FASHION: Celebrities just can't get enough — more flock to do fashion lines, page 8.

NEWS: Louis Vuitton's Yves Carcelle on Japan, China and the outlook for luxury, page 10.

MEN'S: Bergdorf Goodman launches Kiton line, page 9.

EYE: Rhys Ifans talks films, fun and farming, page 4.

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WWD TUESDAY

Ready-to-Wear/Textiles

Turning Gold

In a low-key season, glitz and glitter still had their places — especially touches of gold. Take Balmain's Christophe Decarnin, for instance, whose fall collection was a characteristically baroque ode to Prince and his Seventies-Eighties glam-rock style, spiked with chains and sequins in that hue. Here, one example: a short, sexy, beaded party dress with pronounced shoulders. For more looks with flashes of the molten metallic, see pages 6 and 7.

PHOTO BY GIOVANNI GIANNONI

PVH Places a Big Bet With $3B Hilfiger Deal, Sees Overseas Growth

By Lisa Lockwood

THE FASHION MEGADEAL IS BACK — and the megadebt that goes with it.

Phillips-Van Heusen Corp. said Monday it will acquire Tommy Hilfiger BV from Apax Partners for $3 billion, plus the assumption of $138 million in liabilities, creating a group with combined revenues of roughly $4.6 billion but one that, in the near term, will be highly leveraged.

Observers described the deal as industry-transforming, even if it will saddle PVH with significant debt. Emanuel Chirico, PVH's chairman and chief executive officer, forecast the group can cover debt repayments from cash flow as it further expands Hilfiger and uses that brand's international distribution network to grow labels like Izod and Arrow.

See **Phillips-Van Heusen**, *Page* **12**

Phillips-Van Heusen Buys

Continued from page one

Of the $3 billion price tag, Apax will receive $2.65 billion in cash and $380 million in PVH common stock, at current exchange rates. Apax, which bought Hilfiger in May 2006 for $1.6 billion, will end up owning 13 percent of PVH.

News the $2.4 billion PVH was in talks with Hilfiger was first reported in WWD on March 2.

As investors digested the acquisition, shares of PVH shot up 9.75 percent to close Monday at $52.40 on the New York Stock Exchange as Wall Street reacted to the first major apparel acquisition since before the recession. Over 4.4 million shares changed hands, versus a three-month average trading volume of 623,392 shares.

"From a strategic point of view, the Tommy business fits all our criteria for an acquisition. It's a powerful global brand with a very strong international operating platform," Chirico told WWD.

Fred Gehring, the executive responsible for rebuilding Hilfiger's North American business and expanding its sizable international presence, will continue as ceo of Tommy Hilfiger. He will also become ceo of PVH's international operations and will join the PVH board.

Tommy Hilfiger will continue as principal designer and visionary of the brand but will have no direct management responsibility.

"With PVH, they're allowing us to operate as we've done in the past. They've done an amazing job allowing Calvin Klein to operate as they've done in the past, and their business has dramatically increased over the last few years. I think this is a great marriage," Hilfiger told WWD.

For Apax, the PVH deal ends a two-and-a-half-year quest to cash out its stake in Hilfiger — and it was able to do so at a substantial profit. The equity firm explored an initial public offering on the Euronext stock exchange in 2007. That float was postponed indefinitely in early 2008 because of market volatility.

