

PRINCE MEXICO S.A., INC.

The Prince of Sporting Goods Plays

Rob Goldman
rob@goldmanresearch.com

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Aaron Schweitzer
aaron@goldmanresearch.com

PRINCE MEXICO S.A., INC. (OTC:BB – LUVE - \$0.75)

Short-Term Target: \$3.15, Long Term Target \$7.00

Rating: Strong Buy (3)

COMPANY SNAPSHOT

Prince Mexico S.A., Inc. owns 100% of Linea Deportiva Prince Mexico, SA de CV a Mexican Incorporated company that owns the exclusive rights to sell Prince Sports USA brand name products in Mexico and Latin America. The parent company, Prince Sports USA, has been in existence for nearly 40 years with a strong brand presence in tennis, racquetball, and squash with highly innovative products related to racquets and balls. Prince Mexico S.A., Inc. already sells products to some of the largest retailers in Mexico, including Walmart Mexico, Sears Mexico, and others. The Company is primed to leverage the Prince Brand throughout Latin America.

KEY STATISTICS

Price as of 3/15/13	\$0.75
52 Wk High – Low	\$1.00 – 0.74
Est. Shares Outstanding	42.5M
Market Capitalization	\$39.4M
3 Mo Avg Vol	N/A
Exchange	OTCBB

COMPANY INFORMATION

Prince Mexico S.A., Inc.
Questalcoatl 3783
Int. 1. Col. Del Sol C.O.45050
Zapopan, JAL, Mexico
www.princemexicosa.com
IR: Atlanta Capital Partners LLC, David Kugelman
866.692.6847
info@atlcp.com

INVESTMENT HIGHLIGHTS

Leveraging the popularity of the 40-year leading brand in tennis and squash, we believe that Prince Mexico S.A., Inc. is poised to generate more than \$20M in revenue and \$6.6M in net income by 2015. The Company owns the exclusive rights to sell Prince Sports USA brand name products in Mexico and Latin America, which has historically held the number one spot in the world for racquets in squash, tennis and racquetball.

Founded in 2008, Prince Mexico S.A., Inc. boasts some of the leading retail and sporting good chains in Latin America. These include Walmart Mexico, Sears Mexico, Liverpool, a chain with roughly 200 outlets, and others.

The size of the Company's market opportunity is huge. Racquet and ball sports equipment comprises an estimated 32% of the global sports equipment market, or \$20 billion and the estimated market opportunity in Latin America alone is nearly \$400M.

Management has significant experience both in the business, and the home markets. Moreover, the distributorship business model should result in substantial net margins.

We believe the best industry comparable for LUVE is Under Armour (NYSE – UA) given its brand success and model. UA currently trades 28x Wall Street's 2014 EPS. With numerous meaningful sales and market penetration milestones this year, we believe that the stock could trade 28x our preliminary 2015 net income estimate of \$6.6M, which results in a price target of \$3.15. As penetration into new markets progresses, LUVE could approach \$7.00 within 3 years. Thus, we rate LUVE Speculative Buy.

PRINCE MEXICO S.A., INC. (OTC:BB LUVE)

COMPANY OVERVIEW

Linea Deportiva Prince Mexico, which is 100% owned by Prince Mexico S.A, Inc., is the Mexican and Latin American counterpart to Prince Sports USA which owns exclusive distribution rights to sell all Prince Brands in Mexico and much of Latin America. Founded in 2008 and headquartered in Guadalajara, the Company has recently generated annual sales of \$500,000 with a distribution chain in retail stores and pro shops in Mexico. It should be noted that this sales level was recorded with little marketing, inventory and limited historical penetration into some of the key retailers. These include the Company's four primary retail outlets in Mexico: *WalMart Mexico*, *Sears Mexico*, *Liverpool*, a chain with approximately 200 outlets, and *Marti*. It is expected that as the Company procures significant inventory in which to further penetrate into these hungry for *Prince* product retail chains, meaningful sales growth and profitability will occur. As market penetration is achieved, and favorable financing is available, management plans to expand into the South American markets of Brazil, Columbia, Peru, Ecuador, and Venezuela.

Prince Sports USA

A major brand name in racquet sports, Prince Sports USA has been in existence for nearly 40 years with a strong global brand presence in tennis, racquetball (Ektelon), squash, with highly innovative products related to racquets and balls.

The Company also manufactures golf equipment and owns the popular *Viking* (table paddles) athletics brand and is involved in footwear and other accessories. All told, since the introduction of the first tennis ball machine in the 1970's, the Company offers hundreds of products.

