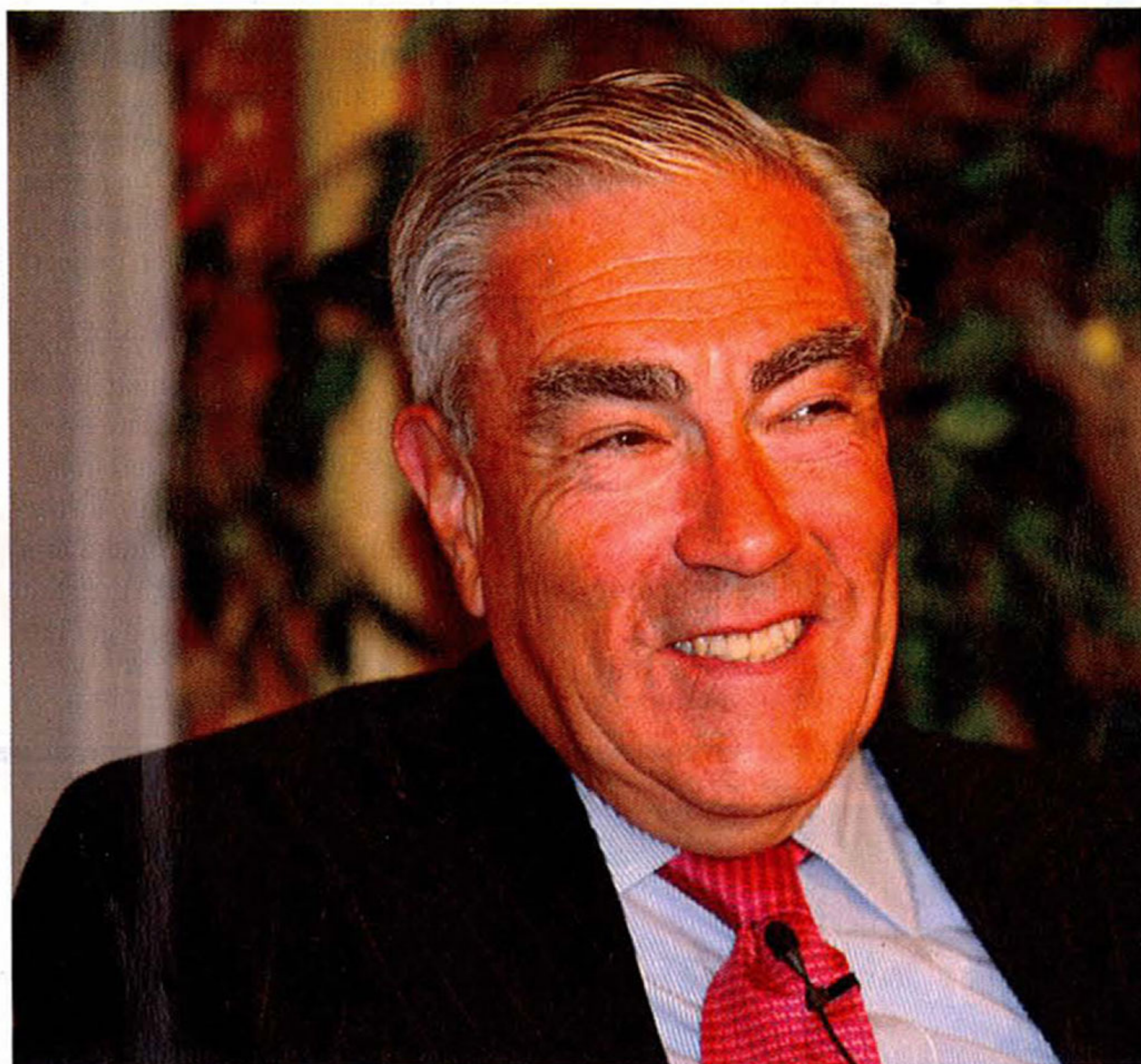


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FINANCO INC.

Relationship adviser

Financo's Gilbert Harrison has built a four-decade-old investment bank for a who's who of retailing



Harrison and Harmonie Club
handshakes and ties

BY RICHARD COLLINGS

IF BUILDING TRUST through relationships is key to your business, then few places express that better than the Harmonie Club on New York's Upper East Side. More than a century old, the club is a place where carved wood paneling gleams under gentle lights, men wear ties, and a handshake is proverbially as good as a signature.

Indeed, that's where New York-based investment bank Financo Inc. held its 21st-annual Financo Forum, one of the hottest tickets in retail. The forum attracts a who's who of retailing, including J.Crew Group Inc. CEO Mickey Drexler and Stephen Sadove, chief executive of Saks Inc.

In fashion and retail, relationships are the key to threading the needle on a successful deal. No one knows this better than Financo founder and chairman Gilbert Harrison, 70, whose Rolodex boasts more than 3,000 names from around the world.

