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Harris Scarfe counts blessings of no-debt policy

Simon Evans

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The private equity owners of budget department store chain Harris Scarfe said a decision to run the company without any debt had been a godsend as the global credit crunch spilt over into worsening economic conditions.

Momentum Private Equity bought Harris Scarfe in April last year, with department store operator Myer taking a 20 per cent stake as part of the \$80 million deal.

Like other retailers, Harris Scarfe is now facing tougher conditions as the broader retail sector slows down under the weight of rising interest rates and high petrol prices.

The managing director of Momentum's corporate division, Kevin Jacobson, said Harris Scarfe was deliberately structured to be ungeared, which had turned out to be fortuitous as the world battled the credit crunch.

Five new stores that had opened since Momentum bought the business last year were trading better than the rest of the stable.

"The new stores are probably trading 2 per cent up on the rest," Mr Jacobson said.

Four of the new stores were in Victoria and the interiors had "a much newer and cleaner look", he said. Harris Scarfe had also opened its first NSW store, in Shellharbour.

The latest financial accounts the company has lodged with the Australian Securities and Investments Commission show for the 12 months to August 5, 2007, earnings before interest, tax, depreciation and amortisation was \$5.25 million, compared with \$5.21 million a year earlier.

Sales revenue for the year was \$254.2 million, up 2.4 per cent from \$248.3 million. Harris Scarfe reported a bottom-line loss of \$1.08 million for the 12 months, an improvement from the previous year's loss of \$2.61 million.

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Mr Jacobson said Harris Scarfe was trading solidly but was positioning itself for tougher economic conditions that would affect all retailers.

"The business is going pretty well," he said. "Obviously we're not unconcerned about the economic outlook."

Momentum was taking a "build and hold" strategy with Harris Scarfe, and the decision to have the business ungeared initially had been a big plus in its relationships with suppliers to the retailer.

The retailer has now been trading successfully for almost seven years after a financial collapse in early 2001, when the major shareholder was the Trescowthick family, which owned about 46 per cent.

At the time, Harris Scarfe was listed on the Australian Stock Exchange, and it was subsequently bought out of receivership by a consortium of business people led by Robert Atkins, who remains chief executive.

Harris Scarfe operates 40 outlets, most of them under the Harris Scarfe banner and a handful under the Allens name in Canberra and coastal NSW.

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