LICENSED TO THRILL

Athletic apparel retailer Fanatics is lighting up the field with fast-twitch manufacturing and shrewd dealmaking. Top technology players have noticed. By Phil Wahba

TECH **IN LATE JUNE,** as the basketball world waited with bated breath for word of where superstar and free agent LeBron James would play next year, online licensed sports merchandise retailer Fanatics was busy making jerseys. Would the former Cleveland Cavalier choose the Los Angeles Lakers or the Philadelphia 76ers?

Los Angeles Lakers jerseys for LeBron James: Fanatics had them ready to ship upon news that the Cavs star had chosen L.A.

To Fanatics, it didn't matter. At its warehouses in Kentucky, North Carolina, and Florida, the retailer prepared blank jerseys for both teams, ready to be finished with James's name and number. Once the four-time National Basketball Association Most Valuable Player ▷▷

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▷▷ announced he would become a Laker in a four-year, $154 million contract, Fanatics sprang into action. Within hours, it had new merchandise ready for sale on its own website and on NBA.com, thanks to exclusive licensing and manufacturing rights. As expected, James's Lakers jersey flew off the digital shelves.

That kind of speed to market and manufacturing flexibility, coupled with Fanatics' growing number of exclusive deals with the professional sports leagues, is the result of years of effort to become a 21st-century retailer: part tech company, part logistics company, part manufacturer. Fanatics' founder, owner, and executive chairman, Michael Rubin, calls it "vertical commerce" or "v-commerce." Whatever the name, it has endeared Fanatics to pro sports leagues, which in turn have rewarded Fanatics with something Amazon doesn't have: more exclusive rights.

"If you're selling the same merchandise as what's available on Alibaba or Amazon, you should quit and go home," Rubin tells *Fortune*.

In May, the National Football League gave Fanatics a 10-year exclusive to make and sell NFL clothing for fans starting in 2020. (Nike will handle on-field gear.) "He owns this marketplace," NBA commissioner Adam Silver said of Rubin at a conference last year. As with the superstar James, it's good to be king: The privately held Fanatics, which is set to rake in $2.3 billion this year, up from $250 million eight years ago, dominates the digital part of a U.S. sports licensed apparel market that research firm IBIS World estimates to be worth $7.8 billion in annual sales and growing 3% a year.

Encouraged by its tight integration of digital and physical retail, the NBA signed a deal with Fanatics in 2015 to operate the flagship NBA Store in New York City. The NHL followed in 2018.

The category is particularly ripe for an e-commerce revolution. Online sales of licensed pro league sports merchandise have grown from 1% of total U.S. sales a decade ago to 20% today. "With sports, things can change so fast—a player has a great game, they shoot up in popularity. When you're online, you can shift your focus much more quickly," says IBIS World analyst Claire O'Connor.

Fanatics' trajectory has earned it funding from top investors including Andreessen Horowitz, Silver Lake, Alibaba, and SoftBank, the last of which led a billion-dollar financing round in 2017 that included the NFL and Major League Baseball and valued Fanatics at $4.5 billion. It's not Rubin's first time doing business with the Japanese conglomerate. In 1999, SoftBank invested money in GSI Commerce, a Rubin-founded firm that he sold to eBay in 2011 for $2.4 billion. (It included Fanatics, which he held on to as part of the deal.) His other businesses have included flash-sales site RueLaLa and ShopRunner.

GSI had obtained e-commerce rights for five leagues, but Rubin knew he had to go beyond sales in his newer venture. So he set about acquiring more rights as he ramped up manufacturing. Last year Fanatics bought athletic apparel maker Majestic, which makes on-field uniforms for the MLB, from VF Corp. It also acquired sports licensing agency Fermata Partners from CAA to build up its college business.

Fanatics spends about $140 million a year on its tech and manufacturing firepower, but its strategy isn't purely digital. It recently signed a deal to build branded shops in 350 J.C. Penney stores and took over operations of the National Hockey League flagship store in Manhattan. (It already runs the NBA's.) The company also operates 40 team stores and counting at top sports venues; at some, it can fulfill online orders placed on site.

Fanatics derives half its revenue from products it makes itself. Rubin believes its annual revenue could grow to $10 billion in the not-so-distant future.

"There is no better category than sports," he says. "The intellectual property is so valuable." ■

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