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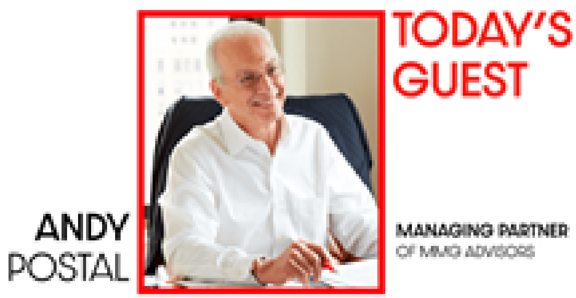
Video: Why Traditional/DTC Marriages Fit—and What's Holding Them Back

By Glenn Taylor



"Convergence" may be the word to keep an eye on in 2021, especially as traditional retailers and brands try to navigate their way through a post-pandemic world, and direct-to-consumer digital natives seek to scale in a way that is profitable.

In a recent On the Ground video, Andy Postal, managing partner at MMG Advisors, said though his firm is a "big believers in convergence," deals that are beneficial to both traditionalists and DTCs alike are difficult to achieve as they often don't see eye to eye on one big point: valuation.

"These DTC companies have been built, in my view, with a financial model that creates a fundamental mismanagement of expectations, almost from the jump," Postal said. "These companies are built where the objective is to grow, not make money. So it's growth at any cost."

Instead of focusing on the bottom line, "everyone is betting the ranch on basically being able to sell out to the bigger fool down the road at a crazy valuation," he said in conversation with Sourcing Journal president and founder Edward Hertzman.

If there's anything Postal and his team know how to get done, it's getting businesses with differing operating models on the same page prior to consolidation.

As an investment bank for middle-market consumer product, retail and fashion companies, MMG Advisors has been around the block when it comes to getting brands in front of the right operator to build a business model that generates long-term value. The company has advised on more than $5 billion worth of transactions through mergers and acquisitions, strategic alliances, management buyouts and divestitures.

Some deals in recent years may be familiar: MMG acted as the financial advisor to Gen Z-adored Supreme when private equity firms The Carlyle Group and Goode Partners invested in the streetwear brand, and served as the exclusive financial advisor to Camuto Group on its $375 million joint sale to Authentic Brands Group (ABG) and DSW. Additionally, MMG was the exclusive financial advisor to intimates manufacturer and supplier Wacoal America Inc. when it acquired digitally native intimates brand Lively for $85 million.

While all those deals took place prior to the Covid-19 pandemic, Postal argues that despite today's turbulence, retail has now become more of a seller's market, with more buyers looking to bring in a potential acquisition.

"When Covid hit, this industry did the things it needed to do very quickly. It shed payroll, it drew down its credit lines and basically hunkered down to ride out this liquidity crunch," Postal said. "While you would expect that there would be a lot of companies on the market and valuations would be falling, surprisingly the valuations have held up in this market because there's really a shortage of good companies to buy."