Questions abound over Performance Sports Group

What's going on at the firm, and what has gone wrong?

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On June 20, 2014, Performance Sports Group launched its U.S. IPO is at $15.50 a share, raising $125 million. Davis, center, opens the NYSE.

Everything seemed smooth as ice when then-CEO Kevin Davis glided on to the floor of the New York Stock Exchange on June 20, 2014, to ring the opening bell and knock his newly named Exeter-based Performance Sports Group Ltd.'s initial public offering out of the park.

The mixed sports metaphors were all too apt, since that IPO was released just two months after the company (then known as Bauer Performance Sports, a hockey equipment giant) acquired Easton-Bell Sports' baseball and softball business for $330 million. The acquisition and the IPO signaled the company's shift both south of the Canadian border and from the hockey rink to the baseball diamond.

"This is the largest and most transformational acquisition in our history because it positions BPS as the No. 1 global leader in ice hockey, roller hockey, baseball and softball," said Davis at the time of the deal.

But in a little more than two years, that smooth base path is cracking with heavy debt, which could result in a massive loan default by Performance Sports Group. And the company also appears to be sinking under charges of fraud, delayed financial filings, internal and federal investigations in two countries, management turmoil – including Davis' resignation in March – and a stock price that is just one-tenth of what it was at its peak.

Today, the company is looking to restructure that debt and move forward, and indeed, at deadline, both the New York Post and Reuters were reporting that PSG was closing in on a deal with lenders. (One source told NH Business Review that the company, strapped for cash, is seeking more financing as well, but won't get it without concessions.)

Class action suit

The 170 people who work at PSG's Exeter headquarters may keep their jobs, and the company might bounce back, like the 2004 Boston Red Sox. After all, former Red Sox CEO Larry Lucchino was on PSG's board, but he resigned after less than two years.

PSG, in the only comment it would give to this story, prefers to stress the positive.

“Our brands are some of the most iconic in sports and our commitment to delivering the most innovative products to our retailers and consumers has not changed,” said PSG spokesman Steve Jones in the prepared statement. “Our brands continue to have strong consumer acceptance and we are confident in our ability to drive our brands and our business forward.”

Bauer Hockey opens OWN THE MOMENT Hockey Experience, a 20,000-squarefoot premium retail store in Burlington, Mass.

But one of the charges in a consolidated federal class action suit filed in New York is that PSG did not share – indeed even covered up – potentially negative information. It charges that the company’s “record” revenue numbers were inflated by “coercing” retailers by “threatening” to take away discounts, unless they bought more and more, until inventory piled up and retailers simply couldn’t buy anymore, causing revenues to plummet.

Coercion, however, is too strong of a word for Ronald Rugal, president of B&R Sports, a PSG customer based in Detroit with 12 locations in Michigan and around Chicago.

“I’m half to blame,” he said, noting that equipment vendors often use those tactics. “I could have said no, but they did try to jam orders down our throat, to take orders early, to overstock, oversupply, over-inventory us. They said it would all work out, and then things hit a wall.”

Bauer representatives never said that this was done to meet quarterly numbers. “They didn’t need to,” Rugal said. “I follow the market. I know when the quarter ends, when they are going public and then they ask you if you can take it early.”

Retail strategy

But that isn’t why Rugal is “pissed off” about the situation, he said.

He said he was “betrayed” by the company’s announcement in January to open its own “Own the Moment” retail stores, modeled after Apple’s stores.

The company had assured dealers in 2008 that it had no plans to open such stores, Rugal recalled. But two are currently open, one in Burlington, Mass., and another in Minneapolis. Two more are slated to open in Toronto and another is planned “down the street” in Detroit, said Rugal.

PSG’s contention that company stores will increase brand loyalty and therefore result in more sales at his stores “was a bunch of bull,” he said. The comparison to Apple stores was “ridiculous,” since “99 percent of those walking down the street are familiar with Apple products, whereas only 20 percent have any idea what Bauer Hockey is.”

Rugal is expressing his anger with his inventory. About 80 percent of his merchandise had been PSG equipment, he said. Now, with roughly $1 million in Bauer inventory on hand, he is down to as little as half, “and I might get less than that”.

