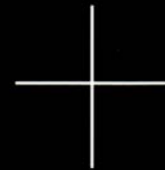


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# WHO IS RON BURKLE AND WHY DOES HE LOVE FASHION?

A very private mogul has growing interests in the world of style. BY LISA LOCKWOOD

**R**onald W. Burkle, chairman and chief executive officer of Yucaipa Cos., the Los Angeles investment firm, may like to dabble in the fashion category — but he doesn't like to talk about it.

Despite investments in some high-profile names, the billionaire Burkle still remains something of a newcomer to the sector. And his choices so far defy a discernible pattern or specific strategy. One thing is certain: He has a taste for risk, investing in the cash-hungry label or the turnaround project. That wouldn't necessarily classify Burkle as a bottom-fisher, but he seems more than willing to invest in the not-so-sure thing in exchange for longer-term ownership.

As a serious investor whose company has done some \$30 billion in transactions, ranging from buying and selling grocery chains to owning a percentage of the Pittsburgh Penguins, there's no question Burkle has enough money to invest wherever he feels like it. Fashion currently accounts for a small percentage — under 1 percent of Yucaipa's vast holdings. But it's a highly visible 1 percent, as evidenced by such brands as Sean John, Scoop, Garrard and Zac Posen, with his latest investment in the sector an intriguing purchase of Barneys New York's debt.

Forbes' list of the 400 Richest Americans puts Burkle at No. 107 with an estimated net worth of \$3.2 billion. The elusive billionaire declined several requests for interviews about his fashion holdings for this story. Curiously, his spokesman said if we wanted to discuss his other investments, such as Whole Foods Market, Barnes & Noble or the logistics company he owns, Americold Logistics, he'd be more inclined to talk.

The mercurial nature of fashion just might extend beyond his comfort zone. Nevertheless, while Burkle fiercely guards his privacy, there's no question he's becoming a bigger player in the world of style — not necessarily as a leading character yet, but more like a guardian angel. The 59-year-old, who shuns ties and favors polo shirts and cargoes, owns a Boeing 757 and currently

resides in London. The divorced father of three children is a major Democratic fund-raiser and was once known for his close friendship with Bill Clinton, whom Burkle hired as a consultant after his presidency to help him identify possible investments, as well as his friendships with Bono and Leonardo DiCaprio. Burkle told Michael Gross, author of *Unreal Estate* (Broadway Books, 2011), a book about California's glittery, cutthroat real estate world, that he has about 15 houses. "They're just scattered around. I'm either by myself or with a thousand people. I travel all the time so I don't

OBSERVERS SEE A BARNEYS DEBT EQUITY SWAP AS BEING PARTICULARLY APPEALING TO BURKLE, GIVEN HIS ESTABLISHED TASTE FOR RETAIL BUSINESS AND INTERNATIONAL POTENTIAL FOR THE BARNEYS IMPRIMATUR

really live anywhere," says Burkle, in the book.

Market sources are very curious about Burkle's holdings in Barneys, and wonder whether he could someday end up owning the luxury retailer and whether that is, in fact, his endgame plan. Yucaipa currently owns 38.5 percent of Barneys New York's term loan and 66 percent of the mezzanine facility. As reported, Barneys hired law firm Kirkland & Ellis LLP to help renegotiate its \$200 million revolving credit loan due in September. It may also need to reduce other debt primarily held by Burkle and hedge-fund manager Richard Perry. The debt load is mostly attributed to Isthmar World's takeover of Barneys five years ago that burdened it with an additional \$500 million in debt.

Lloyd Greif, president and ceo of Greif & Co., an investment firm that has done deals with Burkle, believes that if the

opportunity to buy Barneys presents itself, Burkle would be an interested party. "If you buy the debt, it means you believe in the underlying asset. If the price for Barneys was attractive, I think he would step up," says Greif. "He's certainly in the catbird seat if the opportunity arose."

Observers see a Barneys debt-equity swap as being particularly appealing to Burkle, given his established taste for retail businesses and international potential for the Barneys imprimatur.

