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## **Will retailer gains drive M&A?**

By Suzanne Stevens

As retailers gear up for what they hope is a busy holiday weekend, the market is celebrating the gains achieved by some leading companies. In the first quarter, Sears Holding Co. (NASDAQ:SHLD) earned \$26 million, compared to a \$56 million loss in the same period in 2007; Aeropostale Inc. posted net income of \$31.7 million, up from \$17.5 million in 2007; and Gap Inc. (NYSE:GPS) managed to top Wall Street expectations by a penny, despite seeing earnings dip to \$215 million from \$249 million a year earlier.

On Thursday, we noted how M&A in fashion has held steady, particularly as small and mid-sized retailers struggle against the double whammy of heavy debt and sluggish sales. As Jack Hendler, president of the fashion-focused investment bank Net Worth Solutions Inc., told us, there are a lot of distressed companies and brands being shopped around.

Now that some retail giants are showing signs of recovery, will we see them scooping up bargain-priced assets? Probably not in a big way. As Hendler mentioned, many of the retailers that are buying are looking to diversify their businesses, improve distribution networks or pick up a solid brand or two. Those are not strategic gaps that well-established retailers likely need to bridge. Plus, after long stretches of cutting costs, restructuring and aggressive inventory management, it will take some time before acquisitions become a priority for retailers such as Sears and Gap.