Apparel M&A

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Industry Insights

Early Winter 2023

Apparel Industry Insights

Executive Summary

While the macroeconomic and geopolitical backdrop resulted in a general sense of uncertainty that has slowed growth in 2023, we have observed clear signs of improved consumer sentiment and overall market conditions as we near the end of the year. U.S. GDP grew at a 5.2% annual pace in Q3 2023, a meaningful increase from the growth observed in the second quarter. Meanwhile, inflation continued to moderate down to 3.2% for the 12 months ending October 2023 vs. 7.7% the previous year. Capital markets also rebounded with the SPX index up 18.6% year to date as of November 29, 2023. Lower volatility and the anticipation of a pause (or slowing of) rate hikes drove several issuers to test the IPO market, prompting others to consider accessing the public market later this year and into 2024.

Although M&A activity declined in 2023, we expect deal volume to pick up in Q4 2023 and into 2024. Companies have regained confidence in establishing defensible near-term outlooks, and we have seen both strategic and private equity buyers continue to be active in the market. They remain receptive to exploring new opportunities despite the recalibration of the financing markets, which have resulted in private investors taking a bit more of a cautious approach to capital deployment. Nevertheless, we are optimistic on M&A, bullish on the consumer and confident that apparel companies with strong, demonstrable growth and margins will create a "scarcity value" that will be highly attractive in the market.

As of the date of this report, median LTM EV/EBITDA multiples for apparel and retail were at 9.1x and 6.9x, respectively. Within the apparel space, the active subsector garnered the highest valuation at 13.5x, closely followed by the footwear category at 11.5x.

See page 28 for data sources.

Trends and Insights

Trends and Insights

Generation Zest

Gen Z is the largest generation, accounting for around 25% of the world's population, and has an outsized impact on culture and economy. In the U.S. in particular, Gen Z is coming into its own with a purchasing power of $360 billion. As the first digitally native generation growing up under the lens of technology, social platforms have given companies across categories the ability to connect with Gen Z and access some of that available purchasing power.[1]

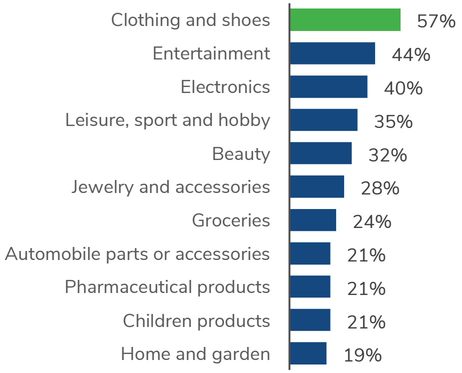
Notably, clothing and shoes is the category that Gen Z purchases the most online and the second most offline, only behind groceries.[2] It is critical for fashion companies to capture young consumers early, as shoppers spend less on fashion as they get older.[1]

Fashion Fluidity

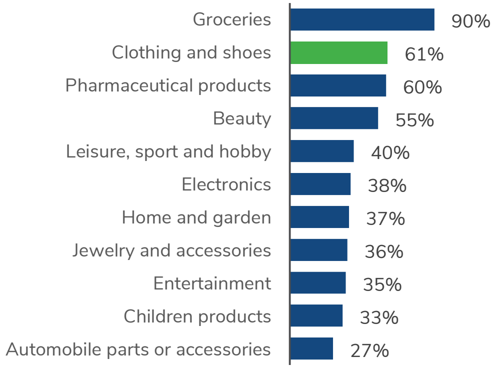
Driven by evolving cultural and social attitudes toward gender, a growing number of consumers are buying across gender-specific categories. Silhouettes, fabrics and colors no longer need to conform to traditional dress codes to sell to these consumers. For brands, the shift may be at an inflection point, prompting industry leaders to consider how to best act on changing consumer expectations.

Interest in gender-fluid fashion is driven by younger generations, particularly Gen-Z consumers, as around half of Gen-Z globally have purchased fashion outside of their gender identity. This shift toward gender neutrality in fashion is not only visible on high-fashion runways, but also in everyday shopping, with online searches for "genderless" and "gender neutral" fashion increasing year over year.[3]