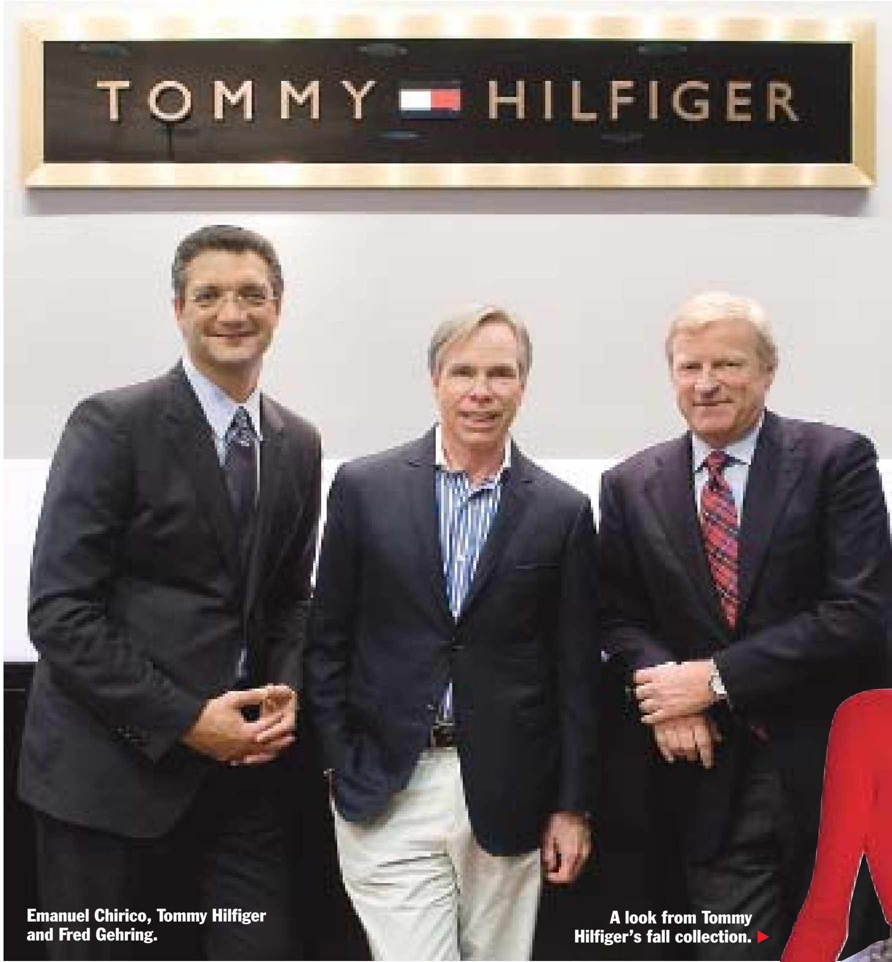
"We are very pleased for many reasons. It was a fantastic investment for us," Christian Stahl, partner in Apax who will also join the PVH board, said. "We're happy to be partners with PVH again, and happy to take a large part of our money off the table. There are not so many exits for private equity firms. It's good to be able to return a large part of our investment to our shareholders."

The PVH-Hilfiger merger is more than four times the size of the Calvin Klein acquisition. PVH, with the help of Apax, bought Calvin Klein in February 2003 in a deal estimated to be worth as much as $700 million. PVH bought the brand for $430 million in cash, with additional payouts of as much as $270 million in the coming years. Business partners Calvin Klein and Barry Schwartz, who exited the business, immediately pocketed $215 million in cash and PVH stock. The Calvin Klein business, which is a licensing model, has been a cash cow ever since for PVH.

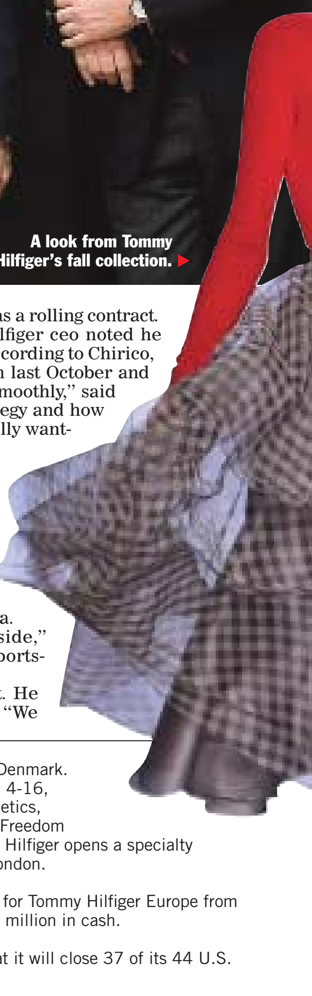
Gehring views substantial opportunities for Hilfiger both on the retail and wholesale sides of the business. "We'll be opening more retail stores. We have enormous momentum in all our markets. In the U.S., our main focus will be the Macy's business and our ongoing outlet business," he said.

Both Gehring and Chirico said there are no plans to expand Hilfiger's U.S. department store distribution beyond Macy's.

"We thought the decision to go with Macy's is the right thing for the brand, and we very much endorse that decision," said Chirico. He added that as part of their due diligence, PVH executives met with Macy's officials and talked about growth opportunities for the Hilfiger brand. Among the areas that are ripe for expansion are jeanswear, children's wear and footwear, said Chirico.



Emanuel Chirico, Tommy Hilfiger and Fred Gehring.



A look from Tommy Hilfiger's fall collection.

Besides North America, Hilfiger merchandise is sold throughout Europe, Asia and Central and South America, and the company has 1,000 stores, about half of which it owns and operates. For the year ended March 31, 2009, earnings before interest, taxes, depreciation and amortization tallied 270 million euros, or $383.4 million. Sales were 1.6 billion euros, or $2.27 billion at average exchange.

