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FIRMS & FUNDS

Turnaround deal of the year: KPS Capital Partners and TaylorMade

TaylorMade was buried in the bunker until KPS made a brilliant sand save.

'May thy ball lie in green pastures and not in still waters," golfer Ben Hogan once said.

Sadly, in 2015, leading golf equipment maker TaylorMade was not so blessed. Its owner, sportswear giant Adidas, was in divestment mode and preparing to bid adieu to the brand as a non-core asset. Guggenheim Securities was tapped to shop the company with potential buyers. Despite running a process that lasted almost two years, however, the investment bank came up with few takers.

The reasons were apparent: TaylorMade was in negative territory. Because of a mismatch between its golf business and the apparel-centric strategy of Adidas, it was racking up large operating losses. This was compounded by sagging end-market demand.

"In 2015, golf was in a kind of no-man's land, with no clear growth path," David Shapiro, co-managing partner of KPS Capital Partners, tells Buyouts. A prospective buyer doing due diligence on TaylorMade "had to have a strong stomach."

KPS, a control investor in manufacturing and industrial sectors, looked past these challenges. "We saw a very good company and very good management tucked away in a large organization," Shapiro says. "We had a conviction about what KPS could do with TaylorMade, to let the brand shine through."

In May 2017, the firm agreed to buy TaylorMade for $425 million, less a working capital deficit. Closing in October, the deal consisted of $155 million of cash plus a seller note, an earnout and assumed liabilities.

From carve-out to turnaround

For KPS, which has completed some three dozen carve-outs, disentangling TaylorMade from Adidas and establishing it as a standalone was particularly long and complex. Beginning in early 2017, proceedings ran until late 2018.

In that period, KPS first extracted TaylorMade and separated out apparel assets that Adidas wished to retain. It also restructured the business, introducing a new ERP system, rebuilding finance and accounting, forming new sales and distribution infrastructure in 14 markets, exiting US retail outlets and consolidating distribution centers.

An overarching restructuring theme, Shapiro says, was shifting TaylorMade to a focus on cashflow and profitability from a prior emphasis on revenue growth, irrespective of profits.

KPS next undertook a series of initiatives to further revamp TaylorMade. Working with management led by CEO David Abeles, it optimized the cost structure, including reducing and redirecting marketing spend.

In another cost measure, sponsorships were reduced. TaylorMade previously had contracts with more than 400 pro golfers. That number was cut to less than 100 high-profile golfers who could help drive sales, such as Tiger Woods, Dustin Johnson, Rory McIlroy and Collin Morikawa.

Targeted sponsorships were key to an expansion of TaylorMade's digital platform, as players like Woods have legions of social media followers, which brought in younger consumers.

In addition, new product development was revitalized in golf clubs – particularly metalwoods and irons, a long-time TaylorMade specialty – and in underpenetrated categories. Among the latter was golf balls, given fresh priority through stepped-up R&D, productive capacity and marketing.

Finally, attention was paid to regional initiatives that enhanced the company's presence in big markets such as South Korea, Japan and Europe.

In executing the strategy, KPS did not bet on stronger demand but instead aimed "to make a go of it even if there was no growth," Shapiro says. As it happens, there was explosive growth in 2020 prompted by covid-19, which encouraged people to go outside and enjoy a sport conducive to social distancing. The result, Shapiro says, was "a surge in golf equipment sales."

TaylorMade's sale to Centroid

Combined strategic initiatives transformed TaylorMade, which today is playing its A-game. During KPS's ownership, the company regained leadership in metalwoods, while its golf equipment and ball market share rose to 22 percent from 17 percent.

Revenue grew across the board, tripling in the case of golf balls and e-commerce. Revenue by geography increased 140 percent. Overall revenue hit record levels, totaling nearly $1.3 billion last year. TaylorMade also saw record profitability, with adjusted EBITDA going from negative $7 million at acquisition to approximately $200 million in 2021. Its valuation jumped 342 percent.

Last August, KPS sold the business to South Korea's Centroid Investment Partners for $1.71 billion. It earned 19.1x cash-on-cash and a gross IRR on equity invested of about 115 percent, sources say. On a total capital invested basis, the firm realized 8.8x cash-on-cash and a gross IRR of about 77 percent. Shapiro declined to comment.

TaylorMade is now positioned to go further, Shapiro says. The newly acquired stature in golf balls, for example, allows it to vie for the top spot. "I see no reason why TaylorMade won't eventually go head-to-head with Titleist."

The Winning Numbers: KPS Capital Partners

$425m
Price tag KPS paid for TaylorMade in 2017

22%
TaylorMade's recent market share in golf balls and equipment, up from 17%

$1.3bn
TaylorMade's overall revenue last year