

Hartmarx Corporation A Compelling Acquisition for SKNL



September 2009

Business Overview

Established in 1872, Hartmarx Corporation ("HMX" or the "Company") is the largest US manufacturer and marketer of men's suits and formalwear and is based in Chicago and New York. The Company operates at the mid to upper end of the apparel markets and offers a wide selection of men's suits and sports coats, men's sportswear, trousers, shirts, ties, golf wear and denim products under some of the most highly recognized brands in the industry, including *Hart Schaffner Marx* and *Hickey Freeman*. The Company also offers women's career apparel, designer knitwear and sportswear under brand names such as *Exclusively Misook*, *Christopher Blue* and *JAG Jeans*.

	MEN'S	WOMEN'S
Luxury (32% of FY 2008 Sales) ¹	<p>HICKEY FREEMAN Bobby Jones® hickey MONARCHY</p>	<p>Christopher Blue Bobby Jones® b.chyll</p>
Bridge/Better (52%)	<p>TED BAKER LONDON Jack Spicklaus SOCIETY BRAND, LTD. Coppley Austin Reed</p>	<p>Jag jeans® One Girl Who... EXCLUSIVELY misook WÖRN eye Austin Reed TED BAKER LONDON</p>
Moderate/Mainstream (9%)	<p>claiborne Palm Beach SANSABELT</p>	
Popular (7%)	<p>GOLDEN BEAR CONCEPTS BY CLAIBORNE NATURALIFE access a claiborne company LYLE & SCOTT</p>	

¹ Includes Hart Schaffner Marx.

HMX sells to the leading department stores in the USA, including:

- Dillards
- Kohls
- Neiman Marcus
- Bergdorf Goodman
- Macys
- Barneys
- Saks Fifth Avenue and
- Bloomingdales

HMX has a deep brand legacy and loyalty. The average selling price of a *Hickey Freeman* suit is c. \$1,300 - \$1,500 and that of a *Hart Schaffner Marx* suit is c. \$600 - \$800. In addition to retailing in all the leading department and specialty stores in the USA, the Company also has five retail locations of its own in New York, Chicago, San Francisco and Naples, Florida.

In addition to its own brands, the Company is also a licensee of several foreign/American brands, including Austin Reed and Claiborne, among others.

Situation Overview

The timeline of the transaction was as follows:

- On January 23, 2009 HMX announced that it filed for Chapter 11 Bankruptcy Protection
- Wachovia/Wells Fargo and its other bankers provided HMX with a \$160 million Debtor-In-Possession ("DIP") financing loan so that it could continue operating its business in the normal course
- In early February 2009 certain interested parties including SKNL submitted initial indications of interest
- On April 15, after exhaustive due diligence SKNL submitted a bid to buy out select assets and assume certain liabilities of Hartmarx
 - US private equity firms Mistral Partners and Yucaipa also submitted bids
- On June 25, 2009, the Bankruptcy Court entered an order approving the sale transaction between Hartmarx and SKNL
- On August 7, 2009, the sale transaction was consummated for an enterprise value of approximately \$120 million

Funding

Hartmarx's existing lenders led by Wachovia/Wells Fargo have provided a new credit facility to SKNL of up to \$95 million and a term loan of \$10 million to fund the acquisition of Hartmarx's assets and provide for working capital. SKNL has made a \$25 million equity contribution into the Company and has further provisioned up to \$10 million in anticipation of any future working capital needs of Hartmarx.

Attractiveness of Business

Gross Margin Improvements

For the fiscal year ended November 30, 2008 the Company's consolidated net sales were \$493 million with a gross profit of \$160 million (32.5% gross margin).

At the onset, the first leg of value-creation opportunity is a backend-frontend integration synergy that will boost gross margins significantly. A 30% gross margin is extremely low for a business the size of HMX and operating in the market segment that HMX brands operate in. We believe we will be able to boost gross margin up significantly by backward integration of production through our Indian manufacturing operations and also through opportunistic sourcing from the Far East and Central America. Typically, a business like HMX should be operating at about 45%-50% gross margin. However, we have estimated first year gross margin of 33% and over a four year period expect it to go up to 45%.

