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IPOs, SPACs, Bankruptcies and More: What's Happening and Ahead on Fashion's Financial Front

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Retail sales are up, apparel manufacturers are scrambling to fill orders, SPAC's are hot and bankers are busy structuring merger deals and initial public offerings. It's looking like boom times again just a year and change after the onset of the Covid-19 pandemic.

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In the U.S., retail trade group National Retail Federation in the July issue of its Monthly Economic Review saw its chief economist Jack Kleinhenz note that the "great uncertainty" that clouded the nation's economic outlook at the start of 2021 has transformed into a "recovery."

"It has become clear that the U.S. economy and retail sales are growing far faster and more steadily than anyone could have expected just a few months ago," Kleinhenz said. "We are seeing not just unprecedented growth from months of pent-up demand as the economy reopens but momentum as well."

U.S. retail sales in May, at $388.6 billion, were the second-highest on record, topped only by the $414.7 billion during the height of the holiday season in December 2020. NRF last month raised its gross domestic product (GDP) forecast to nearly 7 percent for the year, far above the 4.4 percent to 5 percent forecast in February.

The global economy hit a milestone in the second quarter ended June 30, surpassing the pre-pandemic real GDP peak reached in the fourth quarter of 2019. Real GDP includes an adjustment for inflation, while nominal GDP is calculated using current prices. According to IHS Markit, the Asia-Pacific region was first to complete its recovery in late 2020. U.S. real GDP reached its new peak in May 2021. IHS economists expect Africa and the Middle East to reach their recoveries in the third quarter, with Europe and Latin America following in the final quarter of 2021.

"After a 3.5 percent contraction in 2020, global real GDP is projected to increase 6 percent in 2021, its strongest advance since 1973. Growth will continue at a robust 4.6 percent pace in 2022 before settling to 3 percent in 2023-25," Sara Johnson, IHS Markit executive director, global economics, said. "As recovery from the Covid-19 recession is completed, the global economy is moving into the sweet spot of the current expansion."

Johnson said world real GDP growth is rising from an annual rate of 1.5 percent quarter-over-quarter to rates of 6 to 7 percent over the remainder of 2021. IHS noted that consumer spending is surging as vaccination rates rise and pandemic-related restrictions are lifted. Global economic growth isn't expected to slow until 2022 and 2023. "The post-pandemic economic surge is expected to subside by mid-2022, as pent-up demand is satisfied and global real GDP growth settles at a 3 percent annual pace," Johnson said.

Business is good, despite challenges

Meanwhile, apparel manufacturers have been working hard to fulfill retailers' orders for goods to fill their shelves and meet customer demand. Though the increase has been welcome for business, a raft of supply chain issues connected to shipping delays have weighed on inventories and the bottom line.

Donny Greenberger, the chief operating officer of private-label intimates manufacturer Gelmart, expects the delays to continue into 2022. He's also heard that more ships might be put into production, but they likely won't be rolled out until 2023. In the meantime, manufacturers needing to get their goods on time, if at all, have had to pay up.

"The shippers have created this premium service that you pay more for to guarantee that your goods don't roll over from week to week. And that's become the norm because, you know, everybody's now doing it," he said. His firm has also had to fly some goods in and make other arrangements to meet deadlines set by retailers.

"We've actually moved some of our deliveries to the East Coast. We bring goods in to the East and then put them on a rail to the West Coast. We're finding that sometimes that actually ends up being a bit quicker. There's definitely a cost to that, but you've got to do what you've got to do. You have to deliver, and you have to be a good wholesaler and a good supplier," Greenberger said.

He also said that China's renminbi to the U.S. dollar has been weakened, which caused issues working with the factories in China. It's also impacted Gelmart's factories outside of China because they're buying raw materials from Chinese suppliers.

"They're asking for price increases to be able to offset that. For us as a wholesaler and importer, that's created pressures to our bottom line," Greenberger said, adding that there's also been increases for raw materials and labor shortages.

Bankers get busy with deal activity and IPOs

"As more consumer brands are starting to come out from under Covid's cloud, many are realizing they need to change the way they do business," Bahige El Rayes, partner at global strategy and consulting firm Kearney, said. El Rayes co-authored the firm's 2021 Consumer and Retail M&A report, "Forged in crisis, poised to innovate."

