<https://play.google.com/books/reader?id=CPcsAAAAYAAJ&printsec=frontcover&pg=GBS.PA9>

Timely Clothes 1951

Warren Buffett’s net worth was about $20,000 at the end of 1951. Warren Buffett’s third-largest position at the time was Timely Clothes, comprising more than 10% of his portfolio (See Table I).

Table I

[[1]](#endnote-1)

Timely Clothes published their annual report in January since their fiscal year end was October 31. Because Buffett purchased Timely Clothes during 1951, the 1950 annual report would have been the last annual available when he purchased the stock.

Timely Clothes was a Rochester-based manufacturer of men’s suits, overcoats, topcoats, sport coats, and slacks. Timely Clothes also operated ten stores in Southern California through a retail subsidiary. While engaged in a competitive industry, Timely Clothes was a profitable company that traded at a significant discount to net current asset value at the end of 1951.

Introduction to Men’s Clothing Industry

The men’s clothing industry took off at the start of the Civil War, helped by the invention and commercialization of the sewing machine, which allowed for the production of ready-made clothing on a large scale.[[2]](#endnote-2) The demand for uniforms necessitated more efficient processes for the production of clothing, leading to the increased usage of the sewing machine.[[3]](#endnote-3) The industry grew rapidly as it took share from custom tailors and housewives who made clothing from their homes.[[4]](#endnote-4) The industry experienced explosive growth as factory production grew, with the value of products in the men’s clothing industry nearly doubling between 1859 and 1869.[[5]](#endnote-5)

The first large wholesale clothing houses in the United States began following the Civil War.[[6]](#endnote-6) These clothing houses financed the buying of the cloth, cut it, and then had contractors do the actual tailoring.[[7]](#endnote-7) In the early 1900’s, tailoring facilities began centralizing all of the operations in making garments in one building, called the “inside shop”.[[8]](#endnote-8) Some sought to be cost leaders, while others focused on style.[[9]](#endnote-9)

There were three types of producers in the men’s clothing industry: the inside manufacturer (the inside shop, mentioned in the previous paragraph), the jobber, and the contractor (known as outside shops) Manufacturers producing clothing within their own factory were known as inside shops.[[10]](#endnote-10) A jobber purchased and designed materials but turned the production of the garment over to a contractor, allowing the jobber to focus on selling.[[11]](#endnote-11) The contractor made the clothing from the material provided by the manufacturer or jobber.[[12]](#endnote-12) Generally, the quality products were made in inside shops, such as Timely Clothes.[[13]](#endnote-13)

The production of men’s clothing was been concentrated in a few large cities. This concentration was the result of the use of immigrant labor, the contract system, and convenience. The location of cheap immigrant labor allowed the industry to develop in cities with a high concentration of immigrants. The contract shops required multiple manufacturers in the area to provide them business. Lastly, visiting buyers would visit the clothing markets when making their purchases. It made sense that the industry would be concentrated so that buyers would not have to travel to too many locations.[[14]](#endnote-14)

Tailors began as generalists, manufacturing all sorts of garments by themselves: coats, trousers, vests, overcoats, etc.[[15]](#endnote-15) Specialization grew as wholesale establishments proliferated, with different people having specialized roles.

Men’s clothing manufacturing was a low margin business that required little capital investment. The manufacturers of clothing would sell the clothing to retailers, who would then in turn sell the clothing to the end consumer. Some firms, including Timely Clothes, would own retail stores themselves. Although this would ensure distribution of the product, the firm would still be susceptible to the demand of their product.

The industry is highly seasonal, and because of the potential for style changes, it was risky for clothing companies to produce large amounts of finished inventory.[[16]](#endnote-16) Suits, topcoats, and overcoats were purchased most frequently in the spring and fall, with the fall period continuing into Christmas. The retailers would send in orders prior to these seasons, meaning products sold to the end consumer would have been produced in the summer months (June through August). Orders for the spring season would come in around December so the factories would be running at capacity in January and February, with a subsequent decline and sharp drop after Easter.[[17]](#endnote-17)

The industry experienced tremendous growth from the middle of the 19th century to the early 20th century, but suffered along with the rest of American business during the Great Depression. The industry began recovering after the Great Depression, with the value added[[18]](#footnote-1) in the ‘men’s and boys’ suits and coats’ industry growing from $236 million to $658 million between 1939 and 1947 [definition of Value Added?] and the value of products shipped growing from $545 million to $1.4 billion during the same time period.[[19]](#endnote-18)

The industry was highly concentrated by geography. The New York-Northeastern New Jersey metropolitan area was over 40% of the industry as measured by value added by manufacturer. Rochester was fourth with 7.7% of the industry as of 1947, behind New York, Philadelphia, and Chicago. Despite Rochester being dwarfed in size by New York, it was well-known as a quality market. the last year the Census covered prior to Buffett’s investment in Timely Clothes.

