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From: David Jackson - Istithmar

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Balanced piece below that starts part of our strategy of setting out our part of the story

Istithmar Vows to Support Barneys as Rumors Swirl

by David Moin and Vicki M. Young

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From WWD Issue 09/16/2009

The bills are being paid. The book signings and designer parties go on, and the invitations are practically in the mail for the flagship opening in Scottsdale, Ariz., next month.

For Barneys New York, it appears to be business as usual — except the luxury chain remains cloaked in a heavy cloud of uncertainty regarding its future. It stems from being immersed in the recession-racked luxury arena, operating without a chief executive for 14 months, and the huge debt challenges facing Barneys' parent company, the investment fund Istithmar.

On Tuesday, David Jackson, chief executive officer of Istithmar, took a firm position, stating there are no changes at Barneys and no plans afoot for giving up on the fund's retail holding. "We have stood by Barneys and will continue to stand by this company," he told WWD.

Jackson was responding to numerous press reports questioning the future of Barneys and its parent company.

Regarding his own status at Istithmar, the investment arm of the state-run Dubai World, Jackson said: "I continue to enjoy the support of Dubai World. I am continuing in my current role and responsibilities." Istithmar has undergone a 20 percent reduction in workforce, with some senior-level layoffs, fueling speculation about Jackson's future.

Also on Tuesday, there was a regularly scheduled Barneys board meeting with Jackson and other directors, including Howard Socol, the former Barneys ceo who left in July 2008. The meetings are held quarterly and involve input from Barneys' seven executive vice presidents, who are running the business by committee in the absence of a ceo. They are not board members. "This was not an emergency meeting," said one source.

Still, there's bound to be heightened urgency considering Jackson is keeping closer tabs on Barneys, on a monthly and quarterly basis, and the poor state of the luxury business.

"Nothing in the next month materially is going to happen [to Barneys] and possibly through yearend," said

a source close to Istithmar. "There is nothing on the agenda. In the worst part of the economic storm, Istithmar stood by Barneys. Why would they quit now just as the global markets begin to open up again? This asset is not for sale, and there is no scenario where this thing is going into bankruptcy."

The luxury chain does have "kick-out" clauses on over two-thirds of its flagship leases, as well as some Co-Op units, making a bankruptcy less likely because it means Barneys can get out of locations if sales drop below a certain level. In addition, no major debt comes due soon at Barneys. On the books is about \$500 million in long-term debt, including a \$270 million term loan maturing in 2014 and a mezzanine loan of about \$230 million maturing in mid-2016. There also is revolving credit debt, which, based on available working capital, varies from month to month and matures in 2012. Istithmar acquired Barneys in 2007 for more than \$900 million, and probably wouldn't want to see its investment disappear through a bankruptcy.

There have been numerous reports over the last year that Barneys is for sale, but Jackson has consistently denied them.

However, the strategy could change if sales drop off from the current low levels, or if the economy slides deeper into recession, the company could be put up for sale sooner than Istithmar ever envisioned, at a price well below what it paid. The plan is to restructure Barneys' debt and bide time in hopes the economy starts to improve next year and efforts to boost the business take hold. Perella Weinberg Partners, the asset management firm that is part of Istithmar's investment portfolio, last month was hired to restructure Barneys' debt, as first reported in WWD.

Istithmar has not received any offers to buy Barneys as of yet, according to the source. Holt Renfrew, Canada's luxury chain, has been rumored to be an interested party, though the source said any buyer "would require more heft than Holt Renfrew has." Perry Capital, which partially financed Istithmar's acquisition of Barneys, was rumored to be trying to enlist Holt Renfrew as a partner to take over Barneys. Perry Capital does not have the power to force a sale, the source said.

It's also quiet on the CEO front. While Barneys did have some candidates earlier, the field seems to have dried up and the search simmered down.

Istithmar is the six-year-old investment arm of Dubai World, which is owned by the Government of Dubai. Based in the United Arab Emirates, Istithmar has over 50 companies around the world in its portfolio, including Barneys, Loehmann's and the Queen Elizabeth II ocean liner. Istithmar has for now stopped seeking new investments, leading to the staff streamlining, but informed sources say it remains open to a "bolt-on" or merger of one of its holdings with another company to add to its portfolio, and also able to pump some money into existing holdings, such as Barneys. Earlier this year, Istithmar pumped \$25 million into Barneys to release vendor shipments and ease liquidity concerns.

Interest costs, depreciation and sales declines put Barneys in the red last year on a net basis, though the chain made money on an earnings before interest, taxes, depreciation and amortization basis. As for 2009, the company, with seven flagships, two regional stores, 19 Co-ops, 13 outlets and three warehouse sale locations, is projected to reach sales of about \$675 million, down from \$750 million last year, and generate a small operating profit.

Comparable-store sales should improve in the second half since fall 2008 was way down. There was some uptick in the second quarter, with certain pockets of business performing well, including the Chicago store, the Web site and parts of Co-op, which features contemporary labels and denims.

In July, Moody's Investors Service, a different ratings agency, downgraded Barneys due to liquidity concerns, despite Istithmar's \$25 million infusion. Moody's downgraded Barneys' credit two notches, to "Caa3" from "Caa1." The move, which covers the corporate family rating as well as the probability of default rating and ratings on Barneys' senior secured term loan, keeps the debt within the class carrying "very high credit risk."

Barneys did take action to alleviate the financial condition, such as reducing operating expenses by 10 percent to 15 percent, and cutting capital spending by 50 percent. Inventory purchases were reduced for fall 2009 and spring 2010 by over 20 percent.

"It's still a very tough market. I see nothing changing that," said retail consultant Walter Loeb. He said Barneys' relative lack of discounting also hurts the business, when some of the same goods can be found at

its competitors for lower prices.

On the positive side, factors in general say Barneys is paying its bills. And credit analysts said the retailer is still getting the merchandise it needs on a regular basis.

Bob Carbonell, executive vice president and chief credit officer at Bernard Sands Credit Consultants, said, "Major suppliers are making business decisions, and not credit decisions. They've determined that their labels have to be in that store."

But there are other concerns in the Dubai fund's investment portfolio. When Istithmar bought Loehmann's in July 2006 for \$300 million, it put up a \$24 million letter of credit to support the off-price chain. That expired at the end of June and was extended until the end of September. Istithmar, in negotiations with bondholders and landlords for concessions, is expected to renew the letter of credit, but it's unclear when.

Some vendors have been jittery about shipping goods to the off-price chain. Those shipping, sources said, are doing so at their own risk. Factors are not supporting Loehmann's, although it too has been paying its bills in a timely fashion, credit sources said. In late spring, there were rumors Syms Corp. might be contemplating an acquisition of the off-pricer, but that was before Syms acquired bankrupt Filene's Basement, another off-price chain.

One credit source said the concept of designer apparel at off-prices remains relevant, though the source also pointed out Loehmann's needs to rebuild its customer base and its core shopper has "retired to Florida and just doesn't shop as she used to."

Recently, Istithmar has displayed some support for Loehmann's and its future. A new store is opening in South Coast Plaza in Costa Mesa, Calif., and recently the "Back Room" designer department at the Chelsea store in Manhattan was enhanced with greater visibility and focus on key labels. The location also pumped up accessories, shoes and handbags and invested in merchandising some high-profile vendors, including Theory and Calvin Klein.

However, last week Standard & Poor's lowered Loehmann's Holdings Inc.'s corporate credit ratings to "CC" from "CCC+" based on poor performance, with the outlook listed as "negative." Performance, the ratings agency said, "continues to be very weak because of poor execution, increased competition, and lower consumer spending."

- END -



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