more attractive to PE firms again. Additionally, as those who invested heavily in the market during the pandemic get to the end of their investment cycles, which typically last three to six years, we will see more exits from 2026 onward as mature assets are divested, triggering a significant increase in M&A activity.

Last but not least, with PE exits leading to more M&A across the industry, successful bike companies will see their valuation levels go up, prompting some privately held firms to be put up for sale, boosting M&A activity even further. All told, we could see another boom period for the industry before the end of the decade.

# Conclusion

After a turbulent few years, the bike industry is set to stabilize and make a gradual recovery, with significant upside in the medium to long term.

This recovery and return to growth are due to several key factors:

01 **Inventory levels will balance out, high mass discounts will come to an end, and margins will take a turn for the better**

02 **A second wave of e-bike adoption will drive higher prices and a projected market value of around €38 billion by 2028**

03 **Strong brands will become a more critical source of differentiation as the market consolidates, with successful companies commanding premium prices and a bigger slice of the market**

04 **Integrating more components across the value chain will also enable bike brands to capture higher margin share and make their products stand out**

05 **Greater access to capital and expertise from financial and strategic investors will enable the industry to further professionalize and deepen critical capabilities including volume planning and data management, as well as offline and online retail presence. In turn, margins and profitability will stabilize further and cash conversion will increase**

06 **An uptick in near-shoring will take risk out of the supply chain and help firms become more flexible and resilient to supply shocks, also delivering more consistent profits and cash flows as a result**

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When we consider these dynamics alongside the fact that financial investors will need to divest more mature assets within the next couple of years, it becomes increasingly clear that the bike market will see a corresponding rise in M&A activity starting in 2026 to 2027.

As the market recovers and bike firms position themselves to exploit emerging trends and technologies, we expect wise investors to start identifying prime targets now. In our view, bike manufacturers that have strong branding, a convincing e-bike portfolio, premium price positioning, and a clear distribution strategy should be top of the list. By focusing on these strategic differentiators, investors will be well placed to act early and reap the rewards of an industry that has gone from boom to bust—and back again.

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