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GOVERNANCE

IN HOCKEY FIGHT, POWER CORP. PLAYS BOTH SIDES

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The former chairman of Performance Sports Group Ltd., maker of Bauer hockey equipment, is calling out what he sees as a governance failure by the company's directors in giving an investment firm controlled by Montreal's Power Corp. a seat on the board.

Sagard Capital Partners Management Corp., a Power-controlled private equity firm, is the largest shareholder in PSG with 17 per cent.

Sagard struck a deal in March to get a PSG board seat, pledging to support the board's nominees for directors at the 2016 annual meeting.

But through a different entity, Power is also a shareholder of Germany's Adidas AG and has representation on its board. Adidas owns CCM, Bauer's chief rival in the market for hockey equipment.

Graeme Roustan says Power's tentacles to Bauer and CCM potentially gives the company, controlled by Quebec's powerful Desmarais family, "conflicted and possibly dangerous access" to each of the rivals' confidential information. He says by bringing Power in as a shareholder and awarding a board seat earlier this year, PSG's board failed to protect the company's secrets.

"They've let the fox in the henhouse," Mr. Roustan said in an interview Friday. "If CCM knows what the Bauer strategy is for the next few years, they can put Bauer out of business. They could destroy Bauer in a second if they got the playbook."

Mr. Roustan, who has had a long-running battle with PSG's current board over its business strategy, has prepared a report on his governance and conflict of interest concerns which he shared with The Globe and Mail. He is calling on Power Corp. to sell its stake in PSG and return all the confidential information it holds about the company. He also wants Bernard McDonnell, PSG's chairman, and C. Michael Jacobi, head of its corporate governance and nominating committee, to resign.

The former chairman's intervention comes at a time of deep turmoil for PSG. The company disclosed this week that it is under investigation by the U.S. Securities and Exchange Commission for unspecified reasons after delaying the filing of its latest annual financial statements. Its audit committee is conducting an internal probe in connection with those statements and has hired outside legal and financial advisers to help.

Business has also been difficult. While the company enjoys tremendous consumer recognition with its Bauer brand, revenues and profits have both dropped this year and former chief executive Kevin Davis left his post in March. Since hitting an all-time high of nearly $26 last year, the shares have fallen more than 90 per cent to $2.33, wiping out about more than $1-billion in market capitalization.

Mr. Roustan is not a disinterested party. He has indicated he would move to buy PSG if ever it was pushed into receivership. He has also tried and failed to rejoin the PSG board, an effort linked to his attempt to get access to a survey of retailers done by Grant Thornton about PSG's business practices. He would not say whether he currently owns shares in the company.

Power Corp. is a diversified international management and holding company that has, through various subsidiaries, investments in financial services and insurance among other businesses. Its representative on the PSG board will be Paul Desmarais III, Sagard's executive chairman and vice-president of Power Corp. and Power Financial – though the firm said this week he will not join the board until its internal investigation is complete.

Power is invested in Adidas through Groupe Bruxelles Lambert, a European conglomerate controlled in partnership with Belgian billionaire Albert Frère. Ian Gallienne, a GBL managing director, sits on the Adidas board. Mr. Frère and the Desmarais family trust had a stake in Adidas above 5 per cent as of January this year and 5 per cent of the company's voting rights, according to the German company's website.

Stéphane Lemay, a spokesman for Power Corp., said that its involvement in the two competing hockey companies does not represent a conflict of interest. While GBL may own more than 5 per cent, "Power's effective, indirect, economic interest in Adidas is less than 1 per cent," he said. A 1 per cent stake in Adidas would be worth about €325-million.

Steve Jones, a spokesman for PSG, did not return a call seeking comment by press time. Anil Shrivastava, a partner at Sagard Capital, declined to comment.

Mr. Roustan stressed that he is not suggesting Power is doing anything wrong. He said the company is free to invest in whatever firms it chooses. But he questions a situation where people related to Power have confidential strategic information on the hockey equipment industry's two main players. And he says PSG made a big mistake in allowing Power in.

"Power's two related employees, Paul Desmarais III and Ian Gallienne, would have all of the non-public and secret business strategies and R&D materials covering 90 per cent of the global hockey equipment [industry] in their hands under the one Power organization," Mr. Roustan says in his research document.