According to El Rayes, the big picture for the mergers and acquisitions sector looks strong, with the next 12 months considered a seller's market. A favorable financing environment and dry powder will help support valuations, while sellers will increase divestitures to reshape their portfolios.

One way some investors are doing that is through the public markets. IPO activity since the start of the year has been robust, particularly for the fashion sector. British maternity brand Seraphine Group, worn by Kate Middleton, Duchess of Cambridge, is looking to raise $84.8 million when it floats its shares later this month on the London Stock Exchange. The company follows fellow British footwear brand Dr. Martens, which completed its offering in February, netting a valuation of more than $5 billion. Other fashion IPOs this year include Mytheresa.com, Figs, and ThredUp.

Another go-public option has been the rise of the special purpose acquisition company (SPAC), a format that allows firms to access the public markets sooner. SPACs are called "blank check" firms that raise money in an IPO and then hunt for a company to buy, taking the targeted acquisition public via a merger. According to Kearney, 2021's first quarter saw nearly 300 SPACs across all industries, exceeding the total issuance and raised capital from all of 2020.

The most recent entrant is Bleuacacia, which is seeking to raise $300 million so it can buy millennial and Gen Z-focused brands. It was founded by Lew Frankfort, the former CEO at Coach Inc., and Jide Zeitlin, the former chief executive of Tapestry Inc., which owns the Coach, Stuart Weitzman and Kate Spade brands. Other fashion SPACS include the one formed by KKR & Co. and former Gap chief Glenn Murphy to raise $1.2 billion, Simon Property Group's plan to raise $300 million to invest in retail and tech firms, and ex-Gap CEO Art Peck's "blank-check" firm that plans to raise $200 million so it can buy fashion brands with "business models for tomorrow."

The M&A market is expected to be just as busy as the IPO front.

Companies are hunting for acquisitions that can provide e-commerce infrastructure and capabilities to enable them to build an in-house digital division, according to Andrew Dunst, a director at The Sage Group who heads up the e-commerce practice at the investment banking firm.

"On several of our deals, we're seeing strategic buyers bidding for assets, and they're bidding not just for the brand because of its financial performance and momentum but also for the capabilities that these companies offer in terms of people, talent, marketing capabilities and the tech stack, in certain cases, so they can leapfrog their e-com infrastructure and capabilities," Dunst said.

The banker expects the M&A market will be extremely busy for the next 12 to 18 months, particularly as more companies find that they don't have the capability or mindset to build brands that are e-commerce oriented. Of course, that high level of interest and activity in the sector also means that valuations and pricing have soared. While Dunst believes there are a lot of good opportunities available, the bigger problem centers on people trying to figure out what to prioritize so they zero in on which targets to go after.

"I'd say, overall, it's about finding assets that are uniquely disrupting every industry they're in. Buyers are looking for companies that are finding ways to take market share and have tremendous growth and profitability. We're seeing interest across virtually all consumer categories," Dunst said.

Bankruptcies take a pause

One area that hasn't seen much action has been industry bankruptcy filings. Heading into the second half, there's only been a handful of bankruptcies, versus the 45 in the sector that were filed in the U.S. and overseas last year as fashion firms were hit hard by the pandemic. Among the fashion filers this year were Alex and Ani, The Collected Group, British fashion label Amanda Wakeley, and women's value-price chain, Christopher & Banks.

Mary Ann Domuracki, managing director at MMG Advisors, said that many companies are trying to hold on, especially as business has picked up. "In all likelihood, they'll hang on a little bit longer. But lenders aren't as kind as they were last year, when there was government support," she said, adding that her firm is hearing that larger lenders are looking to prune their portfolios, and are even "persuading borderline companies to find alternative lenders." While some are finding backing from hedge funds, they also are becoming choosy as too much deal flow has been heading their way. Should lending options tighten, that could impact the restructuring sector later this year or in early 2022.

"There's been so much federal stimulus money that the restructuring sector should be quiet at least through the end of the year. Business right now is good, and until things start to falter, I don't see any many bankruptcy filings," Michael Appel, a restructuring advisor and founder of Appel Associates, said.

Appel offered one tip for when we might see a spike in bankruptcies: "When interest rates go up as the Federal Reserve tightens up the money supply, that could be the time when retail starts to falter."

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