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Performance Sports Going Retail Is the Wrong Move – Ex-Chairman

Incoming CEO may already be on thin ice.

Carleton English   Jun 14, 2016 4:10 PM EDT

Will the new CEO of **Performance Sports Group** (**PSG**) be able to turn things around? There may be reason to be skeptical.

Last week, the sportswear manufacturer announced Harlan Kant as its new CEO, effective June 20. He will replace Amir Rosenthal, who served on an interim basis following the ousting of Kevin Davis in March. Performance Sports has taken a major hit over the last year due to broader issuers in the sports retail industry as well as its internal troubles and its controversial decision to open its own retail locations.

Shares are down 85% over the last year and trade for $3. In a statement released last week, Performance Sports said it expects fiscal 2016 revenue to be down 10% compared to the previous year. It also said credit weakness of its customers led it to determine "it appropriate not to fulfill several customer orders, which resulted in lower-than-expected sales."

"The continued challenging market conditions created customer credit issues that exceeded our expectations," Rosenthal said.

In March, shares of the company plunged 66% to just under $3 after Performance Sports revised guidance downward following Sports Authority's Chapter 11 filing.

"I believe the company tied it to the Sports Authority story; however, I think the real issue is that the company has oversupplied inventory to many retailers -- not just Sports Authority -- and the question should be asked: Why do some of these retail clients have so much Bauer inventory on hand?" former Performance Sports Chairman W. Graeme Roustan said in an interview with *Real Money* last week.

Performance Sports appears to be banking on Kant's success at the helm of Yankee Candle, but Roustan has concerns, which start with the company's emerging bricks-and-mortar retail strategy.

"I think the new CEO on his first day of work on June 20 at 9 in the morning should announce the end of retail stores and if he doesn't, it's going to get worse," Roustan said. If not, "he will be telling the retailers that we're going to compete in your market."

In January 2015, Performance Sports announced that its subsidiary, Bauer Hockey, would be opening eight to ten "Own the Moment retail experiences" throughout the U.S. and Canada and that the efforts would be profitable within two years of the announcement. The move was criticized, however, because it implied that Performance Sports, which usually supplies goods to other retailers, would now be competing with its customers.

"You're putting out a press release and you're saying, 'We're going to compete against our customers, and number two, we're going to lose money at this for up to two years,'" Roustan said.

Despite the criticism, Performance Sports remains "committed to our Own the Moment hockey retail strategy," Steve Jones, a company spokesman, wrote in an email to *Real Money* Tuesday. Performance Sports got approval from its board to open two more locations.

In a phone interview with *Real Money* Tuesday, Jones pointed out that Performance Sports does business with 2,000 hockey retailers in North America and the decision to open retail locations is specific to the Bauer brand and its full line of hockey apparel and gear.

"Our retailers remain extremely important to us and drive a majority of our business," Jones said.

While retail locations may only be a small piece of Performance Sports' concerns, the company must also win back investor confidence in light of other industry headwinds.