

# Activism on skates



An interview with Graeme Roustan, former-Chairman of Performance Sports Group.

The Twitter profile of **Graeme Roustan** lists the following roles that its creator has held: Entrepreneur, Venture Capitalist, Philanthropist, Activist Investor. The latest of those is a relatively recent addition in a lengthy career of colourful business ventures but one the former Chairman of **Performance Sports Group**, a kit manufacturer listed on the Toronto and New York Stock Exchanges, is fulfilling with dedication. Roustan is openly considering running a proxy contest at Performance Sports later this year, and uses this interview with Activist Insight Monthly to call for a comprehensive overhaul.

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“The Chairman has to depart for any chance of a turnaround,” Roustan is now saying openly. “The entire board needs replacement and they should not put their names up for renewal at the AGM in October 2016.” With the stock down 82% in the last twelve months, it will take something special for the company to fight him off.

After gaining Wall Street experience at Merrill Lynch, joining the bank in 1988, Roustan launched his own venture capital firm three years later. A

Quebecois by birth, hockey has been an abiding theme, from his attempts to launch a San Jose franchise in the late 1980s to an attempt to acquire the Montreal Canadiens two decades later. Both efforts resulted in close misses.

In 2007, Roustan ran a bid for Nike’s hockey equipment division, which the sports behemoth had acquired in the 1990s. When the deal closed with private equity backing from Kohlberg & Company, Roustan became the Chairman, taking the company—then called Bauer Performance Sports—public after three years. The initial public offering, of one-third of the company’s shares, netted C\$75 million in 2011. The following September, Roustan left the company to focus on an attempt to build a new hockey stadium in Toronto. New Chairman Bernie McDonnell in a statement expressed his “sincere gratitude” to his predecessor.

Alas, the goodwill has not lasted. In January 2015, Performance Sports announced a new strategy—opening retail stores to sell its products direct to consumers, rather than through traditional sporting goods distributors. The market’s initial reaction was positive. Shares climbed 19% between the January 8 announcement and their peak, on May 22. Roustan, however, was convinced that competing against customers and losing money opening the stores was a “double whammy” for the stock.

“I believe that had I stayed on as Chairman, the company would not

be in the position it is today,” he says, arguing that he would have lobbied against the new strategy aggressively. “I wish I had stayed on.”

Roustan planned to pitch his complaint directly to the board in June 2015, and commissioned Grant Thornton Toronto to conduct a survey of retailers who sell Performance Sports products that he felt would confirm his view. According to a lawsuit Roustan has lodged against Grant Thornton seen by Activist Insight Monthly, McDonnell personally intervened to prevent the services firm releasing the survey, and Grant Thornton acceded, citing potential reputational damage. Roustan fumed. “In all M&A, VC and activist investing pursuits, the reliance on professionals from law and accounting firms is crucial,” he says.

Undeterred, Roustan put himself forward as an alternative nominee to the board ahead of that September’s meeting, but withdrew after McDonnell savaged his record in a letter to shareholders. The letter brought up past litigation, fraud cases and failed business relationships, before saying Roustan’s attempt to contact retailers “could have sown confusion in the market and, at worst, could have imperiled the company’s relationships with some of its most important customers.”

“Graeme Roustan is not, in our judgment, an appropriate candidate for service on the board,” Performance Sports concluded of its last serving Chairman.

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“It was a fundamental mistake closing ranks and pointing the finger at a shareholder who wanted to come in and help,” Roustan says now, almost a year on. Explaining his decision to drop the contest, he points to an estimated \$1 million cost for soliciting shareholder support. “I decided I was not going to be successful as a lobbyist with just one seat,” he argues. “If I choose to go forward, it will be with a slate to control the board. It’s a different animal now.”

If the situation does come to a vote—and Roustan has not ruled out making an offer for the company instead—the board will be in a weaker position now than it was last year, when it evidently resolved to fight hard. In March, management announced that profit guidance had been revised down by about 80%, blaming weakening consumer demand for baseball and softball products and the bankruptcy of one of its US customers. Two weeks later, CEO Kevin Davis was given the boot. The company’s guidance is now subject to a class action lawsuit, of which Roustan is a participant.