The key to the Company's longevity lies in the fact that it has led its industry through innovation and sponsorship as the key growth differentiators. The Prince Tennis line has included revolutionary products like "Oversize", "Longbody", O³, and Speedsport. Sponsorship has always included some the sport's most elite athletes, including Maria Sharapova, Nikolay Davydenko, Jennifer Capriati, Patrick Rafter, Jimmy Connors, the Bryan Brothers, David Ferrer, John Isner, and Martina Navratilova.

(Analyst's note: My first tennis racquet in 1979 was a Prince manufactured racquet and I have been a big fan and consumer of the brand ever since. I was one of many who used the Prince-produced oversized racquet during the start of the huge growth of the products, which was led in large part by hometown Baltimore-based tennis Hall of famer Pam Shriver and others.)

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INDUSTRY OVERVIEW

Globally, the estimated size of the sports equipment is an astounding \$65 billion per year in revenue. Interestingly, our due diligence has indicated that a good deal of the growth in recent years is due to increased sales to emerging markets such as Mexico and Latin America. (Source: Global Sports Equipment, MarketLine Industry Profile. February 2012.) “Ball” sports constitute \$15.4 billion, or close to 24% of the estimated overall market, with racquet sport equipment making up 8.3%, or annual sales of \$5.3 billion as of 2011. Figure 1 outlines the sizable estimated market opportunity for Prince Mexico S.A., Inc. in Mexico (largest importer of sporting goods in the region) and other key target Latin American markets, alone.

Figure 1: 2011 Market Share for Existing and Target Markets – Prince Mexico

(Source: The 2011 Import and Export Market for Sporting Goods in South America. Philip M. PARKER, Professor, INSEAD)

Country	Value (US\$ Millions)	Market % of Latin America
Mexico	266.5	61.0
Brazil	35.3	8.1
Ecuador	24.3	5.6
Columbia	21.8	5.0
Peru	15.9	3.7
Venezuela	NA	NA

There are a number of large sports equipment providers generating substantial revenue. However, there are few major players worldwide that cross over into the racquet and ball space in which Prince and others occupy which has enabled the brand to thrive. Adidas AG and Nike (NYSE – NKE) are worldwide conglomerates with several brands and lines but competition with Prince offerings is primarily relegated to footwear and clothing. Finland-based Amer Sports Corporation is the largest sporting equipment manufacturer in the world and offers the Wilson brand, one of the chief competitors to Prince in the tennis, racquetball, and squash space. Here is a brief analysis of the direct competition.

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Figure 2: Prince Direct Competitor Analysis

Company	Strengths	Weaknesses
Wilson	• Large multi-national corporation, has benefit of economies of scale and abilities to acquire products at low cost	• Squash and paddle products are not preferred by players, compared to tennis line
	• Large A&P budget to strengthen presence with tournaments, players and coaches	• Consumer perception of tennis shoes is cheap/lower quality
	• Offers strong retail promotion: "Buy 2 racquets and get a backpack for free"	
	• Offer strong blowout sales on strings, previous model racquets (up to 70% off)	
	• Strong retailer terms: 45-52% discount, 60 day credit and offer free products for coaches	
	• Strong tournament presence: Federation official tennis ball, sponsor for national teams, have 'Wilson Tennis Tour' weekend tournaments throughout country	
	• Strong POP displays in retail space	
	• Cross promotion with Baiardo Stringing Machine	
	• Complete active line of products: paddle, racquetball, tennis, squash, shoes, apparel	• Low quality products
	• Strong retailer terms: 43-50% discount, 60 day credit	• Suffer supply problems with key accounts
Head	• Strong coach endorsement and incentive to change to Head brand	• Declining brand image
	• 30% lower priced line of grip and string products	
	• Large A&P budget	
	• Strong promotional presence: Booths, POP displays and furniture at events	
	• Strong market share in tennis racquets	• Do not offer promotions
Bobolat	• ATP/WTA TEAM (important strength for South American consumers)	• Do not offer a recreational line for retail chains
		• High cost strings
		• Lack sponsorships
		• No racquetball or squash line in Mexico
		• Focused primarily on competition racquets

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PRINCE OF SPORTS: THE PRODUCTS

The Company has a history of innovation including inventing the first "Natural Foot Shape" tennis shoe, the first "synthetic gut" string and the first electronic ball machine. Today, Prince markets leading technologies in racquets (EXO3), string (Recoil), footwear (Precision Tube Technology) and apparel (Aerotech). It has operations on three continents with distribution in over 100 countries. Prince is committed to continually delivering top-quality tennis products in all categories – outfitting players with the very best in footwear, apparel, strings, balls, accessories, and more.