Hilfiger currently has 10 freestanding stores in the U.S., in cities such as New York, East Hampton, N.Y., Georgetown and Miami. "In the short term we're fine, but if great opportunities come along, we would consider opening more flagships in the U.S.," said Gehring.

Overseas, Gehring cited Italy, France and Scandinavia as areas where Hilfiger has ample growth potential. He called the U.K. business "fickle," and said that's been harder to penetrate. In Asia, he said the brand is represented there with several licensees, and has a commercial office in Hong Kong. "We're pushing growth in our Asian business, and we're looking to take some of these agreements in-house," said Gehring. The company also does about $125 million in sales in South America, and recently took its business back in Russia. The company expects to have its own fully controlled operation in Russia by Jan. 1.

Hilfiger will remain based in Amsterdam, and all the international business will report to Amsterdam. No changes are planned in the front office, sales, design, marketing or merchandising areas, he said.

Gehring also said he plans to stay for the long haul and has a rolling contract.

Describing how the two parties came together, the Hilfiger ceo noted he spoke to no other apparel companies about doing a deal. According to Chirico, Gehring invited the PVH management team to Amsterdam last October and started the whole conversation. "It came together pretty smoothly," said Chirico. "Fred and I from the get-go were aligned on strategy and how we would structure and organize it, and what role Fred really wanted. We got all the social issues out of the way."

Gehring said he's eager to spearhead international opportunities for PVH's other brands, such as Izod and Arrow. "We can build a meaningful business with Izod, at a lower price point than Tommy. We can use our product development and know-how with Arrow, which has a presence in Europe and a lot of heritage," he said.

Asked how Calvin Klein and Tommy Hilfiger will coexist within the same family, Chirico said, "There's always competition on the selling floors in North America. Calvin is usually the anchor in modern contemporary side," and in Macy's, for example, Tommy is updated classic sportswear. "I don't think they cannibalize each other at all."

Nor is Chirico worried about carrying too much debt. He said PVH has about $600 million in cash on its books. "We

TOMMY TIME LINE

1985: With Mohan Murjani's support, Tommy Hilfiger introduces first signature collection for men by modernizing classics such as button-down shirts and chinos, supported by a bold advertising campaign, created by George Lois, that compares Hilfiger to great American men's wear designers.

Hilfiger opens his first freestanding store in Manhattan on Madison Avenue, offering men's wear.

1986: The designer opens a store on Rodeo Drive in Beverly Hills with talk of it being the launching pad to his pending women's extension.

1988: Hilfiger breaks away from Murjani International Ltd. to become a separate company.

1989: Silas Chou and Lawrence Stroll acquire a majority stake in Tommy Hilfiger Inc. The Murjani license ends.

1992: Tommy Hilfiger goes public, making its debut at $15 a share in September and soaring to $26 in two months.

1995: Hilfiger is bestowed with CFDA's fashion award for men's wear designer of the year.

1996: Hilfiger showcases first women's wear collection during London's September fashion week. Launches women's sportswear and Tommy Girl fragrance. Other product launches include boys' 4-7, boys' sport coats and men's eyewear.

1997: Tommy Hilfiger Europe BV established, with headquarters in Amsterdam, officially launching the brand in Europe. Distribution expands to the United Kingdom, Austria, Belgium, Germany, Holland, Italy, Peru, Scandinavia and Switzerland. Product launches include men's and boys' footwear and men's sunglasses as well as Tommy Jeans. Hilfiger opens a 20,000-square-foot flagship on Rodeo Drive (which it closed in 2001).

1999: Distribution expands to Denmark. Product launches include girls' 4-16, women's handbags, color cosmetics, European tailored apparel and Freedom Fragrance for Her and for Him. Hilfiger opens a specialty store on New Bond Street in London.

2001: Hilfiger buys the license for Tommy Hilfiger Europe from T.H. International NV for $200 million in cash.

2002: The company reveals that it will close 37 of its 44 U.S. stores.

2003: Hilfiger steps down as chairman of his company, assuming the title of honorary chairman and principal designer. Then-chief executive officer Joel Horowitz takes over as chairman.

2004: Hilfiger signs Beyoncé Knowles as the face of True

Hilfiger in $3 Billion Deal

have a lot of room to do it. The leverage will be close to 3.6 times EBIDTA and within two years, we'll be below 2.5 EBIDTA. We should be in good shape and we're not overextending ourselves at all. Both businesses generate a lot of cash," he added.