Elsewhere, Yucaipa's significant investment in Sean John may be ready to bear fruit, as the brand continues to grow through its Macy's distribution. And in the past year, Yucaipa has seen some good results from its 100 percent ownership of Scoop, which is in the midst of a turnaround. Zac Posen, after some management upheaval, is growing its international distribution and adding classifications through its Z Spoke collection. Yucaipa's jewelry holdings are Garrard, the U.K.'s Crown jeweler for more than 150 years, which it reportedly bought for between \$20 million and \$30 million, and Stephen Webster LLC, a high-end jewelry designer with a mostly celebrity clientele, of which Yucaipa bought close to 50 percent in 2007. Both businesses are apparently on the upswing, with active jewelry buying in Russia and the Middle East. It was rumored that Yucaipa was bidding on John Varvatos' business, which was owned by VF Corp., but that was acquired by Lion Capital LLC, and Yucaipa had also reportedly been negotiating last year for Catherine Malandrino, which ended up being acquired by Elie Tahari and Arthur S. Levine.

One fashion investment that Yucaipa no longer has is the debt-laden American Apparel, which it sold off last year.

Interestingly, Burkle's network of fashion executives are sworn to secrecy about him. Several contacted by WWD declined to be interviewed unless they had Burkle's personal blessing. Susan Davidson, ceo of Scoop, who also oversees Zac Posen as ceo; Susan Posen, former chairman of Zac Posen; Stefani Greenfield, former president of Scoop and now chief creative officer of the Jones Group;

Robert J. Wichser, who oversaw Yucaipa's fashion portfolio until 2009 and is now ceo of Varvatos, and Jeff Tweedy, executive vice president of Sean John, were among those who declined to discuss Burkle.

"He struck me as a guy who has a lot of fun being Ron Burkle," says author Michael Gross, who spent several hours interviewing him for his book. "That has brought him some attention. I don't think 'unwanted' applies, but more 'uncomfortable,' applies," he said. In his book, Gross writes about several of Burkle's tony properties, including the Harold Lloyd estate in Beverly Hills called Greenacres, which he bought in 1993 and has been the setting of many Democratic fund-raisers. Barbra Streisand performed there for Bill Clinton and the Eagles played for Al Gore during his presidential run. "He has a taste for supertrophy real estate," says Gross. In fact, last summer, Burkle purchased another trophy estate — the Frank Lloyd Wright-designed Ennis House for just under \$4.5 million, which he planned to continue restoring. With architecture inspired by a Mayan temple, it was constructed from 27,000 concrete blocks.

In the last few months, Burkle has been raising his profile in the entertainment industry. In December, Yucaipa bought a 60 percent stake in Soho House, a New York-based members-only club with restaurants, clubs and hotels in such cities as Miami Beach, Los Angeles, London and Berlin, and in late March closed on its purchase of Soho House's building at 29-35 Ninth Avenue, which also houses the restaurant Spice Market, for \$81 million. In January, it acquired Artist Group International, which books acts such as Billy Joel, Metallica, Linkin Park, Def Leppard, Motley Crue and Rod Stewart, among others. Yucaipa also bought a significant equity stake in Relativity Media, a film distribution and TV production company, sports agency, Internet and interactive media firm. That same month, Burkle and basketball star Magic Johnson purchased BlackBook Media, including its flagship magazine and software arm, Access Network. Burkle once explained his acquisition strategy to Bloomberg Business Week: "We always try to buy companies that are doing OK but that have some issues. We buy at a price that if they just

muddle through, we don't go broke. And if they do better, we make a lot. Since I was 13, I've been buying things because they are ridiculously cheap. I tell my people, 'Don't explain what we're doing. They'll think we're geniuses if they don't know.'"

So what is Burkle's investment strategy and what makes him choose his fashion targets? Is he a passive or active investor in these businesses? Does he have a soft spot for the underdog? Does he simply like a long shot or see a cut-rate ticket to ownership?

Says one investment banker, "He has a

comprising his other fashion investments. He does tend to put strong people in charge and relies on them to turn the businesses around.

While Burkle doesn't get involved in the day-to-day management of his fashion holdings, he does get involved in the big decisions. He's described as "a real strategist" who takes different positions, depending on the particular company and its needs. In certain companies, he's more active than in others. Burkle may hold onto a company for more than 20 years, or he may hold onto it for a short period of time, said one source. In every deal he does, he seeks influence, if not control.

"Ron Burkle is an extremely astute investor. Before turning to apparel, he made extremely profitable investments in the supermarket industry," says Gilbert Harrison, chairman of Financo Inc. "His people are involved in these companies — Sean John, Scoop and Zac Posen — and he keeps in direct contact with the principals, the people whose names are on the door. His staff on Sunset Boulevard in Beverly Hills is extremely knowledgeable. But sometimes I can't follow the total rationale in their investments when they go buy jewelry, footwear or apparel."

