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Dubai May Opt to Bag Barneys

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Istithmar World, an investment arm of the Dubai government, is weighing a sale of luxury retailer Barneys New York just 18 months after buying it, two people familiar with the matter say.

The business will likely fetch far less than the buyers paid for it, underscoring the severity of the downturn in the luxury sector and the challenges faced by companies purchased at the height of the credit boom.

Istithmar bought the retailer in summer 2007 for \$942 million after a drawn-out bidding war with Japan-based Fast Retailing drove up the price by almost \$100 million. Barneys, which previously had been owned by Jones Apparel Group Inc., didn't disclose its financial performance at the time, but three people familiar with the transaction say that it fetched a multiple of more than 12 times earnings before interest, taxes, depreciation and amortization, or Ebitda, compared with less than nine times Ebitda for the acquisition of Neiman Marcus Group Inc., another high-profile luxury-goods retailer, by TPG and Warburg Pincus.

Historically, the luxury sector "was thought to be more insulated than the general apparel market in a recession. But as we know, this is more than just a recession," says Marc S. Cooper, managing director at Peter J. Solomon Co., which advised Istithmar on the acquisition. Mr. Cooper said he had no knowledge of a sale of Barneys.

The new owners "know that they will have to take a haircut," said a person familiar with the situation, adding that Barneys' Ebitda has dropped some 75%, going from \$80 million at the time of the deal to \$20 million. Another person familiar with the luxury retail sector said Istithmar will be lucky to get \$300 million to \$400 million for the 37-store chain in the current environment.

Istithmar Chief Executive David Jackson declined to comment. A spokeswoman for Barneys had no comment. News of the possible sale was reported Thursday by Bloomberg News.

After buying Barneys, known for carrying glamorous fashion labels like Lanvin and Balenciaga, Mr. Jackson said his strategy was to expand the concept aggressively, both domestically and internationally. But now, amid the worst consumer-spending slump in decades, the highly leveraged company must decide "whether to put more cash into the company to fund debt, or cut and run," said a person with knowledge of the situation.

Another issue is the company's lack of leadership. Since CEO Howard Socol quit in July 2007, Istithmar has been conducting a search for a new chief executive, but the search has been delayed over uncertainty regarding a sale, according to people familiar with the matter.

Moody's downgraded Barney's debt to Caa1 from B3 in November. Moody's analyst Michael Zuccaro said Barneys doesn't have any debt coming due in the near term. But, he said, "To service the significant debt load they have, they have to grow top-line and profitability."

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