Rugal’s discontent is the reason W. Graeme Roustan, the former chair of PSG and current critic and possible buyer, points to in explaining why the company’s revenues are hurting.

Initial public offerings

Bauer started out in 1927 primarily as a Canadian hockey equipment company, absorbed like so many others, in the Nike conglomerate. It moved its headquarters from Montreal to New Hampshire in 2002. In 2008, Roustan, a hockey tycoon with dual citizenship, got involved when he partnered with Kohlberg & Company, a private investment firm, to buy Bauer from Nike for $200 million.

TIMELINE OF EVENTS

- **Feb. 21, 2008** Kohlberg & Company and W. Graeme Roustan announce that it will purchase Bauer Hockey for $200 Million.
- **April 17, 2008** Former COO Kevin Davis becomes CEO of Bauer Hockey.
- **June 3, 2010** Kohlberg Sports Group acquires Maverik Lacrosse.
- **April 10, 2011** Bauer Performance Sports launches IPO on Toronto Stock Exchange, selling one-third of the company for $7.50 a share – a total of $225 million in Canadian dollars.
- **April 15, 2014** Bauer Performance Sports completes acquisition of Easton Baseball/Softball for $330 million.
- **June 9, 2014** NYSE approves Bauer for listing as Performance Sports Group.
- **June 20, 2014** U.S. IPO is launched at $15.50 a share, raising $125 million. Davis, holding a green hat, opens the NYSE.
- **Oct. 27, 2014** Kohlberg & Co. completes sale of 2 million shares of PSG for $37.55 million (more than $18 a share); keeps 5.3 percent of the company.
- **Jan. 8, 2015** Bauer Hockey announces that it will be opening its own retail stores.
- **May 11, 2015** PSG stock peaks at over $20 a share before it starts decline.
- **Aug. 15, 2015** Bauer Hockey opens OWN THE MOMENT Hockey Experience, a 20,000-square-foot premium retail store in Burlington, Mass.
- **Jan. 13, 2016** PSG acquires Easton Hockey.

Roustan became chairman of the board, and it was under his leadership that Bauer first went public on the Toronto stock exchange, raising about $225 million in its first IPO. The company made five acquisitions, including Maverik Lacrosse. Roustan remained chair until 2012, when he stepped down to concentrate on developing a major hockey arena in Toronto. But, he told NH Business Review, “I always hoped to join the board at a later date.”

- **March 8, 2016** PSG revises economic outlook, cutting quarterly earnings per share projections. Stock plummets from almost $9 a share to under $3 a share.
- **March 22, 2016** Kevin Davis resigns. CFO Amir Rosenthal takes over as interim CEO.
- **April 14, 2016** PSG writes off an “impairment charge” of $145 million in its baseball/softball division, contributing to a net loss of $188 million.
- **May 13, 2016** A class action suit is filed, charging PSG misled investors, but does not go into details.
- **June 20, 2016** Harlan Kent becomes PSG’s new CEO.
- **July 21, 2016** PSG closes two facilities in Ottawa, Ontario and Kent, Washington, consolidating its baseball/softball segment in California.
- **July 22, 2016** PSG announces a special shareholders meeting.
- **Aug. 2, 2016** PSG announces restructuring, which will result in a 15 percent workforce reduction.
- **Aug. 15, 2016** PSG announces that it delayed filing of its 10K annual report due to an internal investigation. Its stock price is nearly cut in half. An amended complaint in a class action suit is filed, charging that PSG pushed retailers to buy in advance, though there was not enough demand, to push revenue to earlier quarters, pumping up the stock price.
- **Aug. 16, 2016** PSG discloses that it is being investigated by the U.S. Securities and Exchange Commission as well as Canadian regulatory authorities.
- **Aug. 22, 2016** PSG postpones annual meeting until it’s ready to file its 10K.
- **Aug. 24, 2016** Reuters reports PSG has turned to a debt restructuring adviser.

That has yet to happen. Roustan’s efforts to return to the board have been rebuffed, and he backed off a threatened proxy fight, but he has said he might be interested in taking the company private again.