Manufacturing Outsourcing to India

As per our investment plan, we envision outsourcing part of HMX's manufacturing to our plants in India. SKNL is adept at manufacturing products currently manufactured and sold by Hartmarx, including suits, shirts and slacks. SKNL will be able to supply fabrics from Reid & Taylor and Belmonte to HMX and finished garments from our suits and shirt factory in Bangalore which will be operational within a year. This would facilitate diverting export production of factories to better value-added products from our fabric division and also provide immediate capacity for the new shirt and suit factory. By conservative estimates, it is anticipated that the back-end synergy will provide substantial additional profitable business to us within the next 3 years.

Iconic Brands in Tailored Clothing Business

Hickey Freeman and *Hart Schaffner Marx* are both iconic brands in the tailored clothing market. Both brands have over 100 years of legacy and history and have the potential to become the biggest brand names in their categories. We believe that both brands can be further leveraged in the US with a retail and wholesale expansion. Also, the brands can be taken overseas to Europe, the Middle East, India and the Far East. Further, HMX owns 34 brands currently and several attractive licenses that can be brought to the Indian market very effectively.

Operating Expense Reduction

Normalized operating expenses of HMX for the fiscal 2008 were at \$120 million (24% of sales) which is extremely high. Prior to the acquisition, HMX employed close to 3,300 people of whom 30% were non-manufacturing related. The abnormal buildup of employment was due to HMX's acquisitions of businesses without integrating the back-end. As per our negotiations we only acquired 3 of HMX's 6 factories in North America. Further, our plan envisions reducing operating expenses to run at a normalized level of \$90 million. This will be achieved by company-wide salary reductions, realigning logistics, shutting down unprofitable businesses, terminating unfavorable leases and overall cost curtailment, amongst other measures. To that extent we have hired leading turnaround specialists, Alvarez & Marsal, to assist with the overall expense reduction plan.

Management

Immediately after the acquisition, SKNL restructured existing management and hired Doug Williams at President and COO. Doug is an industry veteran who spent 17 years at Polo Ralph Lauren rising to President. Doug is a seasoned retail and apparel industry executive with deep experience in wholesaling, licensing, retail development and product sourcing and has relationships with all the leading US department stores. Doug is currently building out the full management bench at HMX. SKNL has retained several key managers and employees who we believe are highly competent and will be an integral part of the growth of this business.

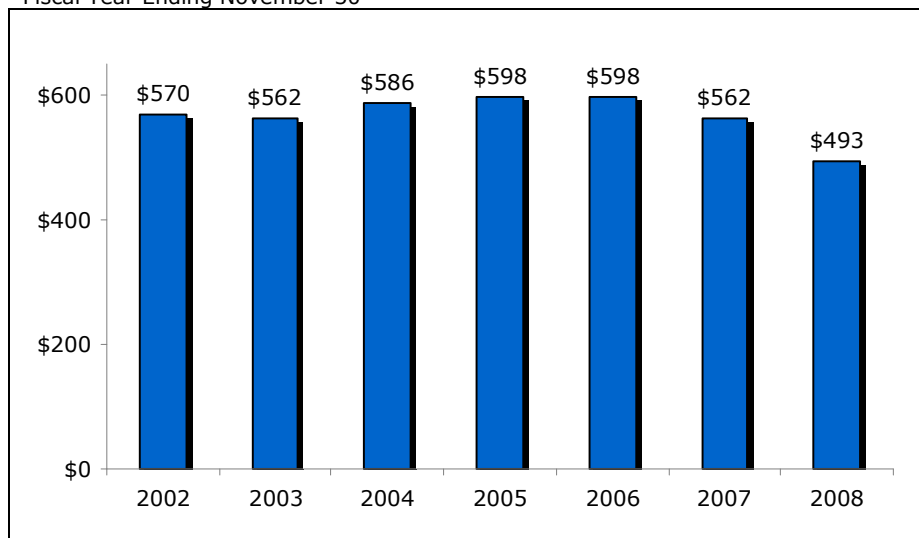
We believe that the acquisition of HMX is a compelling value creating opportunity for SKNL and with a powerful "backend-frontend" synergy and has the potential to become one of the leading players in its segment in the world on a stand-alone basis.