Harrison has done a lot of deals in four decades at Financo. Relationships, he says, are more than just building trust. "Many don't believe in relationship banking," he says. Without an intimate understanding of the parties, he says, you lack a strong base to build on, and you run the risk of conflicts after the ink has dried. The rag trade is an industry often described as a family, in which companies, private and public, and knowledge pass from one generation to the next, and editors, designers,

executives, store buyers and financiers mix with one another.

It's the kind of knowledge private equity firms, lacking retail experience but sitting on piles of cash, could benefit from, he says.

For example, over the past several years Financo has served as the financial adviser to Stuart Weitzman LLC, a private New York-based shoe company that sold a minority stake to private equity firm Irving Place Capital in 2005 and a 55% stake to publicly held New York-based Jones Apparel Group Inc. for \$180 million in June 2010. Stuart Weitzman will sell to Jones the remaining 45% on Dec. 31, 2012, for cash at a multiple of adjusted Ebitda utilizing a contractually predetermined formula, Harrison says.

Financo also facilitated the sale of a minority stake in JA Cosmetics Corp., which does business as e.l.f., an innovative and fast-growing business with revenue around \$80 million, to private equity firm TSG Partners LLC.

Currently, Financo is also conducting strategic work for New York-based Liz Claiborne Inc., and has completed a number of deals for Hong Kong-based apparel and hard-goods supply chain manager Li & Fung.

On a recent March afternoon, Harrison sat in his corner office, its walls cov-

ered in plaques and news clippings, at Financo's new headquarters on, appropriately enough, Madison Avenue. He is dressed in one of his dark tailored suits, which he buys from either Ralph Lauren, Brooks Brothers or Saks.

What was the most memorable deal he ever participated in? The sale of Marshall's, a unit of Melville Corp. (now drug retailer CVS Caremark Corp.), to TJX Cos. in 1995, he quickly says. Discount retailer Marshalls was valued at \$550 million at the time. TJX, he says, went from a market capitalization of more than \$1.1 billion when the deal was announced to \$11.6 billion by 2005, and its net income surged from \$83 million to \$664 million.

Although Financo is considered a boutique middle-market retail and consumer products investment bank, it has clients around the globe working with global brands such as Giorgio Armani, Fendi, L'Oréal, Missoni, Lanvin and Christian Dior. "I truly believe in a global economy," he says. To be an effective banker in retail and apparel, you have to have a global perspective.

He quickly offers a rundown of the BRIC nations—Brazil, Russia, India and China. Russia, he says, is a great market in terms of potential consumers and growth, but the currency is weak and there's little confidence the government will respect private property.

India has tremendous wealth, but its middle class is broadly defined as those making between \$5,000 to \$10,000 a year. So it's difficult to sell goods at full price and realize healthy margins.

The biggest hurdle to selling in Brazil is import duties, unless you produce there.

If you want to do business in China, or more generally Asia, you have to understand that response times take longer, and parties will often negotiate and renegotiate a deal. Patience is required in Asia, adds Harrison. Out of every 100 transactions he works on, only 10 may pan out.

Harrison left a law career at Philadelphia-based law firm Blank Rome Klaus & Comisky LLP to

start Financo in October of 1971. As an associate, he was making well under \$100,000 a year. But the business brokers he worked with, he says, were raking in \$100,000 in fees on a single deal.

A little more than three months later, Financo advised on its first deal and collected \$800,000 in fees, roughly \$3 million in today's money, he says.

While at Blank Rome, Harrison advised a number of merchandisers going public, such as Shoe Town and Alexander's Inc., the now-shuttered department store chain. Many of those same entities enlisted his services as a banker. "One deal beget another," Harrison says.

In 1985 he sold Financo to Shearson Lehman Hutton Inc., then bought it back in 1989.

TODAY, FINANCO HAS 19 bankers and operates out of four locations. Not only does Financo advise on M&A and divestitures, but it also structures and sources debt, including mezzanine, and consults on strategy, licensing, sourcing, retail planning and manufacturing.

In addition to events such as Financo Forum, the firm also sponsors scholarships at New York's Fashion Institute of Technology. Harrison says he is working with young, critically acclaimed designer Wes Gordon, who he says may be the next Ralph Lauren.

Meanwhile, the world keeps changing. At Financo Forum this year, Internet executives edged aside the old guard of merchant princes and department store execs on the panel that follows the annual dinner. Stephen Zangre, Facebook Inc.'s director of media sales; Chip Wilson, Lululemon Athletica Inc. founder and chairman; Ben Fischman, chief executive of Rue La La; and Daniel Schock, retail industry director for Google Inc., discussed how the Web is changing consumers.

These may well be the new realities. But Harrison still holds to the belief that relationships and institutions that have played such a key role in the past will do so in the future. He's got four decades of success as proof. ■