As for Hilfiger himself, he doesn't foresee drastic changes in the way the business will be operated under PVH.

"It's the brand I gave birth to 25 years ago and would like to be with forever," said Hilfiger, who added he has a lifetime contract with the company. "The opportunities in women's wear are very big for us. Eventually I'd like to expand our home area and accessories on the men's and women's side; our shoe business is now growing, and I expect we'll launch more fragrances," said Hilfiger. He said the plan is to keep its 601 West 26th Street offices in New York, where he and the merchandising teams are based.

As for the price PVH is paying, Hilfiger said, "I think that the plan is that they'll pay down the debt fairly quickly with their combined revenues."

Whether he feels PVH will be able to spend lavishly on freestanding stores and fashion shows, Hilfiger replied, "They've spent money on Calvin Klein advertising and fashion shows. They've stayed the course. It convinces me they respect the integrity of the designer and the brand."

As for sharing the designer spotlight with Calvin Klein, Hilfiger said, "I think we're not in direct competition. Calvin is modern and we're more traditional."

"I couldn't think of two more complementary businesses in Calvin Klein and Tommy Hilfiger," said Chirico, on the conference call to analysts. "I think the opportunity here is to be more efficient and add to the profitability of both companies. By 2011, we're looking at a trend of $40 million in cost savings."

He also noted on the call, "This deal is not about cost-saving synergies but about growth for Tommy and for the PVH legacy brands. Sixty-five percent of Tommy Hilfiger's revenue comes from outside the U.S. while 90 percent of PVH revenue comes from inside the U.S.

"We're not planning anything heroic in terms of revenue growth. We're looking at very conservative growth rates of 5 to 6 percent. We're not being heroic from a revenue point of view," added Chirico.

PVH expects the transaction to be immediately accretive to earnings per share before one-time costs and accounting charges. PVH said it expects earnings accretion of 20 cents to 25 cents per share on a non-GAAP basis in the 2010 fiscal year ending Jan. 30, 2011, and earnings accretion of 75 cents to $1 per share in the 2011 fiscal year ending Jan. 29, 2012. The 2010 earnings accretion estimate excludes one-time cash integration costs and transaction expenses of about $100 million related to the transaction, or approximately $1 per share.

A style from Calvin Klein's fall line.

HILFIGER RUNWAY PHOTO BY ROBERT MITRA; KLEIN RUNWAY BY JOHN AQUINO

The investment community generally gave the PVH-Hilfiger merger a thumbs-up Monday.

"It is certainly an industry-defining transaction. While the price is high, the platform is significant on a global basis," said Gilbert Harrison, chairman of Financo, Inc., the boutique investment banking firm that specializes in the fashion and retail sectors. "PVH took a major risk in the past with the acquisition of Calvin Klein and it certainly was successful. I have tremendous respect for what Manny Chirico has done and the insights which he has. While the debt is higher than usual in this type of deal, the cash flow will support it."

Clifton S. Robbins, ceo of private equity firm Blue Harbour Group, a minority investor in PVH holding 1.5 million shares, said, "This transaction opens global opportunities and is highly accretive to shareholders. We have been a lead shareholder in PVH for two years and know the company's management to be both creative in building shareholder value and skilled in integrating acquisitions."

Equity analysts and consultants seemed equally positive toward the deal, even though the $3 billion transaction value is $300 million more than PVH's $2.7 billion market cap on Monday, according to Yahoo Finance.

According to Eric Beder, analyst at Brean Murray, Carret & Co., "This is a solid deal as it leverages each other's positives. PVH adds an international presence, and Tommy gets a nice price and the revival of its U.S. business, and you have contribution to earnings per share. That's all you can ask for in a transaction....The only negative is $2 billion more of debt, so the company is not going to do another acquisition for awhile, but the free cash flow will pay down the debt."

With $300 million in free cash flow from Hilfiger's operations, Beder estimated an EPS contribution of between 75 cents to $1 for fiscal year 2011 and between 20 cents to 25 cents for fiscal year 2010.

Beder didn't think the transaction would take away any attention from PVH's other brands. In fact, he pointed to growth in the Calvin Klein business. "The growth is international, and that's mostly done by Warnaco [Group Inc.], in which PVH collects a licensing fee," he said, explaining the Hilfiger deal won't slow Calvin Klein growth internationally.

In a research note issued Monday afternoon, Beder reiterated his "buy" rating on PVH and raised his target price for PVH to $73 from $55. He also raised fiscal year 2010 EPS estimate to $3.50 from $3.24 and projected fiscal year 2012 EPS at $4.56.