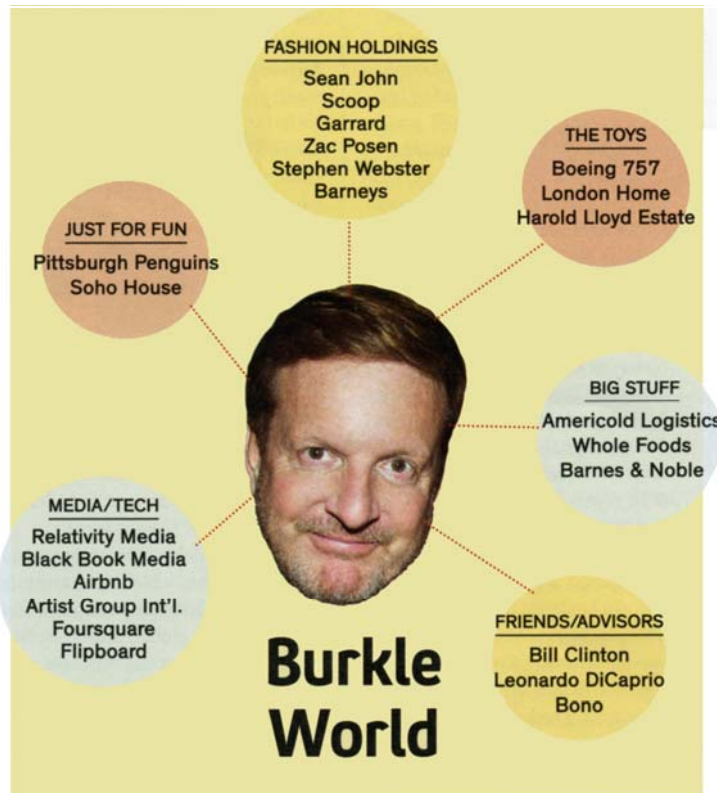
Another source describes Burkle as very connected and very smart. He notes that the way Yucaipa structures its deals doesn't seem like they're bottom-fishing. "They're structured so they're strong for Yucaipa," the source notes, adding that the Yucaipa team is fair, smart and "definitely aggressive."

"Ron likes vanity projects. It's the Ron Burkle show. He's the only judge of what to do. He has a strong personality. It's his money," said the source.

**"I would never describe Ron as a passive investor. That's not his shtick," says Greif. "He is a hands-on, value-added investor," he says, noting Burkle likes to fix companies and help companies that need money. He'll also invest in a company that's doing OK, but has some issues.**

Burkle invests either through the Yucaipa funds (which usually have a 10-year life) or personally, which he can hold onto for as long as he wishes. "It's against his religion to overpay. He's always looking for attractive investments," says Greif. "He's an opportunistic investor."

Numerous observers say the underlying



taste for value. He's looking to find the right gems that are undervalued."

To date, most of Burkle's fashion investments seem random without any real synergies bringing them together. Unlike his grocery store investments, which made him a billionaire, his fashion holdings strike observers as more akin to a hobby.

A few observers suggest that what ties Burkle's investments together is a belief in the luxury sector, as evidenced by Scoop, Garrard, Stephen Webster and Barneys, as well as the retail component. One source believes Burkle likes the fashion sector because "it's fun and sexy and exciting," and "always changing." But some have questioned whether Burkle actually knows anything about running a high-end jewelry company such as Garrard, or for that matter, the companies

ing thread of Burkle's fashion investments is the retail component.

"If you understand Ron, then you understand why apparel is of interest. What he knows very well is retail, and all of these products are sold through retail stores. He very much understands bricks and mortar," says Greif, noting he relates to the fluidity of fashion. "Food is even more perishable than fashion is," he says. Greif calls Burkle more of a "control investor than a minority investor...He likes to have a say in the businesses he operates." One of Burkle's more puzzling investments was in American Apparel. Greif says Burkle bought into the troubled company precisely because it fell out of favor as a public company. "The company has had performance problems, and Dov Charney [CEO] has a bad-boy reputation. Ron is no milquetoast investor," Greif notes. "He's a strong, hard-driving investor. Anyone who gets in bed with him, they're not getting in bed with a shy, shrinking violet type," he said. And he believes that Burkle's investment in Sean John was through a special Yucaipa fund that targets "minority-owned businesses."