Rochester Men’s Clothing Industry

The clothing industry was a crucial part of Rochester’s economy. Rochester became the fourth largest producer of men’s clothing manufactures in the United States, behind New York City, Chicago, and Philadelphia (xii Adler Book). The clothing industry employed more workers than any other industry in Rochester during the latter part of the 19th century and during the early parts of the 20th.[[20]](#endnote-19) In the [1920’s], only the photographic industry produced more value than the clothing industry in Rochester.[[21]](#endnote-20)

Union relations were important for the industry. The Amalgamated Clothing Workers of America, the ACWA, was the bargaining agent for all men’s clothing workers.[[22]](#endnote-21) The Rochester manufacturers, with the exception of Bond Clothes, negotiated with the Amalgamated as a group.[[23]](#endnote-22)

The industry peaked at 120 manufacturers in the 1920s, but the number of factories peaked prior in 1914 with 239.[[24]](#endnote-23) Rochester was a quality market and the industry gravitated towards larger scale operations as the factories absorbed work previously performed by independent contract shops.[[25]](#endnote-24) The industry consolidated from there, with 13 listed in the Rochester Directory in 1950.[[26]](#endnote-25) Of these 13, six were major firms: Michaels Stern (leader), Fashion Park Associates, Hickey Freeman, Timely Clothes, Levy Bros & Adler Rochester, and the Bond Clothes Manufacturing facility.[[27]](#endnote-26) Michaels Stern and Levy Bros & Adler Rochester merged in 1951, leaving just five major companies in Rochester.[[28]](#endnote-27)

Timely Clothes History

Timely Clothes was founded in 1920 under the name of Keller, Heumann, and Thompson [Moody’s]. Fred Keller, Sol Heumann, and T. Howerth Thompson [Page 12 of PDF; page 4 of Prospectus] founded the Company to compete in the middle-priced suit niche. The three men had manufactured clothes for other companies before, with Heumann conducting a business of manufacturing and marketing trousers. Fred Keller was the largest coat contractor in Rochester for 25 years, T. Howerth Thompson was a vest maker for 40 years, and Sol Heumann was a pant contractor since 1905, primarily for Michaels Stern & Co.[[29]](#endnote-28) The Company manufactured men’s suits, overcoats, topcoats, sport coats, and slacks under the brand “Timely Clothes” and changed its name to Timely Clothes Inc. in 1939. The suits, overcoats, and topcoats generally retailed around $45 to $65. Timely Clothes sold its products to more than 1,000 retail merchants throughout the United States, Alaska, and Hawaii (neither were states until 1959).[[30]](#endnote-29)

The firm grew so fast that they needed to expand physically. They doubled the common stock and issued a cumulative preferred to do so.[[31]](#endnote-30) The firm introduced the Timely trademark in 1934, and the advertising campaign was so successful that the company changed its name to Timely Clothes in 1939.[[32]](#endnote-31)

Timely Clothes principally used domestic woolen and worsted fabrics and trimming in their suits.[[33]](#endnote-32) Timely Clothes used one supplier a particular type of all wool worsted fabric. The Company had a subsidiary, Timely Clothes Incorporated, which operated seven stores in California under local trade names. These stores sold men’s clothing, furnishings, hats, shoes, as well as boys’ clothing. Three of the stores also sold women’s ready-to-wear clothing.[[34]](#endnote-33)

Labor costs were an important part of the Company’s cost structure. Timely Clothes had labor agreements with Amalgamated Clothing Workers of America since 1933. Most of the men’s clothing manufacturers in Rochester, acting through the Clothier’s’ Exchange of Rochester, entered into uniform basic agreements with the union.[[35]](#endnote-34) Hickey-Freeman Company, Levy Brothers & Adler-Rochester, Inc., Fashion Park, Inc., Timely Clothes, Inc., Michaels-Stern & Company, Inc. Established thirty-six hour work week and for overtime at time and a half or piece rate and a half. The agreement provided that a general wage increase in the industry would lead to an increase in the wage level of Union members in accordance with the general increase. Renews year to year unless either party gives 90 days’ written notice.[[36]](#endnote-35) This provided Timely Clothes with stability in its labor costs.

