



Men's Wearhouse & J.A. Banks - A Merger of Oil and Water

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“Corporate America was secular and there just wasn’t the passion you see today where there is such respect for founders. To remove a founder, even if he was never fired, was a mistake.” Is this quote regarding Steve Jobs or George Zimmer?

During the early 1980s, although IBM (NYSE:IBM) PCs running the DOS operating system dominated the market, Apple (NASDAQ:AAPL) became the “innovative” company behind the first mass marketed GUI-based computer (graphical user interface) incorporating a mouse. Because of Steve Jobs’ vision, Apple launched the now famous “Macintosh” personal computer for consumers, which started out with fairly modest sales due to its then whopping \$2,500 price tag, but the Mac did eventually become a commercial success.

Before GUIs become the industry standard, users relied on a complicated set of key combinations to control computers. However, in 1985, before the success of the new Macintosh computer was apparent, Apple’s board and then CEO John Sculley forced the 30-year old Steve Jobs to resign, preferring to focus on the older but more successful Apple II. Jobs went on to found NeXT with other Jobs loyalists, a company focused on making high end computers targeting education, science, and finance.

Twelve years later, Apple had become a sinking ship. The company had a sprawling product line full of dysfunctional products. Microsoft had launched its very successful windows 95, which was way more sophisticated than its Macintosh counterpart. At that time, NeXT was fully functional and had the features that Apple needed. Apple then initiated talks with Jobs, finally acquiring the company for \$427 million. Jobs came back home and went on to create history with Apple.

Similar to Apple’s public firing of its founder, Men’s Wearhouse (NYSE:MW) publicly axed founder George Zimmer in June of 2013. Zimmer was the face of Men’s Wearhouse with his now famous slogan, “You’re going to like the way you look. I guarantee it.” At the time of Zimmer’s departure, Men’s Wearhouse stock was trading in the \$36-\$37 range. Today, the company’s stock is trading in the \$13-\$14 range and looking to decline further. Hmmm.

Men’s Wearhouse’s purchase of rival Jos. A. Banks eighteen months ago in a \$1.5 billion deal has proven to be disastrous. While Men’s Wearhouse focuses on quality, JAB focuses on promotions...an interesting attempt at mixing oil and water. The clothier is now fighting to prove it can survive. Shares have plummeted from a high of \$66.18 in June to today’s current trading range of \$13.19 to \$15.16. Why? On Thursday, Men’s Wearhouse reported that same-store sales at JAB tumbled by a jaw-dropping 35% in the first five weeks of the current quarter, which will more than likely result in quarterly sales even below the lower end of the company’s current forecast. Current CEO Doug Ewert’s bright idea to get rid of JAB’s “Buy one suit, get 3 free” promotion has proven to be ‘toxic’ to the company’s bottom line as customers stay away.

Within the last week, multiple analysts have piled on the downgrades. On Friday, analyst Edward

Plank at Jeffries commented, "Optically, the stock appears inexpensive, but we see further risk to earnings estimates going forward, and with no fundamental catalysts to jump start the story, we prefer to remain sidelined until better clarity emerges." Today's ratings outlook downgrade by Moody's from stable to negative is not helping the company's share price any. This morning, the company hit a fresh new 52-week low of \$13.19.

While the firing of the founder quote from above is a reference to Steve Jobs, time may prove that it's equally applicable to Mr. Zimmer.

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