



Fairfax Financial Holdings Ltd. Bets on Retail

Description

Fairfax Financial Holdings Ltd. ([TSX:FFH](#)) CEO Prem Watsa, with the help from **CI Financial Corp.** ([TSX:CIX](#)), has come to the rescue of OMERS Private Equity.

Ontario's pension fund for municipal employees acquired Golf Town, a Canadian retail chain with 55 stores across the country, in 2007 for \$240 million. In 2012 OMERS paid \$97 million for Golfsmith International, a U.S. retail chain with 95 stores at the time, merging the two businesses into a North American powerhouse.

There was only one problem. Golf's popularity would soon be on the decline. Golfsmith International filed for bankruptcy Wednesday in a Delaware court, listing almost \$500 million in liabilities.

It turns out that Fairfax and CI own 40% of Golfsmith's second lien secured notes due 2018, funds that Golfsmith's U.S. business will use to keep the lights on and the business running.

As part of the entire restructuring, Fairfax and CI will partner to buy Golf Town from Goldsmith. No details were released.

However, with more Golf Town stores expected to close, it's likely that Watsa and company paid much less than what OMERS paid in 2007.

While this is clearly a move by Watsa, a la Warren Buffett, to benefit from the troubles OMERS was facing, it definitely sends a signal to retailers everywhere that brick and mortar stores aren't dead just yet.

In recent years, Fairfax has made significant investments in both the restaurant and retail industries. Current holdings include 40.5% (voting control) of **Cara Operations Ltd.**, 51% of **Keg Restaurants**, 100% of Greek home improvement retailer **Praktiker**, 75% of **Sporting Life**, and 100% of **William Ashley China**.

In 2015 Fairfax's restaurants and retail segment generated \$783 million in revenue and \$75 million in net earnings. With the Golf Town acquisition, that number will likely get closer to the \$1 billion mark.

While current revenue numbers aren't available for Golf Town, it generated \$220 million in sales in 2007 (the last year it was a public company) from 28 locations. That's \$7.9 million per store. Cut that in half to account for the deterioration in its business and we're looking at approximately the same amount of revenue—albeit almost a decade later.

Rick Young, who writes about the golf business for ScoreGolf, asked an unnamed industry executive last week whether OMERS would shutter Golf Town if a buyer wasn't found.

"Yes, I think it's a possibility. For OMERS this is just a numbers game. They don't care. They just want out," the executive stated in an article for ScoreGolf's website. "Look, it's been a few years. The golf industry is starting to emerge from the retail funk it's been in. There's light at the end of the tunnel. That's going to come with or without Golf Town."

While it's early days yet and we'll know more soon, it looks as though Fairfax is going bet on Golf Town.

It's just one more reason to own Fairfax stock.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CIX (CI Financial)
2. TSX:FFH (Fairfax Financial Holdings Limited)

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Author

washworth

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