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Middle-market fashion M&A still in vogue

By Suzanne Stevens

While M&A in most industries is so last season, the fashion world remains a hot spot for deal activity. At least that's the experience of the investment bank Net Worth Solutions Inc., whose fashion and retail clients post sales in the \$50 million to \$250 million range.

"Our deal volume is about the same as it was two years ago," says Net Worth president Jack Hendler. "But two years ago about 70% of deals went to private equity. Now that's swung back to the strategic market" -- though, he says, private equity firms have begun calling again over the past month.

The distressed-to-healthy-client ratio has also flipped. Precredit crunch, about 80% of clients were healthy, says Hendler. Now the majority are distressed. And certainly, overall market volatility has changed the way deals are being negotiated. One change says Hendler is that Net Worth is leaving a company's 2009 performance out of the equation when calculating earnouts.

"In deals in our space, 70% to 75% have a down payment in cash plus a three-year earnout. We've eliminated the 2009 Ebitda calculation on the earnout. And we haven't had to fight hard to do that," says Hendler, who adds that buyers, sellers, deal lawyers and other stakeholders all recognize that 2009 performance may not reflect future value.

While distressed deals dominate, transactions involving healthy fashion industry sellers are getting done, particularly in the small- to middle-market space. Most recently, Net Worth facilitated the sale of Cappelli Strawworld, a maker of women's hats and accessories, to Dorfman Pacific, for an undisclosed amount. Cappelli was a typical Net Worth client: a third-generation family-run business with no successor.

Looking forward, Hendler expects the fashion sector to stabilize in the short term with growth coming soon. "Fashion is emotional. By 2010, if things don't get a lot worse, people will start buying again."