Fashion retail's dash for cash

From Asos's Topshop/Topman sale to Boohoo Group offloading its US warehouse, Drapers explores the measures retailers are taking to shore up their balance sheets in the short term

WORDS BY **ZOE HU**

In tough economic times, a robust balance sheet and cash position is more crucial than ever. On 11 September, Boohoo Group decided to pull the plug on its US distribution centre a year after it opened, as part of a strategy to "reposition the group for sustainable, profitable growth". The company is also understood to have put its £72m London office up for sale while it explores options for £325m of debt that is due over the next 18 months.

On 5 September Asos revealed it had sold a 75% stake in Topshop and Topman for £135m to Danish retail tycoon Anders Holch Povlsen, owner of Bestseller. It also launched a £253m bond refinancing due in 2028. CEO José Anto-

"What is the data telling us in terms of the training our leadership has?" Katrina Murray, equity, diversity, inclusion and belonging partner, N Brown Group, p32

nio Ramos Calamonte said the stake sale and the refinancing gave the company "the financial flexibility and the balance sheet strength to accelerate [its turnaround] plans".

Meanwhile, in August, Quiz said it was in talks with its founder and largest shareholder, Tarak Ramzan, about a £1m loan after posting a £6.7m loss before tax for the year to 31 March. The company's liquidity headroom now stands at £2m, compared with £8.3m a year ago.

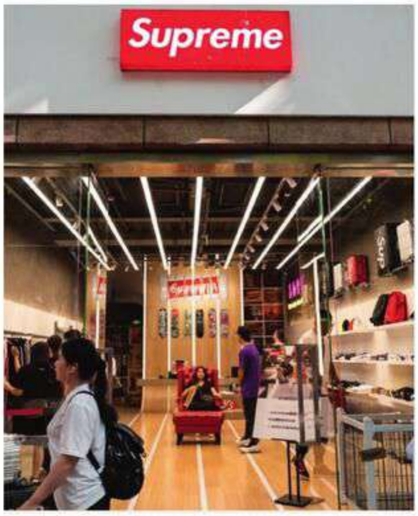
Fashion retailers are racing to shore up their balance sheet as challenging trading conditions persist, from offloading non-core assets and closing unprofitable divisions, to refinancing and securing new debt. Drapers examines the routes retailers are taking and what lies ahead for the embattled businesses.

"THERE HAVE BEEN quite a few disposals of investments or assets that are not core to the business this year," said one fashion CFO, referring to Asos's sale of its majority stake in Topshop/Topman and VF Corporation's divestment of Supreme for $1.5bn (£1.15bn) announced in July. "The Supreme sale is more of a strategic move and less urgent, but it's still about the business narrowing the focus to its core brand," he added. "It's the same with Superdry's IP [intellectual property] deals: if you think there is value in [a business's] name in a part of the world that you can't extract value from through trading, why not sell it?"

Last year, Superdry sold its IP rights in the Asia-Pacific region to South Korea's Cowell Fashion Company for £40.7m ($50m), and its India, Sri Lanka and Bangladesh IP assets to Reliance Brands for £40m. Meanwhile, THG offloaded cycling equipment retailer ProBikeKit and the rest of its on-demand lifestyle division last year for a total of £4m to focus on its nutrition, beauty and technology businesses. On 17 September it announced plans to demerge its tech platform Ingenuity from the group, leaving the beauty and nutrition arms when completed.

One banking source told Drapers that, when selling assets, it is important to balance the short-term gains of liquidity improvement and increased focus on core operations with the downside that "it may reduce diversification, incur transaction costs and affect long-term value". He said selling in downturns could lead to discounted prices, but the need for additional working capital "may leave little other option but to fire sale".

Retailers have increasingly favoured selling non-core assets to raise funds, as borrowing



Exit strategy: VF Corporation sold Supreme to focus on its core brands

costs have soared over the last two years as a result of successive increases in interest rates.