Heumann owned a majority of the company in 1945 [pg 13 of PDF of Prospectus]. Get ownership at 1950. Heumann died in 1949[[37]](#endnote-36)

Went public in 1946, offered by First Boston Corp. at $16.50 per share. Has preemptive rights?? [Moody’s 1950 Industrial Securities]

Valuation

Table III:



Table IV:





Timely Clothes was a net-net, trading at .59x net current asset value. Timely Clothes had $21.88 of net current assets and book value of $29.28 while trading at $13 a share. As we can see from Table IV, Timely Clothes was the cheapest of the comparable companies based on net current asset value and book value, but wasn’t the cheapest based on the earnings-based multiples.

[look into Fashion Park multiple]

Clothing manufacturing was a low-margin business, with profit margins in the low single digits and returns on invested capital below 10%. Barriers to entry to the clothing industry were low and pricing power non-extinct. Pricing would be levered to costs in many ways, with an inability to mark-up clothing significantly because there would be someone to undercut you on price if you tried to price your suits too aggressively. The addition of retail stores to Timely Clothes’ business in the 1940’s provided guaranteed distribution, but it also created additional fixed costs to the business. Further, Timely Clothes was small relative to its competitors.

Despite the steep discount to net working capital, there was some cause for concern. The price of wool skyrocketed in 1950, contributing to a sharp increase in inventories. Inventories rose from $2.0 million in 1949 to $3.3 million in 1950. Raw materials as a percent of total inventory went from 27.9% of inventory in 1949 to 44.3% in 1950. Timely Clothes raised an additional $1.25 million of debt during fiscal year 1950, with this cash being used to fund the increase in inventory. With inventory comprising 57.89% of working capital, it was critical that this inventory could be profitably sold for Timely Clothes to offer true downside protection.

Timely Clothes used the first-in first out (FIFO) method of inventory accounting. Under this method, rising prices would lead to a higher stated inventory balance than under the average-cost or last-in-first out (LIFO) method of accounting. Margins would also be higher under FIFO than under the average-cost or LIFO methods when prices for raw materials were rising, as FIFO would lead to the lower-cost inventory being sold first for accounting purposes (an example is provided in the endnotes).[[38]](#endnote-37)

If the price of wool subsequently collapsed, players with lower amounts of inventory would be able to undercut the pricing Timely Clothes could offer on its clothing, which would necessitate Timely Clothes selling its clothing at a loss. As we can see from table [x], Timely Clothes had a much larger days inventory outstanding balance to begin with, and Timely Clothes still experienced a larger increase in the number than either Bond Clothes or Hart, Schaffner. Timely Clothes’ competitors were better positioned for a decline in wool prices. Comparable companies experienced rising days inventory outstanding, although not to the degree Timely Clothes did.

There would have been mitigating factors to this risk, of course. Retailers and consumers were likely going to increase their purchases as well due to the increase in price of goods. At the December 31, 1951 market price, the inventory would have to be written down by nearly 40% than what it was carried on its books for Timely Clothes to trade above net current asset value. The inventory would need to be written down nearly 70% for Timely Clothes to trade below tangible book value. Although there was uncertainty in the price of wool, the large discount to asset value would provide a margin of safety at the price Buffett held the position at.

In their 1951 Annual Report, Timely Clothes said, “Early in the year an unwarranted wave of consumer scare buying occurred which, in turn caused our customers to buy somewhat beyond needed requirements. Then suddenly, there was a general decline in soft goods volume, with the result that during the latter half of the year retailers became burdened with heavy inventories in relation to sales.”[[39]](#endnote-38) In 1952, volume declined. Timely Clothes’s annual report stated, “This reduced volume, coupled with markdowns which were taken because prices of wool and finished products had softened, largely accounts for the decline in earnings”.

[to what degree did the other players see this phenomenon?]

Performance

While Buffett’s sale activity is not available, Timely Clothes’ performance over the subsequent years was not spectacular:





The dividend provided a satisfactory return to shareholders, but the share price did not really advance until 1955. Timely Clothes did not succeed because the return on invested capital began to decline. Timely Clothes required more capital to produce less earnings throughout the 1950’s, and eventually lost money in 1960. Investors would not have lost money, as the Company paid a $1.00 dividend throughout the 1950’s, but the share price performance was disappointing. The working capital offered downside protection, but the declining returns from retained earnings impaired the upside of the investment. Timely Clothes shareholders would have been better served if management distributed earnings to shareholders rather than reinvested them in the business.

