



KordaMentha

# Retail Industry Roundup

June 2009

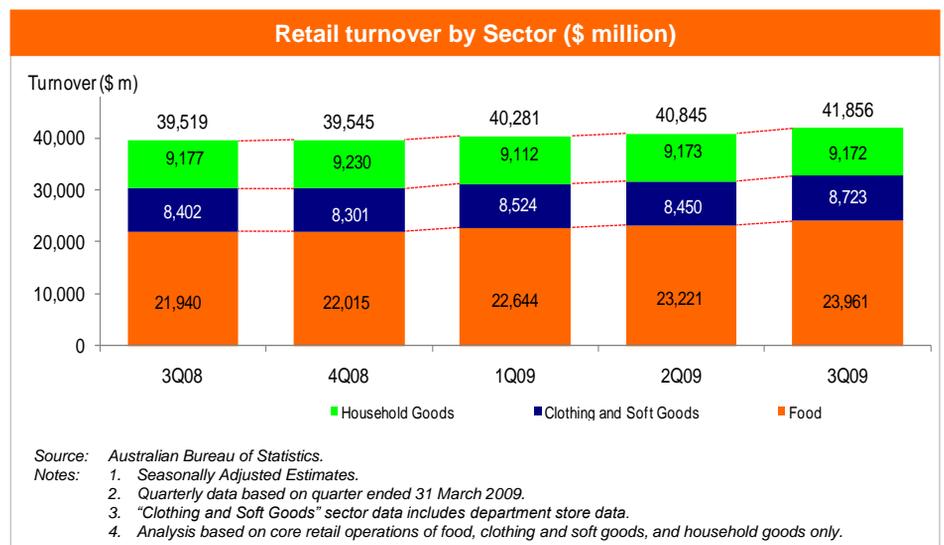
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## Overview

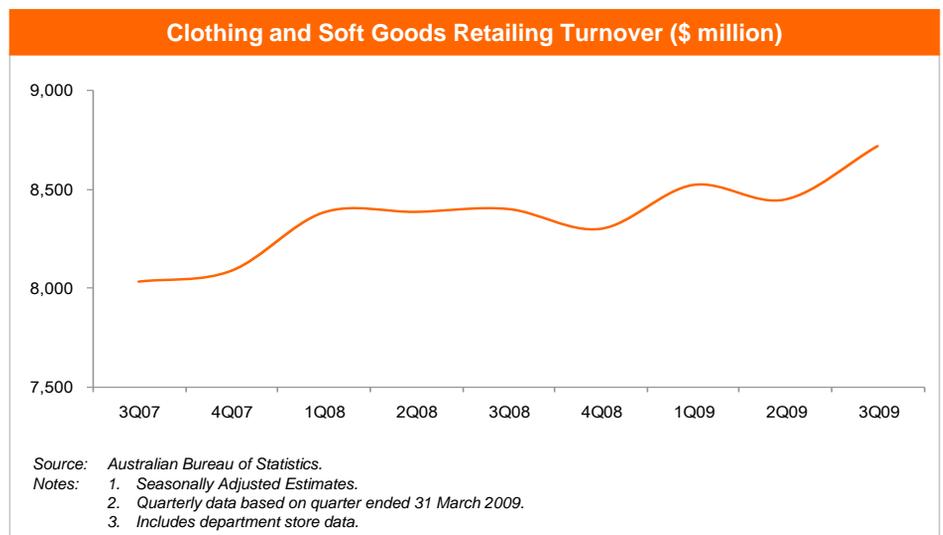
- March 2009 quarter ("3Q09") retail sales grew by 6% compared to the prior comparative period ("PCP") with sales buoyed by stimulus package spending. However, we expect that a rise in unemployment combined with declining stimulus package spending will result in weaker retail sales over the coming months.
- The March 2009 quarter result was driven mainly by sales in the Food sector which grew 9% reflecting strong grocery sales due to consumers eating at home more often and the Clothing and Soft Goods sector which grew 4% driven by stimulus package spending. Household Goods sales declined slightly over the period.
- This follows retail sector sales growth of 4% in the December 2008 quarter ("2Q09") compared to PCP.
- Retail sales rose a seasonally adjusted 0.3% in April which was lower than market forecasts of 0.5%. Sales for the month continued to be boosted by stimulus package spending.
- In June 2009, it was announced that Australia had avoided a technical recession with GDP growing in the March quarter by 0.4%. This follows a fall in GDP in 2Q09 of 0.6% and expectations that the economy would shrink by 0.2% in 3Q09. The result appears to be generated by stimulus package spending.
- June 2009 saw the Westpac Melbourne Institute Index of Consumer Sentiment rise 13% to 100.1. This represents the largest monthly rise in the index in 22 years and follows a 4% drop in May to 88.8 resulting from a negative response to the Federal Budget. The rise is linked to the news that Australia avoided a technical recession in the March quarter.
- The Australian Dollar strengthened by more than 8% in May, strengthening further in June making imports cheaper.
- The unemployment rate rose in May to 5.7% with a reduction of 26,200 full time jobs in Australia. This follows an unexpected drop in the unemployment rate to 5.4% in April.