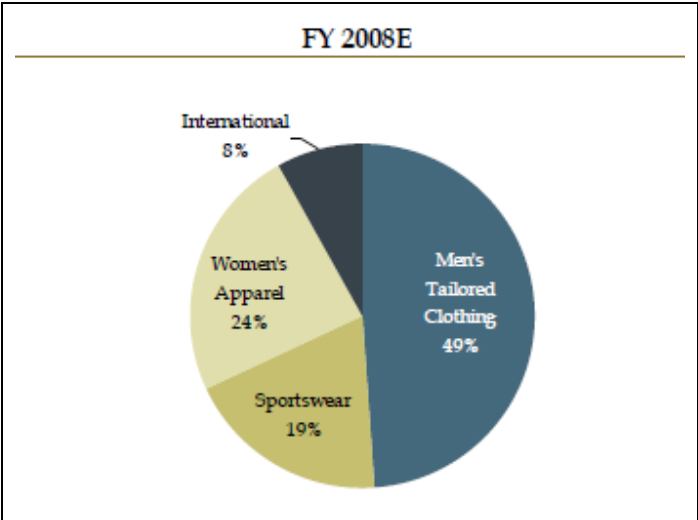
Key Historical Financials

(\$ in millions)

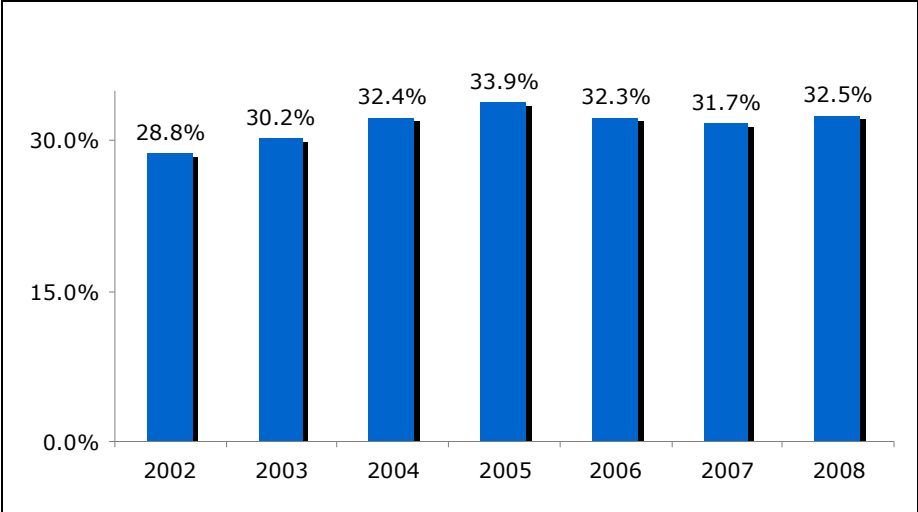
SALES

Fiscal Year Ending November 30





GROSS MARGIN %



PRODUCT SUMMARY

CATEGORY/BRANDS	PRODUCT CATEGORIES	PRIMARY CUSTOMER CHANNEL
LUXURY		
Hickey Freeman	Men's tailored clothing, furnishings and sportswear	Upscale department and specialty stores
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Hart Schaffner Marx	Men's tailored clothing, furnishings and sportswear	Upscale department and specialty stores
Bobby Jones	Sportswear and golfwear	Upscale department, specialty stores and greengrass golf shops
WOMENSWEAR		
Exclusively Misook	Knitwear	Upscale department and specialty stores
Christopher Blue	Denim and sportswear	Upscale department, specialty stores and boutiques
JAG Jeans	Denim and sportswear	Upscale department and specialty stores
Austin Reed	Career apparel and sportswear	Department stores
Ted Baker	Sportswear	Department stores, specialty stores and Ted Baker retail stores
Bobby Jones	Sportswear and golfwear	Upscale department, specialty stores and greengrass golf shops
One Girl Who...	Knitwear	Upscale specialty stores
b.chyll	Knitwear	Upscale specialty stores and boutiques
Eye	Sportswear	Specialty stores
Wörn	Denim	Upscale department and specialty stores
TAILORED		
Claiborne	Men's mainstream tailored clothing	Moderate retailers
Concepts by Claiborne	Men's tailored clothing sold exclusively at JCPenney	JCPenney
Claiborne Access	Men's tailored clothing sold exclusively at Kohl's	Kohl's
Austin Reed	Tailored clothing, sport coats and slacks	Department stores
Ted Baker	Men's tailored clothing	Department stores, specialty stores and Ted Baker retail stores
Palm Beach	Men's mainstream tailored clothing	Moderate retailers, "big and tall" retailers and specialty stores
Sansabelt	Men's mainstream slacks	Moderate retailers and specialty stores
SPORTSWEAR		
Monarchy	Men's denim and sportswear	Upscale department stores, specialty stores and boutiques
Ted Baker	Men's sportswear	Department stores and specialty stores