Commenting on the general retail environment, Mark Turner, CFO of Belstaff, said: "There is a financial benefit [in selling non-core assets], but also from an operational side – it allows you to be more efficient and get back to the core business. In the current market, it's an easier and cheaper option to sell assets rather than raising finance externally."

Marc Dench, former CFO of Ted Baker and Joules, echoed this: "Businesses are looking at what they have in terms of both on-balance sheet assets and off-balance sheet assets to see where they can get cash quickly."

In March, when Superdry announced an extension and increase to its £25m lending facility with Hilco to February 2025, the interest rate of the funding was set at 11.5% plus the Bank of England base rate – currently at 5% – on the drawn element.

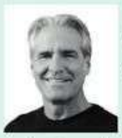
Meanwhile, Boohoo Group has a £325m unsecured revolving credit facility, of which £75m is due next March and £250m in March 2026. The company is understood to be exploring a sale of its London office, which it bought for £72m in 2021, as well as other options as the repayment deadline looms.

Businesses should also expect more stringent due diligence during refinancing negotiations, warns Stuart Reid, managing director and co-head of value creation at Interpath Advisory: "The story is really important in refinancing right now. [This includes the] trajectory of the business and the forward plan that might ▶

PEOPLE MOVES

Caroline Rush will step down as CEO of the **British Fashion Council** in June 2025 after what will have been a 16-year tenure. Rush will continue to lead the organisation while the search for her successor begins. She has navigated the organisation of London Fashion Week through Brexit and the pandemic. Revenue has more than doubled under her leadership.

Seasalt has appointed **Louise Couch** as chief financial officer. She previously worked at JP Morgan and Morgan Stanley, and most recently, spent three years as senior director of international financial planning and analysis at fitness equipment company Peloton Interactive. She replaced Malcolm Macdonald, who left as CFO in April after eight years to join Reiss in the same role.



Nike veteran **Elliott Hill** will return to the sportswear giant as president and CEO in October. He will succeed John Donahoe, who will retire after four years at the helm but will remain as an adviser until January 2025. Hill first joined Nike as a sales intern in 1988 and rose through the ranks, most recently serving as president of consumer and marketplace from 2018 to 2020.

Seraphine has appointed former Joules CEO **Jonathon Brown** and former The White Company CEO **Mary Homer** as interim CEO and non-executive director respectively. Brown replaced David Williams, who stepped down from the post in April. Brown and Homer will work closely with Seraphine chair Bill Ronald and the wider management team.

not be expected when the deal was set up originally. If you can demonstrate to your lenders that you have a robust strategy, are taking measures to improve the business and you have the suppliers on board, then you have a better chance of getting the refinancing."

ANOTHER MEASURE RETAILERS are taking to protect cashflow is to shutter unprofitable or under-performing divisions.

Farfetch confirmed in August that it would shut down its white-label business unit, Farfetch Platform Solutions, which provided a suite of ecommerce services for brands and retailers ranging from Reebok to Harrods, Paul Smith and Off-White.

