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COMMERCE

Going public could bring more innovation, long-term growth for Neiman Marcus

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By ERIN SHEA

If Neiman Marcus Group Inc.'s private-equity owners decide to launch an initial public offering of the company, it could mean more innovation and long-term growth for its department stores.

The Irving, TX-based company's private-equity owners Texas Pacific Group and Warburg Pincus LLC are rumored to be meeting with banks to discuss a public offering of the group, which owns department store chain Neiman Marcus and New York department store Bergdorf Goodman. Since the brand is healthy and the economy improving with the Dow Jones Industrial Average at an all-time high, now seems like an opportune time for the owners to sell.

"2013 is a good time for Neiman Marcus to have a public offering," said James Dean, vice president and head of luxury practice at WealthEngine, Bethesda, MD. "Initial public offering activity is gradually escalating and likely to spike upward in the second half of 2013 and into 2014.

"With the stock market rising and demonstrating less volatility, the central bank actions are creating a stronger economic environment and generally brighter prospects for luxury consumers in 2013," he said. "Now is the right time for companies considering an initial public offering to act.

“With the luxury goods market doing well and outperforming the rest of the retail business sector, I expect TPG and Warburg Pincus to take advantage of conditions and take Neiman Marcus public.”

Mr. Dean is not affiliated with Neiman Marcus, but agreed to comment as an industry expert.

Neiman Marcus declined to comment.

Cashing out

Neiman Marcus was previously a publicly traded company after it spun off from its retail parent Carter Hawley Hale Stores in 1987.

General Cinema – later Harcourt General – retained control of 60 percent of the company until 1999.

In May 2005, Neiman Marcus was part of a leveraged buyout by Texas Pacific Group and Warburg Pincus. The two private equity firms purchased Neiman Marcus for $5.1 billion in cash and debt.

Initially Warburg Pincus and TPG planned to hold the company for approximately five years, but were delayed by the 2008 recession.

Now, it seems that TPG and Warburg Pincus are looking to launch an initial public offering of the company by hiring Credit Suisse Group to aid in the process. The owners are hoping to receive approximately $8 billion for the company, according to Bloomberg.

Since the economy is doing well, this would be an ideal period for Neiman Marcus to debut an IPO.

“The owners want to cash out, the brand is healthy and I think that this is a natural progression of private equity,” said Milton Pedraza, CEO of The Luxury Institute, New York.

“I think this is a good move, since it is a good time to go public,” he said. “I think being a public company is not a short-term focus.

“Being in the public domain with many shareholders is far more open than it used to be.”

Sharing the power

If TPG and Warburg Pincus were to launch the public offering, Neiman Marcus would join other publicly traded luxury companies such as Saks Inc., Nordstrom, Michael Kors, Salvatore Ferragamo and Tiffany & Co.

A number of luxury brands went public in 2011 to increase their reach emerging markets (see story).

In addition, taking the company public could give more opportunities for its department stores.

Neiman Marcus-owned Bergdorf Goodman

“With the luxury markets doing well, luxury retailers that are public companies can really take advantage of the conditions by expanding their brand and opportunities,” WealthEngine’s Mr. Dean said.

“Luxury retailers such as Saks, Nordstrom and Michael Kors Holdings benefit as public companies, helping them further the growth of their business, expand their client base and improve their financials,” he said.

“When luxury retailers go public, it allows them to expand their brand, open new stores, advance their product line and create a greater opportunity to improve the customer experience.”

Also, going public would allow the company more room to grow financially on a long-term basis.

“When you’re a private company, the focus is more on short-term profitability,” the Luxury Institute’s Mr. Pedraza said. “Being public would mean the company would have more access to capital markets and more access to investors.

“Shareholders are long-term investors," he said. "Private-equity owners are not long-term investors.

“Today, if you have a courageous management team, you can compromise a little bit of the short-term investments to build out the long-term investment.”

This decision would also bring more innovation and freedom to Neiman Marcus as a whole, since the company would be controlled and owned by its shareholders.

“This would open the brand up to a lot more innovation by being in the public domain,” Mr. Pedraza said. “This means freedom to innovate, and freedom to empower employees. Of course, it is a choice, not a given.

“The management could have many different shareholders on the board and have different ideas from the shareholders," he said.

Final take

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