

Retail Webinar: ICAEW

March 2019



Introductions



Jacqueline Windsor

Retail Strategy PwC

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Jacqueline leads PwC's retail strategy practice in London, with 20 years of strategy consulting experience in corporate strategy and transactions. She enjoys working with clients to navigate some fundamental retail challenges – helping management to develop winning strategies and advising investors and lenders to make better investment decisions. Jacqueline brings extensive retail experience across different business models and a range of issues, such as different retail business models, consumer insights, customer proposition, store portfolio optimisation and roll out, market entry, strategic plans, M&A strategy and commercial due diligence.

She also brings wider experience in consumer-facing industries (FMCG, health, leisure, media and retail banking).



Jason Higgs

Restructuring, PwC

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Jason is a Director in our Restructuring practice. Jason's experience includes financial and operational restructuring and encompasses working with a broad range of retailers facing challenges including, excessive debt burden, liquidity shortfall, inappropriate store portfolios, working capital management and sudden, unexpected or structural changes within their market.

He works with a broad range of stakeholders including supporting and advising local and international companies, their lenders, shareholders and regulators.



Tom Woodham

Digital Supply Chain, PwC

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Tom leads PwC's Private Sector Procurement and Supply Chain Consulting team. He has over 17 years management consulting experience, working with clients to transform their operations. Tom's areas of expertise include procurement and supply chain strategy, digital transformation, outsourcing and end-to-end collaboration. He recently led the 2018 MCA project of the Year with Rolls-Royce.

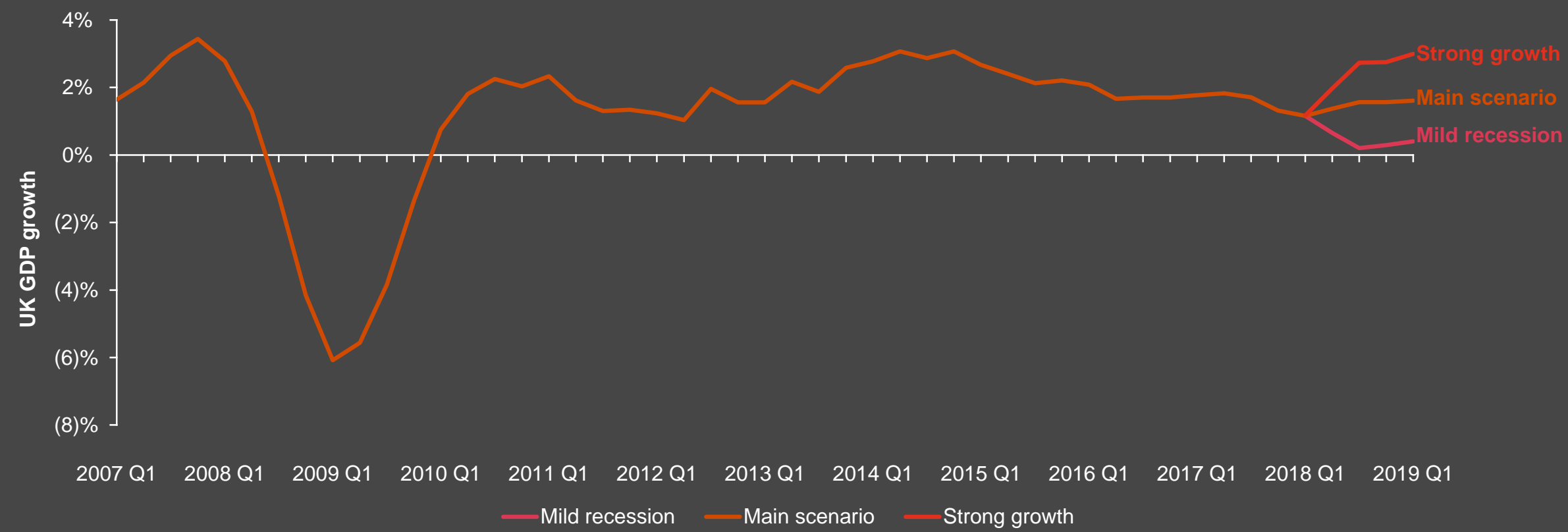
Tom is a Fellow of the Chartered Institute of Procurement and Supply and a keen interest in the emerging trends and priorities for supply chain and procurement and the evolving impact of digital technology. His consulting experience is underpinned with operational management roles at GKN.

