

Payless - A "Powerhouse" Brand Management Firm.

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Firms Expand "Powerhouse" Stables

The old mantra in the footwear and apparel sectors was to "control the destiny of your brand."

But a handful of companies over the past few years is now taking this strategy to a new level by becoming "powerhouse" brand management firms. These innovative companies include Iconix Brand Group Inc. and NexCen Brands Inc. as well as Payless ShoeSource with its recent acquisition of Collective International LP, owner of Airwalk and Vision Street Wear.

Iconix and NexCen own a stable of brands that are licensed to retailers and vendors. In the case of Payless, the company sells Airwalk in its retail stores and is expected to extend and license the brand.

Gilbert Harrison, chairman of Financo, which advised Payless on the Collective International deal, said by owning the Airwalk brand, Payless can invest in the brand "while at the same time developing products and further brand extensions, which will give the company an edge in the market."

Harrison said Payless chief executive officer and president Matt Rubel "has brought a new dynamic approach to Payless, which includes looking at the business as a 'house of brands.'"

Harrison said the approach is innovative, and Payless should now be looked at as two businesses: "Payless the shoe store, which is the largest in the world in terms of retail stores, and Payless the New York Stock Exchange company that owns additional brands to develop and grow."

Rubel has been hard at work creating a brand house that includes offering licensed footwear brands such as Spalding, Champion, Dunkman and Tailwind, among others. When the deal was announced earlier this month, Rubel likened the Payless brand strategy to that of Iconix, which owns a variety of brands such as Badgley Mischka, London Fog and Joe Boxer.

"Brands are everything," Harrison said. "And [Rubel] knows brands very well. And he knows that brands have the most value if you capture them for use in your own business and license the brands to other companies as well."

Payless doled out \$91 million for Collective International. Industry sources said the lion's share of Collective's revenue stream was in sales of Airwalk. Bruce Pettet, ceo and president of Collective International, will remain.

Harrison and Bill Susman, president and chief operating officer of Financo, said the deal was in the works for some time, and works well for Payless because of the value of Airwalk brand's growth potential.

"[Rubel] and the Payless team felt very excited about partnering with Bruce [Pettet] and had a lot of confidence in him," Susman said. "In a market where a lot of brands are getting sold for very high prices, the [Airwalk] brand was acquired for an attractive price, relative to other deals out there."

Financial sources expect Payless to be on the prowl for other brands to acquire. And despite high valuations in the market, Iconix and NexCen will likely continue the hunt for more brands to add to its stables.

In November of 2006, Neil Cole, chairman and ceo of Iconix, told Wall Street that the company intends to grow earnings per share between 15 and 20 percent year-over-year via brand acquisitions and its brand management business model. In the past year Iconix has acquired six brands, most recently Rocawear and Danskin.

Meanwhile, the company keeps on inking new licensing deals. In February, Iconix lined up six new licenses for Op, Joe Boxer, London Fog and Badgley Mischka. The agreements include accessories and apparel in men's and women's wear.

For NexCen, the past seven months involved two major acquisitions: The Athlete's Foot and Bill Blass.

NexCen president and ceo Robert D'Loren has created a business model that centers on three business vehicles: retail franchising, consumer branded products and quick-service restaurant franchising. D'Loren's focus is on building a brand house that markets and licenses brands while leveraging costs across the three business vehicles.

Allan Ellinger, senior managing partner of MMG, which represented Blass in the deal last December, said the brand "is an iconic American designer brand" and the transaction will position NexCen as a premier brand management firm.

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