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Reshaping Claiborne: Liz Faces Challenges Selling Off 16 Brands

By Whitney Beckett

After a decade of frenzied acquisitions, Liz Claiborne Inc. is having a garage sale of many of its brands. The question is: Will there be any buyers?

The group has put 16 of its subsidiaries under review - from Dana Buchman and Ellen Tracy to Emma James and Tapemeasure. The hope of Claiborne chief executive officer William L. McComb is that the company sells them all by the second quarter of 2008, which will depend on whether it gets its "preliminary idea of price."

"The biggest thing is whether we will be able to get competitive prices," McComb said. "There's a point where it's more valuable to keep a brand."

McComb is likely to discuss the review today when Claiborne releases its second-quarter earnings, which analysts are expecting to be weak. But there is little doubt Claiborne won't keep any of the 16 companies. And as the sale process drags on, observers wonder how much more these brands will wither on the vine waiting for white knights to snap them up.

At its much-anticipated July Investor Day, McComb, who took his post in November, outlined his vision for the \$4.99 billion firm, which meant focusing time, talent and funds on "power brands" Kate Spade, Juicy Couture, Lucky Brand and Mexx, while closing, selling or licensing the not-so-sweet 16 other brands. This new phase marks a sharp divergence from the last decade under Paul Charron's acquisition-happy, diverse portfolio strategy.

Analysts are less concerned the brands bring a good price than they are that Claiborne just gets rid of the subsidiaries, which collectively do \$800 million in revenues but run low-single-digit negative operating margins and drag down the company average.

"As investors, we don't care if the brands actually sell - everyone just assumes they aren't going to get sold," said Brad Stephens, a retail analyst at Morgan Keegan & Co. "If Liz gets anything for them, more power to them. Anything they get is just icing on the cake - the important thing is they get out of these businesses."

But with poor earnings, which Stephens attributes more to the changing marketplace than Claiborne's management, the brands may only appeal to buyers if the price is low enough; buyers perceive the brands have been mismanaged and new owners could improve management, or a retailer buys a label as an exclusive.

"Once you say the brands are for sale, people aren't going to be knocking down your door to pay top price," Stephens said. "Today you have to have strong brands in strong channels. Moderate, urban and classic bridge, all are weak markets that they are exiting."

Andrew Jassin, managing director of the New York consulting firm Jassin O'Rourke Group, said he expects some of these transactions to come to fruition a month to six months from now. Conversely, he added, if there's insufficient interest, Claiborne will know within 90 days.

Jassin said he has clients that are looking at several brands - some of the several dozen firms that McComb said have already approached Claiborne.

"They may not make the grade for McCombs' business model, but that doesn't make the brands not work for other buyers," Jassin said.

For analysts and industry consultants, the 16 companies under review tend to fall into four baskets:

Brands with name recognition and a clear niche - Enyce, Prana, Sigrid Olsen, Ellen Tracy, Dana Buchman and Laundry by Design - could be bought by vendors or retailers to get higher margins as private label. Citigroup analyst Kate McShane predicts those brands will likely sell for slightly less than one times revenue.

Smaller labels C&C California, Mac & Jac and Kenzie have the contemporary channel to their advantage, but did not gain scale at Claiborne.

Lower profile, lower-end brands like Emma James and Tapemeasure could be discontinued given the softness of the moderate market.

The retailer-exclusive moderate brands, which include Stamp 10 for Kohl's, Tint for J.C. Penney, Intuition for Dillard's and First Issue for Sears, are more likely to be licensed to the respective retailers than sold.

Buyers will have to have a strategic side because the brands will need back-end support, but that does not limit the buying field to traditional manufacturers. Claiborne is providing retention incentives to keep talent at these brands not only during the review process but also through a continuity period with a new owner should the brand be divested. McComb declined to detail the incentives, besides saying, "They are funded appropriately."

But John Henderson, a director at Net Worth Solutions Inc. and a former president of Kellwood Co.'s Sag Harbor division, questioned McComb's decision to announce the sale of the brands before securing buyers.

"I just can't think why you would want to upset your organization with that announcement," Henderson said. "Why come out publicly and put all your inventory on the table?"

