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## **A Contemporary Future: Perry Ellis Ups Women's By Buying C&C, Laundry**

By Whitney Beckett

Men's wear firm Perry Ellis International is breaking back into the women's apparel business by buying C&C California and Laundry by Design from Liz Claiborne Inc. for \$37 million.

Perry Ellis' purchase of the two brands from Claiborne comes as the \$4.99 billion vendor decided to shutter better label Sigrid Olsen and keep urban brand Enyce. Perry Ellis is also in the bidding for at least one of Claiborne's remaining five brands under review - Ellen Tracy, Dana Buchman, Prana, Kensie and Mac & Jac - although Perry Ellis chairman and chief executive officer George Feldenkreis declined to name which one.

"We like to be niche players, and contemporary is the only area in the women's business that is selling," said Feldenkreis. "Having a women's platform now, it will be easier for us to make acquisitions. We made an offer for some of the other brands, which are still in negotiations with several other companies. We will get one of them probably."

Perry Ellis plans to combine its two acquisitions with the Original Penguin brand to create a contemporary business platform - and an entre into women's.

In a conference call Tuesday morning, Feldenkreis said Perry Ellis has long been trying to return to its flagship brand's roots in women's, and it has been evaluating brands to acquire. It expects sales from the two acquired brands to be flat around \$60 million this year, but then for the next five years, it expects double-digit annual growth. Perry Ellis could also use the platform, including staff that it plans to retain, for additional acquisitions and for developing a women's side for the Perry Ellis brand over the long term.

That wouldn't be the company's first attempt to relaunch a higher-priced Perry Ellis women's wear line. Three years ago, it shuttered the Perry Ellis Signature collection designed by Patrick Robinson even though the line generated strong buzz among the fashion press and retailers.

Perry Ellis financed the purchases of C&C California and Laundry through existing cash and borrowings under its existing credit facility. The amount is subject to inventory adjustment - Perry Ellis anticipates \$40 million worth of inventory - with Claiborne retaining approximately \$5 million in net working capital. The transaction is expected to close Feb. 4.

Feldenkreis added that one of the reasons Claiborne chose his company as a buyer is the approximately 75 employees who work for the two brands, almost all of whom it plans to retain when it forms its women's platform, which will be run under the Perry Ellis umbrella. But one employee notably will be missing: Trish Wescoat Pound, whom Claiborne hired to lead Laundry's design team in October 2006, left at the end of last year after the company said it would be closing Laundry's sportswear division, according to a Claiborne spokeswoman.

Perry Ellis plans to keep Laundry's and C&C's New York and Los Angeles showrooms.

Claiborne acquired Laundry in 1999 for about \$45 million when the brand had about \$100 million in volume, projecting it could increase to \$250 million. Perry Ellis estimated Laundry did \$30 million in revenues last year. Laundry has seen a lot of changes in the last 18 months. Wescoat Pound took over as president of the brand, which changed its name from Laundry by Shelli Segal to Laundry by Design. She moved the headquarters to New York from Los Angeles and expanded the design team to 24 people from eight. Claiborne closed the brand's three stores last

year and the line relaunched last summer, divided into contemporary occasion dresses under the label Laundry by Design, lbd for sportswear and lbd Beneath for lingerie and loungewear.

Perry Ellis plans to expand Laundry internationally and add licenses this year and sportswear in 2009, after improving the performance of the dress business.

Former actresses Cheyann Benedict and Claire Stansfield (who left C&C in 2006 and 2007, respectively) formed C&C California as a niche T-shirt brand in 2003 and increased sales to \$21 million the following year. Claiborne bought the Los Angeles-based brand in 2005 for \$28 million. Perry Ellis estimated C&C California's annual revenues for 2007 at \$23 million, saying that it "has enjoyed double-digit growth since it was acquired by Liz Claiborne in 2005," with a peak in 2006 at more than \$30 million, according to Feldenkreis, who noted that uncertainty about the brand's ownership had hurt sales in 2007 and 2008.

Perry Ellis plans to add C&C licenses and expand the children's business this year. It also expects to use its expertise to increase the men's side, which the brand has just tested, eventually developing it into a \$10 million business. Perry Ellis expects that the acquisition of the two brands will have no impact on fiscal 2008 and accretion of 8 cents to 10 cents in fiscal 2009.

"The fact that [Claiborne] announced the brands were up for sale had an effect on how the retailers view them and affected their sales last year," Feldenkreis said. "The current year will still be affected, but toward the end of the year, we will see improvements."

Feldenkreis expects to succeed where Claiborne didn't through better sourcing and design, additional product categories and increased attention - Claiborne chief executive officer William L. McComb's own reasoning for selling the brands. "We will have a more focused approach than Liz Claiborne was able to," Feldenkreis said. "It's a company that does close to \$5 billion in sales, and these were small brands to them. We are only a \$1 billion firm, so those numbers for us are multiplied by five."

