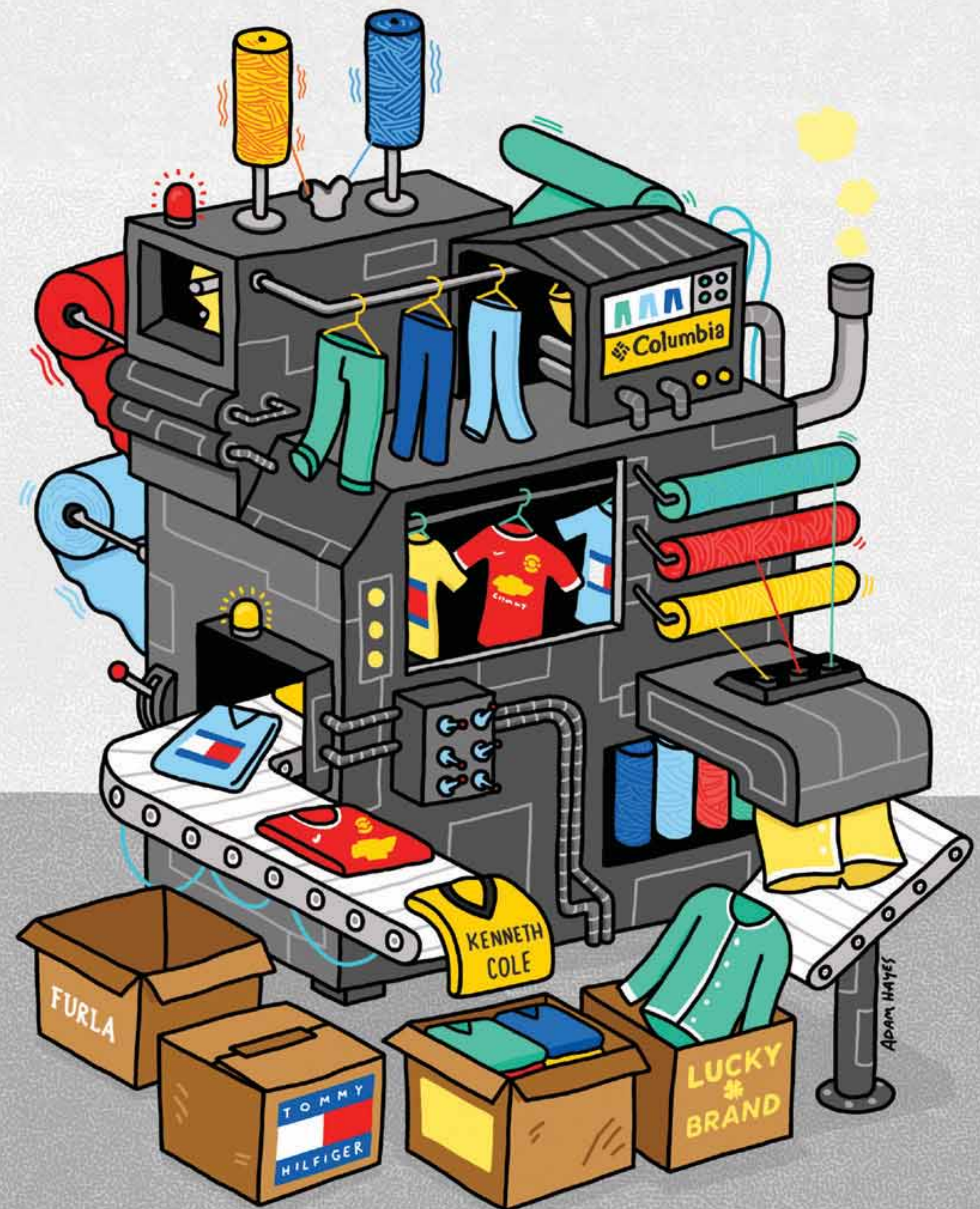


The Dealmaking Machine

Omnichannel retailing and changing consumer preferences are driving brand licensing deals.

By ARTHUR ZACZKIEWICZ

Illustrations by ADAM HAYES

When it comes to brand licensing deals, the retail, apparel, beauty and accessories markets are all in a state of flux and eager – some even argue overdue – for growth.

While the publicly traded brand management companies wrapped up 2015 with extremely steep declines in their stock values, analysts see opportunities in that segment of the branding business as the debt market remains bullish on financing intellectual property deals.

