

## **Payless acquires Collective International.**

Footwear News, March 12, 2007

### ***PAYLESS BRANCHES OUT - ACQUISITION OF COLLECTIVE INTERNATIONAL PROVIDES BRAND DEVELOPMENT, LICENSING EXPERTISE.***

NEW YORK - Payless ShoeSource's acquisition of Collective International will propel both companies into new territory.

The \$91 million deal, which had been in the works for about six months, provides Payless with new brand development and licensing experts, while injecting Collective with funding to help the company nurture its brand portfolio.

"This starts to add dimension to Payless as a company, and it's the beginning of our evolution beyond just being a single-brand retailer and a retailer that only operates with one platform in mind," said Matt Rubel, CEO and president of Payless, during a conversation with Footwear News and Collective CEO and President Bruce Pettet. "We look at Collective as a separate platform. They will acquire businesses where there are consumer needs and desires and opportunities. Our opportunities will from time to time overlap, and then we will work together, just like we have on Airwalk. Other times, we will do things separately and allow each platform to grow naturally on its own."

The Collective business, which focuses on youth lifestyle and board sport-inspired brands, has potential within the athletic market, noted Pettet. The company's portfolio includes brands such as Airwalk, Vision Street Wear, Lamar and Sims. "We believe any of those categories within athletic, whether it's something like basketball or running, we can do extremely well. And if you look at our backgrounds, who we are as a team, we have a lot of experience in those areas," said Pettet. "I think we can handle [an acquisition], and I think we can do it immediately."

On the Payless side, Rubel said there is still room for classic and updated women's brands in the retailer's house of brands. "We have other brand licenses, as well as other brand acquisitions that we are currently studying," he said. "For right now, our priority would not be juniors'. With American Eagle and Airwalk, the juniors' category is well served."

Collective also has a thriving international business, with more than 30 licensing partners in some 100 countries, a competency that will enable Payless to cast an eye on acquisition targets with global potential. "In

looking for brands that can be platformed globally, we will allow Collective to be the acquirer and runner of those businesses with Bruce at the helm," said Rubel, adding, "we have existing brands that we own that we may be able to integrate into the licensing program that Bruce has internationally."

Separately last Tuesday, Payless released fourth- quarter and full-year financial results. For the quarter ended Feb. 3, the company swung to a profit of \$24.6 million, or 37 cents a diluted share, from a loss of \$5.6 million, or 8 cents, during the comparable period. The results were positively impacted by the release of \$14.3 million of income tax reserves equaling 22 cents per share. Net revenues rose 13 percent to \$692.7 million, while comp-store sales were up 6.8 percent.

For the full year, net earnings nearly doubled to \$122 million, or \$1.82, from \$66.4 million, or 98 cents, in the prior year. Revenues rose to \$2.8 billion from \$2.67 billion, and same-store sales were up 3.5 percent.