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Apparel Industry Awaits Hartmarx Bidding Outcome

By: Harry Sheff

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CHICAGO—Only one of the three known bidders for bankrupt Hartmarx appears to intend to keep the company in one piece, and that has many in the apparel industry nervous. The breakup of Hartmarx could mean lost jobs, closed factories and unpaid creditors.

The bid that the industry seems to be pulling for comes from second place bidder Emerisque, a London-based group that boasts expertise in turnarounds. The Emerisque bid has no contingencies.

Leading bidder Mistral Equity Partners, by contrast, has contingencies and a record that suggests it would not keep the company intact.

"[Mistral] likes brands, they like labels, and they believe that the sum broken up is more valuable than the whole—that's somewhat their track record," says Jack Hendler, president of the consulting firm Net Worth Solutions, referring to the company and its partner, Jay Schottenstein. "There's no question that Emerisque, with their desire to keep the company as a whole, even keep the U.S. manufacturing facilities, it's certainly going to be a win-win for the U.S. employment world, the U.S. economy and the brands to be kept as a whole than with things being busted up, sold off or rented off. If you look at Mistral's past, those are some of the things they would do."

Mistral's strategic partner, the Schottenstein Family of Companies, is led by Jay Schottenstein, who holds board chairmanships on American Eagle Outfitters and Retail Ventures. He is the CEO of DSW, the remaining division of Retail Ventures, which just sold Filene's Basement. It's Schottenstein's record that concerns most observers; Mistral has only one acquisition under its belt so far in snack food company Shearer's Foods, Inc.

One industry consultant, who preferred to remain anonymous, expressed anxiety about Mistral's contingencies. "If you put in the bid without a lot of due diligence, it's an easy way to be able to say later, 'oh, well I didn't know that, so my bid is coming down.' And in the meantime, other legitimate bidders have gone away because they've spent a lot of time and money."

Bill D'Arienzo, CEO of WDA BrandMarketing Solutions, explains why some observers think splitting the company up would be a bad idea. "If you take the best brands that Hartmarx has and refine the strategies, they're complementary, and so you have synergies," he said. "Those synergies give each of the brands strength, and if you divide the brands and distribute them to the highest bidders, you lose those synergies. In addition, you lose an American icon in Hartmarx Corporation itself."

An Emerisque win would also be good news for Hartmarx's unsecured creditors, which would rather see the company stay in business.

Hendler said, "It's really going to become a question of: do they go for the high bid and the company gets dismantled (with many contingencies, that might not happen), or do they go for the quality bid with no contingencies and the company and the people stay in place. So I think there's a moral piece there also, obviously."

The third-place bidder, Yucaipa, is a Los Angeles-based firm founded by supermarket billionaire Ron Burkle. Yucaipa's bid also has contingencies.

Hartmarx may pick a "stalking horse," or most favored bidder, as early as Friday, April 24. The bankruptcy court would likely rule on the "stalking horse" bid decision on Monday the 27th.