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Gottschalks sells stock to Chinese: Deal will give 75% to overseas firm, bring \$30m cash infusion in.

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Nov 22, 2008 (The Fresno Bee - McClatchy-Tribune Information Services via COMTEX) -- [GOTT](#) | [Quote](#) | [Chart](#) | [News](#) | [PowerRating](#) -- Gottschalks Inc. has inked a deal giving the retail chain a transfusion of up to \$30 million and placing majority ownership into Chinese hands.

The agreement announced Friday between the Fresno-based department-store company and Everbright Development Overseas Ltd. still requires approval by Gottschalks shareholders, its lenders and federal regulators. The deal is expected to close in mid-January. The companies had been in negotiations since September, when officials signed a letter of intent.

The deal calls for Gottschalks to sell about 75% of its outstanding common stock to Everbright for \$1.80 per share. While Everbright is nominally registered as a corporation in the British Virgin Islands, its roots and operations are in China.

The cash injection is expected to be a lifeline for Gottschalks, which has been wracked by drooping sales, slumping earnings and a sagging stock price.

"In this time of all our lives, in the economic environment we're all dealing with, anything you can do to strengthen your position financially is critically important," said Jim Famalette, Gottschalks' chief executive. "None of us knows what the economy holds going forward."

Investors reacted to the news by sending Gottschalks down to 22 cents per share Friday, down 71.43%. More than 468,000 shares changed hands Friday -- the largest single-day volume for Gottschalks stock in more than 20 years.

Gottschalks, founded in 1904, operates 59 department stores throughout the western United States.

Famalette said the new partnership enables Gottschalks to access low-cost private-label products from Chinese manufacturers, improving the retailer's profit margin.

Everbright belongs to a rising tide of Chinese companies looking for investment opportunities in American business. And it rides what may be the leading edge of China's push into this country's retail commerce.

"Not many Chinese companies have done this," said Usha C.V. Haley, a professor of international business at the University of New Haven in Connecticut. "Everbright would be one of the few."

Peter Navarro, a professor of economics and public policy at the University of California at Irvine, agreed.

"Buying a retail store fits in well with Chinese strategy," said Navarro, author of "The Coming China Wars: Where They Will Be Fought, How They Can Be Won." "By vertically integrating into retail, where maybe one-third to one-half of the merchandise on the shelf is Chinese anyway, they control everything from the factory floor to the mall parking lot."

Al Smith, president and chief executive of the Fresno Chamber of Commerce, said he was glad to hear of the deal. "This sounds like it's a good thing for them," he said. "It preserves the Gottschalks name" and allows the retailer to remain in Fresno.

Will Everbright's investment be enough to ensure Gottschalks' long-term survival? The national retail analyst who follows Gottschalks isn't sure.

"I don't think it's a game changer," said Howard Davidowitz, chairman of Davidowitz & Associates, a national retail consulting and investment banking firm in New York. "What Gottschalks is doing is exhausting every possibility. ... They're buying time until things improve. I don't know what else they can do."

Besides buying 40 million shares of Gottschalks stock and making cash contributions or loans of up to \$15 million, the deal allows Everbright to buy up to 114 million additional shares.

Key provisions include:

Direct sourcing for Gottschalks from a network of Chinese and international manufacturers, giving Gottschalks better prices for private-label "store brands" such as Shaver Lake, Sarah Bentley and Taylor & Henry.

Consignment sales for manufacturers to place new products in Gottschalks stores without additional investment by the retailer.

Formation of a new wholesale company, Everbright Asia, to be owned by Gottschalks to connect international manufacturers with businesses in the U.S.

Development of a membership program in which consumers can connect through the Internet to international suppliers and personal shoppers.

Famalette said recent visits by Chinese government officials and business representatives to Fresno have generated enthusiasm on both sides for the direct-source and consignment possibilities.

"We've had significant interest from electronics manufacturers -- everything from TVs to small electronics -- and manufacturers of garments, shoes, even furniture," he said. "It's a wide range ... and it's very exciting for us to think about being able to do things like that and to do it in a profitable manner."

Everbright Chairwoman Mai Wang said in a statement she was pleased with the agreement and the potential to develop new business connections beyond Gottschalks. "We strongly believe this relationship will allow Gottschalks and Everbright to build on the complementary aspects of our businesses," Wang said.

Everbright Asia is one example of that expansion. It would initially serve as a conduit for direct shipments of products for Gottschalks from China, but other American companies also may use its services.

"Ultimately, there's no reason this couldn't expand to other countries," said Greg Ambro, Gottschalks chief operating officer.

Changes at Gottschalks stores won't happen suddenly. Friday's announcement said some consignment arrangements may begin testing at some stores next spring.

"These things will be rolled out in an organized manner. We're not looking at taking everything out of [the] River Park [store] and replacing it," Famalette said.

Davidowitz, the New York consultant, said there is some downside to the deal.

He said the millions of new shares of stock issued to Everbright "dilutes the equity of shareholders immensely." However, he said the flip side, bankruptcy, would leave shareholders with nothing.

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