



## Prem Watsa Goes into the Rough on Latest Acquisition

### Description

In mid-September **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)) CEO and founder, along with **CI Financial Corp.**, came to the rescue of Golf Town, Canada's largest and best-known chain of golf-related sporting goods stores.

The golf industry was elated that a man with such a good reputation was riding in on a white horse to save a company that's been struggling of late. Gone are the good, old days when Stephen Bebis, now CEO of **Liquor Stores N.A. Ltd.**, was running the business and growing it like weeds.

Bebis left Golf Town in December 2011; Tiger Woods seemingly left golf after crashing his Escalade into a tree in November 2009. Golf has not the been the same since.

One month after closing the deal to buy Golf Town, Watsa and company announced October 12 that they were putting Bill Gregson in the chairman's seat and appointing Chad McKinnon as president of the 55-store chain.

Gregson and McKinnon worked together at Forzani Group, now part of **Canadian Tire Corporation Limited**, from 1997 to 2008 when Gregson was unceremoniously terminated from his position as president and chief operating officer. Interestingly, that's exactly the same title that McKinnon held until taking this new assignment.

Reunited after eight years apart, McKinnon and Gregson have their work cut out for them. The first task will be to cut the number of stores operating across the country, followed by a hollowing out of expenses to rightsize Golf Town, so it can resume profitable growth.

We all know golf isn't as popular as it once was. **Nike Inc.** recently announced it would stop making golf clubs and golf balls—a business that netted it US\$706 million in 2015, despite being on the wane.

Here in Canada, where we consider ourselves crazy about golf, approximately 5.6 million play the sport. However, according to industry statistics, it's estimated just 26% of those supposed golfers are playing most of the rounds in a given year. In fact, 38% of golfers are playing fewer rounds with only 14% of the 5.6 million playing more.

People just don't have the time to spend six hours (to and from the course and the round itself) on a sport that, for most of us, is simply too frustrating or difficult to play. Time is money.

Bottom line: the game's not growing.

That doesn't mean Prem Watsa and his new appointments can't make this the pride of Fairfax's retail holdings.

Down in the U.S., a lot of courses (both private and public) are figuring out how to drive business off the course, so they aren't overly reliant on the number of rounds played. Many have added fitness clubs and other entertainment facilities, amped up the quality of food and beverages, and generally made their courses destinations rather than patches of grass and water.

So what does Golf Town have to do to survive the sport's slowdown?

That's the million-dollar question.

But reuniting Gregson and McKinnon is a brilliant first move. At Canadian Tire, McKinnon had a great job with a good company and a reasonable amount of job security. Although, if you follow retail, you know the unemployment line is never more than a few steps away. This new gig is a chance for McKinnon to make a name for himself as a turnaround artist—a skill that's always in demand.

A big first step would be to decide who is their true customer.

Is it the guy who plays 60 rounds a summer, or is it the men and women who might play 10-15 rounds in a year if they're lucky and two to three corporate tournaments? There's a huge difference in what each of these types of players is looking for. The 60-round guy wants the tools to get from 80 to breaking par. The 10-15 round player just wants to look good doing it. The latter is much easier to satisfy.

While it's too early to tell whether Prem Watsa has strayed too far into the rough, he's off to a very good start. Ultimately, I have to believe that like most of his investments, Golf Town will be successful—maybe even an IPO.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

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