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Lace 'em up! Birch Hill's closing on CCM signals start of PE hockey brawl

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Birch Hill Equity Partners' recent wrap-up of its buy of CCM Hockey signals the start of a potentially fierce contest between hockey brands acquired this year by private equity firms.

Birch Hill agreed in July to purchase CCM from Adidas for US$110 million in cash and a secured note. The Toronto investor told PE Hub Canada the deal closed last month.

A storied, 118-year old Canadian company, CCM began as a maker of bikes and automobiles. Today it is a leading designer and producer of ice hockey skates, sticks, protective gear, goalie equipment and accessories.

CCM has equipped some of the game's best-known players. In 1936, it signed Hall of Famer King Clancy as the first official spokesman. It went on to outfit hockey legends Paul Henderson and Darryl Sittler, as well as contemporary all-stars like Sidney Crosby and Connor McDavid.

CCM became part of Adidas in 2005, when the German sporting goods company took over rival Reebok. Adidas last year decided to sell CCM as part of a restructuring.

Birch Hill declined comment about the deal. At the time of its announcement, the investor said it wanted to build on CCM's "legacy as an iconic Canadian brand" and saw "tremendous opportunity for growth in hockey equipment."

The CCM deal marks 2017's third PE acquisition of one or more hockey brands in North America.

In March, Bauer Hockey owner Performance Sports Group was bought for US$575 million by Sagard Capital Partners, the investment arm of Power Corp, and Fairfax Financial Holdings.

Sagard and Fairfax launched a stalking-horse bid when PSG filed for bankruptcy last October. Numerous PE firms, including Bain Capital, Brookfield Asset Management, KKR and Thomas H. Lee, were reportedly weighing offers for the distressed company, none of which materialized.

The PSG deal was followed in May by the purchase of two hockey equipment makers by Roustan Capital. They included Christian, a stick producer founded in 1964 by Minnesota's Christian Bros. Terms weren't disclosed.

Roustan Capital is the investment firm of Graeme Roustan, who once chaired PSG. In an interview with PE Hub Canada, Roustan said he plans to use Christian as a platform for buying additional brands in the months ahead.

Dropping the gloves

This year's deal-making has created the novel dynamic of top hockey brands competing head-to-head with PE backing.

"It's the first time this has ever happened," Roustan said. "I think we're going to see a real dogfight for market share between the different PE groups."

For the foreseeable future, the main contest will be between Bauer and CCM, which were among the leading vendors in the global hockey equipment market in 2015, according to research firm Technavio. The market, dominated by North America, is projected to grow to US$825 million by 2020.

Of the two companies, Roustan says, the momentum is with CCM, which has reportedly gained ground on the once unassailable Bauer. "I expect Bauer will continue to lose share to CCM and other hockey brands, including Christian," he said.

The competition will be shaped by a number of factors, the most important of which may be patience.

"Private equity firms looking for a five-year investment return are out of luck," Roustan said. "If you want to be in the hockey space, you have to be prepared to invest for 10 years or longer."

A long horizon is key to R&D and related investment decisions, he said. It is also essential to addressing major challenges faced by hockey equipment makers, such as high prices and the game's declining participation rates.

Another emerging challenge will be "concussion-related lawsuits," Roustan said. He expects an increasing amount of legal action to be taken against brands in "the helmet business," the potential costs of which could be substantial.

Roustan will skate clear of this issue in Christian-led deals. The focus will instead be on "money-making lines, the most profitable of which is sticks," he said. Investments will be supported by his firm's ability to hold assets indefinitely.

Roustan Capital was founded in 1990 to invest mostly in hockey and other sports-related opportunities.

To date, the firm's largest deal has been the 2008 partnership with Kohlberg & Co to buy Nike's Bauer division for US$200 million. Roustan chaired the business, later renamed PSG, until 2012, during which time an initial public offering was launched. Roustan was among those exploring a bid when PSG ran into financial difficulty four years later.

Like many Canadians, the Sherbrooke, Québec-born Roustan grew up playing hockey. Since age 14, he has worn the No. 44 on his jersey.

Birch Hill, which invests in domestic mid-market companies, is investing from Birch Hill Equity Partners V, which raised $1.3 billion last year.