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## Clothing and Soft Goods Retailing

- 3Q09 Clothing and Soft Goods sales increased by 4% compared to PCP and 3% from 2Q09. These results were driven by sales growth of 9% in March 2009 compared to PCP. Sales in February 2009 were down 3% on PCP.
- This result appears to be due to delayed first round stimulus package spending and the impact of the second round of stimulus payments that were made in March.
- The “tumbledown effect” has seen lower price stores such as Big W and Target take market share from David Jones and Myer with these stores also choosing to stock more of the cheaper lines in its product mix. This trend is also reflected in the US with the rise of Walmart versus Macy’s.



Recent developments of key sector players are summarised below:

### David Jones

- Sales for the period 25 January 2009 to 25 April 2009 were down 9% to \$411.6m on PCP. Sales for the month of April 2009 were better than expected and trading was in line with April 2008 which appears to be due to the stimulus package spending.
- CEO Mark McInnes recently announced that all core KPIs were performing well and that the company was on track to deliver 0% - 5% profit growth in 2H09 and FY09.

### Myer

- Despite a 4% fall in sales to \$1.8b for the six months to 24 January 2009, Myer Group net profit was up 5% to \$83.0m due to strong cost control and other initiatives such as changes in buying and ranging.
- CEO Bernie Brookes recently commented that Myer recorded a recovery in sales during May 2009 and suspects that the department store market as a whole has bottomed out and is showing signs of recovery.
- Myer is focusing on the middle market through house-branded products such as Piper, Heritage and Basque sourced directly from China.

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## Billabong

- Billabong issued its second profit downgrade in four months citing a deterioration in trading conditions at the consumer level in the US and a reduction in forward orders from US wholesalers.
- Profit for the 12 months to 30 June 2009 is expected to be within the range of \$160.0m - \$165.0m, down from earnings of \$174.6m last year.
- The company also announced a capital raising with the institutional component of \$200.0m fully underwritten and the retail component to raise up to \$90.0m subject to take up. The proceeds will be used to reduce the company's debt.

## Pacific Brands Group

- Pacific Brands completed a capital raising of \$165.0m in May 2009. The offer was oversubscribed and the share price surged 22% to a six month high following the raising. A further \$91.0m of funds is expected to be raised under a retail entitlement offer. The funds will be used to repay some of the company's debt.
- The group announced that Stephen Tierney, the CFO of 19 years, would be resigning from the Board in June to be replaced by David Bortolussi, the current Chief Strategy Officer at Foster's Group.
- The company also appointed Dr Nora Scheinkestel, a director of AMP Ltd, Orica Ltd and PaperlinX Ltd as a non-executive director in June 2009.
- The company continues to shift its clothing manufacturing operations to China, remove unprofitable brands and sell its non-core assets and property.

## Herringbone

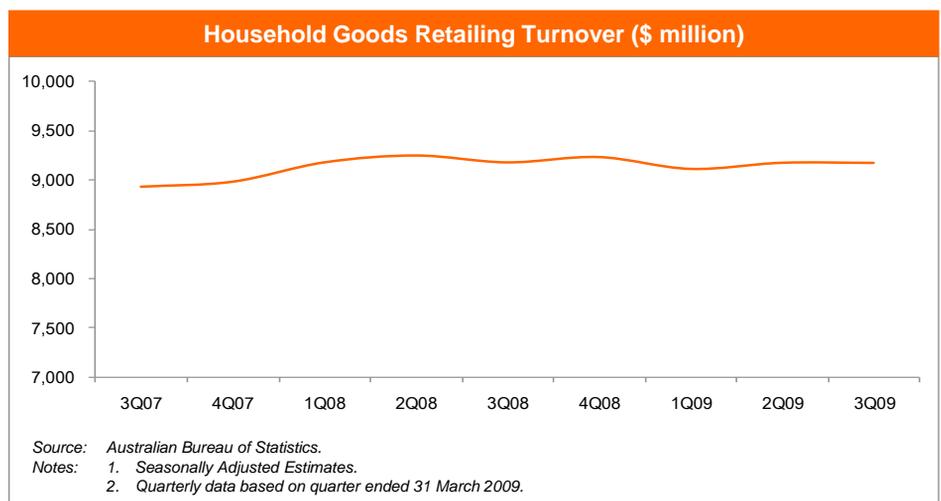
- Following the appointment of Administrators to the upmarket clothing retailer in December 2008, Herringbone has been purchased as a going concern by German shirtmaker Van Laack.
- The new owner plans to open ten new stores and expand the Herringbone brand to New Zealand.



