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By Whitney Beckett

NEW YORK — It's a buyers' market.

Ellen Tracy's new owners, William Sweedler and Jamie Salter, said they are approached by seven to 10 companies a week that are being squeezed by creditors and are looking for immediate investment.

"Every day there is a deal," said Salter, chief executive officer of Hilco Consumer Capital and co-chair of Fashionology and Brand Matter. "There are an enormous amount of labels that aren't necessarily doing badly, but that are being squeezed by their banks."

Perhaps countering his interest as a buyer, Salter offered advice to potential sellers: Wait.

"I would not be a seller today," Salter said. "If you can wait out the next two years, the world will be better then and you'll get twice as much for your company. But most sellers contacting us are selling because they are desperate or tired."

Sweedler, chairman and ceo of Windsong Brands LLC and Salter's co-chair in Fashionology and Brand Matter, characterized most of the deals taking place today as "distressed," and said that, as buyers, he and Salter are focusing on companies with strong brands.

"Because companies' expectations have come down on price, it's easier to do deals of under $500 million," said Sweedler, adding that deals valued at $1 billion or more have become tougher as credit lines dried up.

Both men spoke earlier this month as part of a panel on "What You Need to Know About Buying and Selling Apparel Businesses," hosted by the investment firm Net Worth Solutions Inc. and the law firm Dreier LLP. Dreier's Paul Traub hosted the panel, which also included Net Worth Solutions president Jack Hendler, Steven Gusky of Dreier and Nicholas DeMarco, director and chief operating officer of Active Brands International.

Sweedler and Salter partnered two months ago and said they could even combine their separately owned brands, which include Halston, into their shared companies. Fashionology, their $200 million operating company, has moderate (Caribbean Joe) and bridge (Ellen Tracy) offerings.

"Our goal is to fill out in non-competing areas so we run the gamut from moderate to designer," said Sweedler, adding that the company is in talks with two potential acquisitions.

They said they look for companies that can be immediately helped by appropriate management. For example, easy changes include reducing working capital. Salter cut Caribbean Joe down to a third of what it had been within nine months, to $16 million from $5 million, decreasing the reliance on letters of credit for production (Ellen Tracy's had been 100 percent) by reducing the number of sourcing vendors and negotiating with them to increase their business if they increase the lines of credit. They also boost marketing, even partnering with marketers such as David Lipman for Ellen Tracy to give share incentives for the brand to turn around.

As Sweedler and Salter add brands to their portfolio, they consolidate finance, distribution and

information technology, but other areas remain separate to each brand, Sweedler said. He criticized the way the traditional consolidators — naming Liz Claiborne Inc., Kellwood Co. and Jones Apparel Group — had combined the companies they bought and had hurt the individual brands' DNA.
"Because companies' expectations have come down on price, it's easier to do deals of under $500 million."
— William Sweedler, Windsong Brands LLC
"Because our background is in branding, we think anything in front of the curtain — anything that has to do with the touch, feel, production of the brand — can't be consolidated," said Sweedler.

They described their "secret sauce" for determining the value of companies they might acquire.

"Part of the sauce is our relationships throughout the world, which help us anticipate value," Sweedler said.

For example, they are looking at the French ski brand Rossignol.

"We want to shut it down and run it as a complete licensing company," Salter said. "We call retailers and say, 'How much would you give us for each category?' You write down all of the numbers from all of the retailers, and you get X and say five times X, so I can afford to pay Y. But other people are doing this, too, and you have to make sure you have these relationships so you get honest answers and so that they will follow through with the deal if you get it."

Hendler agreed that valuations are about more than earnings before interest, taxes, depreciation and amortization. He added other factors to the list: channels of distribution, volume per channel, percent dilution, growth opportunities through brand extensions, sourcing relationships, royalty revenues, the tier a brand occupies and sales volume.

"It's very possible that even companies that don't make money could have value when strategically merged and the company could become profitable," Hendler said.

He also told private label company owners not to despair. "We are seeing a lot of strong balance sheets and performance, even with private label companies," Hendler said. "Brands aren't the only thing in the world. Private labels seem to have found a place in the marketplace as consumers look for price and value."

To prepare a company for sale, Gusky recommended cleaning up a brand's trademark portfolio, making sure licenses are in good order and checking the ability of leases on retail and showroom space to be transferred.

One of the classes of buyers to consider is the Asian sourcing company looking to buy its way into the American retail scene.

"Chinese manufacturers have grown to the point where they are dominating industries that don't want to be at the bottom of the totem pole," Sweedler said. "They want brands. They will be our competitors. Or they could be our partners."

DeMarco pointed out that a Chinese manufacturer's multiple on the local stock exchange would be three to five, "but if you get into an American retailer, you jump to a multiple around 18 — that's a big incentive."