Timely Clothes Demise

Timely Clothes continued trying to expand throughout the 1950’s. Timely Clothes acquired Kennedy’s Inc., a New England clothing chain based in Boston [112, get year from AR]. In 1956, they bought Rochester’s oldest and most distinguished men’s clothing store for about $2 million. They then purchased a Los Angeles chain of men’s clothing stores in 1957.[[40]](#endnote-39) These acquisitions failed to increase sales and earnings, with margins, earnings per share and dividends shrinking during the 1950’s. The stock remained largely flat throughout the decade, with the stock peaking at $19.50 during the 1950’s.

[rephrase. Investors, not bankers]These failures led a group of New York investment bankers, led by Frederick Cartwright forming an independent stockholders committee for the purpose of taking over Timely (113). The group controlled 56,000 shares ­– 40% of the company. In a New Year’s Eve 1959 letter, the group solicited votes to oust the board and install a new board that would install a fresh management team (113). The independent stockholders won, and they put five directors on the board and elected a new President, Lester Runston. Runston resigned less than two years later. In 1966, BVD, a men’s underwear conglomerate bought Timely Clothes (116; <https://books.google.com/books?id=rCauCAAAQBAJ&pg=PA249&lpg=PA249&dq=BVD+timely+clothes&source=bl&ots=WwHlA5Lf2i&sig=ACfU3U3W3JGsYbB7xTtpjiPOdjMu43wQxQ&hl=en&sa=X&ved=2ahUKEwiktPjticnjAhUSVd8KHZtcBeMQ6AEwBXoECAkQAQ#v=onepage&q=BVD%20timely%20clothes&f=false>). BVD tried moving the company to Virginia where labor costs were cheaper. The move failed and BVD merged it with another subsidiary, the Alligator Company. Operations closed in 1969, but a Rochester paint distributor tried to revive the firm in 1971. This also failed and in 1973 all of Timely Clothes assets were liquidated (Link above, 117).

Glen Alden purchased B.V.D. in 1966. Union Underwear, which became Fruit of the Loom, eventually purchased the BVD trademark in 1976. Fruit of the Loom was subsequently purchased by Berkshire Hathaway in 2002.

Consolidated Statement of Financial Condition

Timely Clothes, Inc. and Subsidiary Oct. 31, 1950 and Oct 31, 1949



Summary of Operations and Earnings Retained for Use In The Business

Timely Clothes, Inc. and Subsidiary years ended October 31, 1950 and October 31, 1949



Clothing firms fell from 43 to 25 ‘in the next five years’. Independent firms 137 to 39 during the postwar decade. Number of major firms fell to five – Bond, Hickey-Freeman, Fashion Park, Michaels, Stern, and Timely Clothes. When did Stern and Levy merge???? This bgought it down to five [pg 2 Mcklevey article].

Rochester became #4 in terms of the production of men’s clothing behind New York City, Chicago, and Philadelphia. Rochester was near the Gennessee River. 1803, Nathanial Rochester [].Jahiel Barnard – Scrantom’s took him in. First tailor who created the first locally made suit. Married Scrantom’s daughter, was the first Rochester wedding. Erie Canal turned Rochester into America’s first boomtown. Elizabeth Baker realized in the 1840’s that you could expedite production if you could standardize sizes. The standardized production was helpful during the civil war. The tailors in Rochester benefited less conventional. 1830s – had traveling sales people. By the 1860s most had been made by machines. Civil war gives reason for using sewing machines. The early forms of mass production meant people didn’t have the opportunity to go out on their own as before. Now a middle man who purchased dozens of sewing machines that would hire women in a factory setting.

