

Looking forward from the retailers' perspective

Peter Baguley



Winners and Losers 2010

- A Merry Christmas for one and all?
 - some Christmas crackers
 - many retailers had a good Christmas but against weak comparables
 - bought carefully and cleared stocks early
 - £14bn additional spend from firms no longer trading (Verdict Research)
 - media hype
 - Hopes and fears for the year
 - Election outcome
 - Tax burden
 - Uncertainty
- **all impacting on the consumer**



BRITAIN FACES YEARS OF PAIN, WARNS MERVYN KING

▶ UK ECONOMY

By STEVE DINNEEN

THERE are bleak years ahead for the British economy, according to the governor of the Bank of England.

Interest rates will have to rise to combat the return of inflation and the standard of living will drop, said Mervyn King in an explosive speech at

the University of Exeter last night.

He believes it will take years before the economy is completely recovered from the slump.

His words came just hours after new statistics showed the rate of inflation surged by one per cent last month. The Consumer Price Index (CPI) hit 2.9 per cent – well above the Bank's target of two per cent. It was

up from 1.9 per cent in November.

And King believes inflation will rise to well over three per cent.

He said: "The patience of UK households is likely to be sorely tried over the next couple of years.

"There is little scope for growth in real take-home pay, which may remain weak even as output recovers. It is clear that inflation is likely to

pick up markedly in the first half of this year. The full impact of the financial crisis has yet to be seen."

He also criticised the government's plans to reduce the budget deficit as too unambitious, saying swifter action is required. The budget deficit stands at £178bn and Darling has pledged to halve this by 2014.

The comments will be seen as a

slap in the face for Labour, whose election campaign hinges on its commitment to improving the UK economy. Figures expected next week will confirm Britain has emerged from the recession.

The Conservatives last night seized on the speech, reiterating their pledge to cut spending quicker than Labour.

ALLISTER HEATH: P2, NEWS: P10

FTSE 100 ▲ 5,513.14 +18.75 DOW ▲ 10,725.43 +115.78 NASDAQ ▲ 2,320.4 +22.41 £/\$ ▲ 1.64 +0.01 £/€ ▼ 1.15 -0.01 €/\$ ▼ 1.43 -0.01

ABC

Certified Distribution
30/11/09 – 03/01/10 is 88,164

Unanswered questions

Long term trends

- Impact of Internet
 - 7.3% of all retail spend (Verdict 2009)
 - £50bn in 2009 21% increase, £10.8bn in 2003
 - The majority of Christmas spending by 2015?
- Consolidation of spend
 - Grocers : 2009 41.8% of total retail spend vs 37.7% 2005 (Verdict 2009)
 - Retail Centres - differential impact
 - Centre for Cities
 - Traditional specialist retailers squeezed



Responding to sales decline

Sales	100	95	5%
Cost of Sales	70	70	
Gross Margin	30	25	
Operating costs			
People	12	10	20%
Property	8	6	25%
Other	5	4	25%
Operating Margin	5	5	

Retail Property Market in 2010

Barriers to Entry

LOWER

Lease commitment
and terms

Finance available for
proven business
models

Exit Barriers

LOWER

Strength of market

Flexibility of contracts

CVA & pre packs
“bankruptcy tourism”



Abuse of pre-pack deals 'could turn Britain into an insolvency brothel'

Michael Herman

Britain is in danger of becoming the "bankruptcy brothel of the world", it was claimed yesterday, as furious creditors prepared a landmark legal challenge over the country's biggest pre-pack administration.

Bernard des Pallières, who led the entire investment of SPQR Capital, the hedge fund, wiped out in the pre-pack of Wind Hellen, the Greek telecoms group, in August, criticised the English courts for allowing foreign companies to move to the UK and exploit the controversial restructuring tool.

Mr des Pallières and other investors, who lost a combined £15 billion (£1.3 billion) in the pre-pack, are preparing a lawsuit that will accuse Wind Hellen of "bankruptcy tourism" and question its right to use British bankruptcy law.

Mr des Pallières's principal objection is that Wind Hellen reorganised as a UK company two weeks before it entered the largest pre-pack administration to date, a circumstance that he asserts is a "blatant and obvious abuse" of the law. Other struggling companies are planning on using the same tactic, Mr des Pallières says.

