

## **Calvin Klein brand is united in \$2.9 billion deal**

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While most of the city hunkered down as Hurricane Sandy approached, two big New York apparel companies put the final touches on a \$2.9 billion deal that would bring Calvin Klein shirts, jeans and underwear under the same roof.

PVH Corp., **PVH +20.21%** a clothing maker whose brands include Tommy Hilfiger, Izod and Calvin Klein sportswear, agreed to pay **\$51.75** in cash plus nearly a fifth of a share of its stock for each share of Warnaco Group Inc., **WRC +38.72%** which licenses the Speedo brand and Calvin Klein underwear and jeans.

The deal, expected to close early next year, would unite the Calvin Klein brand at a single manufacturer and give PVH a bigger global footprint, especially in emerging markets, said PVH Chief Executive Manny Chirico, in an interview.

It offers Warnaco shareholders \$68.43 a share, a 34% premium, based on Tuesday's closing prices for both stocks.

Investors cheered the deal Wednesday. Warnaco shares were up 39% at \$70.58 in 4 p.m. trading on the New York Stock Exchange and PVH shares gained 21% to \$109.99. Both stocks hit all-time intraday highs Wednesday, the first day the market was open after a two-day shutdown for Hurricane Sandy.

The acquisition is the second big purchase for PVH in just over two years, and will increase its clout with the department stores that sell much of its merchandise. The apparel company isn't a household name, though it owns many well-known brands. In 2010, it agreed to buy Tommy Hilfiger for about \$3 billion, making it the biggest menswear supplier to retailer Macy's Inc. **M - 1.07%**

PVH and Warnaco had talked on and off about a merger for eight years, but circumstances were never quite right. The discussions started in 2003, before either Mr. Chirico or Warnaco's CEO, Helen McCluskey, were in their posts, Mr. Chirico said.

PVH had just acquired the Calvin Klein license that covered women's sportswear and men's shirts, and was interested in bringing Calvin Klein underwear and jeans into its fold, he said.

PVH and Warnaco had tried to buy one another or merge at least six times over the past few years, depending on which company's stock was higher at the time, said Ken Berliner, president of Peter J. Solomon Co., PVH's lead adviser on the deal. A previous round of talks ended in 2010 after the Tommy Hilfiger acquisition made PVH a much larger company than Warnaco, a person familiar with the deal said.

"Because of market conditions and situations that came up, we could never pull it off," Mr. Chirico said.

The talks resumed this summer. In June, Mr. Chirico met Ms. McCluskey at Da Umberto, an Italian restaurant in Manhattan's Chelsea section, and brought up the idea of an acquisition, said Ms. McCluskey, who later presented the idea to her board.

PVH initially offered \$62 a share, Mr. Berliner said. As recently as a few weeks ago, Warnaco came back with a \$69-a-share counterproposal, he said.

The companies wrapped up final details over the past three days in New York, a process that was complicated by Hurricane Sandy's arrival. The negotiating teams relied heavily on cellphones, Mr. Chirico said.

Bankers and advisers congregated at apartments, rather than offices, because of power outages, said Mr. Berliner. At one point, as meetings continued Tuesday, Mr. Chirico called his

advisers from a church parking lot because it was the only area with a cellphone signal, Mr. Berliner said.

To keep the talks secret they used code names in their internal discussions. PVH referred to Warnaco as "Wand" and called itself "Prince."

"We had a Harry Potter thing going on," said Mr. Chirico.

Warnaco called itself "Wahlberg," a nod to the 1990s Calvin Klein ads that featured actor Mark Wahlberg in his underwear.

Both companies' boards met in Manhattan Monday, with many directors dialing in. The deal was sealed Monday night, and the companies planned to announce it Tuesday, but pushed the announcement to Wednesday because the stock market was closed, said the person familiar with the talks.

The deal comes at an odd time for Warnaco and Ms. McCluskey, who just took the CEO job in December. The executive presented her own strategic plan for the company earlier this year.

"From a personal standpoint, sure I would have loved to see our strategic plan through to its conclusion," Ms. McCluskey said. "But our focus is on shareholder value."

Mr. Chirico said uniting the Calvin Klein empire will boost the growth of that brand, whose sales have expanded by around 13% annually in recent years.

In addition, acquiring Warnaco will help PVH's brands expand internationally. The bulk of PVH's business is in the U.S., and the company has a sizable presence in Europe. Warnaco, meanwhile, has factories, retail operations and management in Asia and Latin America, two fast-growing markets where many apparel makers hope to expand.

"It would have been very expensive and time-consuming to try and set that up ourselves," Mr. Chirico said.

Lauren Taylor Wolfe, a managing director at hedge fund Blue Harbour Group, which owns 3% of Warnaco's shares, said the deal could be particularly useful in expanding PVH's Tommy Hilfiger business in emerging markets. Blue Harbour has advocated a merger between the two companies for years, she said.

PVH expects the deal to add to its earnings in the first full year, excluding integration costs that it says will come to \$175 million over three years. The company's revenue rose 27% to \$5.9 billion in the fiscal year ended Jan. 29, driven by the Tommy Hilfiger acquisition. Its profit climbed to \$318 million from \$54 million.

Warnaco's revenue rose 9.5% last year to \$2.5 billion, but its profit fell to \$127 million from \$139 million amid restructuring charges.

In addition to Peter J. Solomon, PVH's advisers on the deal were Barclays~~BARC.LN - 4.73%~~ PLC, Bank of America Merrill Lynch, Citigroup C +2.16% and law firm Wachtell, Lipton, Rosen & Katz. Warnaco was advised by J.P. Morgan Chase & Co. and law firm Skadden, Arps, Slate, Meagher & Flom.

**Fonte: The Wall Street Journal , New York, 31 Oct. 2012, Internacional.**