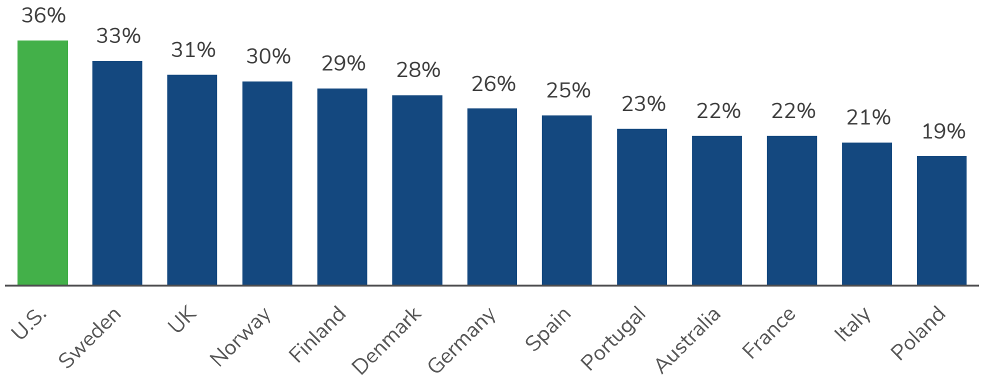
Gen Z Online Shopping Habits[2]



Gen Z Offline Shopping Habits[2]



% of Respondents Who Have Purchased a Fluid Fashion Item[4]



See page 28 for data sources.

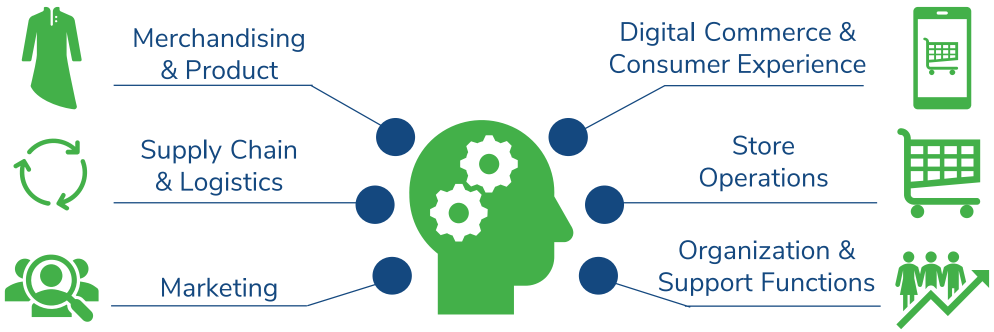
Trends and Insights

The Future of Generative AI in Fashion

As ChatGPT and other generative AI platforms have gained popularity over the last several months, fashion companies are learning how to best take advantage of these sources. AI can be implemented across the value chain, making fashion companies more efficient and aware of customer needs in real-time.[5]

Generative AI aids in bringing designs to life–transforming sketches or general descriptions into 3D, interactive designs and animations.[6] In terms of marketing, these platforms are capable of aggregating consumer data across a variety of channels and constructing viable marketing campaigns. Although there are still some issues to work through as companies implement this technology, generative AI could add between $150 billion and $275 billion in the apparel, fashion, and luxury industries over the next three to five years.[5]

Uses for Generative AI in Fashion[5]



Back to the Basics

Turning to shades of beige, white, gray and black, consumers are looking to keep simpler and fewer pieces in their closets. Heading into the fall, shoppers are increasingly buying basics and intuitively implementing minimalism back into their wardrobes.[7]

Brands like Khaite and Mango are launching lines with neutral knits and earthy shades. Gucci even joined in on the basic trends in the earlier part of the year, sporting brown blazers and loose-fitting jeans at various fashion events. Younger consumers are gradually turning to neutral clothing and topping off their outfits with loud shoes or a statement bag.[8] Since the pandemic, the line between casual and formal clothing has blurred. Neutral pieces are perfect for daytime outfits, with simple additions to turn them into "elevated basic" looks for a night out.

Keeping It Simple for Summer and Fall

GUCCI

Known for its unique and unusual forms of fashion expression, Gucci showed off this basics-inspired look during Milan Fashion Week

MANGO

Mango is popular for its Mediterranean-inspired styles for both men and women, perfect for a casual, yet chic look

See page 28 for data sources.

Sector Spotlights

Sector Spotlight | Brand Collaborations

Whether a business is taking its first steps or is an established player, partnering with another brand via collaborations can help expand brand reach and form stronger connections with new customers. Brand collaborations involve the merging of resources and expertise to create innovative products, services or marketing campaigns that leverage the strengths of each brand, thereby reaching new audiences, enhancing brand perception and creating unique value propositions. In particular, brand collaborations typically result in cost and resource optimization, as shared costs allow brands to optimize marketing efforts, product development or other operational processes to achieve significant results with less of an investment.[9]

