

Private-equity firms turn their attention to upstart retailers

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Picking private pockets

Small retailers use equity investors' cash to build biz

BY ELISABETH BUTLER

SELLING COMMITMENT RINGS to same-sex couples has been a smashing success for LoveandPride.com. Sales are on track to hit \$3 million in the nine-month-old Web site's first full fiscal year—good enough to embolden the company's founders to lay plans for a flagship store in Manhattan and Web sites in Britain and Canada.

Chief Executive Ido Levanon is already out beating the bushes for funding. He is talking to private-equity investors: individuals and institutions eager to buy stakes in promising nonpublic companies. LoveandPride.com is one of many New York-based small- and medium-size retailers and fashion firms asking private-equity investors for money so that they can step up the growth of their businesses, or simply cash out.

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KEEPING THE FAITH
The chief executive of LoveandPride.com has just one condition for potential equity investors: Designer Udi Behr stays.

Private-equity firms eye retailers

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Private-equity firms including Bain Capital and Bear Stearns Merchant Banking have been snapping up large retail players for a while. In the past year alone, such firms have purchased prominent brands like Lord & Taylor, Tommy Hilfiger and Fortunoff. They're going after Jones Apparel Group and Foot Locker as well.

Recently, however, the money has also started to flow to the newest and smallest of retailers, some of which may not be ready or willing to invite an elephant into their tent, or to surrender some control in return for cash.

The trickle-down comes at a time when investments are setting records. So far this year, private-equity investors have announced deals worth \$155 billion, according to Thomson Financial.

"Cash has really been rolling into private equity," observes Steven Faulkner, a managing director in asset and wealth management at J.P. Morgan. "[Investors] need to look for smart plays." Retail and fashion companies are high on their wish

lists, he notes.

Nikola Evans, co-owner of Harlem-based fashion retailer N, is taking advantage of investors' willingness to look at smaller deals. Earlier this year, she landed a \$200,000 investment from a private-equity firm, which she combined with a \$350,000 loan to finance the opening of her first store.

Avoiding venture capitalists

MS. EVANS and her co-owners had originally considered going the more traditional route of seeking money from venture capitalists. In the end, they opted for private equity because the money came with fewer strings and, crucially, did not force them to surrender too big a stake.

"It was a different landscape a few years ago, when we were in the conceptual phase," says Ms. Evans. "Back then, you couldn't get private-equity investors to look at you."

Other retailers are turning to private equity as a means to cash out of their businesses at top dollar.

In March, Morgenthal Frederics Opticians founder Richard Mor-

genthal sold his seven-store Manhattan-based chain to a group of private-equity firms led by Credit Suisse First Boston for an undisclosed sum. The buyers combined Mr. Morgenthal's business with that of two other chains under the umbrella of a new company, Luxury Optical Holdings. Mr. Morgenthal has signed on with the new firm as a consultant on strategy and design.

Some entrepreneurs, though, want to continue to call all the shots. For them, the idea of private equity is a deal-killer.

A case in point is Anthony Luciano, a Manhattan designer who makes elaborate handbags out of leather, feathers and lace, and sells his wares in Bergdorf Goodman and Neiman Marcus for as much as \$6,000 each. After five years in business, he expects sales to top \$600,000 this year.

Eager to grow faster, Mr. Luciano has explored the idea of private equity, but rejected it for fear he would lose control of his baby.

"I don't want to give up what I have," he says.

However, many small retailers,

FIRST-HALF 2006 TOP LEASES, SALES

COSTAR SEEKS INFO ON REAL ESTATE DEALS

COSTAR GROUP INC. is compiling data for two lists covering the New York real estate market in the first half of 2006. The first is a list of the **largest office leasing deals** in Manhattan; the second is a list of the **largest property sales** in the five boroughs. The list of sales will include office building, apartment building and hotel transactions, ranked by deal price.

Both rankings will be published in *Crain's New York Business* on July 31.

Brokers and others with information on transactions that could qualify for either list should phone Keith DeCoster of CoStar at (866) 398-0113, or e-mail him at kdecoster@costar.com, by **Monday, July 17**.

pressured by competition from bigger rivals, increasingly feel that they have no choice but to turn to private equity.

Consolidation creates opportunity

"APPAREL COMPANIES need more scale to serve fewer, larger department stores," says David Deutsch, founder of an eponymous merger-and-acquisition advisory firm. "In many cases, private-equity firms are helping to take smaller but promising companies to the next level."

That's Mr. Levanon's plan for LoveandPride.com. The site raked in \$500,000 in revenues in its first six months, and the executive is al-

ready dreaming up ways to expand the brand, including adding apparel to the product mix.

Mr. Levanon would be willing to surrender his title in order to make LoveandPride.com successful. For a \$4 million minority-stake investment, private-equity investors could replace him with their own hand-picked CEO and grow the brand as they see fit. Mr. Levanon's only condition would be that the new management keep designer Udi Behr and his creative team in place.

"I don't have to keep my job," he says.

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