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RETAIL

Nordstrom's threat to go private may stave off competitors

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Nordstrom has been public since 1971, but this may be changing. Image credit: Nordstrom Nordstrom's threat to go private may stave off competitors' IPOs

By DANNY PARISI

Department store chain Nordstrom's family members have announced that they are exploring the possibility of returning the corporation to a private business in an effort to stave off stiff competition from Amazon and other online retailers.

As a publicly owned company since 1971, Nordstrom has to answer to shareholders, and the desire to shirk that oversight may be behind the family's desire to take control of the company back under private ownership. Nordstrom's family members announced June 8 that a group has been formed to consider purchasing 100 percent of Nordstrom's shares.

"With the Nordstrom family owning ~30% of O/S shares already they essentially satisfy the typical 'equity component' funded via P/E firms in most LBO transactions, which also raises the odds of a deal getting done," said Chuck Grom, analyst at Gordon Haskett, New York. "In terms of the rough math, at ~$46, the Group would need to raise ~$5.45 billion of additional debt to fund the takeout, which would imply an EBITDA multiple of 6.8x.

"Indeed this is ~28% lower than average retail LBO of 9.4x (since 2006), which could entice others (i.e. P/E, Hudson Bay, etc.) to get involved with Nordstrom now officially 'in play.' Finally, laterally speaking across the department store arena, we think Dillard's is the most likely candidate to follow a similar path given the high degree of family ownership."

Public vs. private

Nordstrom was founded by its eponymous family in 1901 and has been publicly traded for more than 40 years. Today, the Nordstrom stable includes its full-line department stores, off-price retailer Nordstrom Rack, flash sale ecommerce platform HauteLook and Trunk Club.

Since its IPO in 1971, other notable investors have taken over large chunks of the company's total shares.

Now, members of the Nordstrom family, including the company's co-presidents Blake W. Nordstrom, Peter E.

Nordstrom and Erik B. Nordstrom; president of stores James F. Nordstrom; chairman emeritus Bruce A. Nordstrom and Anne E. Gittinger, are considering reversing its publicly traded status.

On June 8, the family formed a group dedicated explicitly to exploring and raising funds for a possible buyout that would put the company back under private control, effectively ending the company's stock market offering (see story).

At the moment, the group has not made any proposal, and are clear that nothing may result beyond the initial announcement that they are exploring their options.

Nordstrom competitor Neiman Marcus has resisted an IPO so far. Image credit: Neiman Marcus

A likely reason for attempting to return to a privately held company is a desire for increased flexibility when it comes to adapting to new changes in the market.

Answering to shareholders means that company decisions have to be considered and approved by a large number of diverse shareholders before they can be made.

This level of bureaucracy seems unrealistic to the group, who are now actively working on ways to cut through it.

Department stores are facing disruption and challenges at all fronts due to its high-asset business model and razor-thin revenue margins. This has slowed retail's pace of innovation, causing the sector to be unable to compete it the digital world.

The digital platforms that traditional retailers compete with, such as Amazon, are more efficient than the department store retailing business.

Red tape

The disruption faced by many luxury retailers from Amazon and other online sellers is being felt around the world.

Neiman Marcus, which is still privately held, is facing a similar problem as Nordstrom. In response, Neiman Marcus has been holding out on going public, possibly for similar reasons.

As with much of the retail sector, Neiman Marcus has been faced with ongoing challenges as more and more selling moves online. In addition to changing consumer behavior, Neiman Marcus has struggled with declining revenues (see story).

Other luxury brands have had similar success resisting IPOs.

Armani is a successful non-public company. Image credit: Armani

Giorgio Armani leads Italian fashion houses as the brand considered most-listable as a future initial public offering, according to a quantitative rating system developed by Pambianco Strategie di Imprese.

For the past 11 years, Pambianco has compared brands in the fashion, luxury, furniture and design spaces that may be headed toward IPOs as a way to stoke investor interest in Italian companies. In its ranking, Pambianco considers brands that may enter the Italian Stock Exchange in a three- to five-year timeframe (see story).

While the group formed by the Nordstrom family has not made any offer yet and has officially stated that an offer is not guaranteed to appear, the reasoning for resisting an IPO is understandable.

"Nordstrom goes private in order to massively restructure its business, which is impossible as a public company," said Erich Joachimsthaler CEO of Vivaldi, New York. "It is the right move.

"Either you disrupt or you are the disrupted. As a public company with the asset heaviness of the department store business and low margins, they can not disrupt," he said. "This is the precursor of massive changes in retailing."