There are several different types of brand collaborations that should be considered when evaluating the possibility of working with another business or individual: product collaborations, co marketing and influencer marketing. Product collaborations involve two brands creating a new and exciting product offering, such as LoveShackFancy's collaboration with Gap, which involved the creation of a fashion line that merges Gap's iconic styles with LoveShackFancy's vintage-inspired florals. Co marketing efforts take advantage of both brands' reputations and customer bases to create a hybrid promotional effect, such as Forever 21 and Barbie's recent collaboration ahead of the blockbuster "Barbie" movie. The emerging but effective influencer marketing occurs when a brand works with a content creator to tout its products, such as Dunkin's collaboration with TikTok star Charli D'Amelio, a partnership that led to a 45% surge in coffee sales.[10]

Brand Collaboration Effectiveness

Brand collaborations can be up to **25x less expensive** than traditional digital advertising while producing similar outcomes[10]

64% of highly collaborative businesses experienced **increased revenue growth** over a 12-month span[10]

71% of consumers enjoy when multiple brands come together to offer a unique product[11]

Recent Brand Collaborations

Forever 21 and Barbie launched a glamorous collaboration of pajama sets, graphic tees, swimsuits and more[12]

Gap and LoveShackFancy announced a limited-edition, multi category capsule collection of women's, men's, kids, and baby apparel and accessories for every generation[13]

See page 28 for data sources.

Sector Spotlight | Rewards Programs

With ongoing inflation compromising spending power, consumers are jumping from brand to brand in search of the best deals. Retailer discount rates rose 12% year over year in the second quarter of 2023, according to commerce data from Salesforce, illustrating the importance that consumers place on saving money. A solution for brands is to invest more in retaining existing shoppers rather than acquiring new ones. Brands can leverage loyalty programs that offer gentle discounts and other perks to build an engaged customer base without hurting margins. A 2022 study by marketing software platform SAP Emarsys found that of more than 4,000 people surveyed, 58% were more loyal to retailers that offered them discounts, incentives and rewards, up from 51% of respondents the previous year.

However, conventional point-based rewards programs and welcome deals have become less effective and redundant as nearly every brand has adopted some version of the same offering. According to Denia Ebersole, Co-founder and COO of payment startup Catch, "there's almost been an over-saturation in typical loyalty programs … and there probably needs to be some changes in how rewards are delivered to customers." As a result, new and innovative rewards programs are on the rise. For example, Catch has pioneered multi brand rewards programs where shoppers can pool their points and spend them across different brands.

Beyond joining a multi brand rewards program, emerging brands are cutting through the noise by rethinking how they allocate points, personalizing incentives and emphasizing products rather than discounts.[14]

Importance of Customer Loyalty[15]

65% of a company's revenue comes from repeat business

It's **5 – 25x more expensive** to acquire a new customer than to keep an existing one

77% of consumers say they've remained loyal to a specific brand for 10 years or more

Companies have a **60% – 70% chance of selling to an existing customer** vs. a 5% – 20% chance of selling to a new prospect

57% of consumers spend more on brands or providers to which they are loyal

A 5% increase in customer retention correlates with a **25% increase in profit**

An Innovative Rewards Program Landscape[14]

tayground

Ready-to-wear label Tayground doesn't have signage on its e-commerce site asking customers to join its rewards program. Instead, the company automatically enrolls repeat customers and sends small gifts with each subsequent purchase. The program, launched in 2021, is on pace to account for ~10% of sales this year.

Ourself

Beauty brand Ourself grants members of its rewards program, Ourself Society, points for simply signing up, leaving product reviews, opting to receive text message marketing campaigns and following the brand on social media platforms. Members can redeem points on an ongoing basis for credits toward a new purchase.

JENCKS HOWLAND

E-commerce jewelry label Jencks Howland will be piloting a new feature to its rewards program allowing members to receive early access to product drops rather than points toward future purchases. The brand is hoping this initiative will condition shoppers to be excited about new products rather than discounts.

See page 28 for data sources.

