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Touching Base: M&A Mastermind Allan Ellinger Talks Supreme, Camuto, Virgil Abloh and Off-White

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Allan Ellinger CREDIT: Courtesy

From new denim constructions, weights and washes to the steps global mills are taking to reduce impact, Rivet's SS23 In Season Look Book: Denim & Trims has everything you need to know for a successful denim season.

Two-high profile luxury streetwear firms, Supreme International and Off-White, have garnered serious attention on the mergers and acquisitions (M&A) front over the past few years, particularly as the industry is focused on the Covid-19 pandemic and its evolving aftermath.

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In another financial Q&A series installment, Sourcing Journal caught up with Allan Ellinger, founder and senior managing partner of MMG Advisors, to get his take on where M&A activity is headed.

The boutique investment firm, run by former business owners and operators, represented Supreme founder James Jebbia in two of the company's earlier M&A transactions. MMG also represented Camuto Group in its sale to Authentic Brands Group (ABG) and DSW Inc., as well as the late Virgil Abloh in negotiating both his position to become artistic director of Louis Vuitton Menswear and the sale of a majority stake in his Off-White brand to LVMH Moët Hennessy Louis Vuitton in what was a two-step process. This interview was conducted shortly before Abloh unexpectedly passed away at the age of 41 after a battle with cancer and has been lightly edited for clarity.

Sourcing Journal: One of the big deals recently was VF Corp.'s $2.1 billion purchase of luxury streetwear brand Supreme International. While MMG was not involved in that deal, your firm was involved in the first two "sales" of Supreme, including the $500 million purchase by Carlyle for a 50 percent stake in 2017. Can you talk about your involvement in Supreme?

Allan Ellinger: When MMG first became involved with Supreme, the company was a very profitable, growing business. In our initial transaction for James, we sought a partner to fuel Supreme's growth trajectory. That transaction led to a sale of a minority interest to Goode Partners.

The company's performance and profile continued to be outstanding, and James and Goode Partners decided to pursue a transaction that could drive the company's global growth, resulting in a sale of a majority interest to The Carlyle Group in October 2017.

SJ: Was the transaction with Carlyle pitched to other private equity firms too?

AE: Supreme was very specific in wanting a limited process so we engaged in conversations with very few parties. Many companies do not want to go through a public auction because they are often concerned that their stakeholders—employees, customers, suppliers—will become aware of the transaction and change of ownership. And in this case, James didn't want to compromise in any way the relationship that he had with his stakeholders.

SJ: What clinched the deal in favor of Carlyle?

AE: In no way did James push the envelope and try to drive up the price and take every single dollar off the table. That was not his agenda. He wanted to find the right partner and negotiate what can be perceived as a fair deal, and that's what he did. He liked Carlyle, and the fact that it had similar transactions in Europe with companies that he admired. He also liked the corporate culture. The Carlyle Group brought tremendous scale, financial strength, expertise in complex transactions, a track record of building companies, and extensive experience with the consumer and retail industries. James was also very comfortable with the team at Carlyle and their alignment with his vision.

SJ: In terms of James' preference for making the right deal and finding the right partner, is that primarily what sellers are looking to do or is that only for firms where the founder wants to stay on with the company?

AE: For the privately held, family-owned or entrepreneurial firms, typically the buyer is not writing a check and paying the entire purchase price. Most often, what happens is the purchaser is paying 50 percent to 60 percent of the purchase price, with the balance over a three year period called the earn-out. While sellers want to make sure the buyer is culturally compatible, buyers want to make sure that there's going to be continued involvement of the founder or the operator of the company that's being sold.

SJ: Does that mean getting top dollar isn't always the goal?

AE: The right buyer is the one who is aligned with our client's needs, has the financial resources to close the deal and fund the company's future. Getting the best price is always a consideration, but the more important priority is finding the right buyer who is going to be the best fit for the owners.

What defines a great fit may differ, and it is our job to identify synergies or strengths that will result in success for both buyer and seller, as well as the alignment on the vision for taking the business forward.

Sellers typically seek buyers that bring other assets and capabilities to the table in addition to purchase prices, such as a great sourcing structure, digital experience, supply chain infrastructure, complementary distribution, knowledge of global markets, expertise in M&A, as well as brands and licenses that our client can tap into.

SJ: In July, LVMH said it was taking a 60 percent majority stake in Off-White LLC, a streetwear brand launched in 2012 that also has been a big player in the luxury sector. The late Virgil Abloh, the brand's founder and 40 percent minority owner, was the artistic director of Louis Vuitton menswear collection since March 2018. What can you tell me about the two deals?

AE: Virgil and LVMH discussed a plan for him to assume the role of artistic director of Louis Vuitton's men's business, and in addition to LVMH acquiring a minority stake in Virgil's very successful Off-White business.

Virgil did agree to take on the director role at LVMH, while the two agreed to LVMH acquiring a minority stake in Off-White. Their agreement allowed Virgil to continue to build the Off-White brand while working for LVMH. It also contained an option that gave LVMH a second bite of the apple to acquire majority control of the brand.

