How the CEO of Authentic Brands Intends to Grow His Retail Empire

As a number of big-name merchants file for bankruptcy, including conglomerates such as Ascena and Tailored Brands, a new retail empire is emerging.

Sparc Group, a retail operating platform controlled by brand management firm Authentic Brands Group and real estate investment trust (REIT) Simon Property Group, either received or sought court approval for its bids for both Lucky Brand and Brooks Brothers last week.

Those apparel businesses will be added to a roster that includes Aeropostale and Nautica in addition to holding a majority stake in Forever 21 and a minority stake in Volcom, said Jamie Salter, Authentic Brands' CEO and Sparc's co-chair.

In all, the six brands account for some $4.7 billion in annual sales, a figure that relies in part on prepandemic numbers. Brooks Brothers and Lucky Brand, more specifically, generated some $2.2 billion in sales before the outbreak.

The deals also increased systemwide sales for Authentic Brands to between $14.5 billion and $15 billion. Its purchase of Forever 21 earlier this year boosted the number to about $12.5 billion from $10 billion pre-Covid-19, Salter said. Given the firm's acquisitive nature, its holdings will continue to grow.

And it's not just more acquisitions by Sparc that could lead to growth for the two retailers. If Simon Property were to succeed in its bid for JCPenney, the brand management firm could play a significant role by filling the department store with a whole roster of brands, including its recent acquisitions.

Salter said he hopes to modernize Brooks Brother by hiring a big-name fashion designer by the end of this year and expanding its assortment of casual and leisure wear. He also wants expand its existing international business and former owner and CEO Claudio Del Vecchio's vision. Authentic Brands plans to maintain the suits and dress shirts the company is known for and Brooks Brothers' "made in the U.S.A. heritage" in order to retain existing customers, he continued.

In addition, the brand management firm can leverage its knowledge with parts of its portfolio such as Nautica to help bolster its new acquisitions.

As for Lucky Brand, international expansion opportunities are in the mix and it continues to tap into its denim roots. Jeans, Salter said, are as relevant as ever and remain a staple of the modern wardrobe.

As a retail operating platform, Sparc runs the brands' retail stores and ecommerce sites in the U.S. and wholesale and supply chains or product sourcing for the U.S. and international licensing partners. Both it and Simon Property collect royalties and rent respectively from Sparc since the intellectual property is controlled by Authentic Brands. Any additional profits generated would be paid to the two owners in the form of cash distributions.

With a variable cost structure as it pertains to rents, which are determined according to a percentage of revenue generated rather than a fixed rate and little debt on its balance sheet, Sparc is in a good position to recover along with the economy once the pandemic subsides. In addition, rolling up all six brands into a single company creates a lot of cost saving opportunities, Salter said.

In consolidating the back of house, he can cut what these companies spend on corporate overhead in half, making front of house more efficient. For example, rather than a regional

manager for each separate chain, Sparc only needs one manager to keep tabs on the stores under all the banners within a certain area.

Salter also said vendor terms are friendlier and sourcing costs can be cut by between 10% and 15% due to the conglomerate’s overall buying power.

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