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## Household Goods Retailing

- Household Goods sales for 3Q09 declined by 0.1% on PCP and remained flat compared to 2Q09.
- Sales for March 2009 were up 1% compared to February 2009. This follows a decline in sales during the months of January and February 2009.
- In June, the Westpac Melbourne Institute reported a drop in the measure of whether it was a good time to buy major household items by 2%.



Recent developments of key sector players are summarised below:

### Kleenmaid

- Creditors of the Kleenmaid Group have voted to liquidate the companies following the appointment of Administrators to the whitegoods retail chain in April 2009.
- Directors attributed the demise of the company to the global financial crisis with a fall in sales turnover of 25% towards the end of calendar 2008.
- It is estimated that the group has debts in excess of \$102.0m and secured and unsecured creditors have been advised that they are unlikely to receive any return.

### Mansours

- Director Peter Mansours appointed a Liquidator to the manchester and home furnishings retailer in May 2009 following a fall in sales partly caused by the global financial crisis.
- 21 stores were closed immediately with the remaining eight stores to be sold.

### JB Hi-Fi

- In June 2009, JB Hi-Fi announced that it would beat its full year profit guidance by \$5.0m. The company said its profit after tax would be around \$92.0m for the full year to 30 June 2009.
- This represents a 41% growth in profit from the previous financial year and is driven by strong sales and cost cuts. CEO Richard Uechritz said the company has a strong cash position and is likely to increase dividends.

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## Harvey Norman

- Sales for the nine month period ended 31 March 2009 were up 4% on PCP to \$4.5b.
- However, the company warns that “given current macroeconomic conditions, retail margins continue to be under pressure”.

## Strathfield Group

- In March 2009, Strathfield Group creditors approved a Deed of Company Arrangement which resulted in control of the Group being retained by the Deed Administrator.
- The new corporate strategy seeks to run most stores as franchises, remove debt, increase store numbers, introduce new inventory and improve margins.

## Fantastic Holdings

- Fantastic Holdings raised \$9.7m through a private placement of 4.2m shares. Subject to shareholder approval, a further \$2.6m will be raised through the placement of approximately 1.1m new shares to the Directors of the company.
- The funds raised will be used to provide Fantastic Holdings with financial flexibility to enable it to take advantage of future acquisition opportunities.

## Australian Discount Retail Group

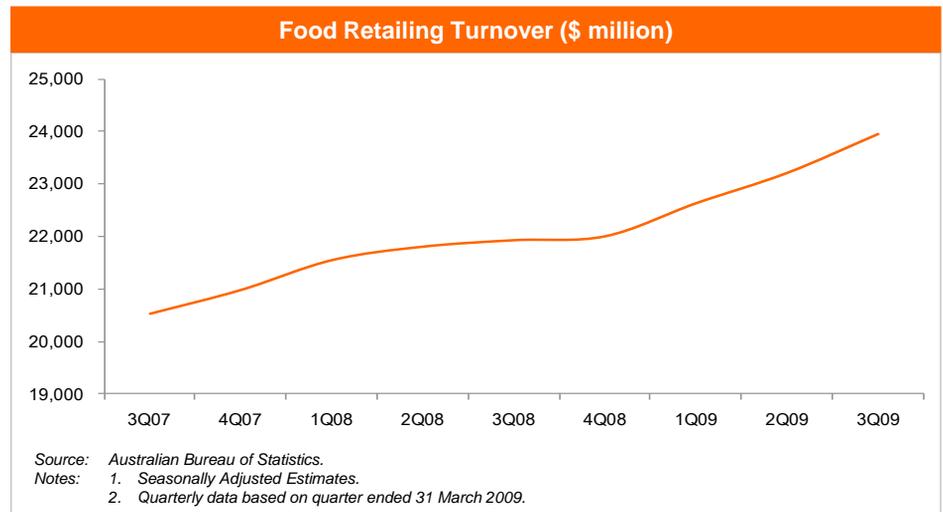
- Australian Discount Retail Group was sold to Retail Adventures Pty Ltd in March following the appointment of Administrators and Receivers in January 2009.
- The Group operates more than 350 discount variety stores under the names of Go-Lo, Crazy Clark's and Sam's Warehouse.
- Robert Atkins, the current CEO of Harris Scarfe (which is part of Retail Adventures Pty Ltd) will become the new Chairman of the Group. Richard Broug, previously a senior executive of Coles Myer and the Group will become Chief Operating Officer.