The macro economic and consumer forecast for 2019

Jacqueline Windsor

The 'new normal'

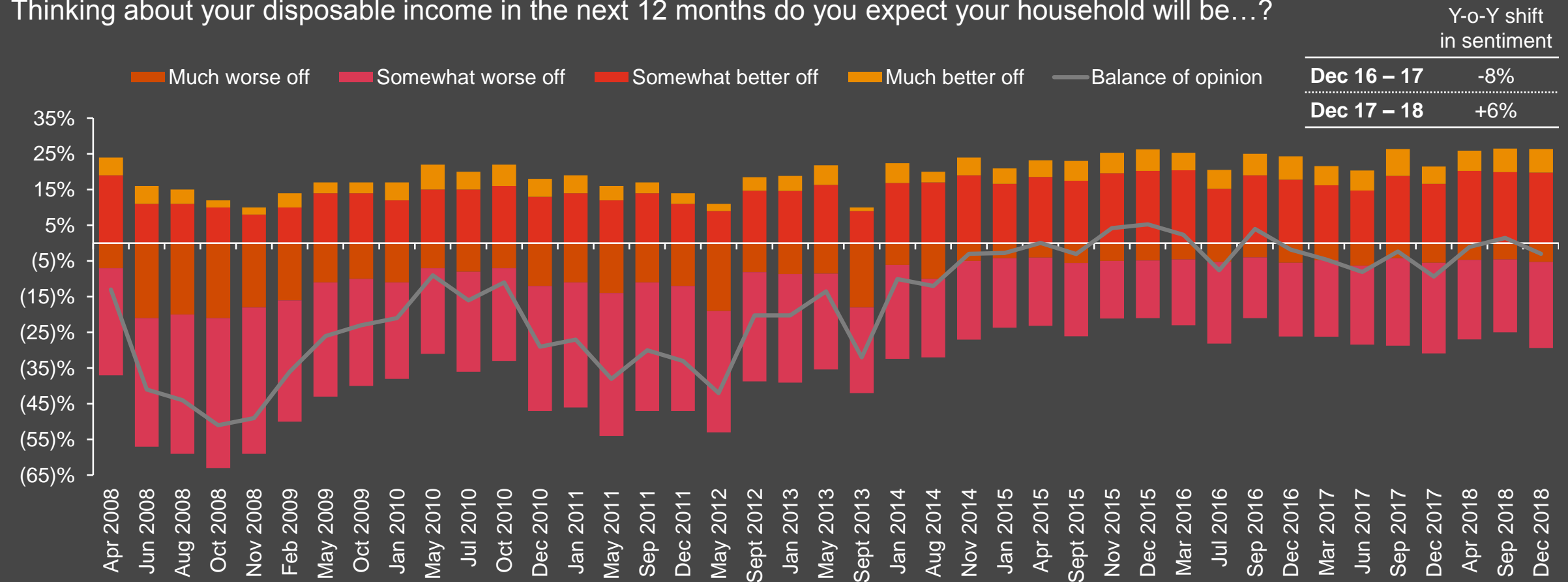
UK GDP growth (2007 – 2019F)



Source: PwC analysis, ONS

Relatively robust consumer confidence

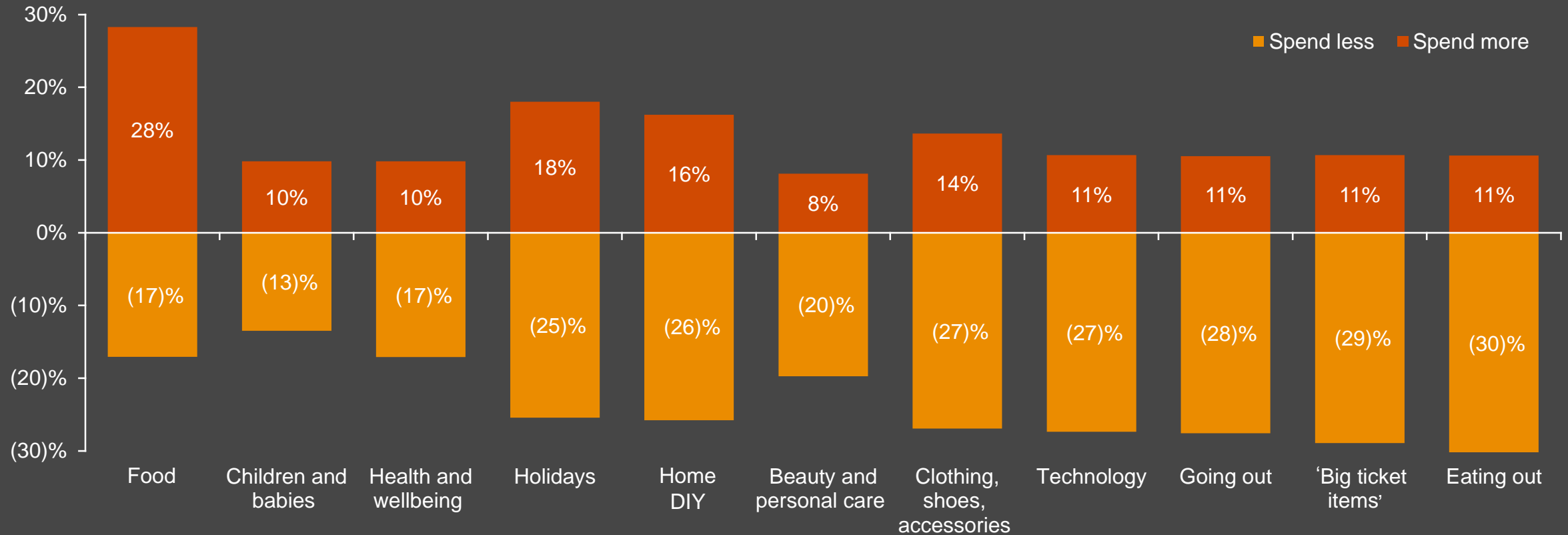
Thinking about your disposable income in the next 12 months do you expect your household will be...?



