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PSS Lands Dexter, Opens Design Center

By LINDSAY E. SAMMON

NEW YORK — Payless ShoeSource Inc. continues to raise its profile.

The company said Tuesday it reached a multiyear agreement with H.H. Brown Shoe Co. to design, develop and sell Dexter casual shoes — a deal Payless CEO Matt Rubel said would help take the retailer to the next level.

"For Payless, it represents bringing a great quality to our customers in an American aesthetic. [Dexter] will play a very strong role in women's and in men's product and will enable us to really upgrade our quality and bring it to the customer with a classic design," said Rubel.

Next Generation Equity Research senior analyst R.J. Hottovy agreed.

"Obviously, Dexter is a very well-respected name in the footwear business, and this complements [Payless'] branded strategy quite well," Hottovy said.

According to Jim Issler, CEO and chairman of H.H. Brown, the deal is the first step in a plan to license Dexter on a global basis. The firm plans to partner with other large retailers around the world in the next six to 12 months. In the U.S., Issler said Payless was a natural fit for the brand.

FN Photo by PAVEL ANTONOV.

The 11,500-sq.-ft. Payless design center will eventually accommodate 15 to 20 employees.

"The history of Dexter has been bringing value to the consumer with American heritage and style," said Issler. "Right now, Payless, with thousands of stores, is a wonderful way to deliver that value to as many American [shoppers] as possible."

The first Dexter men's collection available at Payless will hit select stores nationwide for holiday '07. The complete men and women's collection will launch in spring '08.

H.H. Brown will continue to develop and sell the Dexter 1957 Collection, as well as the performance golf and bowling shoes that, according to Issler, dominate the performance bowling category with more than 50 percent market share. Those products will not be sold at Payless.

"What we're doing is taking what we consider to be the mass market segment of the brand to Payless," said Issler.

Robert Mingione, VP of product design for Payless, said last week he is eager for the brand to make its Payless debut, adding that Dexter's presence in stores is likely to help the retailer expand it's men's business.

"We've got an amazing women's business, but men's has gotten a little lost at Payless. So I'm looking at this as a wonderful invitation to invite men back into the stores," said Mingione. "For a company like Payless to get a brand with Dexter's American heritage ... is thrilling."

Rubel said the design of the brand will be focused toward 25- to 35-year-old consumers, but the product is expected to resonate with a wider age range.

Separately, Payless opened its new design studio on Fifth Avenue in New York City on Wednesday with an event to showcase its holiday collections. Guest designers Lela Rose, Laura Poretzsky of Abaete and stylist Patricia Field were in attendance.

The space is equipped with a videoconferencing system linking the design center with the Topeka, Kan., headquarters and the Asian manufacturing facilities. The studio also features a materials library, a meeting space for investors and a storage center for samples. When fully staffed, the studio will house about 15 to 20 design employees.

"We wanted to set up a center for great creativity," said Rubel about the sprawling 11,500-sq.-ft. space. "The openness was designed in a very thoughtful manner. Having an open environment enables designers to share ideas and share innovations."

Timberland Tumbles, but Commits to Long-Term Growth

By LINDSAY E. SAMMON

NEW YORK — Reflecting its ongoing struggles with changing fashion trends, Timberland Co. posted declines in first-quarter sales and earnings last week and forecast a second-quarter net loss.

President and CEO Jeffrey Swartz said during a conference call last Thursday that although the quarter was less than desirable, it was in line with the company's expectations.

"Our current performance reveals the need to plot and to deliver substantial improvement in our business results over the longer term," he said.

John Crimmins, acting CFO, added, "While we are certainly not pleased with our overall financial performance in the first quarter, we do believe that our strategies to improve the relevance of our products and enhance our portfolio with the addition of new brands and product offerings are essential to establishing a strong foundation and long-term growth of our brand and enterprise."

The company said poor performance in footwear contributed to first-quarter sales falling to $336.3 million from $349.8 million during the same period a year earlier. Same-store sales were down 1 percent.

"Footwear revenues declined 7 percent to $236 million driven by expected decreases in boots and kids' sales, as well as modest declines in casual and outdoor products," said Crimmins. The decline offset double-digit sales gains in Timberland PRO, the company's work boots and gear for craftspeople.

Net earnings for the quarter fell to $9.3 million, or 15 cents a diluted share, compared with $26.1 million, or 40 cents, last year. Excluding adjustments for costs from licensing its North American wholesale apparel division, the company said it would have earned 22 cents, ahead of analysts' estimates for 18 cents.

Timberland has been struggling financially, and in addition to reporting declines in both fourth-quarter and full-year 2006 net earnings, has lost several key executives. In February, the company announced it was realigning its divisional structure into four segments with four brand presidents. On last Thursday's call, Swartz applauded the efficiency of the new model.

"We are down four senior executives in the last six months, and yet, if you look at our management construct, we have very able leaders again in each of the segments. We have a very connected management effort," said Swartz.

Looking ahead, the company expects a second-quarter net loss of $18 million to $20 million and for revenue to be down in the low single-digits. The company forecasts continued declines in boots and kids' merchandise, but plans to limit its global distribution of the two categories in an effort to improve performance.

Still, Swartz is optimistic about Timberland's long-term success.

"We expect over time that our enterprise should deliver a 15 percent operating profit margin, while also delivering strong cash flow and maintaining a healthy balance sheet," he said, adding, "Change won't be overnight. ... We intend to act on improving our financial performance in a thoughtful, urgent manner."

In April, the Stratham, N.H.-based company postponed the release date of its first-quarter earnings due to inaccurate accounting for foreign currency hedging. As a result, the company said it was required to make non-cash adjustments to its financial statements in order to properly meet accounting standards.