Amalgamated Clothing Workers of America practiced industrial democracy. Boon the the Rochester clothing companies, helped them become a major garment center. Garment industry fell from 137 to 39 as smaller companies absorbed by larger ones. By the end of the Great Depression, there was the big five: Fashion Park, Timely Clothes, Michaels-Stern, Bond Clothes, Hickey Freeman. Worsted wool was a finer yarn. [FROM DOC]

Council of fashion designers of America

Christine Ridasky – city historian

Karen Pastorello

Karen Pastorello SUNY

Christine Ridasky

Carolyn Vacca – Rochester

Note: prospectus refers to 203\_3\_6-1 doc

1. Of Permanent Value by Andy Kilpatrick (get page number) [↑](#endnote-ref-1)
2. (9, Economic Aspects of the production of men’s clothing; . (p. 25 of Braun for Sewing Machine) [↑](#endnote-ref-2)
3. 10, Economic Aspects of the Production of Men’s Clothing [↑](#endnote-ref-3)
4. 9, Economic Aspectsof the Production of Men’s Clothing [↑](#endnote-ref-4)
5. **The Men's Factory-made Clothing Industry, Report on the Cost of Production of Men's Factory-made Clothing in the United States** United States. Bureau of Foreign and Domestic Commerce, page 21 (link: <https://books.google.com/books?id=CPcsAAAAYAAJ&pg=PA21&lpg=PA21&dq=men%27s+clothing+industry+census+1849&source=bl&ots=CRc_rg58yK&sig=ACfU3U1lxQEsSb3xZd1WYZz3Addwy9jTCw&hl=en&sa=X&ved=2ahUKEwjj2pfE8cLnAhVClXIEHcDcDE8Q6AEwAHoECAYQAQ#v=onepage&q=men's%20clothing%20industry%20census%201849&f=false> ) [↑](#endnote-ref-5)
6. page 13 of Story of Men’s Clothing [↑](#endnote-ref-6)
7. (page 13 Story of Men’s Clothes) [↑](#endnote-ref-7)
8. (pg 18 Story of Men’s Clothes) [↑](#endnote-ref-8)
9. (pg 18-19 – Story of Men’s Clothes) [↑](#endnote-ref-9)
10. (Kurt Braun, pge 33) [↑](#endnote-ref-10)
11. (Braun 33-34). [↑](#endnote-ref-11)
12. (pg 35 Braun) [↑](#endnote-ref-12)
13. page 89 Development of Men’s Clothing Industry [↑](#endnote-ref-13)
14. Pages 23-24 of Economic Aspects) [↑](#endnote-ref-14)
15. (page 10 of the Story of men’s Clothes) [↑](#endnote-ref-15)
16. (page 66 of The development of the Men’s Clothing Industry) [↑](#endnote-ref-16)
17. pg 67 The Development of the Men’s Clothing Industry) [↑](#endnote-ref-17)
18. Value added by manufacture is calculated by subtracting the cost of materials, supplies, and containers, fuel, purchased electric energy, and contract work from the total value of shipments. [↑](#footnote-ref-1)
19. Census of Manufactures,Volume 2: 1947 pages 18 and 206 [↑](#endnote-ref-18)
20. (p. 36, 65, 126 Adler) [↑](#endnote-ref-19)
21. (126 Adler) [↑](#endnote-ref-20)
22. 79 Adler [↑](#endnote-ref-21)
23. (pg 31 of Causes of Industrial Peace under Collective bargaining – exception of Bond Clothes deduced by looking at 1940 agreement and seeing they were left off.) [↑](#endnote-ref-22)
24. ((pg 69Adler ) 126) [↑](#endnote-ref-23)
25. (pg 19 Story of Men’s Clothes) (Adler 126). [↑](#endnote-ref-24)
26. (Adler 134, 157). [↑](#endnote-ref-25)
27. (Adler 134) [↑](#endnote-ref-26)
28. (Adler 134-135) [↑](#endnote-ref-27)
29. (Adler 101) [↑](#endnote-ref-28)
30. Page 4 of the Timely Clothes Prospectus, dated June 27, 1946 [↑](#endnote-ref-29)
31. (pg 104 Adler) [↑](#endnote-ref-30)
32. (106 Adler) [↑](#endnote-ref-31)
33. Page 4 of the Timely Clothes Prospectus, dated June 27, 1946 [↑](#endnote-ref-32)
34. Page 5 of the Timely Clothes Prospectus, dated June 27, 1946 [↑](#endnote-ref-33)
35. Page 5 of the Timely Clothes Prospectus, dated June 27, 1946 [↑](#endnote-ref-34)
36. PagesII 16 and II-17 of Part II of the Registration Statement [↑](#endnote-ref-35)
37. (p. 111 Adler) (check with AR) [↑](#endnote-ref-36)
38.  [↑](#endnote-ref-37)
39. [page 4 of the Timely Clothes 1951 Annual Report] [↑](#endnote-ref-38)
40. (113 Adler) [↑](#endnote-ref-39)