Henderson said the brands' uncertain future creates both internal and external problems.

"First, how do you keep your best people on board for a very long time?" Henderson mused. "Second, if you are a current customer with those labels, what is your relationship now? Department stores will decide whether they will continue with the brands and, if they do, they will issue certain requirements."

Industry sources expect eight types of potential buyers will come out of the woodwork:

Retailers: In addition to the four moderate retail exclusive brands, stores may be looking to make other brands on the list their own. While a vendor like Claiborne may not be able to wholesale these brands profitably, retailers - which increasingly are searching for private and exclusive brands - can capitalize on vertical structure.

Strategic competitors like VF Corp., Jones Apparel Group and Kellwood Co.: VF has shown interest in active and outdoor companies, and Prana could be a good fit. Kellwood could wholesale Enyce to the same retailers it targets with Baby Phat and Phat Farm, or pick up some small, higher-end brands that it has been favoring in its acquisition strategy.

Jones may finally find a low enough price to enter the contemporary market with C&C California, Mac & Jac or Kenzie, or Dana Buchman and Ellen Tracy could create economies of scale with

Anne Klein. But Marc Cooper, managing director at investment banking firm Peter J. Solomon Co., doubts the 16 brands Claiborne is reviewing are "strategic buys" that Claiborne's traditional competitors would be interested in. He referenced VF selling Vanity Fair Intimates to Fruit of the Loom earlier this year and Jones' decision to sell its smaller, moderate brands.

"The big apparel companies are coming of age and these larger companies trimming their portfolios will be a continuing theme as they move into their next phase," Cooper said. "The nature of any business is that you have some performers and some laggards. You prune the tree to become more beautiful."

Sourcing companies like Li & Fung. With a parent with a low-cost sourcing capability, the brands could become more profitable even if sales remained flat.

Brand management companies such as Iconix Brand Group Inc., NexCen Brands Inc. and Cherokee Inc.: Claiborne has said it was not sufficiently marketing the brands to achieve maximum growth, so companies known for their marketing strategies could be a good match. These firms are also not above taking brands down-market where the names are still perceived as aspirational. "They will try to reinvigorate the brand from whatever channel that growth could come from," said Cooper.

Smaller vendors like G3 Apparel Group, Delta Apparel Inc. or many other midsize Seventh Avenue vendors: The brands that were too small to garner sufficient attention at Claiborne could become a focal point for a smaller vendor. According to McComb's own mantra, focus and attention beget results. But consultant Emanuel Weintraub asked, "If the big guys don't want to buy it, can the small guys afford to pay for it?"

Foreign vendors: Henderson thinks brands like Ellen Tracy, Laundry by Design and Dana Buchman may attract European companies looking for an entre into the U.S., in the same way Apex Partners bought Tommy Hilfiger last year.

Private equity companies: These firms live for a turn-around opportunity, although many of the brands could be perceived as mature or in weak channels. Plus the brands need a back end, so the company would need to already have a foot in apparel.

Founders or management of brands could make an internal buyout at a discount market rate. Dana Buchman said she would be interested in taking a financial stake in her namesake brand with a business partner.

While Mark Walsh, who was promoted in February to group president of "portfolio brands," runs the day-to-day business for the reviewed companies, Robbie Karp, Claiborne's senior vice president of business development, legal and corporate affairs, is running the review process internally. Along with Centerview Partners, Karp is combing through lists of potential buyers to separate out the most serious candidates, which by the end of the summer will receive confidential looks at the due diligence books for each brand that Centerview is putting together.

Centerview has been working with Claiborne since January, helping the vendor with market assessments that shaped its July 11 announcements. The New York-based financial advisory firm specializes in consumer products - closer to McComb's background at Johnson & Johnson than his new post at Claiborne. He came to the firm via a recommendation from another CEO.

"They played such a helpful role here in the last six months and had amassed such significant knowledge of the company - that knowledge was the tipping factor in choosing them," McComb said. "There is a lot of talent in our industry and this isn't a dis to those great companies. But as a company, we are now looking outside the box."