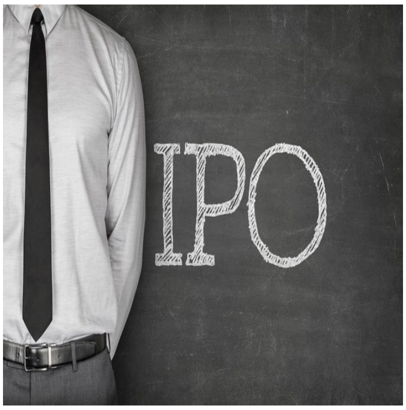

Would Investors Go for a CCM/Bauer IPO?

Description

Sagard Capital Partners, an investment vehicle owned by **Power Corporation of Canada** (TSX:POW) and **Fairfax Financial Holdings Ltd.** (TSX:FFH) announced March 2 that they had acquired substantially all of the assets of Performance Sports Group for $575 million.

On March 8, **Adidas** announced that it was putting CCM up for sale (its TaylorMade golf business has been for sale for almost a year) to concentrate on its own brand, especially in lifestyle apparel, growing online sales, its North American business, as well as the Reebok brand.

That leaves very little time for hockey and CCM.

So, who would buy Canada Cycle and Motor? Well, certainly not **Nike Inc.** (NYSE:NKE)**,** which took a bath on Bauer buying its parent, Canstar Sports Inc., in 1994 for US$395 million and selling it to a private equity group led by former Bauer CEO Graeme Roustan for US$200 million 14 years later.

Nike could never figure out how to leverage the hockey business against the rest of its footwear and apparel empire; it originally wanted to use Bauer as an entry into rollerblades, but that never really took off, so it cut its losses.

Now, Adidas is doing the same with CCM; Adidas acquired CCM via Reebok in 2004 for US$329 million.

It's early in the divestiture process, but Phillipe Dubé, CCM's president, is confident that a strategic buyer will be found in the next few months.

"In the past few months, if not years, I've received so many phone calls about, 'When are you guys going to be on the market?'" he said. "We are an attractive company; an attractive brand for a number of people."

According to the Canadian Sporting Goods Association (CSGA), CCM is second in hockey equipment market share by dollars at 27% — 700 basis points behind Bauer. While Dube believes CCM is catching up to Bauer, the fact that no one other than the Sagard/Fairfax group made a bid for

Performance Sports Group's assets suggests the interest in CCM will also be limited.

"As a potential investor in a product category that requires so much capital for expenses — in terms of product development, prototyping, marketing costs, and licensing fees — is it a good business investment to be in?" CSGA CEO John Savory told the *Globe and Mail.*

You know things are iffy when the head of the CSGA isn't singing a confident tune. It doesn't help that CCM saw its revenue in 2016 decline 14% from a year earlier. This is not a ship that many are going to want to get on.

So, why doesn't the Sagard Capital/Fairfax group buy CCM on the cheap, merge it with Bauer and Easton, take the combined business public, and then start buying up other brands in other sports (K2 is up for sale by **Newell Brands**) that might be suffering from the same malaise?

It's a long-winded question, I'll grant you, but it's a logical one, because despite the fact 2016 was probably the worst year in North American sporting goods retail, there is money to be made in sports, and the new owners of Bauer understand this.

The biggest impediment to my proposed idea is two-fold:

First, the combination of CCM and Bauer would control approximately 61% of the hockey market running afoul of the Competition Bureau. If the two parties behind **Sirius XM** could merge, I think there's a good argument to be made when it comes to hockey.

The second problem is, CCM and Bauer have always had their own loyal followings. When I was a kid, you either wore CCM Tacks or Bauer Supremes. Ultimately, I believe Canadian hockey fans would prefer to see both brands survive, no matter how.

A merger between the two makes sense. How much would a buyer have to pay for CCM? I'd guess no more than US$300 million given the Sagard/Fairfax group paid the equivalent of one times revenue for Performance Sports Group.

Would investors go for a CCM/Bauer IPO? If they can go for **Freshii**, I certainly think they would be willing to invest, especially if there were a plan to grow the platform beyond hockey and baseball.

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