

L.A. Billionaire May Slip Into American Apparel

CLOTHING: Ron Burkle could steer company by picking up its debt.

By ALEXA HYLAND *Staff Reporter*

American Apparel Inc. has come back in style for one of L.A.'s wealthiest men.

Billionaire investor Ron Burkle wants to buy a chunk of the hefty debt load held by American Apparel through his L.A. holding company Yucaipa Cos., which could put him in position to influence the downtown L.A. fashion house.

Burkle's desire to become more active in American Apparel was reported in the New York Post last week. The news comes as the apparel maker and retailer is in turnaround mode. The company has been battered by manufacturing problems, declining sales and its debt load.

Burkle, ranked No. 5 on this year's Business Journal list of Wealthiest Angelenos with a net worth of \$4.3 billion, first showed interest in American Apparel by acquiring a 6 percent equity stake in the company last summer. But he cut those holdings to 3.1 percent earlier this year.

The struggling retailer remains an attractive target for Burkle, said Lloyd Greif, chief executive at downtown L.A. investment banking firm Greif & Co. and a longtime friend and adviser to

Burkle. Greif said an investment in the clothing company's debt would allow Burkle to influence management and improve operations, a strategy often employed when he invests in businesses.

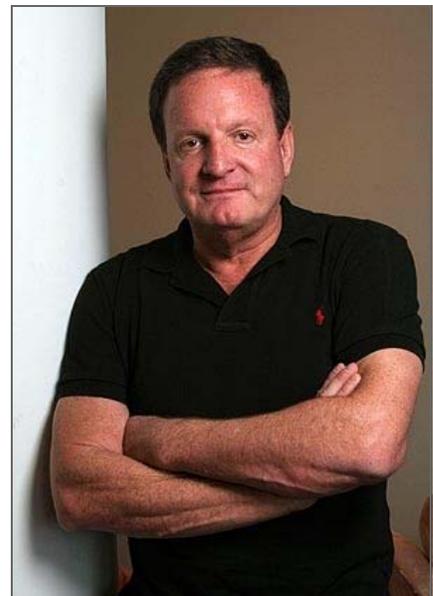
"American Apparel is under pressure, their stock is depressed" Greif said. "Ron is very much into buying low and selling high. He's done it time and time again, and he does it in situations where he's able to add value."

American Apparel's stock closed at 89 cents on Aug. 24, down 47 percent year to date.

A representative for Burkle declined to comment. American Apparel Founder and Chief Executive Dov Charney didn't return calls seeking comment.



Burkle is most likely eyeing American Apparel's \$75 million loan with Bank of America, which matures in July of next year, according to a source familiar with the situation. As of June



Burkle: Trying on American Apparel?

30, American Apparel owed \$52 million on the credit line with \$1.3 million available for additional borrowing, according to a July regulatory filing.

The brand, known for its hipster-inspired clothes and provocative ad campaigns, has appealed to Burkle for several years, according to a source familiar with the deal.

"It's a good opportunity to make an investment in the debt," the source said.

According to reports in New York media, Burkle would be backing either New York investor

Jason Beckman of Colbeck Capital or Jason Taubman Kalisman of the Taubman real estate family in the deal.

However, the Business Journal's source said Burkle would buy the debt through Yucaipa.

A big debt holder can influence a company's operations. For example, if the company needs additional money or forbearance, the debt holder may be able to dictate terms. In some cases, it can foreclose and take over.

Retail reality

Burkle, who started building his fortune by investing in currencies, commodities and flipping small grocery stores, founded Yucaipa in 1986. In the last several years, he has increased Yucaipa's portfolio of apparel and consumer goods retailers, investing in designer brand Zac Posen, high-end New York apparel chain Scoop and acquiring a major portion of debt held by luxury retailer Barneys New York.

Burkle's familiarity with the apparel and retail industry would help him guide American Apparel to profitability, according to Greif.

"There's still a strong brand there," he said. "The brand is resilient. Ron is a smart guy and recognizes that. What he sees is an underutilized brand that has operational issues, that is highly leveraged, and if he shows up with his tool box, he can fix a few things."

If Burkle acquires American Apparel's debt and gains control, Greif said he wouldn't be surprised if the investor made a bid for the company, took it private and then divested in two to three



Chief Exec: Dov Charney last year at American Apparel's factory downtown.

years.

"It's easier to fix things behind closed doors," he said. "Going private could be one of the things he has in mind, or it could be going private with Dov Charney."

American Apparel has been struggling since 2009. First, an immigration crackdown led to the company losing more than half of its factory workers and unable to produce enough merchandise for its stores. That intensified its declining performance. Then, the company scrambled last year to renegotiate terms of its loans with Bank of America and London equity firm Lion Capital LLC, which gave the company a last-minute \$80 million loan in 2009 to ease financial pressures.

But American Apparel landed on the brink of bankruptcy this spring. A group of Canadian investors rescued the company in April with a financing package worth about \$43 million.

Meanwhile, Charney has brought in new management to help turn the company around, including former Blockbuster Chief Financial Officer Tom Ca-

sey as acting president. Burkle has a longstanding relationship with Casey and "believes in him," according to the source familiar with the deal.

American Apparel has reported improving sales thanks to a plan to boost profitability. The company reported earlier this month that same-store sales rose by 3 percent in June and 4 percent in July compared with the year before.

The company is planning to open more stores-within-stores and is expanding its reach through partnerships with online retail giants eBay Inc. of San Jose and Asos plc of London. It also has closed underperforming stores, and shifted strategies concerning its fleet of 254 U.S. and international retail locations.

While it looks like Charney may be on track to revive American Apparel, soon he might not be the only one guiding the ship.

"Ron is a value-added investor," Greif said. "He doesn't go into any situation where's he's taking a back seat as an armchair quarterback."