As mentioned previously, Prince enjoys a significant market share in racquet sports, particularly tennis, where it maintains a leadership position in innovation coupled with sponsorship of key athletes and events. For example, racquets are built with a larger sweet spot, innovative string technology, and an improved weight/power ratio compared to other leading racquet manufacturers.

To illustrate the leading edge technology we look at the example of the best-seller EXO3 Tour 100 tennis racquet. The features on this flagship product include capturing over 26% of wasted energy on impact, providing a stronger hit. There is a patented graphite energy bridge that cuts down on frame vibration by 20%, improves spin, and provides an 83% greater sweet-spot than other racquets. The partnership with top tour professionals allows the company to get feedback to continually innovate. A picture and specifications of the EXO3 are shown below.

Prince EXO3 Tour 100 (18x20)



Head Size:	100 sq. in. / 645.16 sq. cm.
Length:	27in / 68.58cm
Strung Weight:	11.6oz / 328.85g
Balance:	7 pts HL
Swingweight:	322
Stiffness:	52
Beam Width:	19mm / 20mm / 19mm /
Composition:	Graphite
Power Level:	Low
Stroke Style:	Full
Swing Speed:	Fast
Racquet Colors:	Black/Orange/White
Grip Type:	Prince Resi Pro
String Pattern:	18 Mains / 20 Crosses Mains skip: 8T,10T,8H,10H Two Pieces No Shared Holes
String Tension:	50-60 pounds

Image I. Prince EXO3 Tour 100 Racquet
Source: Prince Sports USA

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Prince Sports is an established leader in the sport of squash since its inception in 1984. The success of Prince Squash includes a long history of successful grass roots promotions, game changing product innovations and top players giving the brand tremendous exposure on tour worldwide. Prince provides sponsorship support of squash events, organizations and players nationwide. Prince is a key sponsor/partner of the U.S. Squash Association with a regular presence at many of the national events across the country, Prince is also supported by some of the top players and coaches in the U.S.



Image II. Prince Squash Products

Source: Prince Mexico S.A., Inc.

Ektelon is a division of Prince Sports, Inc. Ektelon has enjoyed the longest, most successful reign of dominance in the sport of racquetball. Ektelon's heritage includes some of the top players in the sport's history including former No. 1 players Mike Yellen, Dave Peck, Ruben Gonzalez, Paola Longoria and current world No. 1's Rhonda Rajsich. In addition, Ektelon has introduced more revolutionary technologies and programs to the sport of racquetball than any other company. Ektelon innovations include oversized racquetball racquets, the Racquet Taper System (RTS), Power Ring® racquets and Total Racquet Customization, VisionGrip and O3 among others.



Image III. Ektelon (Racquetball)

Source: Prince Mexico S.A., Inc



Image IV. Viking Athletic Products

Source: Prince Mexico S.A., Inc

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Viking Athletics, Ltd. has been an equipment leader in the sport of platform tennis since the company was founded in 1995. Viking offers the most complete line of high performance and game improvement platform tennis paddles, balls, bags, apparel and accessories including the OZ™, the sport's best-selling paddle for twelve consecutive years. Viking is the Official Ball of all APTA National events and enjoys a significant ball market share position with a majority of all balls sold in the sport during 2007. Currently over 70% of the top men and 60% of the top women players in the world use Viking paddles.

SALES AND DISTRIBUTION

All of the racquet sports have a huge following in Mexico and Latin America, especially squash. To date, the Company has successfully surpassed Prince Sports Inc. (USA) sales requirements for 5 consecutive years aided in large part by sales to new tennis clubs and larger retail chains. With a strong track record behind it, management plans to procure significant inventory in order to execute a deep penetration into some of the largest chains in Mexico, which is hungry for the key Prince products, such as the EXO3 Tour 100, balls, and squash equipment. Once product is shipped to the centrally located facility in Guadalajara it will be quickly delivered to the Company's key retail outlets.

In addition to Walmart Mexico, the Company has already penetrated Sears Mexico, a wholly-owned subsidiary of Grupo Carso, controlled by the wealthiest man in the world, Carlos Slim Helu. Plus, products are already in Liverpool, a 195-strong department store chain, and Marti, a large sporting goods chain in Mexico with hundreds of outlets.