Pusser's of the West Indies	Men's sportswear	Moderate retailers
Golden Bear	Men's sportswear and golfwear	Popular retailers
Jack Nicklaus	Men's sportswear and golfwear	Department stores and golf pro shops
Lyle & Scott	Men's sportswear	Moderate retailers
Naturalife	Men's sportswear	Popular retailers
Palm Beach	Men's sportswear	Moderate retailers
Manchester Escapes	Men's sportswear sold exclusively at The Buckle	The Buckle
Dr. Martens (FY 2009)	Young men's sportswear	Department stores
INTERNATIONAL		
Coppley	Men's tailored clothing and furnishings	Upscale department and specialty stores

US APPAREL INDUSTRY

With respect to both apparel manufacturing and retailing, the US apparel industry is large, mature and highly fragmented, generating retail sales of approximately \$196 billion in 2007. Retail sales of men's apparel accounted for approximately 29% of the industry total, or \$57 billion in 2007. Sales of men's apparel have grown at a CAGR of 1.9% since 2001, with the apparel industry growing at a 2.8% CAGR overall, led by growth of 5.6% in the children's category.

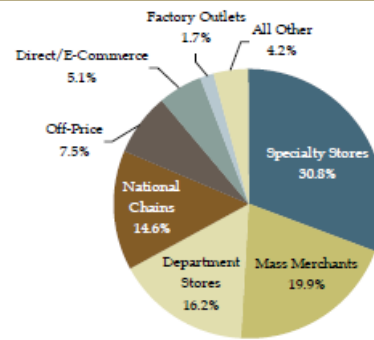
Industry sources estimate men's tailored clothing to be an approximately \$5 billion category. NPD estimates that the men's tailored category grew 7% in 2007, with 35% growth in the "suit separates category."

Men's tailored clothing is a highly fragmented category within the broader apparel industry. The Company is the largest domestic manufacturer of men's tailored clothing, with other leading US based companies including Joseph Abboud and Oxford Industries. Among international apparel companies, Hartmarx competes with Peerless International, Ermenegildo Zegna, Canali, Armani and Hugo Boss.

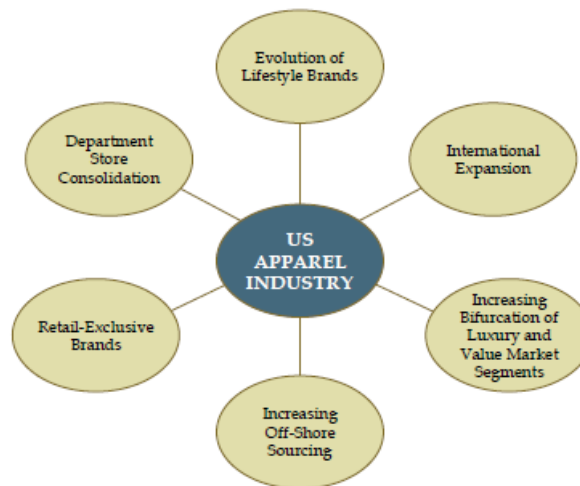
US APPAREL INDUSTRY - RETAIL SALES (\$BB)

	2001	2007	% OF TOTAL	% CAGR 2001-2007
Men's	\$51	\$57	29.2%	1.9%
Women's	89	103	52.7	2.4
Children's	25	35	18.0	5.6
Total	\$166	\$196	100.0%	2.8%

APPAREL SALES AT RETAIL STORES



KEY INDUSTRY TRENDS



Sources: NPD Group and Standard & Poor's.