SJ: Was being hired as the men's designer the priority of the two?

AE: Initially it was—that was one of the most coveted design jobs in the world. For Virgil to be associated with that business as creative director was a confirmation of his artistic and cultural stature. And for LVMH, his talent and influence added tremendous cachet with today's luxury consumers.

SJ: Isn't that type of option unusual given that LVMH is a strategic buyer?

AE: Typically, when businesses are sold to strategics, they acquire 100 percent of the business. When you sell to private equity, there may be tranches where a minority interest is initially sold and they later exercise an option for a majority interest. Having the seller retain some ownership gives the individual the ability to participate in the profitability of the company. It also keeps the individual engaged and aligned to grow the business.

LVMH has been built as a conglomeration of fashion brands, and it has over the years brought in young designers to continue to push their iconic brands into the future. In a number of cases, LVMH purchased all or part of those designers' businesses in order to attract them. That is how it was able to attract Virgil.

SJ: Is the average earn-out still about two to three years?

AE: The average is three years. The earn-out is intended to protect the buyer from short-term dramatic shifts in the marketplace, keep the seller engaged in running the business and assisting in a smooth transition to the new owner. Buyers want to make sure that the business and profits that they've paid for are sustainable.

SJ: Let's talk about your representation of the Camuto Group. How did that come about? Had you known Vince Camuto and the family before he passed in 2015?

AE: MMG did represent the Camuto family in the sale of Vince Camuto to ABG and DSW. We were introduced to the Camuto Group by Ariel Chaus, the CEO of Bernard Chaus Inc. (BCI), which was owned by Camuto Group. *(Editor's note: Bernard and Josephine Chaus, Ariel's parents, co-founded BCI in 1975 as a moderately priced line of women's office-friendly apparel and later expanded into sportswear. BCI, which went public in 1986, became a private company when it merged with Camuto Group in 2021.)*

SJ: Did you pitch the Camuto company to a wide group of potential buyers? Was ABG part of that group or was ABG the one that reached out to you? Was DSW in talks with Camuto too or did ABG bring DSW onboard when it was looking for an operating partner?

AE: The Camuto sale process involved marketing the company to a broad group of potential buyers. MMG included ABG in its outreach in the sale process, as well as DSW. During the process, ABG and DSW agreed to partner in the bidding for the Camuto company, with ABG acquiring the intellectual property and DSW becoming the operating partner. As part of the process, Ariel Chaus bought back BCI in a separate transaction.

SJ: Following the initial wave of the pandemic last year and its impact on M&A deals, how has Covid affected dealmaking?

AE: Covid had a very disruptive effect on M&A in 2020. Supply chains were disrupted and then demand evaporated, resulting in a total lack of liquidity.

As the country started to emerge from the worst of the market disruptions in 2021, M&A activity has started to return and both strategics and private equity have actively sought opportunities in an effort to invest early in the recovery cycle.

SJ: As you look at the M&A landscape and who might be buy and sell candidates, what are some saying about inventory levels right now?

AE: I spoke to a very large public company not that long ago, and he said to me, 'I've got four weeks of inventory and I'm only comfortable with eight to 12.' Companies have a smaller supply than they had planned for. Because of supply chain complications, they're not getting the amount of product that they need.

SJ: What is the environment right now for M&A deals?

AE: Private equity is out there looking at businesses, and we are also getting inbound calls from strategics looking to acquire companies opportunistically. Interestingly, many thought there would be a lot of troubled companies due to the pandemic that could be acquired inexpensively. In fact, operators who may have gotten into trouble due to Covid haven't needed to sell because they were able to stay afloat and, in some cases, had a great year.

Recently, large public strategics have ventured back to M&A, including Levi Strauss & Co.'s plan to acquire activewear brand Beyond Yoga in August, and G-III Apparel Group Ltd.'s agreement to buy luxury brand Sonia Rykiel in September.

SJ: We just saw American Eagle acquire a logistics startup (and then a second one). Has what strategics are looking for changed from the pre-Covid days?

AE: Strategic buyers are looking for opportunities in either spaces they are comfortable in or in adjacencies; they're motivated by needs and opportunities. In the case of American Eagle, the two acquisitions have been in furtherance of the need to enhance capabilities to drive advanced logistics systems. Digital commerce and the need to service customers wherever they are shopping has put a premium on systems that bring efficiencies to distribution.

M&A is a prime vehicle to accelerate the pace of change and gain market advantage. If you're a strategic, you may be looking to acquire a company that either provides a brand or brings product diversification. And if you're a strategic and you're not selling to every retailer, you may be looking to acquire a company who doesn't sell to someone you're already selling to. That's a plus, and it complements your own distribution channels.

SJ: Anything else that might cause a rise in M&A activity?

AE: M&A is typically affected by external factors such as taxes, tariffs and pandemics. But the fundamental reason for the continue pace in M&A is to fuel growth and to mitigate risk.

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