

Gottschalks Gets \$30M Investment

by [Evan Clark](#)

From [WWD Issue 09/24/2008](#)

Gottschalks Inc. is teaming with Everbright Development Overseas Ltd. — giving the China sourcing specialist an equity stake in return for an initial \$30 million investment.

In addition to boosting the Fresno, Calif.-based Gottschalks' finances, the arrangement might signal that the weakening stock and credit markets will make it easier for foreign companies seeking a U.S. presence to make a move.

According to a letter of intent disclosed Tuesday, the deal is expected to be completed in the third or fourth quarter. It would consist of \$10 million of newly issued shares, amounting to 29 percent of the company's stock outstanding; a \$20 million convertible secured note that can be changed into shares, and warrants to acquire additional stock. The initial investment would eventually give Everbright control of just over half of the company's shares.

"It's critical that we make the decisions today that will allow the company to thrive in the future," Jim Famalette, chairman and chief executive officer, said in an interview.

The capital infusion and relationship with Everbright could help the department store change its business in dramatic ways. For instance, Famalette said the deal would help Gottschalks boost its private brand penetration, which is less than 10 percent.

"Those major brands that we carry and have carried for many years will continue to be critical to the store," he said.

The deal would also open other options, clearing the way, for example, for consignment arrangements that would add additional product categories.

"This would allow us without taking a huge amount of risk to possibly go back into a limited electronics business, but yet not owning the inventories," Famalette said.

Years ago department stores ceded the electronics business to big-box retail specialists and ended up giving up valuable foot traffic.

Everbright is based in the British Virgin Islands and was founded by Guangying Wang, who in the early Seventies served on China's economic growth council and later as vice chairman of the People's Assembly. Wang's daughter, Mi Wang, serves as chairman.

American fashion retailers have long appealed to foreign investors — Dubai-controlled Istithmar purchased Barneys New York last year — but it's unusual for overseas import companies to buy into U.S. retailers and supply them.

“It’s the perfect time for foreign investors to come in and buy U.S. distribution,” said Jack Hendler, president of Net Worth Solutions Inc., a consultancy that helps connect buyers and sellers.

Hendler said he had been retained by a billion-dollar foreign producer to try to acquire the bankrupt Mervyns chain or another retailer. He declined to discuss specifics.

The lack of financing, spurred by the credit crisis shaking the U.S. economy, is helping ease the way for foreign firms looking to make a U.S. play.

“It’s perfect for Chinese as well as [South] Koreans who have always looked,” Hendler said. “They have the capital and they have the sourcing. Regional chains and department stores clearly are very attractive. Their product is diverse, the trademark and identity are there, the real estate in some cases might be owned.”

Gottschalks’ deal help drive its stock up 8.7 percent, or 12 cents, to \$1.50. Over the last year, the stock has traded as high as \$5.94 and as low as \$1.24.

Under the terms of the letter of intent, the principal amount on the secured notes, \$20 million, plus any accrued but unpaid interest could be converted into Gottschalks common stock at \$1.80 a share.

Everbright could use the warrants to acquire as many as 60 million Gottschalks shares if the sourcing firm opted to give the retailer \$120 million in cash or transfer the retailer’s real estate assets and if certain other thresholds are met, such as the stock trading at \$6 or higher for two straight months.

The two firms would also establish a direct sourcing program with a network of Chinese manufacturers.