BIZCOMMUNITY

# Edcon struggles in tough retail environment

By Colleen Goko

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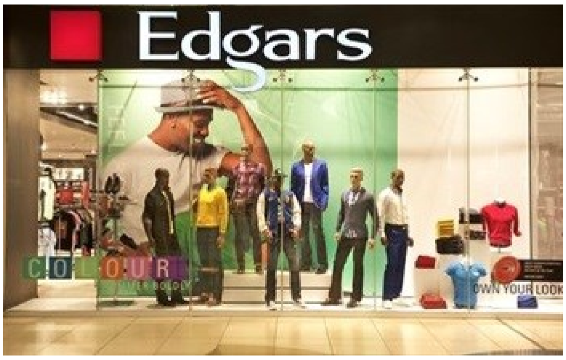
It has been a little more than three months since Edcon's 2016 financial year calendar came to a close, but the highly indebted retailer has yet to release its results.




Edgars's traditional apparel retail model includes sourcing from low-cost regions, which means there is a long waiting period between placing an order and receiving the merchandise.

Picture: Business Day

The company, which delisted from the JSE in 2007 when private equity group Bain Capital bought it for R25bn, is under no obligation to publicise its financials, but as SA's largest nonfood retailer, market players are interested. In the third quarter, ended December 2015, Edcon reported a 1.7% decline in sales, and a 17% plunge in trading profit, compared with the year-earlier period. Cash sales rose 4%, while credit sales, which make up just more than 30% of all sales, fell 9.9%.

In the period under review, the retailer also asked its bondholders to accept a deferral in interest payments until the end of the year.

FNB Investment analyst Chantal Marx said this had been done to provide Bain Capital time to explore a number of options including the possible sale of all or some of the business. Edcon's retail divisions include Edgars, Red Square, Boardmans, Jet and Legit. Edcon is also the owner of CNA.

The retail environment in SA has become extremely competitive, with entries from foreign players. Companies compete on how quickly they can spot trends, and stock shelves accordingly. Edgars has been slow to do this, which has ultimately hurt its bottom line.

Sasfin Wealth equity analyst Alec Abraham said Edgars's traditional apparel retail model included sourcing from low-cost regions, such as Asia. He said this meant there was a long waiting period between placing an order and receiving the merchandise.

"Trends had to be predicted far in advance, often leading to fashion misses, or by the time the merchandise was in-store, the fashion trend was often over, so the retailer was forced to put the clothes on sale to coax customers by low prices to buy the merchandise in order to clear space for the next season's merchandise," said Abraham.

He said, in general, if a retailer had too many sales, consumers began to believe there was no rush to buy, as a better deal would come along.

"(This makes) it harder for retailers to break ranks and increase prices, at the risk that other retailers will not follow, and thus risk losing sales. This entrenched promotional activity is damaging to retail profitability," he said.

The third-quarter financials were the first set of results released under the leadership of CEO Bernard Brookes, who was formerly the CEO of Australia's largest department store group, Myer. Announcing the departure of Brookes last year from Myer, chairman Paul McClintock hinted that under Brookes's leadership, the department store had failed to adapt quickly to its customers' needs.

"The board and management team have agreed that the transformation work has reached a pivotal point, and it is appropriate for a new CEO to be given the opportunity to own, lead and drive the transformation programme," said McClintock.

Edcon's fourth-quarter and full-year results for the period ended March 2016 are unlikely to show a vast improvement, as local consumer confidence remains at 2008-09 global recession lows, while the economy continues to struggle.

Looking ahead, the Reserve Bank is forecast to raise interest rates at its July meeting, which will decrease the amount of money moving in the economy, and reduce disposable income in households. 36One asset management analyst Daniel Issacs said Edcon was a big ship to turn around, and that significant change would take time.

Nico Smuts, also an analyst at the firm, said the company had recently amended the terms on its debt instruments, and may well do so again.

On Wednesday, Edcon announced it had launched a consent solicitation process to obtain up to R1.5bn in bridge financing from banks and bondholders. It asked bondholders of notes due in 2018 and 2019 to amend debt terms to allow for the new bridge financing, which will be in dollars and euros. Bondholders have until 5pm London time on July 8 to reply.

"This has alleviated some of the pressure on Edcon's cash flows, but its overall level of indebtedness remains high. A more comprehensive restructuring may be required to stabilise the ship," Smuts said.

Following the release of Edcon's third-quarter results, Brookes said the retailer would be adopting a new operating model that included simplifying the business, becoming more customer-centric and retrenching staff in a bid to reduce costs. Edcon had not responded to questions from Business Day at the time of publication.

**Source:** Business Day