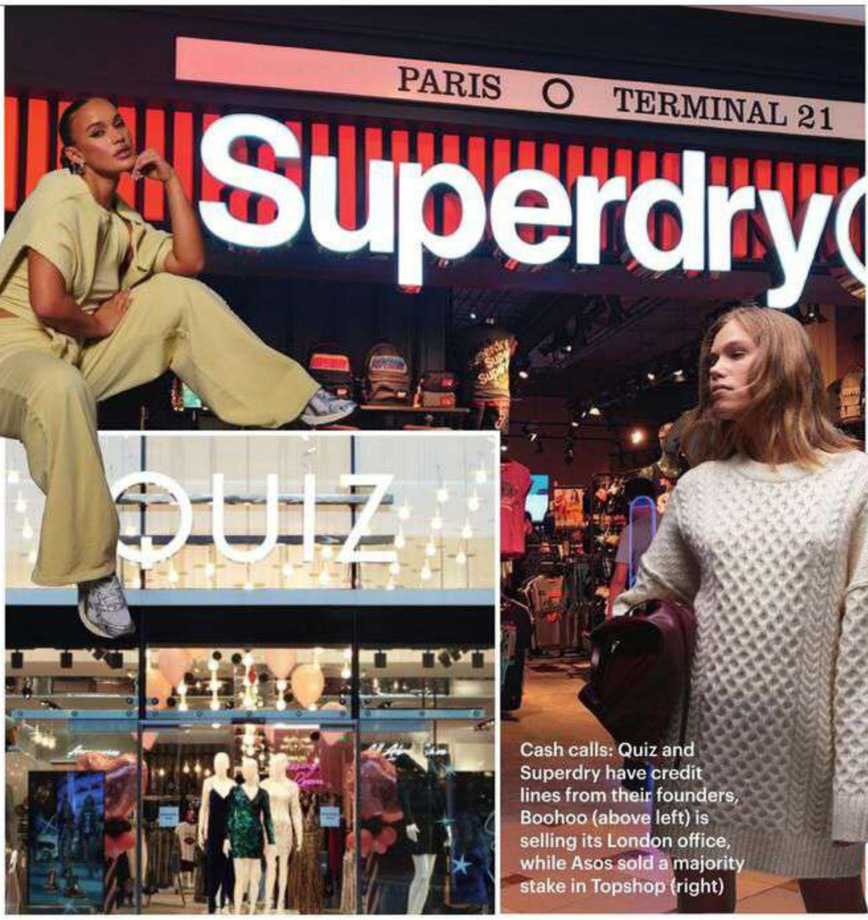
Boohoo Group announced in September that it will stop using its US warehouse in Pennsylvania and will now fulfil all US orders from its automated distribution centre in Sheffield. The 1.1m sq ft facility started operating in August last year and will be sublet by the group from November.

"There will be a write-off but that money has been spent," said the fashion CFO.

"What they can't do is to lose any more cash. It's more a case of stopping that cash bleed. Everything points to it being a difficult period for the next 12 to 24 months, so retailers are taking risks out of the operations and making sure they are not haemorrhaging cash."

The outlook remains challenging for the fashion retail sector and businesses are in survival mode to stock cautiously and protect cashflow. Retailers believe those that can weather the storm and make the right decision now will be able to reap the rewards once the market turns.

Dench said: "As interest rates start to come down, it should become less of a drain on cashflow for companies. There are a lot of positives over a three-year timeframe but the next 12 months will still be hard, so businesses need to survive that to be in a position to benefit from the improved consumer and economic environment afterwards."



Cash calls: Quiz and Superdry have credit lines from their founders, Boohoo (above left) is selling its London office, while Asos sold a majority stake in Topshop (right)

Belstaff's Turner urges retailers to right-size business, manage costs accordingly and accept that the situation will remain challenging for a couple of years: "As painful as it is now, businesses that are savvy will come out sharper. We have to ride it out."

TOP TIPS FOR FASHION RETAILERS SEEKING TO BOLSTER THEIR BALANCE SHEETS

Consider a debt-for-equity swap
Swapping borrowings for a stake in the business could be a good option if the retailer has support from investors to immediately improve the balance sheet and at the same time improve cashflow, thereby reducing otherwise expensive debt interest.

We recently helped a retailer achieve a secured debt-for-equity swap [to reduce debt by] £7m.

Renegotiate terms with lenders
Lenders could be approached to review and improve existing terms. While this may not appear to be obviously attractive to the lender, it may be a softer and better outcome than seeing the company fail.

Sell off under-performing assets These may include sub-brands, freehold premises or other assets.

Consider cost-cutting measures
This includes closing unprofitable projects or reducing headcount. While it may create short-term financial pain, it could be part of a longer-term reorganisation that adds to a cash-positive outcome and, in turn, improves the balance sheet.

By Marco Piacquadio, director of restructuring firm FTS Recovery