



U.S. footwear retailer DSW steps into Canada with Town Shoes stake

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A DSW Shoe Warehouse in Miami is seen in this file photo.

RICHARD PATTERSON/THE NEW YORK TIMES

Another fast-growing U.S. retailer is setting the stage to launch in Canada.

DSW Inc., a leading shoe chain known for selling high-profile brands from Nike to Nine West at discount prices, is buying a 44-per-cent stake in Canadian rival Town Shoes for \$62-million – with options to buy the rest after four years.

The deal gives DSW, which stands for Designer Shoe Warehouse, a way to enter Canada in a market that has stumped some other U.S. chains. DSW has chosen to come here with a domestic partner – Town Shoes – which is familiar with the local landscape and can help DSW in setting up retail locations, logistics and other operations.

Town Shoes, with annual sales of \$291-million last year, is this country's largest retailer of footwear and accessories, with 182 stores, including its namesake and The Shoe Company, its discount arm.

"We have looked at Canadian entry options for some time and decided to acquire an existing operation with a long track record of success and to use this operation as a base from which we can establish the DSW brand in Canada," said Mike MacDonald, president and chief executive officer of DSW of Columbus, Ohio.

"Our partnership provides us a unique opportunity to bring DSW into Canada through Town Shoes' platform. We hope to share best practices in sourcing, operations, inventory management and omni-channel integration to our mutual advantage."

Added Bruce Dinan, president and chief executive officer of Town Shoes: "Our combined retail banners provide different avenues for serving unique customer lifestyles in Canada, ranging from Town's full priced, specialty retail model to The Shoe Company's and Shoe Warehouse's off price concepts."

In an e-mail, Christina Cheng, senior director of investor relations at DSW, said it has "not made specific plans for opening DSW stores in the near term" in Canada. She said the Canadian customer is different from the one south of the border and "Town Shoes knows the Canadian customer best." She said the Toronto-based retailer will continue to operate its store banners under current management.

DSW and Shoe Company are similar in concept, with warehouse-type, largely self-serve stores selling a wide range of styles and brands. Some have compared them to the Winners discount concept of retailing.

Last year, U.S. discounter Target Corp. struggled in its roll out in Canada after it acquired former Zellers leases for \$1.8-billion and set up shop in many of them. But Target counted on its own internal top management from the U.S. to steer its Canadian course. Other foreign retailers have been challenged here in finding attractive real estate at reasonable rates amid a shortage of good locations.

DSW is buying its initial 44-per-cent interest in Town Shoes from the Alberta Investment Management Corp. (AIMCo), the Toronto-based retailer's key owner. Callisto Capital, a Canadian private equity firm, owns the rest.

DSW may acquire additional shares from other minority shareholders as part of its initial investment, it said in a statement. And DSW will have the right to purchase the balance of Town Shoes from the remaining shareholders, including Callisto, after four years at a pre-determined EBITDA (earnings before interest, taxes, depreciation and amortization) multiple. Callisto, on behalf of itself and the remaining shareholders, has the right to put the balance of the company to DSW after three years at a predetermined EBITDA multiple.

DSW's initial stake provides 50 per cent voting control and board representation, both of which are equal to that of Callisto.

Lawrence Stevenson, chairman of Town Shoes and managing director of Callisto, said he is pleased to have DSW as a strategic partner "as we roll out DSW stores across the country."

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