Christopher Kim, analyst at JP Morgan, said, "This is a good deal. The story is about working to each company's expertise. Tommy has a strong platform in Europe and its relationships with its wholesale partners is strong, which is what PVH is looking for. This gives PVH the opportunity to expand brands it owns outside of Calvin Klein into the European channel where it has zero exposure. It also gives Tommy the ability to leverage PVH's strengths in the domestic channel."

Kim also saw opportunities in Asia for the combined PVH-Tommy entity.

"PVH paid a lot for the deal, but they also did it at a premium to keep everyone else out of the deal. Was it too expensive? I think PVH is a smart company and that they studied the transaction for a long time. They didn't just jump into the river. They bought the best boat to paddle down the river," said Andrew Jassin, managing director of Jassin Consulting Group. "

Walter Loeb, retail consultant at Loeb Associates, believes that "while Tommy is big in Europe on an international level, and less so here domestically, the brand will get greater universal acceptance under PVH's ownership. This $3 billion deal makes PVH an even more important factor in the industry. While it is a huge transaction for PVH dollarwise, PVH also has the ability to hire the people it needs to support the acquisition."

"You don't have to rely on a lot of cost synergies to make this work," said Rosemary Sisson, debt analyst at Knight Libertas. "They're just kind of putting the businesses together and their upside is going to be what happens down the road. They didn't bake everything into the numbers. It is so characteristic of this management team to not be overly aggressive and just kind of paint the picture."

Sisson said nothing could be taken for granted and that PVH still has to procure the debt necessary to fund the transaction.

"It's more likely that it gets done than not if they do a good job on the road show," she said, referring to the series of pitches PVH will make to banks as they try to borrow money. "It still is apparel and the credit markets are not particularly fond of the apparel market."

The prospect of the additional debt to take on Hilfiger prompted Moody's Investors Service to put all of PVH's credit ratings on review for possible downgrade. Assuming the transaction goes through as envisioned, Moody's expects to cut the firm's corporate family debt rating one notch to "Ba3" from the current "Ba2," one step further into speculative or "junk" territory.

"The combined firm will have much better diversification and scale," said Scott Tuhy, debt analyst at Moody's, noting the additional debt would invariably weaken credit metrics.

— With contributions from Vicki Young, Evan Clark, Samantha Conti and David Lipke

Star to boost his fragrance business; the better-priced H Hilfiger collection launches exclusively at 120 Federated stores with a $10 million marketing budget, and an investigation by the U.S. attorney's office in Manhattan begins as a result of 10 shareholder lawsuits filed against the firm. In December, the designer reveals that he is buying trademarks for the Karl Lagerfeld name, including Lagerfeld Gallery.

2005: Hilfiger halts the delivery of the H Hilfiger collection with plans to concentrate the line in its own retail stores; the designer's reality show "The Cut" makes its debut on CBS, and the investigation against him is completed with him cleared.

Product launches include True Star Men's fragrance with Enrique Iglesias and True Star Gold, the second women's fragrance under the True Star name and inspired by Knowles. Tommy Hilfiger Europe opens the first store in Paris. Other store openings include Austria, Germany, Greece and Ireland.

2006: On May 10, Apax Partners acquires Hilfiger for $1.6 billion, and it becomes a private company. Fred Gehring becomes ceo of Hilfiger Group.

Product launches include children's footwear in Europe. The brand also launches Tommy 10, an updated version of tommy and tommy girl in celebration of the fragrances' 10th anniversary.

2007: Hilfiger acquires Tommy Hilfiger Footwear in Europe, Tommy Hilfiger Japan Corp. and Li & Fung acquire Hilfiger's global sourcing operations.

2008: The company relaunches tommy.com, an updated version of the global Web site with new content and creative. In the fall, Hilfiger's U.S. sportswear becomes exclusively sold at Macy's and brand specialty stores. Product launches include Hilfiger, a men's fragrance.

2009: The company launches hilfigerdenim.com, a site that combines artists and emerging talent with Hilfiger Denim fashion. In September, company opens a 22,000-square-foot Fifth Avenue global flagship, the largest store in the chain, featuring runway collection, men's wear and men's tailored, women's wear, accessories, Hilfiger Denim, as well as vintage. The company assumes control of the wholesale and retail distribution in Turkey. Product launches include U.S. children's wear sold exclusively at Macy's and brand specialty stores.

2010: On March 15, Phillips-Van Heusen Corp. acquires Tommy Hilfiger for $3 billion.

— Lisa Lockwood