"If nothing is done, London will become a bankruptcy brothel for viable businesses to come from all over and take advantage of the British system to dump some of their debts and move on," he said.

That and other such criticisms are the latest in a series of attacks on pre-packs, which are under legal scrutiny because they allow businesses to reorganise deals in secret with some of their lenders and creditors to the detriment of others, who typically end up with nothing.

Pre-packs are particularly controversial because the process is often driven

by the existing owners and management, who then remain in control of the business, as happened in the Wind Hellen case. Dozens of high street names have been restructured under pre-pack deals in the past few years, including MFL, the furniture chain, Karen Miller and Oasis, the fashion retailers, the Laurel Pub Company and Cobra Beer.

European law permits companies to relocate for bankruptcy and other purposes but a UK court has never addressed the question of how long a company using a contested pre-pack must be registered in the UK to do so.

Rail Clowry, a corporate partner with Paul Hastings, the law firm, said: "Other businesses are undoubtedly considering coming to the UK to use our insolvency system, and a lawsuit that clarifies how and when this is appropriate would be watched extremely keenly."

Mr des Pallières is among many critics who believe that pre-packs are fundamentally unfair.

"Debt and contractual commitments must mean something," he said. "If British courts will allow a family to be chucked out of their home because they cannot pay their debts, why is it reasonable that a big business backed by reputable advisers can defy gravity and not have to honour its debts in the same way?"

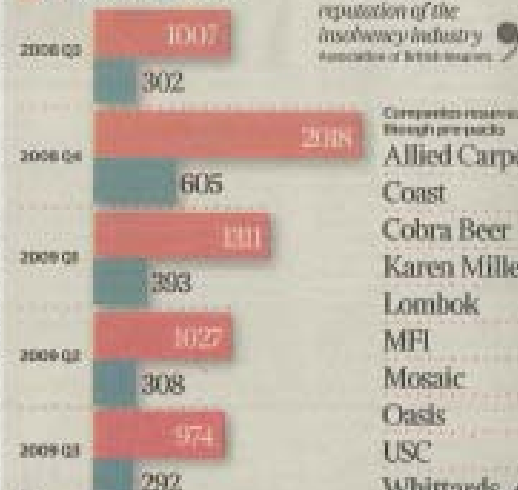
R3, the professional body for the UK insolvency industry, declined to comment on Wind Hellen or on the issue of companies relocating to the UK for bankruptcy. Peter Sargent, the president of R3, said: "Pre-packs are a very misunderstood insolvency tool and the benefits — for example, the hundreds of jobs saved — are often lost in obscurity over the impact on unsecured creditors."

Wind Hellen could not immediately be reached for comment.

Rising from the ashes - or dodging the creditors?

Estimated number of pre-pack insolvency deals with their pre-pack account the 10th of administrative cost

All administrations Pre-packs



“Allowing companies to abuse the pre-pack system has damaged the reputation of the insolvency industry”
 Association of British Insurers

Companies restructured through pre-packs

- Allied Carpet
- Coast
- Cobra Beer
- Karen Miller
- Lombok
- MFL
- Mosaic
- Oasis
- USC
- Whittards



“These shameful devices give badly managed businesses a huge cost advantage... I cannot get my head around why such incompetence should be rewarded at the expense of successful companies”
 Lord Mervyn, chairman of R3

