

Sun Capital putting Anchor on block

by Kelly Holman [Posted 01:50 EST, 14, Oct 2004](#)

Sun Capital Partners Inc. has put teenage apparel retailer Anchor Blue up for sale and hopes to garner \$210 million or more for the purveyor of Quicksilver and Dickies clothing, sources familiar with the situation say.

The Boca Raton, Fla.-based private equity firm has hired Duff & Phelps LLC to run an auction for the Ontario, Calif.-based company, according to sources. Duff & Phelps is expected to distribute deal books in coming weeks, but in the meantime has informed potential buyers via the phone, buyout market sources said. Rumors have swirled for weeks that Anchor Blue would be sold, said retail investment bankers in California.

Officials from Sun Capital and Anchor Blue did not return calls seeking comment, while Duff & Phelps declined to comment.

Sun acquired the chain just 10 months ago, in January, for an undisclosed sum.

Anchor Blue, which also sells its own Anchor Blue clothing line and accessories, has roughly 220 stores in California and the Western U.S. The company, which also runs the retail outlet chains Levi's by M.O.S.T. and Millers Outpost, sells a variety of apparel, including denim jeans, t-shirts, hooded fleece sweatshirts, graphic-imprinted women's tops and belts and accessories.

Under Sun Capital and Anchor Blue chief executive Michael Bush, the retailer's Ebitda has grown to more than \$30 million, compared with about \$13 million at the time of Sun's acquisition, according to sources. The company has roughly \$325 million of sales, sources said.

Anchor Blue has improved earnings by closing unprofitable stores over the past year. The company's management has also hatched plans to expand the business by entering new markets, said a source.

The timing for the new plan could be ripe, say industry observers.

"The juniors business goes hot and cold, but the whole denim business has been very hot in the last few years," said Alex Meshechok, managing director of Corporate Solutions Group LLC, a New York investment banking boutique specializing in the fashion industry.

Anchor Blue could easily command a purchase multiple of 7 times Ebitda or higher, Meshechok said. The dealmaker pointed to publicly traded comparables like **Pacific Sunwear of California Inc.** and similar companies that are trading at multiples north of 8 times Ebitda.

Howard Davidowitz, chairman of Davidowitz & Associates, a national New York-based retail and consulting investment banking firm, questioned the company's future prospects.

"Would you want to be in the denim business and going up against the Gap, Aeropostale, Abercrombie & Fitch and Pacific Sunwear?"

Davidowitz said competition is intense in the denim apparel business, but intense competition hasn't stopped retailers like JC Penney Co. from revamping its merchandise to attract younger buyers, and bolster sales.

The Gap has plans to target an older audience while Aeropostale is tailored to a preppier niche than Anchor Blue, which caters to an "edgier" aesthetic, said one market source.

The company is likely to attract attention from financial sponsors to specialize in retail businesses, such as Bear Stearns Merchant Banking, Freeman Spogli & Co., J.W. Childs Associates LP, Leonard Green & Partners LP, Gryphon Investors and the Shansby Group, said one financial sponsor banker in California.

Sun Capital's portfolio includes household retail businesses like Music land Group, the operator of the Sam Goody, Media Play and Suncoast chains; Wick's Furniture; Bruegger's Bagels and Mervyn's department store.