For merchandise licensors, industry sources expect 2016 to see more activity than last year – especially with Walt Disney's consumer products group, PVH Corp. and Meredith Corp. inking more deals.

Meanwhile, smaller transactions that involve celebrity licensing, brand extensions and co-branding deals are positioned for continued growth – with some caveats, which could include a shift away from celebrity fragrance licenses as that segment of the beauty market struggles. Elizabeth Arden Inc. said in its recent quarterly results report that its celebrity scents business was down.

That doesn't mean celebrity is passé – just look at the clamor over Kendall and Kylie Jenner's new contemporary collection produced under license by 3072541 Canada Inc. and Marc Fisher Footwear. The collection already is carried by Neiman Marcus, Bloomingdale's, Nordstrom and Saks Fifth Avenue. The line's second season, fall, was unveiled at a bash in New York Monday ahead of New York Fashion Week.

The global branding business generated more than $250 billion of retail sales last year, according to Statista. So far this year, there has been a flurry of licensing transactions in the fashion, beauty and accessories segment.

Jeff Lotman, chief executive officer of Global Icons LLC, said, "Across the board, we are seeing companies with expertise in sales, marketing and sourcing that utilize their budgets to license a brand versus building it.

"Let's face it, there is too much competition for shelf space, consumers' foot traffic – and retailers need well-loved brands to compete for the consumers' wallet," Lotman said, adding that, as a result, he is "witnessing an uptick in deal flow for many brands, especially for exclusive retail launches, and it is not going to let up anytime soon."

Mitchell Stein, an attorney at New York-based Sullivan & Worcester, agreed and noted an increased push in marketing lifestyle brands. "Having a lifestyle brand means more loyal customers across a wider range of products, but the risk to the licensors is the same risk inherent with any licensing arrangement – potential weakening of control over the branding message.

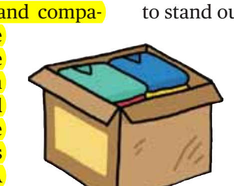
"The recent burst of licensing deals for the most part is driven by licensors' desire to build out their brands into full-blown lifestyle brands and whether this new strategy is successful will be decided on a license-by-license basis," Stein said. "Licensors are identifying weaknesses in their brand portfolios and rather than tackling the issue in-house, they're looking to outside experts with proven track records to step in and plug in the gaps."

A look from Kendall and Kylie Jenner's new contemporary collection.

"It's the quality of product or products that a celebrity will attach to, and ones that show a strong public relations and marketing presence."

Adrienne Mazzone, TransMedia

Andrew Apfelberg, branding and licensing partner at Greenberg Glusker, said the volume of deals has swelled because the marketplace is more crowded and competitive and companies are hungry to grab ever-more market share. Deals also add value to the companies involved. "From a transactional perspective, brand licensing deals can greatly enhance interest and valuations for financings and acquisitions," Apfelberg said. "A powerful example is the nail lacquer company OPI Products. (Apfelberg designed the co-branding program for the company, whose celebrity partners include Carrie Underwood, Kerry Washington, Katy Perry and Mariah Carey, among others.) While not all companies are eying a transaction in the short term, they are wise to consider steps they can take to make a transaction more likely and more fruitful down the road. Business owners are aware of the consolidation in the industry and the prudent ones are trying to stay ahead of that curve."



Allison Ames, ceo of Beanstalk, a global brand extension agency based in New York, said, "Brand owners are increasingly seeking omnichannel marketing platforms to reach consumers and brand licensing and co-branding are great competitive weapons. The momentum will only continue in 2016 as smart brand owners use licensing to stand out in their industry."

Amy Wenslow, principal at Products to Profits, also expects an increase in deal activity this year. "Yes, the pace of licensing deals, co-branding and cross promotions will continue accelerating [this year]," she said. "Basically, brands are looking to leverage another company's reach and brand following. Much of the valuation of a business is from its database, systems and brand equity. Licensing and co-branding allow it to increase revenue with less effort by running more product through existing distribution. Fashion or accessory businesses, as well as personalities, can all use the strategy."

With celebrity deals, Adrienne Mazzone, president of TransMedia Group, noted that product quality and marketing play key roles. "It's the quality of product or products that a celebrity will attach to, and ones that show a strong public relations and marketing presence."

For celebrity-backed fragrances, the overall market may be slowing. Mazzone said the branding market is "all about influencers in social media and ones that are fans of certain celebrities that companies are seeking."