But even as it sells off brands, Claiborne continues to reevaluate those it has put on the block. Its decision to keep Enyce stemmed from a lack of adequate offers. "There were plenty of bids on Enyce, but none that would deliver the value to shareholders that competed with our internal investment plan," McComb said. "We had a line that we drew: The bids needed to achieve a certain threshold because it is a profitable business with capital-efficient profitable growth prospects."

Claiborne will house the urban label under its partnered brands division and further invest in the brand, which will continue to be run by Enyce president Carmine Petruzello. He readily admits the urban market is facing challenges, but he has a plan: invest in advertising and e-commerce; adjust to a less baggy fit; reduce suggested retail prices by about 15 to 20 percent; pull back on product for 2008 to match supply with demand, and expand the RSRV line, which launched in top urban specialty stores in September. The brand is still in more than 1,000 doors, though it lost its number-one customer, D.e.m.o., with its more than 150 doors that are closing. "Streetwear has been very difficult for the last six to seven months," said Petruzello. "While the streetwear market is maturing, Enyce has the opportunity to grow its market share with existing customers."

Enyce, which analysts estimated at more than \$100 million in wholesale volume, began as a men's brand in New York in 1996, founded by Evan Davis, Lando Felix and Tony Shellman, and three years later launched Lady Enyce. Claiborne bought the urban brand in November 2003 for \$114 million.

Since Kellwood Co. bought Phat Fashions in 2004 and Iconix Brand Group Inc. bought Rocawear last year, the urban market has taken its hits. Even though analysts note that Enyce is performing well in the channel, the category may just be too tough for anyone to succeed.

"If you are following what is going on in the hip-hop market, it's really tough across the board," said Jennifer Black of the firm that bears her name. "They [Claiborne] do a great job with Enyce, but the whole landscape for that market is changing. Those kids who were shopping in that space are moving on to something else."

After not receiving an adequate bid for the Sigrid Olsen trademark, Claiborne decided to shutter the better brand and its 54 stores by the middle of the year. The company will likely keep up to a dozen of the doors for its direct brands, Juicy Couture, Lucky Brand and Kate Spade. Claiborne expects to incur cash costs of \$17 million to \$22 million from the closures. "Sigrid was a tough decision. We're keeping our options open with the trademark - it remains in the arsenal," McComb said, declining to comment on specific options for the brand or a timeline.

Designer Sigrid Olsen founded the brand in 1984 and sold an 84.5 percent stake to Claiborne for a reported \$54 million in 1999, when sales were said to be about \$60 million. The product has suffered design issues for about three years, and last year it replaced its design and management team in the last quarter - but that was apparently not enough to attract a competitive offer. Sources said buyers had placed bids, but only around \$9 million.

**Jack L. Hendler, president of Net Worth Solutions Inc., a New York-based mergers and acquisitions firm, had originally been involved in the deal to sell Sigrid Olsen to Claiborne. "The reason Liz was interested in Sigrid was they loved Sigrid's design style - she was one of the first women's casual separates - and that she was in more than 3,000 specialty stores with zero department store sales," Hendler said, noting it was doing \$67 million in wholesale volume at the time of the sale. "Then they put it in every department store, and every specialty store dropped it. It's a shame they tampered with something very successful, and now it's come to this."**

Edward Jones 3rd, who was the ceo of Sigrid Olsen from 1994 to 1999, said he recently bid on Sigrid Olsen in his capacity as chairman of Jones Texas Inc., a private brand development company. "It was a missed opportunity," he said. "I tried very hard for six months, and just before Christmas, we weren't able to come to terms. I'm very disappointed."

In September, Claiborne completed Phase I of its brand disposal program, similarly mixing the fates of its seven moderate labels. It dissolved First Issue, folded Stamp 10 and Tint into its Axxcess and Liz & Co. lines and sold Emma James, Tapemeasure, JH Collectibles and Intuitions to Li & Fung USA, a subsidiary of Li & Fung Ltd.

The five remaining brands - Ellen Tracy, Dana Buchman, Prana, Kensie and Mac & Jac - may share similar futures. Sources have said Claiborne is considering keeping Dana Buchman to license to a retailer, while it plans to sell Ellen Tracy to a consortium of buyers led by Windsong Brands and the Radius Group, with other investors including American Capital Strategies Ltd. McComb has said in the past that, of all the brands, he would be most likely to keep the active company Prana, which has opened its first two retail doors since Claiborne put the brand on review status this summer.

"We always said from the beginning we were really open to all options," said McComb, confirming the remaining five brands will also likely share in the mixed fates of sale, closure and keep, as the decisions are announced by the end of the first quarter.

Even though he admits retailers have conservatively bought all the brands that were publicly under review, McComb stands by his decision to announce on July 11 that Claiborne was selling 16 of its subsidiaries. "There was no other way to go about it - you have to be up front and transparent with your people," McComb said. "We had to be very clear about what our future is about and what our strategy is. There's not a way to do that quietly."

Marc Cooper, managing director at investment banking firm Peter J. Solomon Co., observed, "Getting any deal done in the apparel sector these days is tough, so the mere fact they got it done is an accomplishment.

On Tuesday, Claiborne stock slid 9 cents to \$18.37. Perry Ellis stock closed down 26 cents to \$13.61.