

Portfolio Focus

RETAILING WORKS AT “THE WORKS”

As Insolvency Practitioners and Restructuring Experts are touted as the new Kings of the High Street, Endless’ investment in The Works shows how fixing the fundamentals is the key to a retail turnaround

PricewaterhouseCoopers recently announced that seven retailers went bust every day in the first six months of this year, an eye opening 60% increase on last year. This trend is startling and the retail sector has been one of the worst hit in the current downturn. But whilst insolvency practitioners have a role to play there are limitations to what can be achieved through an administration, cost cutting or by closing loss making stores and making redundancies. In many cases this is just a sticking plaster and does not get to the heart of the issue of why many retail businesses fail or how they can be turned around.

The fundamentals of any retail business are straightforward. The merchandise that it sells must be attractive to the customer and the difference between the price of the merchandise and the costs of getting it into the hands of a customer must be as high as possible. If you cannot get this right then you are in serious trouble.

Getting the fundamentals right at The Works

It is just over a year since Endless bought the £100m turnover discount book retailer The Works out of administration. Not a great time to have invested in a heavily loss-making retail business, but it was not hard to identify that the business had got its fundamentals wrong and that there was a big opportunity to improve. Following years of successful family and private equity ownership, the business had started to sell the wrong products at the wrong prices which had alienated its customers. At the same time, it had grown quickly by opening new stores in poor locations and adding new layers of management. In the three years prior to our acquisition the following trends were evident:

SALES	LFL sales decreased by 11%
MARGIN	Margins fell by 2-3%
COSTS	Central costs increased from £5.5m to £9m
LOSS	£13m



Despite these trends we identified that there was a viable proposition which had just lost its way. After recognizing that the fundamentals of a potential turnaround existed, Endless acquired the business with the support of HSBC and then quickly brought in Anthony Solomon and David Luper as co-investors and to lead the team to put the turnaround plan into action. Anthony and David brought significant experience and a strong track record in the discount retail sector having successfully launched and sold North Shoe, The Famous Brunswick Shoe Warehouse, Poundzone and The Factory Shop Group. Garry Wilson, Managing Partner at Endless commented: “as a result of their knowledge, expertise and proven track record in transforming distressed businesses we knew that they would be ideal partners in a situation like this.”

From loss to profit

The results for the year ended April 2009 show that Solomon and team have achieved an outstanding £7 million improvement at EBITDA level and have moved the business into profitability in its first year.



It is not surprising that these results have come as a consequence of a re-focus on the fundamentals of the business. There has been an immense amount of work behind the scenes by the management team in order to achieve such an impressive turnaround, and the key trends from year one are a complete reversal of those in the period running up to the deal:

SALES	LFL sales +20% from January to September 2009
MARGIN	Margins have improved by 5% on the prior year
COSTS	Central costs reduced by £3.6m
PROFIT	On track for £6m + for y/e April 2010

The formula for success

What is the secret to this success? Well ask yourselves how you measure up in these areas:

- SALES - Get the merchandise right
- MARGIN - Negotiate, negotiate, negotiate
- COSTS - If it was your money would you be spending it?

Endless Investment Director Nick Leitch cannot praise the team enough: "Under the guidance of Anthony Solomon, the management team has worked exceptionally hard, the results that the business delivered this year are a fantastic achievement, well beyond our initial expectations and represent a just reward for the efforts of the management team."

Moving on

Following on from a very positive first year of trading, Endless and Solomon are focused on consolidating the progress that has been made and on expanding the business without overstressing its resources. The business has already made a great deal of progress in increasing the store portfolio and improving the offering for customers and in 2009 has opened stores in 14 Wyevale garden centres as well as taking advantage of opportunities in the property market.

Despite the dreadful effect that it has had on the rest of the high street, the current economic climate continues to be good news for The Works as people tend to search for great value products with lower ticket prices. The management team is taking advantage of this with many new in store promotions being announced every week, making The Works an exciting and great value place to shop again.

Results in the year to date have continued to be very impressive and The Works provides a fantastic example of a true retail turnaround.