Heather McAvoy, president and founder of juniors accessories company Love and Madness, has co-branded collections with AMC's "The Walking Dead" as well as Disney, Star Wars, Tokidoki and Care Bears.

For her part, McAvoy said the "retail climate is continuously evolving due to an incredible demand to consistently give customers the next big thing, and the licensing landscape has changed in response.

"Collaborations and co-branded collections run parallel to what's 'now,' and merging names allow brands to constantly innovate and stay relevant," McAvoy added. "With the power of social media and viral promotion, licensed partnerships will only become stronger in coming seasons. Consumers want to be a part of it all."

"Brand licensing deals will continue to build momentum in 2016 and beyond," Apfelberg said. "As companies watch their competitors gain market share, brand awareness and identity and rack up significant sales, they are almost certain to jump into the fray."

In the brand management segment, Eric Beder, equity analyst at Wunderlich Securities Inc., recently reiterated "buy" ratings on Cherokee Inc., Sequential Brands Group and Xcel Brands as well as a "hold" rating on Iconix Brand Group – all due to "material weakness in the segment during the second half of 2015, and "driven by internal issues, loss of major customers and a general malaise for the group, as investors increasingly worried about debt, perceived management issues and a step back by the group from registering highly predictable top- and bottom-line results."

"We believe the segment has moved from a consumer investor darling space to a somewhat of a 'show me' segment," Beder said adding that the Wunderlich Brand Licensor Index dropped 50 percent during the second half of last year. "That said, we do believe the pieces are in place for the brand licensing sector to once again return to prominence in 2016, and we believe there remain highly material positive catalysts on the horizon for the group."

Beder said despite the stock valuation declines for these companies, "the market for brand licenses remained wide and varied, with multiple players utilizing creative methods to close deals and fit acquisitions within the brand licensing model."

The analyst said he expects no slowdown in financing deals by debt. "In fact, we view the debt markets as extremely open to financing acquisitions of intellectual property and, given current equity valuations, probably one of the few viable options to getting deals done in 2016," he said. ■

Licensing Deals YTD

Since Jan. 1, there have been more than 20 licensing transactions. Here, some noteworthy ones in the fashion apparel sector.

TOMMY HILFIGER + GIII

Tommy Hilfiger Licensing LLC, a wholly owned subsidiary of PVH Corp., inked a multiyear licensing agreement with **G-III Apparel Group** to design, produce and distribute Tommy Hilfiger women's wear collections in the U.S. and Canada.

LUCKY BRAND + MYSTIC INC.

Lucky Brand signed a licensing deal with **Mystic Inc.** to design, manufacture and sell an outerwear collection, which is expected to be in stores this June.

CHAUS + ITEM HOUSE INC

Bernard Chaus Inc., a subsidiary of Camuto Group, signed a licensing deal with **Item House Inc.**, a women's and men's outerwear firm, to manufacture and market women's outerwear under the CeCe label.

FURLA + MORELLATO

Furla entered into a five-year licensing agreement with Italian manufacturer **Morellato** to design and produce its first watch line, which will be positioned in the premium segment of the market.

SHAPE + APPAREL BRIDGE LLC

Meredith Corp. has two licensing deals for the company's Shape and EatingWell properties for activewear and frozen food. The **Shape** deal is with **Apparel Bridge LLC** for Shape Active, an activewear line for women.

TIFFANY & CO. + COTY

Coty Inc. and **Tiffany & Co.** inked a deal to develop, produce and distribute Tiffany fragrances for men and women. The scents will be sold at Tiffany doors as well as in specialty stores.

PVH + TOMMY HILFIGER

PVH Corp. acquired the remaining 55 percent interest in its **Tommy Hilfiger China** joint venture.

Columbia + MARCHON

Marchon Eyewear Inc. now has an exclusive global licensing agreement with **Columbia Sportswear** to manufacture and distribute Columbia sun and optical eyewear.

KENNETH COLE + HAGGAR CLOTHING

Kenneth Cole Productions Inc. signed a new, expanded agreement with **Haggar Canada Co.** to manufacture, market and distribute men's and women's apparel as well as distribute men's and women's footwear.

Columbia + Manchester United

Columbia Sportswear and **Manchester United** teamed up on an outdoor apparel line. Columbia will design and create "dual-branded" outerwear for outdoor activities.