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## Food Retailing

- March 2009 quarter Food retailing sales increased 9% on PCP, and 3% from 2Q09.
- Food retailers observed a change in customer behaviour in the past nine months with people eating and entertaining at home more often. Consumers are also attempting to save on their grocery bill driving faster growth of house brand sales over other branded products and higher sales of staples such as pasta, rice and flour.



Recent developments of key sector players are summarised below:

### Coles

- Coles has opened six new-style stores which focus on a wider range of fresh foods. Rather than remodel all stores, CEO Ian McLeod said that the company is prioritising certain stores and would not apply all aspects of the improvements to all regions.
- The company recently appointed Tony Buffin to the role of Finance Director. Buffin was previously European MD of Groupe Aeroplan Inc and Financial Controller of Boots plc, one of the UK's largest retailers.

### Woolworths

- Woolworths Ltd sales were up 6% to \$12.3b (Easter adjusted) compared to PCP (which did not include Easter) for the 13 weeks to 5 April 2009.
- Woolworths continues to roll out its new "2010" store format in hundreds of stores across Australia with more fresh food and wider aisles.
- The company is about to launch a loyalty scheme partnering with Qantas' Frequent Flyer program. This strategy aims to secure the existing customer base and drive growth.
- Recent acquisitions include nine store leases from Macro Wholefoods as well as the Macro organic private label brand. Up to eight stores will be rebranded as Thomas Dux stores providing Woolworths with a platform to build the Thomas Dux brand. The company also acquired a 25% stake in Gage Roads Brewing Co. Ltd.

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## Metcash

- Metcash Limited reported a 14% increase in net profit from underlying operations for the year ended April 2009 to \$219.7m.
- The result was achieved mainly through a 9% rise in wholesale sales to \$11.0b with the company noting that consumers are eating out less often. Cost savings were achieved through a focus on supply chain management and improvements in warehouse productivity driven by technological innovations.

## Sector Outlook

- The recent growth in retail sector sales is primarily attributable to the Federal Government's stimulus package. The Clothing and Soft Goods and Food retailers have been the main beneficiaries of the handouts with Household Goods retailers continuing to struggle.
- The stimulus payments have also been a significant factor in allowing Australia to avoid a technical recession in the March 2009 quarter. This news appears to have boosted consumer confidence in June which in itself is likely to have a stimulatory effect on the economy.
- As the Federal Government's stimulus payments start to have a deteriorating effect (due to their short term nature), it is anticipated that retail sales will decline and the underlying weakness in the sector will be revealed.
- In addition, the Governments' forecast that the unemployment rate will rise to 8.25% over the next 12 months represents a significant risk to consumer confidence and retail sales. The rise in unemployment in May is likely to dampen consumer confidence.
- The MasterCard Worldwide Index of Consumer Confidence, which gauges likely consumer confidence over the next six months, fell from 49 points to 24 points, its lowest score in the 17 year history of the survey. The Australian component of the score was similarly pessimistic.
- The cash rate is at its lowest point in 49 years at 3%. Monetary policy will become more important as the impact of the fiscal spending weakens. It is anticipated that the RBA may make further cuts before the end of the year.
- We expect retail sector performance to weaken over the next six months with RBA Governor Glenn Stevens forecasting that the decline in stimulus package spending, growing unemployment and a drop in business investment will lead to weaker consumer and hence spending over the next few months.



# About The KordaMentha Research Unit

## Background

KordaMentha is an independent professional services firm specialising in corporate restructuring, corporate advisory and real estate services.

Our national practice spans all major cities in Australia and comprises in excess of 180 staff. Internationally, we have an affiliation with AlixPartners, a global restructuring firm covering North America, Europe and Asia.

Our partners, directors and staff have extensive experience across a broad range of industries and our firm has a culture based on creative solutions and implementation. The strength of KordaMentha's experience makes us well placed to monitor, evaluate and comment on issues and developments in industry, and in corporate restructuring, workouts and insolvency generally.

## Statement of Direction

The KordaMentha Research Unit aims to:

- develop intellectual property;
- share our knowledge of specialist topics with insolvency stakeholders; and
- develop balanced solutions for issues in the industry.

## Personnel

The KordaMentha Research Unit is headed by Andrew Malarkey (amalarkey@kordamentha.com). KordaMentha Partners and Directors contribute to the KordaMentha Research Unit.

## Current Research

In addition to general publications, the KordaMentha Research Unit regularly publishes Industry Roundups and Industry Vitals.

Industry Roundups provide a concise summary of recent news and development, covering a number of industry sectors.

Industry Vitals provide a snapshot of key issues relating to selected industries.

All KordaMentha Research Unit publications can be accessed via our website – [www.kordamentha.com](http://www.kordamentha.com)

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