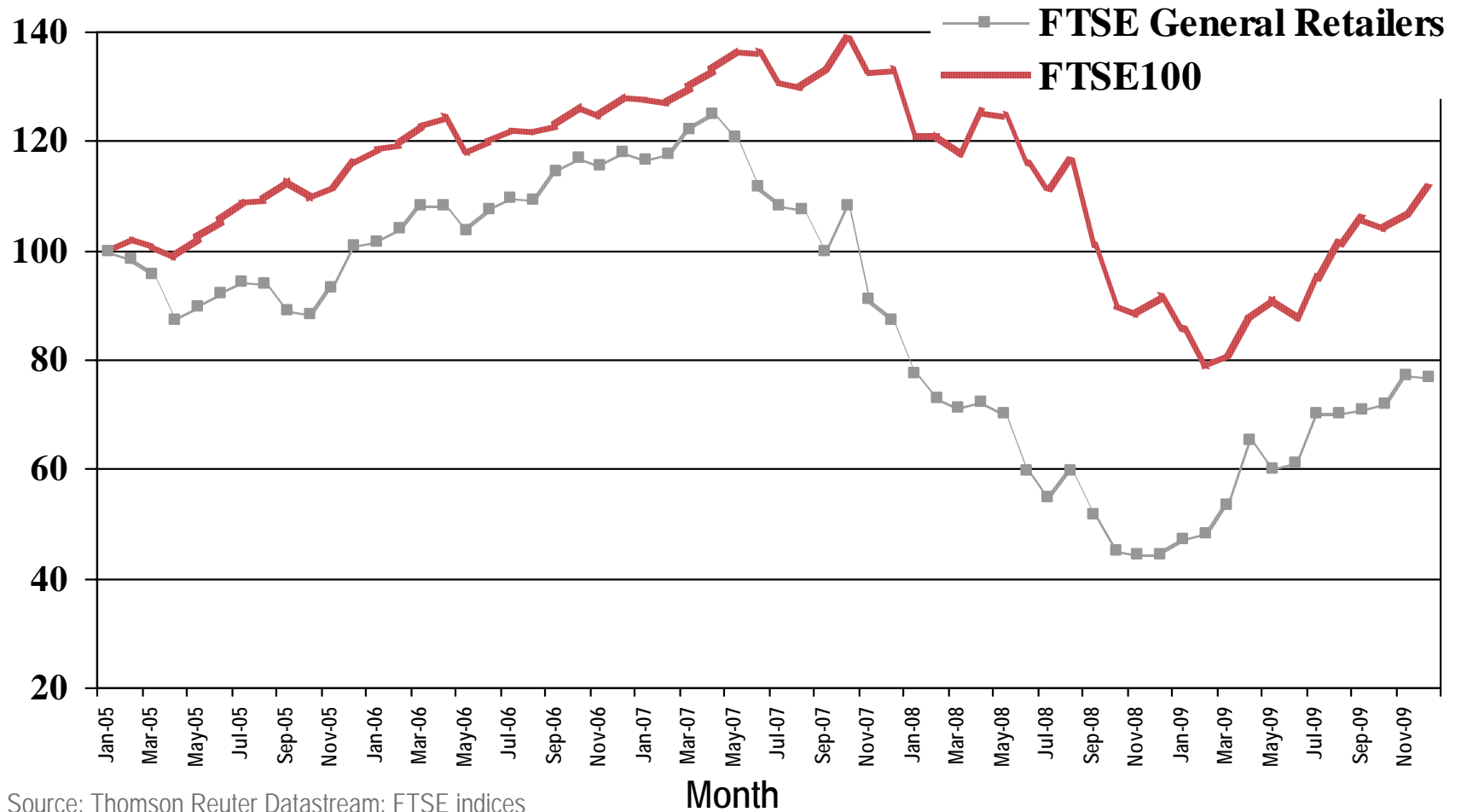
Retail Property Market in 2010

Changing market

- **Retailers** sharing of trading data
- **Landlord** more realistic in their terms
- Compare this to the limited dialogue of the 90's leases with no flexibility
- Upward and Downward review is here
- Future – there is no going back?
- But there are opportunities



FTSE 100 vs General Retailers



Source: Thomson Reuter Datastream: FTSE indices

The Retail Analyst's view

David Jeary, Investec

- *Fragile signs of recovery*
- *Margin outlook benign*
- *Cost savings feeding through*
- *Continued flexibility in property markets*



What are our retailers saying about 2010

"The depressed market has brought fresh opportunity to retailers new to the UK market. We fully intend to take advantage of the current market conditions and have stepped up our planned expansion"

"Continuing with the ongoing management of our existing portfolio to extract value and reduce OPEX, we are actively opening stores in recently opened and pipeline schemes such as Bath Southgate and Aberdeen"

"Our brand awareness goes from strength to strength and the resilience of our target market has bolstered sales. We continue to expand and take advantage of the market"

"We are reviewing our portfolio to ensure we have the right shops in the right locations, we have seen the emergence of 12 months leases and turnover deals"



Conclusions

Recovery a long haul

- Pressure on consumer spending
- More retailers to fail in 2010

↑ Polarisation

- of the have and have-nots

↑ Consolidation

- of grocers in non food

Internet pressure on

- Retailers with no/limited online presence
- Weaker towns and locations

Market has changed but

..... opportunities for those equipped for change

