The Deal

Two private equity firms still weigh $600M bids for Bauer maker

Potential bonuses for Performance Sports Group executives are complicating the sale process for the sporting goods company

By Ronald Orol | 2016-12-27

Two private equity firms are still considering bids of about $600 million or more for Performance Sports Group Ltd. after management for the bankrupt sporting goods company completed presentations last week to a handful of potential buyout shop buyers.

According to a person familiar with the situation on Tuesday, buyout shop bidders overall said they were underwhelmed by the management presentations of the hockey skate manufacturer, adding that a bonus structure proposed for the debtor's top executives may be discouraging some bids.

The maker of the iconic Canadian Bauer hockey equipment brand filed for Chapter 11 protection in the U.S. Bankruptcy Court for the District of Delaware in Wilmington on Oct. 31. BPS US Holdings Inc. is the lead debtor in the proceedings. In addition to Bauer, PSG makes Easton softball products and Maverik lacrosse equipment.

The court has pushed back the deadline for submitting offers to Jan. 25 from Jan. 4, and an auction, if necessary, now is scheduled to be held on Jan. 30 instead of Jan. 9. The source, however, noted he believes there will be competing bids and the sale may not be concluded until February.

The potential private equity bids come after Sagard Capital Partners LP and Fairfax Financial Holdings Ltd. made a joint offer earlier this year to acquire the company for about $575 million, subject to the auction process and regulatory approval by the Canadian Competition Bureau. According to the person familiar with the situation, some rival PE bidders suggested that PSG's presentations have been underwhelming and that it was apparent that management prefers the stalking-horse bid.

The Sagard-Fairfax bid, if approved by the court, would maintain PSG's current management team, while a bid by a private equity firm likely would install new management. A PSG spokesman did not return requests for comment.

The remaining potential bidders are talking with activist investor and ex-PSG chairman Graeme Roustan to have him become their operating partner if they take over the company. Roustan has criticized the manufacturer and supplier of sporting goods in recent months, arguing it made a mistake when it decided last year to open its own retail locations-a move that has infuriated some retailers. Roustan could become PSG's chairman and CEO as part of a partnership deal with a private equity firm. Last week, PSG submitted a bonus plan to the court for top executives that would distribute payments if there were a better offer.

Under the proposed key employee incentive plan, six senior executives would receive between $2 million and $3.4 million in bonus payments if PSG were sold at prices ranging from $585 million to $620 million. The executives would not receive the bonuses if the existing $575 million Sagard-Fairfax offer were consummated.

The source noted that the bonus payments, essentially golden parachute payments for top executives, may be a factor discouraging bidders from making an offer because they would be an additional cost over the stalking-horse sale. Judge Kevin J. Carey is set to consider the KEIP and a key employee retention plan on Jan. 10.

The management presentations finished last Tuesday, according to the person familiar with the situation. He added that, in addition to the Sagard-Fairfax bid, only two of the five PE firms that received presentations, Kohlberg Kravis Roberts & Co. LP (KKR) and Bain Capital LP, are interested.

The other remaining buyout shops, Sycamore Partners LLC, Thomas H. Lee Partners LP and KPS Capital Partners LP, either have bowed out or are in the process of winding up their reviews and are likely to bow out in the coming weeks. other Other potential buyers, Apollo Global Management LLC (APO) and TPG Capital LP, have pulled out recently.

Sycamore declined to comment. Officials from KKR, Bain Capital, Thomas H. Lee and KPS Capital Partners did not return requests for comment. At least seven other firms that had considered making bids, including a Canadian public pension fund with a buyout shop division, have dropping out after examining the books, the source noted. Caisse de dépôt et placement du Québec may be reviewing the sporting goods company's books and making a bid, the person familiar with the situation said.

According to a December court document, PSG noted it has circulated marketing materials and a confidential information memorandum and nondisclosure agreements to potential bidders. It noted that the debtor's investment banks have been extensively engaging with potential bidders and have received "several preliminary indications of interest from potential bidders."

A possible stumbling block for the Sagard-Fairfax bid involves its potential relationship with Adidas AG, which owns CCM, the largest ice skate maker rival to Bauer. Said the person familiar with the situation, it's possible the Canadian Competition Bureau will review concerns raised by shareholders about Sagard and the potential for it to have large sway over firms.

Sagard, based in Greenwich, Conn., is owned by Power Corp., a diversified Quebec international management company controlled by the influential Desmarais family with interests in financial services, communications and other sectors. The person familiar with the situation noted the Sagard deal, if approved by the court, at the very least would take much longer to consummate than a rival bid because he contended a Canadian Competition Bureau review for that deal would be very time-consuming.