

[<<Back](#)

Heelys skate-shoe IPO generating buzz

WASHINGTON -- Among a trio of initial public offerings that are hitting the market later this week, there is one that promises to glide smoothly into its first day of trading: Heelys Inc., which makes a convertible roller-skate sneaker aimed at kids and young teens.

The Carrollton, Texas, company is slated to sell as much as \$113 million worth of stock in an IPO that will debut on the Nasdaq under the symbol HLYS on Friday. Market observers say there appears to be strong demand for the offering, which is expected to price the 6.25 million-share deal between \$16 and \$18 a share.

"Not only is this going to be the IPO of the week, it's going to be one of the best IPOs of the year _ though it's not going to be a Nymex," says Scott Sweet, founder and managing director of ipoboutique.com, a Tampa IPO research service, referring to the 125 percent gain that energy futures exchange Nymex Holdings Inc. realized on its first day of trading last month.

Sweet says he recently called around to major sporting goods chains in his area after nearly getting knocked over by a pack of Heelys-wearing girls in a shopping mall, and found that all were sold out of the sneakers, which convert into skates with a shift of the wearer's weight to the heel.

"They said they all expect big shipments, but at that point they had none in stock," Sweet said.

Heelys, which are carried by sporting goods stores such as The Sports Authority and Modell's, as well as department stores like Nordstrom Inc., have been flying off the shelves at a brisk clip since they first hit the market in 2000. Sales have quadrupled to \$117.1 million and income has risen six-fold to \$17.7 million in the first nine months of 2006, compared with the same period last year.

Investors have been drawn to sportswear makers and stores that target the youth market, with a string of successful specialty athletic apparel companies debuting in 2005, including Baltimore-based Under Armour Inc. in November, Everett, Wash.-based Zumiez Inc. in May, and Cosa Mesa, Calif.-based Volcom Inc. in June of that year.

Although not strictly an athletic apparel maker, a specialty footwear company named Crocs Inc., based in Niwot, Colo., launched a successful debut this year in February, followed by a secondary offering in August.

But as much as strong sales of its wheeled sneakers is a boon for Heelys, the company's difficulties in keeping up with orders is a liability. The company sold 3.9 million pairs worldwide in the first nine months of the year, nearly three times the number in all of 2005, and began using additional manufacturers in May when demand outstripped its regular manufacturer's capacity. Although those additional manufacturers have begun production to address the company's immediate needs, Heelys warns in its prospectus that it hasn't been able to fill a "substantial" number of orders placed by customers on a timely basis.

To expedite the delivery of past-due customer orders, the footwear company typically ships via air freight, which costs more. Those higher shipping costs have caused Heelys to miss its internal financial targets in certain periods.

Also of concern is the company's concentration on one specialized product. Although it makes helmets and other protective gear, its wheeled sneakers made up 99 percent of its net sales in the first three quarters of 2006. If its core customers _ six to 14 year olds _ lose interest in wearing them, Heelys could get hit harder by lower sales than a more-diversified apparel maker.

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