Two years after he left the board, the company, now known as PSG, acquired Easton for $330 million, followed by a $125 million IPO on the New York Stock Exchange at $15.50 a share.

“I believe that the company overpaid Easton, as evidenced by the $145 million write-down that took place,” Roustan said.

That April 2015 write down, an impairment charge in the baseball/softball division, contributed to a whopping quarterly net loss of $188 million. PSG blamed soft sales in that division.

But it was the announcement of a retail store strategy at the beginning of 2015 that prompted Roustan to act.

After failing to convince the board and Davis to abandon the strategy, he hired Grant Thornton to conduct a survey of major retailers. Shortly afterward, PSG sent Grant Thornton a cease-and-desist letter.

The survey firm completed the survey, but withheld the results. Roustan sued Grant Thornton in January to force release of the results. That litigation is still in the discovery phase.

But Roustan followed up with a Survey Monkey poll of retailers, results of which he said supports his claims that the retail strategy backfired.

Bankruptcies to blame?

The class action suit cites Roustan as saying the surveys also identified channel stuffing and that alleged practice at the heart of the charges against PSG, along with former CEO Davis and former CFO and former acting CEO Amir Rosenthal.

The suit cites three unnamed retailers, including one based in Salem, NH, and an undisclosed employee to back up its charges.

It also charges that PSG’s executive vice president, Edward Kinnaly, challenged the policy of “pulling orders forward” at a board of directors meeting, and was subsequently fired. (Kinnaly, who did leave the company in 2013 and is now the CEO of Flywheel Sports Inc., an indoor cycling chain, declined comment.)

PSG, in its public filings and earnings calls, blames several bankruptcies – especially that of The Sports Authority retail chain – among the reasons behind its financial woes. It also points to a softening of baseball/softball sales as well as an unfavorable Canadian exchange rate.

The class action suit, however, contends that the retailer bankruptcies were a “smokescreen,” since the company’s competitors in both the baseball and hockey markets were doing just fine.

“PSG had caused its own demise by oversupplying its customers with product delivered earlier than the product was needed,” according to the complaint.

Internal investigation

Lawyers in the class action suit, the U.S. Securities and Exchange Commission, and the Ontario Securities Commission are trying to get their hands on the Grant Thornton study as well.

PSG had only acknowledged these inquiries in an SEC filing after its spokesman erroneously denied them to NH Business Review, but it did not disclose the reason for the probes, nor for an internal investigation it said it was conducting.

It is that internal investigation that has delayed the filing of its Form 10-K with the SEC, which in turn could cause the company to default on hundreds of millions in loans. It also prompted the company to postpone its annual shareholder meeting.

It also delayed the seating of Paul Desmarais III, executive chairman of Sagard Capital, on the board of directors. Desmarais would have filled the seat of Sagard’s CEO, Daniel M. Friedberg, who left Sagard for another company. Sagard, a Connecticut-based investment firm is PSG’s largest shareholder.

Sagard’s involvement in PSG is another point of contention for Roustan.

Roustan, in a white paper, has written that Sagard’s representation on the board creates a conflict of interest because Sagard’s parent company, Power Corporation of Canada, has an interest in Adidas, which owns CCM, PSG’s largest competitor, and PSG.

Since CCM and Bauer have “combined global market share of approximately 90 percent,” Roustan also invoked antitrust law. And he has called on his successor, current board chairman Bernard McDonnell, and C. Michael Jacobi, another board member, to resign for allowing the alleged conflict to happen.

Roustan won’t disclose his current stake in the company, but he does have an interest in the outcome. While several sources say PSG has hired Centerview Partners Holdings LLC, as it tries put off default by renegotiating its loan, Roustan said he is talking to Jefferies Group LLC and Canaccord Genuity, two financial firms, about acquiring PSG and taking it private.

“Since September of 2015, I have continually been evaluating the different opportunities, which had included making a tender offer and launching a proxy battle. I remain open to any opportunity in the near future,” said Roustan.

If Roustan does regain control of the company, he said, “on day one, I will reach out to retailers to assure them that I would terminate the company store strategy immediately.”

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