While Burkle made his initial fortune in the grocery business, he continues to invest in private companies that support the food industry in areas such as food safety, logistics and cold storage. He's also toyed with the tech and social media worlds, coinvesting with actor Ashton Kutcher in companies like Airbnb, Four-square and Flipboard, which sources said is going quite well. In 2010, Burkle failed in his attempt to get three seats on the Barnes & Noble board of directors and was defeated in his quest to modify its poison pill, which prevents him from owning more than 20 percent of the shares.

Despite that setback, Burkle made several investments in a host of industries recently.

- In March, A&P emerged from bankruptcy as a private company after obtaining \$490 million of financing from several investors including Yucaipa, Goldman Sachs Asset Management LP and Mount Kellett Capital Management LP, an investor in distressed companies.

- In September 2011, Yucaipa and WL Ross & Co. invested \$100 million in Amalgamated Bank.

- In March 2011, Burkle raised his stake in boutique hotel operator Morgans Hotel Group Co. to 29.2 percent from a 9.9 percent stake reported in July 2010. Today he owns a 28.9 percent stake. He also joined the board of the hotel chain. Morgans owns boutique hotels such as Hudson in New York and Mondrian in Los Angeles,

New York and South Beach.

- In February 2011, Burkle, along with Magic Johnson, invested an estimated \$12 million in Vibe Ventures, which owns Vibe magazine, Uptown magazine and related digital ventures, in addition to the rights to 1,100 episodes of "Soul Train." Burkle and Johnson have a war chest to make investments in underserved communities.

**BURKLE FIRST GOT** his taste of the business world when he was 13 years old, working as a box boy at a Stater Brothers grocery store in Pomona, Calif. His father managed another store in the Stater chain. Burkle tried college but it didn't work out. After dropping out of California State Polytechnic University, he returned to Stater and moved up the ranks until finally putting together a group of investors to make a bid for the chain when the parent company decided to sell it in 1982. However, the board rejected it as too low and ended up firing him. After that, Burkle bought and flipped a few small grocery chains and realized he found his calling. In 1986, he formed Yucaipa, named after the small southern California town where he was living, and started a series of grocery chain mergers and acquisitions involving such companies as Fred Meyer, Ralphs and Jurgensen's.

Burkle's first foray into fashion was in 2003, when Yucaipa acquired a big stake in the Sean John brand, injecting an estimated \$100 million into the company — although sources say that may be a little high — an amount founder Sean "P. Diddy" Combs is said to have spent quickly. The aim was to turn Sean John, which does around \$525 million in retail sales in apparel, into a global, billion-dollar brand, and the capital infusion was intended to fuel the company's wholesale and retail operations domestically and abroad.

In May, 2010, Sean John struck an exclusive men's wear deal with Macy's, and last year signed a deal with Icer Brands Inc. for a women's line, which began with activewear and expanded to a full sportswear collection. The Sean John business, which sources say Burkle intends to hold onto, is reportedly profitable.

In October, Combs and Terry Lundgren, chairman and ceo of Macy's, opened a sleek new 2,000-square-foot Sean John men's shop at Macy's Herald Square. Another 790-square-foot shop using the same concept was unveiled in the Macy's Union Square flagship in San Francisco in September, with 10 more shops slated to be installed in key Macy's doors this year. The company has also struck a major deal to roll out stores in India.

While Burkle himself doesn't get in-



**Barneys New York, Garrard and Sean Jean are among Burkle's fashion holdings.**

involved in day-to-day operations, he is involved in big decisions. His Yucaipa executives come to meetings and sit on the board, as does Burkle.

In 2007, Yucaipa acquired Scoop, currently a 16-unit contemporary sportswear chain. Two years later, it put Susan Davidson in charge, and she has since made strides in turning it around. "When I came to Scoop, the stores looked a little tired," Davidson told WWD in March. "I inherited a brand that has great DNA from Stefani [Greenfield]. It had been rudderless for awhile, and I think it was time to get it back to its original DNA, which was a strong one."

Davidson says having Yucaipa as an owner has allowed her to invest in the brand. In the past year, Scoop has resumed expanding its retail footprint, and this year plans to open five stores. This month, Scoop will open a 2,700-square-foot store in Brentwood, Calif. The store also launched an e-commerce site in November 2010.

"Yucaipa bought the brand because they like the brand," says Davidson. She said she speaks with someone once a week from the equity fund to report on the business.

"Ron has been completely supportive of our strategy. I don't think he wants to sell it. I don't want to speak for them. He's owned Sean John for years. I think he likes the fashion portfolio."