WWD

FIRMS 'KICKING THE TIRES' ON SAKS INC.

By David Moin

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NEW YORK — Activity on Saks Inc. stock simmered down Thursday as attention shifted to Saks chairman and chief executive officer Stephen I. Sadove, his motivations for engineering a sale of the luxury chain and the list of potential buyers.

"There is a process going on. Saks has a data room set up. People are kicking the tires," said one retail source. "Due diligence is going on. It's virtual, but Saks is granting access to interested parties. They're starting to hear from bankers, the Street and some big private equity firms — all the usual suspects," the source said, mentioning the likes of Thomas Lee and Leonard Green.

Saks stock rose 1 cent Thursday, to $15.49, after jumping 13.4 percent Wednesday on reports that the company had hired Goldman Sachs to explore a sale.

Saks executives did not respond to a request for comment on the speculation.

Also simmering down were rumors that Saks would merge with Neiman Marcus Inc., though there were no shortage of industry sources seeing logic to such a deal. Kohlberg Kravis Roberts & Co. was seen as considering a merger of the two luxury chains in what would amount to a very complicated deal involving taking over two businesses then a process of integrating them for greater synergies in hopes of greater profitability. The merger would create an $8 billion luxury giant that would be more competitive to the $12 billion Nordstrom and Bloomingdale's, with about $3 billion in sales. Saks generated $3.1 billion in sales last year.

Citi analyst Deborah Weinswig noted that 35 percent of Saks stores are near a Neiman Marcus location, while there's a 73 percent overlap with Macy's, a 40 percent overlap with Nordstrom, a 33 percent overlap with Bloomingdale's and a 19 percent overlap with Dillard's, which some speculated also could be interested.

Sources believe a strategic acquisition by another retailer is more likely, to obtain synergies, or a sovereign wealth fund from the Middle East. For years, Richard Baker, chairman of Hudson's Bay Co., which operates the Hudson's Bay and Lord & Taylor department store chains, has been looking at Saks and has met with officials in the past. "He always had his eyes on Saks," said a source.

Baker is a dealmaker with an adventurous streak and, given his background in real estate, would be very much interested in getting his hands on the Saks Fifth Avenue flagship, between 49th and 50th Streets, which accounts for roughly a quarter of the company's revenues and a much higher percentage of the profits. However, if Saks stock continued to increase, the likelihood of a deal would decrease. "Richard is not going to do anything if the price is not right," said the source.

Previous owners of Saks, including Investcorp and Proffitt's, paid high prices for the business, and discovered it was difficult to achieve the expected return on the investment.

W. Galen Weston, chairman of Selfridges Group Ltd., the holding company for Holt Renfrew in Canada, Selfridges in the U.K. and Brown Thomas in Ireland, has also considered buying Saks Fifth Avenue in the past and may want to look at it again.

The timing is right for Saks to sell, according to industry sources, who cited a host of reasons why Sadove might be looking to sell the retailer. Among them, money is cheap, M&A activity is picking up with increasing receptivity to deals, the stock has languished for years and shareholders have been very patient, and the luxury sector is in the spotlight again, particularly with the owners of Neiman Marcus — TPG and Warburg Pincus — eager for an initial public offering. Neiman's is Saks' main rival.

In addition, under Sadove, Saks has been aggressively closing weak full-line units and has only a handful remaining left to weed out. Most importantly, there's a growing realization that it's difficult for Saks to operate profitably as a stand-alone company and would fare better as part of a retail conglomerate where synergies can be achieved. There's limited opportunity for Saks, or Neiman Marcus for that matter, to open new stores domestically.

While a sale of Saks could be heating up, "Steve doesn't have a gun to his head," said one market source. The source also pointed out that it's not the first time Sadove has floated the idea of selling the company, though it appears more serious now with Goldman Sachs in the picture.

Sadove leads a very busy life, with a family, philanthropic work, vacation homes in upstate New York and Florida, and serving as chairman of the National Retail Federation. In January 2002, he joined Saks as vice chairman. In March 2004, he assumed the additional post of chief operating officer and in January 2006 became ceo. In May 2007, he also became chairman.

He is no stranger to the world of wheeling and dealing. Before joining Saks, he was president of Bristol-Myers Squibb's worldwide beauty care business for six years. According to his official biography from Saks, he "set and executed strategies that led Clairol to become the number-one hair care business in the United States, relaunched the Herbal Essences brand and completed the sale of the beauty care business to Procter & Gamble for approximately $5 billion."

With a deal to sell Saks, Sadove has an opportunity to cash out for a large sum and could retain a significant ownership stake in the new business with incentives. "That can be appealing, but considering the level Steve is at, he doesn't ever have to work again in his life," another source said.

As of April, he beneficially owned 1,749,976 shares of stock, or 1.16 percent of the company's common shares.

While Sadove personally stands to get a windfall from a sale of the company and a stake in the new entity, industry experts believe those are not the primary reasons for putting Saks in play. "He has a job and a responsibility to maximize shareholder return and to continue to lead and grow a healthy and vibrant company. He may feel he has more ability and flexibility to get more done at Saks under a private ownership scenario where you don't have to explain to the Street every three months what you are doing and where you don't have to worry about the vagaries of the stock market. You can invest for the future, whereas as a public company, the market might punish you for that," said Kirk Palmer of Kirk Palmer Associates.