

Companies

News Corp
Friendless MySpace
seeks a buyer **17**

Bulk commodities
Quarterly price hikes to
fuel miners' profits **17**

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Reborn Harris Scarfe plans \$120m float

Sue Mitchell

Private equity-backed retailer Harris Scarfe has defied the downturn in consumer spending and is planning a \$120 million float later this year to raise about \$60 million to fund new stores and bolt-on acquisitions.

The 160-year old retailer, which collapsed in 2001 and has been transformed under a new ownership structure led by investment bank Momentum Corporate, is embarking on its next stage of growth.

Harris Scarfe chairman and Momentum managing director Kevin Jacobson says the retailer plans to double its number of stores to about 90 over the next five years, opening six to 10 new shops a year and expanding from its base in South Australia and Victoria to the Sydney metropolitan area and Queensland.

"We see the IPO as an opportunity to access capital markets to grow the store network and to take advantage of potential merger and acquisition opportunities," Mr Jacobson told the *The Australian Financial Review* yesterday.

Momentum will decide by June 30 whether to proceed with a float in November. Unlike the Myer float two years ago, however, most of Momentum's shareholders plan to retain at least half their stakes.

"Because our investors are going to

KEY POINTS

- Harris Scarfe intends to double its number of stores to 90 over the next five years.
- It will decide by June 30 whether to proceed with a float in November.

keep a large proportion of their equity, our philosophy is not to try to maximise value but to build a sustainable long-term business," Mr Jacobson said.

Momentum investors, who include food industry stalwart Roy Manassen and former Hoyts chief Peter Ivany, own 61 per cent of Harris Scarfe. Myer owns 26 per cent and management 13 per cent.

Sales are expected to reach \$330 million this year, from \$236 million in 2007, when the syndicate paid \$78 million for the business.

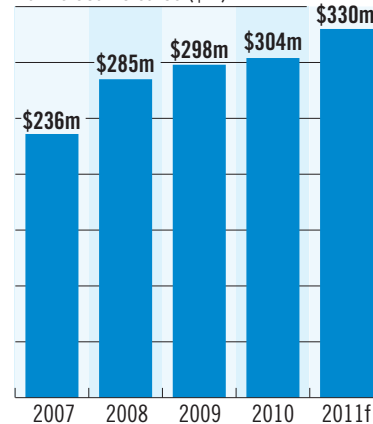
Earnings before interest, tax, depreciation and amortisation have risen from \$3 million (excluding profits generated by four stores sold to Myer at the time of the deal) to \$17 million this year and are expected to exceed \$20 million in 2012.

Since the buyout, Harris Scarfe has opened 14 stores, closed five and reduced the average size to about 2500 square metres.

The retailer, run by former Office-Works and Coles Express boss Joe Bar-

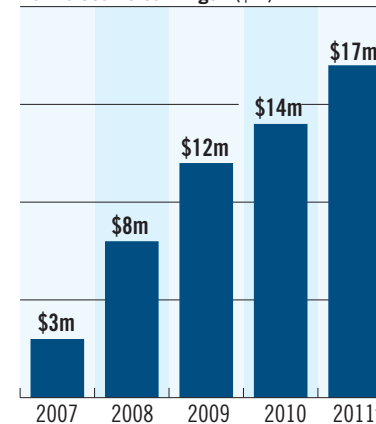
On the block

Harris Scarfe sales (\$m)



*Earnings before interest, tax, amortisation and depreciation

Harris Scarfe earnings* (\$m)



SOURCE: MOMENTUM

beris, last week moved its largest loss-making store, in Rundle Mall, Adelaide, to a temporary site. It will open a new store in the mall in two years.

It has exited high-value, low-margin categories such as TVs to focus on four key categories — menswear, womenswear, homeware and manchester — to differentiate its offer from those of Myer and David Jones.

It has introduced several private-label brands, including Luca & Marc, Coco and Savannah. These now account for 25 per cent of sales.

It has also launched a smaller homeware format, HS Home, which sells manchester, kitchenware and small appliances. It plans to open 17 in the next three years.

While rivals are moving towards an every-day-low-price model, Harris Scarfe has a high-low price strategy and distributes 65 million sales catalogues a year.

Gross margins have risen from 36 per cent to 40 per cent, in line with Myer and David Jones, and EBITDA margins are expected to reach 9 per cent or 10 per cent eventually,

compared with about 7 per cent now.

The new formats, products and pricing policy have helped Harris Scarfe defy the retail downturn.

While comparable store sales fell 5.2 per cent at Myer, 3.3 per cent at Target and 4.2 per cent at BIG W in the first half of 2011, Harris Scarfe's same-store sales rose 2.9 per cent and were up 4.8 per cent in the first two months of the current half-year.

Mr Jacobson also attributes the retailer's success to the terms of the original deal, which had no debt funding.

New stores and a \$10 million IT and automated supply chain system have been funded from cash flows. The company recently took on a \$15 million debt facility to fund its next 15 stores.

Mr Jacobson acknowledged Harris Scarfe's colourful past might cloud investors' perceptions. The retailer, once controlled by the Trescowthick family, collapsed in 2001 owing creditors about \$200 million. Auditors found it kept two sets of books to disguise its falling profits.

"We will have to educate investors on how the model has changed, and we think it's as simple as showing them the old stores versus the new store formats, and the numbers speak for themselves," he said. "At the end of the day investors will be focused on the potential for sustainable profit growth."