Recent Apparel M&A Activity

Notable Apparel M&A Transactions

- BARTON PERREIRA has been acquired by LVMH — Nov-2023
- RHONE received an investment from Investor Group — Oct-2023
- ALMOST FAMOUS has been acquired by STEVE MADDEN — Oct-2023
- Zoot has been acquired by MVC GROUP — Oct-2023
- chico's has been acquired by SYCAMORE PARTNERS — Sep-2023
- soeur has been acquired by STYLE CAPITAL SGR — Sep-2023
- bebe has been acquired by B. RILEY Financial — Sep-2023
- ITALIA INDEPENDENT has been acquired by MODO — Sep-2023
- LE PETIT LUNETIER has been acquired by NESO BRANDS — Sep-2023
- DRAPER JAMES has been acquired by CONSORTIUM BRAND PARTNERS — Sep-2023
- G-STAR RAW has been acquired by WHP GLOBAL — Sep-2023
- HERFF JONES has been acquired by ATLAS HOLDINGS — Sep-2023
- HUNTER has been acquired by BAOZUN — Aug-2023
- green sprouts has been acquired by o2COOL — Aug-2023
- PARADE has been acquired by ariela & associates international — Aug-2023
- CAPRI HOLDINGS LIMITED has been acquired by tapestry — Aug-2023
- Gianvito Rossi has been acquired by RICHEMONT — Jul-2023
- ROCKPORT has been acquired by ABG AUTHENTIC BRANDS GROUP — Jul-2023
- CUUP has been acquired by FULLBEAUTY BRANDS — Jul-2023
- SKIMS received an investment from WELLINGTON MANAGEMENT — Jul-2023
- COLTORTI has been acquired by NN COMMERCE — Jul-2023
- KIT ACE has been acquired by Unity Brands — Jul-2023
- ABG AUTHENTIC BRANDS GROUP received an investment from GENERAL ATLANTIC — Jun-2023
- Vitamin A has been acquired by SWIM USA — Jun-2023
- cinq à sept, LIKELY received an investment from BVG — Jun-2023
- aden + anais has been acquired by TRANSOM CAPITAL GROUP — Jun-2023
- zulily has been acquired by REGENT — May-2023
- LEJON has been acquired by nexbelt, TEAMPARTNERS — May-2023

Apparel and Fashion | Active Apparel and Footwear | Accessories | Retail

See page 28 for data sources.

Featured Transaction

Transaction Overview

Kroll's Consumer & Apparel M&A practice advised Jaya Apparel Group (the "Company" or "Jaya") on its sale to Brand Velocity Group (BVG) in June 2023.

"Brian and his team were critical to getting this deal done. Their knowledge of the apparel industry, hard work and creativity allowed us to close this important transaction in a very difficult market."

–Jane Siskin, CEO of Jaya Apparel Group

About Jaya
Established in 2009 by industry veterans Jane Siskin and Jalal El Basri, Jaya Apparel Group ("Jaya") quickly became a leader in the contemporary fashion space. The Cinq à Sept contemporary brand, launched in 2016, is reported to be generating $100 million through its wholesale business, freestanding store and e-commerce operation. Having previously built successful labels such as Elizabeth and James, Jaya later transitioned to focus on its owned brand strategy under the Cinq à Sept and Likely labels. Jaya's brands are sold at more than 400 points of distribution worldwide, in addition to its e-commerce site. Cinq à Sept recently launched a beachwear line called À la Plage and has a casual denim line, Tous Les Jours. Its Likely brand is an occasion-based dress line. Cinq à Sept opened its first flagship freestanding store in SoHo in April 2023. Its wholesale accounts include Saks Fifth Avenue, Neiman Marcus, Bloomingdale's, Nordstrom and Bergdorf Goodman, along with numerous specialty stores such as Tootsie's in Houston and A Line Boutique in Denver. Jaya maintains offices and showrooms in Los Angeles and New York.

About BVG
Brand Velocity Group ("BVG") is an innovative and diversified investment platform focused on investing in businesses that are well-positioned to benefit from its operational expertise, deep in-house marketing resources, and thoughtful approach toward corporate culture. BVG has deep strategic partnerships with specialty brand marketing agencies that develop and execute marketing plans across its investments. Portfolio companies also leverage BVG's strong entertainment networks to create accretive partnerships with celebrities, brands, and other businesses. In March 2022, BVG launched its Fashion and Apparel industry-focused vertical in partnership with industry luminary Gary Wassner. Gary Wassner, CEO of Hildun Corporation, has been providing factoring, financing, purchase order funding, back office support, and business guidance to the fashion industry for over 35 years. He has helped to launch iconic brands such as Marc Jacobs, Alexander Wang, Jason Wu, Thom Browne, and Betsey Johnson. BVG Fashion & Apparel leverages the firm's core competencies of operational expertise, marketing execution and brand building—in addition to its thoughtful approach toward human capital—by providing investment and support to accelerate the growth of leading fashion labels.

SELL-SIDE M&A ADVISOR

Jaya APPAREL GROUP | cinq à sept | LIKELY

received an investment from

BVG

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Ranked #1

for Global Announced Fairness Opinions for Full Year 2022[1]

[1]Based on 51 Credited Deals per Refinitiv's Global Mergers & Acquisitions Review Full Year 2022

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