

Exclusive

Opponents of MEC sale in talks with backers for last-ditch bid to keep retailer a co-op



A MEC store is seen in Vancouver, B.C. on Tuesday, September 15, 2020. 📷 The Canadian Press/Jonathan Hayward



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VANCOUVER — A group challenging a private-equity takeover of MEC is in discussions with potential backers for over \$100 million

in funding—including a possible sale of the outdoor retailer’s real estate holdings—as it races to put together a rival bid that would see it remain a co-operative.

Save MEC, the group working to thwart the proposed sale, says it needs more time and access to MEC’s confidential financial information before it can finalize its offer. A lawyer representing it will make that claim at a Monday court date, which could end with an adjournment in the group’s favour, or an approved sale and the end of the co-op.

Talking Point

The group working to thwart a U.S. private equity firm from taking over MEC is in discussions with potential backers that may buy the retailer’s roughly \$90-million in real estate and others to provide millions of dollars more in funding so it can stay a co-operative. Save MEC is scrambling to put their proposal together ahead of a Monday court date where a judge could decide to grant its request for a two-week adjournment or approve the sale to Kingswood Capital Management.

“What we’re doing right now is working feverishly ... to pull together a large number of people who have expressed interest or who would like to express interest if they could look at the data room and look at the books,” said Kevin Harding, a spokesperson for Save MEC.

“And in my assessment, the organizations and the people that are actively working with us have the resources to be able to pitch

something that would save the co-op,” Harding said in an interview with *The Logic*.

MEC, however, says it already considered every possible alternative before **announcing** last week it selected a relatively small U.S. public equity firm, **Kingswood Capital Management**, for the takeover that some worry will sell off the company’s estimated \$90 million in real estate value, despite assurances it plans to keep the most stores open, with at least 17. The co-op **debated** turning to its 5.8 million members months ago, court documents revealed Thursday, but deemed that model “impracticable to impossible” considering the sum of money needed to keep MEC’s lenders happy and the co-op afloat.

The retailer wants a judge to approve the deal, which is working its way through the creditor protection process, early next week—to the chagrin of counsel representing some members, who plan to ask the court for a two-week adjournment to give their clients time to finalize their arrangements.

Save MEC formed a finances working group of 17 volunteers with professional backgrounds and experience in co-op matters that has co-ordinated the effort to reach out to co-op and credit union leaders to secure funding and other measures, according to a document filed with the court Friday.

The document cites some potential partnerships in particular as being among the “most definitive sources of funding thus far,” contingent on a review of the company’s confidential information that was presented to parties making serious offers in the initial bidding process that led to the Kingswood deal.

An anonymous group "have been in discussions" to purchase MEC's real estate assets for about \$90 million. (The court-appointed monitor's report recently pegged the value of MEC's six stores and one distribution centre at nearly \$90.4 million). That group also may provide MEC an operating loan, according to the documents.

Additionally, the group has "a serious statement of interest from a group of socially progressive investors to raise and provide approximately \$15 million to \$20 million in the form of an appropriate debt instrument."

Before *The Logic* obtained the documents, Harding—who would not speak to the dollar amounts individual backers have committed—said Save MEC's proposal could hypothetically include creative solutions such as issuing investment shares for such funding.

Brim Financial, a North York, Ont.-based credit card company, has also offered to generate \$7 million to \$10 million of additional income through a credit card rewards program.

Multiple people have offered to contribute at least \$1 million each to the Save MEC bid, for a total of almost \$20 million, said Jon Shell, an entrepreneur and managing director of Social Capital Partners who is familiar with the work on an alternative offer before the new document was released.

Two sources with direct knowledge of the would-be alternative bid, whom *The Logic* agreed not to name because of the sensitivity of the negotiations, said among the bid's backers is one high-net-worth individual who has committed \$15 million.

The alternative bid could also include financial institutions and members of MEC's supply chain, said Shell.

Save MEC is holding high-level discussions with executives of credit unions, including Vancouver City Savings Credit Union—also known as Vancity—and banks like Concentra, said lawyer Colin Gusikoski in court Thursday.

Vancity confirmed in a statement to *The Logic* that it is considering joining the effort.

“MEC is one of Canada's most important member-owned cooperatives, and we care deeply about its future. We are listening to various options and proposals from different parties, however, we have not made any decisions at this time to intervene in the decision taken by MEC,” it said.

Vancity also said it had met with MEC's financial advisers earlier this year about credit for loan repayment and emergency working capital, but was not able to provide the kind of support MEC required.

Concentra declined to comment.

MEC did not immediately respond to a request for comment on the new bid.

However, the company's leadership has previously dismissed member efforts to raise funds for an alternate offer.

That “does not seem to appreciate the gravity of MEC's financial difficulties,” said board member and special committee chair

Robert Wallis in an affidavit made September 22. The company requires its credit facility to be paid, as well as a “significantly higher” amount for future operating losses and capital expenses.

Financial details of the Kingswood offer have not been disclosed; however, newly filed court documents suggest a sale price range of between \$148 million and \$150 million.

Harding and Shell couldn't comment on what price the alternative proposal may offer.

“It's all contingent on being able to see the data,” said Harding.

A number of interested people and organizations need to know MEC's core business reality before committing, he said, lamenting that members were not involved in the decision-making process that MEC started months ago, only learning about the proposed sale on September 14.

“If we had known about this earlier, we could have been at the table with them and building the solution that we're pulling together on such short notice,” he said.

In the court document filed Friday, Harding and other members claim the board “has oppressed or unfairly prejudiced” them through the proposed sale and that they were unfairly denied participation prior to the creditor-protection proceedings.

“The Members stand to be the primary losers in the proceedings,” the claim reads, arguing they will suffer a loss of more than \$190 million, according to financial statements, if the deal to privatize the company goes through.

Lacey Chyz, a Save MEC organizer, said volunteers have sent formal requests to co-ops and credit unions and other financial institutions across the country, asking them to support an alternative bid. “We’re looking for letters we can attach to our affidavit that would demonstrate that credit unions and co-operatives can band together, and that a leader at their organization with financial experience is willing to examine the situation, that they would support a credit union- [and] co-op-member-led rescue of MEC, and that they may be willing to contribute some funding,” said Chyz. “This is not a legal obligation to save MEC; it’s just a recommendation or a commitment to investigate saving MEC.”

Separate from the alternative purchase offer, three organizations representing co-ops in Canada planned to submit a public-interest filing to the court on Friday, asking for it to consider whether MEC’s proposed sale to Kingswood violates co-op laws.

“One of the key principles of co-operatives—it’s enshrined in law across the country—is that members have the ultimate say in what happens to a co-operative, regardless of what the initiative is,” said John Kay, president of Co-operatives and Mutuals Canada (CMC), which is submitting the affidavit along with the BC Co-op Association and the Alberta Community Co-operative Association. “The proposed sale did not involve the participation of the membership of MEC, and that is a serious concern for the co-operative sector, and certainly for CMC as the national representative.”

MEC maintains the process was fair and above board. It claims it could not have informed members about the search for alternative

solutions, including a sale, without hurting business operations and impacting the search for a buyer.

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The company and its lawyers, as well as Kingswood, want to see the sale approved quickly—ahead of the all-important holiday-shopping season.

But Harding is trying to buy more time and access to MEC's documents so his group can finalize their counteroffer.

“Without the two-week adjournment, this is sold on Monday.” 

MEC considered an appeal to its members for a bailout before it agreed to a private equity deal

By Aleksandra Sagan

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By Aleksandra Sagan

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