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Shoe groups open to offers

S-based Deckers owns various athletic and lifestyle brands, Hong Kong's Belle International is a women's fashion footwear group, Jimmy Choo is a UK company known for its luxury shoes, and Brazil's Alpargatas specialises in casual footwear. They may run their businesses from different continents and cater for diverse segments of the footwear market, but they have one thing in common: all four are exploring a sale, albeit to varying degrees.

Jimmy Choo

Jimmy Choo founded his eponymous brand in 1996 alongside Tamara Mellon, a former accessories editor for *Vogue*. Both have since ceased to be involved; Ms Mellon departed in 2011 and recently launched her own company, while Mr Choo sold his share of the business in 2001. His niece, Sandra Choi, remains creative director, a role she has filled since the brand was launched more than 20 years ago.

A number of well-known footwear groups are either up for sale or exploring the option. *World Footwear* examines the reasons why and looks at who is reportedly interested in acquiring them.

The luxury shoe brand was acquired in 2011 by Labelux for more than £500 million (more than \$800 million at the time). Labelux has since been integrated into its parent company, Luxembourg-based investment firm JAB Luxury. The brand announced it was putting itself up for sale in April as part of a "review of strategic options", a move supported by JAB Luxury. The footwear company confirmed at the time that

no approaches had been made and it said there was no guarantee an acceptable offer would be forthcoming. Its parent company is believed to want to divest the brand to focus more on its rapidly growing coffee and food business.

At Jimmy Choo's annual shareholder meeting in June, chairman Peter Harf said the prospects for the business are "stronger than ever". This statement came after its 2016 sales increased 14.5% to £364 million, prompting CEO Pierre Denis to describe it as a "landmark year". These figures were boosted by the weakness of the pound sterling; at constant exchange rates, its sales growth was 1.6%.

There are several potential suitors for the brand. US leathergoods group Coach, which has made a number of acquisitions in recent years as it pursues a strategy to become a "multi-brand organisation", is among them. The most significant deal in relation to Jimmy Choo was its purchase of fellow luxury shoe brand Stuart Weitzman in January 2015. Chief executive Victor Luis seemed to pour cold water on the speculation later in May after Coach had completed the purchase of accessories brand Kate Spade, telling investors the group would look at no further "major acquisitions". It is unclear whether a deal for Jimmy Choo would be considered a major acquisition, considering its market value compared to Kate Spade, for which Coach paid \$2.4 billion.

Michael Kors, a rival of Coach in the US leathergoods market, has also been suggested as a potential buyer. This speculation grew after Michael Kors missed out to Coach in the race to acquire Kate Spade. Speaking on a call with the company's management team this May, Michael Kors chairman and CEO, John Idol, said: "We are actively looking at a number of different things, and if it's right for our company and our management's ability to execute and create value for our shareholders then we will take advantage of it." He added it has the "capacity" to do both "sizable and smaller" transactions, but that it "probably won't do anything small".

There has also been interest in Jimmy Choo from outside the US. Chinese investment company Fosun, previously rumoured to be eyeing a stake in Moncler and Prada, is said to be considering an offer after being impressed by the shoe brand's recent success in the Asian market. In 2016, Jimmy Choo's sales in Asia (excluding Japan) increased 33.4%, well above overall growth, to £56.3 million.

Bahrain-based private equity firm Investcorp is the most recent group to be linked with a bid. Reports in the UK media said the company, which has previously owned Gucci, Tiffany and Saks Fifth Avenue, would enter the race for Jimmy Choo, having missed out the last time it was up for sale in 2011. It later stepped back from the luxury sector but has returned in recent years, purchasing a majority stake in high-end Italian tailor Corneliani in June 2016.

Deckers

US group Deckers is best known for producing the Ugg brand of double-face sheepskin boots. This brand has had tremendous success, but Deckers has seemingly fallen into the trap of becoming over reliant on it. Ugg now makes up around 80% of its total revenue, so any dip in its sales has a considerable impact on the overall business. Sales of Ugg products have been declining and this continued in the fourth quarter of the 2016/17 financial year, although the decline slowed to 1.1%. Across the whole year, Ugg brand revenue



Luxury shoe brand Jimmy Choo was sold for more than \$800 million in 2011.

CREDIT: JIMMY CHOO

was down 4.8% to \$1.45 billion. This affected Deckers's full-year results, which showed a 4.5% fall in sales to \$1.79 billion. It was not all bad news for the group, however, as this figure was slightly better than it had forecast.

In April this year, Deckers announced its board would "review a broad range of strategic alternatives", possibly including the sale of the company or of one of its brands. It said it believes it is the "appropriate time" to explore these alternatives in order to "unlock further value". It cautioned, however, that "there can be no assurance that the strategic review process will result in a transaction." One shareholder, Marcato Capital Management, sent a letter to the board in November 2016 urging it to explore a sale. Red Mountain Capital Partners, another shareholder, has also suggested a full sale might be the best course of action.

At the presentation of its third quarter results in February, Deckers president and CEO Dave Power revealed the company was aiming to become "more nimble" by transforming its operating structure. This strategy includes a savings programme, of which he gave more details during the Q4 presentation. Among the measures listed were a reduction in product development cycle times, the optimisation of material yields, a consolidation of its factory



base, and a move away from production in China. It anticipates that the \$150 million savings plan will improve operating profit by \$100 million by the 2020 fiscal year. Mr Powers said the group's fourth quarter results provide a "solid foundation" for executing this plan.

