BIZCOMMUNITY

Edcon transaction gets a mixed reception

By Colleen Goko

23 Sep 2016

News earlier this week that Edcon would now belong to its creditors, after a debt-to-equity transaction, has been met with muted applause by analysts. While analysts are happy the transaction will significantly reduce the group's debt burden, they also warn that celebrations may be premature as the apparel retailer has a difficult journey ahead in its quest to change its fortunes.

Edcon CEO Bernie Brookes says news of the debt-to-equity transaction has been welcomed.Picture: Freddy Mavunda

CE Bernie Brookes has been very frank about the hurdles 86-year-old Edcon has faced since he stepped into the top position in September 2015.

"It's been a struggle. Nobody wanted to work for us or with us. Suppliers were out of patience. If we needed 10,000 of one stock, they would perhaps give us only a 1,000. We were too great of a credit risk.

"We were lousy payers. They were not getting paid on time. As you can imagine, landlords and insurers were nervous about us. Our business was not sustainable," he said.

There have been a number of executive changes at Edcon. Jurgen Schreiber resigned as the MD and CE of the group on August 18 2015. Urin Ferndale and Roanne Daniels were appointed as interim joint CEs, and resigned on September 30 2015 when Brookes came on board.

On June 16 2016, the group announced the appointment of Richard Vaughan as chief financial officer, following the resignation of Toon Clerckx with effect from July 22 2016.

Birgitt Gebauer, the CE for the Edgars division, resigned with effect from March 2 2016 and Brookes is now the acting CE of that division.

Brookes said news of the transaction had been met with great relief by the Edcon staff, and the general hope was that the group could now retain and grow talent.

"We don't plan on having any more redundancies or cutbacks," said the CE.

With the lifeline provided by the transaction, Edcon says it plans to introduce a new strategy. A key change will be that the brands under its banner will now operate as self-sufficient businesses responsible for profit and loss. The company's loyalty programme will receive a revamp, while the supply chain will be reworked so that more products are sourced locally rather than from China and Bangladesh.

From the start of the 2017 financial year through to the end of the 2020 financial year (the budget period), the group said it had budgeted for a cumulative revenue increase of R2bn and cumulative gross profit increase of R400m.

In addition, Edcon is in the process of clearing inventories — some as old as three years — that it expects will have an adverse effect on gross profit of R300m during the current financial year.

"We will need to bring profitability down in order to bring it up again," Brookes said. The retailer will get rid of some if its international brands. Of the 37 that are held now, only 12 will remain. "These brands are expensive and customers don't know them. We are going to focus on tried and true brands which we have built, such as Kelso and Stone Harbour. These brands offer good value for money," he said.

Edcon intends to tweak its entry price points to better reflect the consumer and will launch transactional websites for Edgars and Jet before Christmas. The retailer will leverage its store footprint for click and collect.

Some of the challenges SA's largest nonfood retailer would face include increased competition in the sector as well as a depressed consumer environment, said a local analyst who asked not to be named. "The numbers coming out of their competitors, who are in a higher and stronger positions from a balance sheet, from a brand and customer relationship position, had already struggled in the current environment.

"They [Edcon] don't have any of those advantages and they are in this difficult trading environment. So they are up against quite a lot," said the analyst.

Another pressing issue is the change in the credit environment. Vaughn said Edcon had lost R290m worth of sales in the 2016 financial year alone due to the changes in the credit act.

The trend was expected to continue into the 2017 financial year, he said.

36One Asset Management investment analyst Nico Smuts said while the restructuring should provide a sense of comfort not just to investors but also to suppliers, landlords and other stakeholders that could have faced financial loss or business disruption had a settlement not been reached, Edcon was not yet out of the woods.

"Unfortunately, it looks like Edcon was unable to use this restructuring as an opportunity to reduce the currency risk on its balance sheet. The majority of the debt will still be foreign currency-denominated, with some of the instruments accruing interest at rates as high as 25%."

Smuts said the restructuring would be a complex affair involving lots of moving parts. He said some aspects of the process still needed clarification, "but the restructuring should give management a fighting chance to reach their goal of listing a healthy business on the JSE around 2020".

Source: Business Day