NH BUSINESS REVIEW

Performance Sports Group CEO quits

Departure follows collapse in Exeter-based sporting goods company's stock price, earnings

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Kevin Davis, CEO of Performance Sports Group since 2008, left the job last week.

Performance Sports Group CEO Kevin Davis stepped down from his job last week following plummeting sales and profits, a stock price collapse and numerous class action lawsuits.

Davis, who ran the Exeter-based company since 2008 and was an executive with the company since 2004, has reached "an arrangement" and stepped down immediately afterward, said a company press release. He was replaced on an interim basis by Amir Rosenthal, the company's chief financial officer.

The company gave no reason for the departure of Davis, who earned $1.1 million in fiscal 2015 and twice that much the two years before.

"It was agreed that it was the right time to make a change, given the current market and situation that we are in now," said PSG spokesperson Steve Jones. Attempts to reach Davis were not successful

The rest of the board will probably remain intact, thanks to another agreement with Sagard Capital, a subsidiary of Power Corporation of Canada, which had recently bought about 15 percent of PSG's shares. PSG has agreed to put Sagard President Dan Friedberg on the board if Sagard didn't challenge those who would serve with him.

Sagard bought into the company after PSG stock plunged on March 8, the day the company revised its earnings and sales guidance sharply downward for the fiscal year ending May 31.

The company initially projected earnings of as much as 69 cents per diluted share. Now it expects no more than 14 cents. That net downturn includes some offset through cost-cutting. Jones said that the company is looking at different ways to save, but had not – and currently has no plans to – downsize the company's 872 employees, 445 of whom are in the United States, mostly in New Hampshire, according to the company's annual report.

The company said it expects $125 million in sales for the third quarter ending Feb. 29, some 9 percent below the previous year, with quarterly losses of 29 cents a share, compared to profits of 13 cents a share the previous year.

During the fourth quarter, PSG said it expected to earn 15 cents a share, about half the amount it earned in the same quarter last year.

Baseball sales slowdown

The company pointed to three causes for what it called the “unexpected” downturn.

Some 9 cents of the loss was due to receivables balance and anticipated loss of sales caused by the Chapter 11 bankruptcy filing in January of The Sports Authority chain. About 19 cents was due to an increase in bad debt reserves as a result of the consolidation of four of seven PSG U.S. hockey stores. But most of it – 31 cents – was due to reduction in sales, primarily caused of a slowdown in baseball/softball equipment, particularly in bats.

Bats were very important to PSG, because bats are the biggest product manufactured by Eaton, whose baseball and softball business PSG acquired for $330 million in 2014 as part of its effort to diversify what was once known as Bauer Performance Sports, a hockey equipment giant.

PSG, whose stock price peaked at $21.72 last March, has seen that price fall to under $10 since then, as the company’s sales began to fall.

Net income in fiscal 2015 was $3.3 million, compared to $20 million in 2014, and the company lost $8.5 million in the first half of fiscal 2016.

PSG’s $12 million purchase of the Eaton business in January 2015 and its subsequent decision to open its own retail sales outlets may have hurt more than helped the company’s investors.

Shareholders were already jittery about the company’s $300 million in long-term debt, and after the company revised its earnings guidance on March 8, the stock plummeted another 60 percent, to $2.80 per share. PSG shares closed at $3.17 on Tuesday.

Retail strategy questioned

What happened? Rosenthal suggested that a cold wet winter in many parts of the country could have cut into baseball sales, as well as a glut of inventory related to bankruptcy and consolidation.

But W. Graeme Roustan, the company’s former chairman, blamed the company’s retail strategy. The stores are an attempt to echo Apple’s stores and their hands-on approach.

Roustan said the stores weren’t just expensive – about $4 million apiece to start up – it competed against PSG customers’ stores, angering them and pushing them toward CCM, PSG’s major competitor.

Last year, he said, CCM’s sales went up by about the same amount that PSG sales declined, Roustan said.

“The decision to open to open up retail stores was hubris and misguided and the primary reason for the company to have lost 90 percent of its stock price,” said Roustan, who repeatedly called for Davis and board chairman Bernie McDonnell to resign. (McDonnell did not respond to a phone message.)

The company reiterated its intention to keep opening retail stores beyond the two it has near Boston and in Minneapolis. The board has approved two more and is aiming for another eight to 10.

Jones insisted that the stores are “meeting expectations” and are “not impacting our revenue.”

Meanwhile, a dozen law firms have announced plans to file class actions. One has already been filed by the Rosen Law Firm in California against PSG, Davis, Rosenthal and Mark Vendetti, a former CFO. The suit claims that PSG’s earlier guidance was misleading because the company knew of the industry slowdown and possible bankruptcy of The Sports Authority.

Jones said the company has yet to receive the complaint and declined comment.

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