Deckers also owns a range of brands that sell lifestyle and athletic shoes, including Hoka One One, Sanuk and Teva. The first of these is a prime candidate should the company choose to sell off one of its brands. This is due to the impressive pace at which it has grown in the past 12 months. The brand, which specialises in running shoes, achieved sales growth of 32.7% in the fourth quarter of 2016/17, following on from increases of 18.3% in Q3 and 29% in Q2. Mr Powers says the group is "just beginning to scratch the surface of the brand's potential" and he expects it to grow by between 20% and 25% in the current financial year. The performance of this brand is one factor that could appeal to potential buyers for Deckers. Despite its recent troubles, Ugg remains a valuable asset due to a lack of direct competition, making its parent company an attractive proposition for investors.

Belle International

Belle International started life as a small outlet in the Yau Ma Tei district of Hong Kong. It has grown into a vast retailing empire with more than 13,000 footwear stores across China. As well as 13 brands of its own, including Belle, Joy & Peace and Tata, it distributes shoes in the Chinese market for seven international brands, including Mephisto, Clarks and Merrell.

In the 2016/17 financial year, the group reported revenue of \$6.1 billion, 2.1% higher than in the previous year, although its profit dipped slightly. Of this, \$2.8 billion came from footwear, with the rest coming from its sportswear and apparel business, which mostly consists of the retail distribution of overseas sports brands such as Nike, adidas, Puma, Converse and Mizuno. In fact, Belle's footwear revenues fell in the last fiscal year. While its sportswear and apparel sales saw

The success of the Ugg brand of sheepskin boots has been crucial to the growth of Deckers.

CREDIT: DECKERS BRANDS

double-digit growth, there was a double-digit decline in revenue from footwear. Footwear also made up less than half of the group's annual revenue for the first time. During the year, it closed 700 footwear stores and opened 540 sportswear stores, which suggests a shift in its priorities.

It was reported this April that Belle was under offer from a consortium led by private equity groups Hillhouse Capital and CDH Investments, who have partnered with two Belle executives, Yu Wu and Sheng Fang, to secure a deal worth \$6.8 billion.

"A transformation is a priority for the company in order to thrive in the long-term, and now is the right time to pursue the change," Tang Yiu, chairman of Belle International, stated

Chief executive Sheng Baijiao agreed that a transformation is needed, saying Belle is "at a critical moment". "It has become clear that our traditional retail business model is in urgent need of integration with the digital economy, and an effective new strategy and execution capabilities will be necessary to enable us to compete in the long term," he added.

According to Washington-based footwear industry consultant Peter Mangione, China will continue to be the main source of product for which short lead times are vital. The women's fashion shoes and lower-cost footwear that Belle specialises in fall into this category. He explained that companies offering these types of shoes "need to get it right", which means relying on shorter lead times. For this to happen, factories need to be close to their supply chain so that they can source all the components they need quickly. If what Mr Mangione says is true, and China remains an important source of the types of shoes for which Belle is known, agreeing to buy the company for a figure a little more than 10% higher than its revenue from last year would be an excellent piece of business.



Alpargatas

Of the four companies *World Footwear* has examined, Brazilian casual footwear manufacturer Alpargatas is the one that has given the least clear indication that it is pursuing a sale. Speculation that the company, best known for its Havaianas brand of flip flops, may be seeking a new buyer has emerged as a result of a scandal that has engulfed its current owner, J&F Investimentos.

In May, a deeply complicated political scandal broke involving another of J&F's companies, meat and leather producer JBS, after it was revealed that seven executives from JBS and its parent company had entered into a "plea-bargain agreement" with the federal public prosecutor's office in Brazil. It came amid JBS's alleged involvement in a wider scandal known in Brazil as Operação Lava Jato ('Operation Car Wash'). At the end of May, JBS announced its parent company would pay a fine of around \$3.2 billion over a period of 25 years as part of the plea-bargaining agreement.

Prior to this announcement, Reuters reported J&F had engaged the investment banking unit of Banco Bradesco to examine the possible sales of some of its assets. This could include Alpargatas, in which it became a majority shareholder in December 2015, the report said, which would help to pay off part of the fines it faces. Bloomberg has suggested the footwear group may be one of the first units to go because it is a "non-core asset". One of the people at the centre of the scandal, Joesley Batista, president of J&F Investimentos, sat on the Alpargatas board of directors, but he resigned that position on May 23.

It had already been a rocky start to 2017 for Alpargatas. After positive financial results in 2016, in which sales increased slightly to €1.21 billion and profit jumped 30.8% to \$107.8 million, revenue fell 18.7% in the first quarter, although profit was up 62%. It has been an especially difficult time for its business in Argentina; Alpargatas Argentina was forced to close two factories in January, resulting in the loss of 70 jobs. The company blamed this closure on the policies of

Belle International specialises in women's fashion shoes and operates more than 13,000 footwear stores across China.

CREDIT: BELLE INTERNATIONAL

Argentinian President Mauricio Macri, who took office at the end of 2015, explaining that they made it too easy to import footwear, meaning shoes made domestically were less competitive in price. This division of the company also lost its CEO, Javier Goñi, who stepped down from the position he had held for nine years for personal reasons. He was replaced by Diego Mohadeb, who is now charged with overseeing the eight footwear factories that Alpargatas operates in Argentina. It has a further 14 in Brazil. 📌



Brazilian company Alpargatas is most famous for its Havaianas brand of flip flops. CREDIT: CASSIOHABIB / SHUTTERSTOCK