As noted previously, Prince enjoys a significant market share in racquet sports, particularly tennis, where it maintains a leadership position in innovation coupled with sponsorship of key athletes and events. The Company has featured 'Prince' Tournaments as well as maintaining a key association and presence at tennis, racquetball, and other paddle events across Mexico. Prince Sports is also involved in the "Who's Next" campaign which has the purpose of indoctrinating the up and coming juniors to Prince gear. Additionally, the Company's representatives maintain a strong relationship with club instructors and coaches that have considerable influence, in order to build brand awareness and increase sales with its target audience. Management plans to use these tactics to expand its product lines in Mexico and Latin America.

PRINCE MEXICO S.A., INC. (OTC:BB LUVE)**THE PRINCE MEXICO LEADERSHIP**

In addition to senior management, Prince Mexico has 8 people responsible for sales, marketing, distribution, and logistics.

Francis Duncan Forbes – Chairman, CEO

Mr. Francis Duncan Forbes has over 30 years of experience actively involved in building and managing companies on an international scale. Mr. Forbes has established businesses in various sectors including real estate, health care, tourism and most recently lifestyle. He has built an impressive network of business and top level political contacts within Mexico and the Americas. Along with being a business and family man, Mr. Forbes has had over 3 decades of private and public company investing experience.

Through his contacts, Mr. Forbes has recently secured exclusive distribution rights (in Mexico) for a clinically proven cancer treatment product that has sold billions of dollars worldwide. This product will be released to market in the last half of 2013. Prior to Prince Mexico, he founded Neptune Realtors, a real estate brokerage firm with multiple offices throughout Mexico. He remains a partner in the firm; however, in 2007 he positioned appropriate management to run the day-to-day operations and execute the growth strategy.

In 2008, Mr. Forbes founded Linea Deportiva Prince Mexico, S.A. de C.V. (now Prince Mexico SA), a corporation set up to distribute top quality sporting goods to the Mexican markets and beyond. His past successes have allowed him to make the connections required to take Prince Mexico to the next level.

RISK FACTORS

In our view, Prince Mexico's biggest risk factors are the typical issues facing distributors of consumer goods. These include the timing of the financing required to procure the inventory initially required to meet its objectives. Additional risks include delays in shipment or changes in brand loyalty or products due to cost, efficacy or affinity. However, at this stage, we do not believe that these issues appear to be serious threats to the Company. With an exclusive distribution opportunity, we believe that while competition from larger firms or even from newer entrants could slow the sales ramp or require additional marketing expenses, but these typical concerns are consistent with firms of Prince Mexico's size and standing.

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VALUATION AND CONCLUSION

Leveraging the popularity of the 40-year leading brand in tennis, racquetball and squash, we believe that Prince Mexico S.A., Inc. is poised to generate as much as \$7M in revenue and \$1.5M in net income in the next 12 months and \$more than \$20M in sales and \$6.6M in net income by 2015. Due to the distributor model, the Company enjoys extremely high margins, as the only real expenses are sales and marketing associated with filling shelves of its customers and drawing broad demand.

We should note that these figures include some sales into other markets in Latin America as well.

From the valuation perspective, we believe that the best publicly traded industry comparable for LUVE is Under Armour (NYSE – UA) given its brand success and model. Interestingly, UA currently trades 28x Wall Street's 2014 EPS. Although LUVE's sales growth should be much higher than the industry average, our price target assumes that LUVE's P/E will not be greater than this comparable due to its emerging market sales generation. Still, with numerous meaningful sales and market penetration milestones in 2013, we believe that by the stock could trade 28x our preliminary 2015 net income estimate of \$6.6M, which results in a price target of \$3.15. As penetration into new markets progresses, the highly profitable LUVE could approach \$7.00 within 3 years. We should also note that the timing of investment in LUVE is key, as investors should enjoy hockey stick type growth given the strong seasonality of business in the spring and summer months.

Thus, we rate LUVE Speculative Buy.

Goldman Small Cap Research Ratings and Risk Profile Definitions:

Strong Buy (1) The expectation that the stock will exceed stock market performance, with below average equity market risk.

Strong Buy (2) The expectation that the stock will exceed stock market performance, with average equity market risk.

Strong Buy (3) The expectation that the stock will substantially exceed equity stock market performance, with above average to speculative risk.

Speculative Buy: The expectation that the stock will substantially exceed stock market performance, with speculative market risk.



PRINCE MEXICO S.A., INC. (OTC:BB LUVE)

Analyst: Robert Goldman

Rob Goldman has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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