Roustan has little time for Davis’s successor, former Yankee Candle boss Harlan Kent, who he believes has been picked because of the board’s commitment to opening dedicated hockey stores (the first of which is still slated to open next year). “Being that the board approved the opening of retail stores, it is understandable that they would hire a CEO that would simply preach to the choir his support for retail stores,” Roustan says of Kent. “The new CEO is not the right choice since he is known as a retail guy who lacks the industry pedigree.”

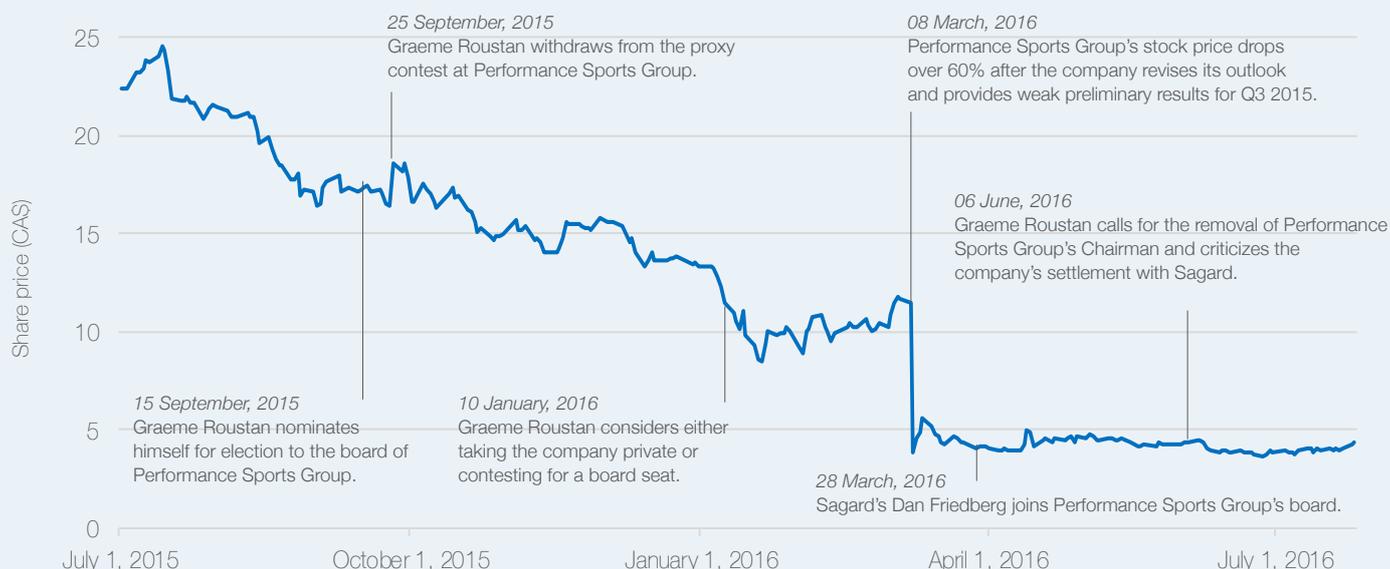
Performance Sports struggles on, but is beginning to have the look of a sinking ship. It settled with another activist, 17% shareholder **Sagard Capital**, but the activist has since parted ways with its nominee, Dan Friedberg. Paul Desmarais, Sagard’s Executive Chairman, has taken his place. In May, the head of its hockey division, Rich Wuerthele, left for a job at his old employer, Newell Brands. Larry Lucchino, a director, quit in July to focus on philanthropic ventures. Debt levels

are now more than twice the company’s equity, having funded a number of acquisitions.

“I believe anyone looking to take the company private will have to take a hard look at the balance sheet, the financial outlook, the strategy of opening big box retail stores and the existing class action lawsuit filed in New York,” Roustan says, which raises the question of why he wants to take the trouble, with this year’s nomination deadline fast-approaching. This elicits a paean to the virtues of hockey, building up to a campaign pitch. “The primary reason I want to return as Chairman is to turn around the company I love, and for the employees I love whose stock options are underwater,” Roustan says.

If Roustan returns to the board having seen his reputation excoriated last September, and succeeds in making a success of Performance Sports, they just might call this a second miracle on ice. 🏒

## Performance Sports Group share price





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