Source: PwC Consumer Sentiment Survey December 2018 (n = 2,053)

Pressure on discretionary spend

How do you expect your spending to change on the following categories over the next 12 months?



Source: PwC Consumer Sentiment Survey December 2018 (n = 2,053)

Disruptive moves

Refreshing the proposition

Redefining the role of the store

Making logistics a differentiator in its own right

Leveraging technology across the customer journey

Creating partnerships across the value chain

Disruptive models

Traditional e-commerce

Direct to consumer

BURBERRY
LONDON ENGLAND

Multi-brand

NET-A-PORTER

Off-price

THE OUTNET

Alternative e-commerce

Resale

TheRealReal

Rental

RENT THE RUNWAY

Personal stylists

STITCH FIX

Subscription

GLOSSYBOX

Verticals

WARBY PARKER

Aggregators

Marketplaces (open)

ebay

Marketplaces (closed)

asos
marketplace

Marketplaces (pop ups)

Neighborhood Goods

Retail transformation

From...

Consumer push **Static**
Single channel
Mass Multi channel
e-commerce International
National
Linear economy **Ambiguity**
Retailers 'Zero sum' game
Transactional
Retail sector

...To

Consumer pull **Dynamic**
Personalised Omnichannel
Social commerce m-commerce
Local Transparency
Circular economy 'Win-win' partnerships
Brands Experiential
Convergence of sectors

The 'so what'

House in order



Innovation



Growth



Commercials



Restructuring and release of capital for growth

Jason Higgs

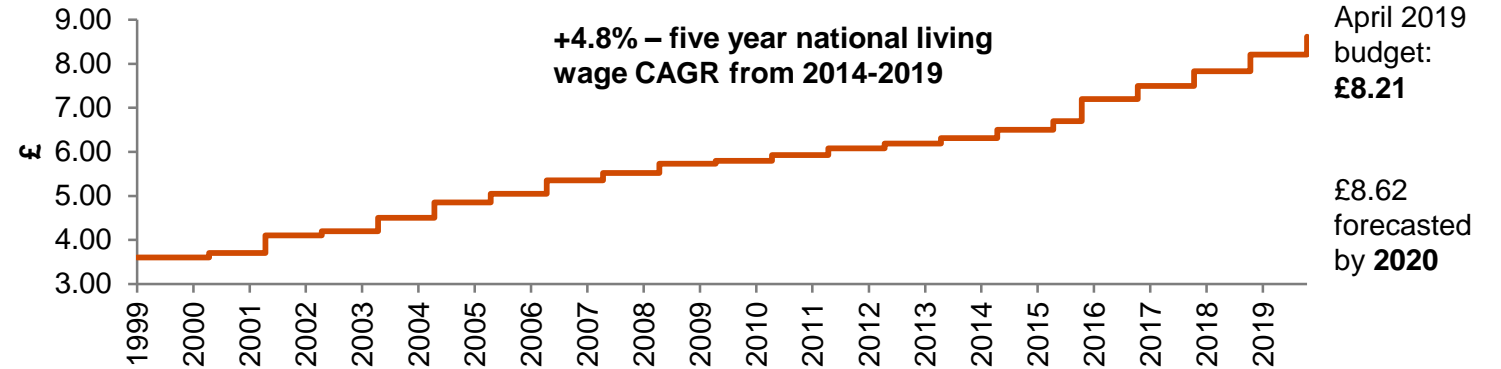
Recent casualties

Store closures and headcount reduction		CVAs...		...and administrations	
Debenhams	Sainsbury's	NEW LOOK	select	calvetron brands limited	Bags ETC
TESCO	next	mothercare	HOMEBASE	Berwin & Berwin	HOUSE OF FRASER
M&S	Morrisons	carpetright	tofs	orla kiely	maplin
B&Q	ASDA			hmv	Bench.
				HENRI LLOYD	Warren Evans
					poundworld
					ToysRus

What is driving the need to restructure? – retail headwinds

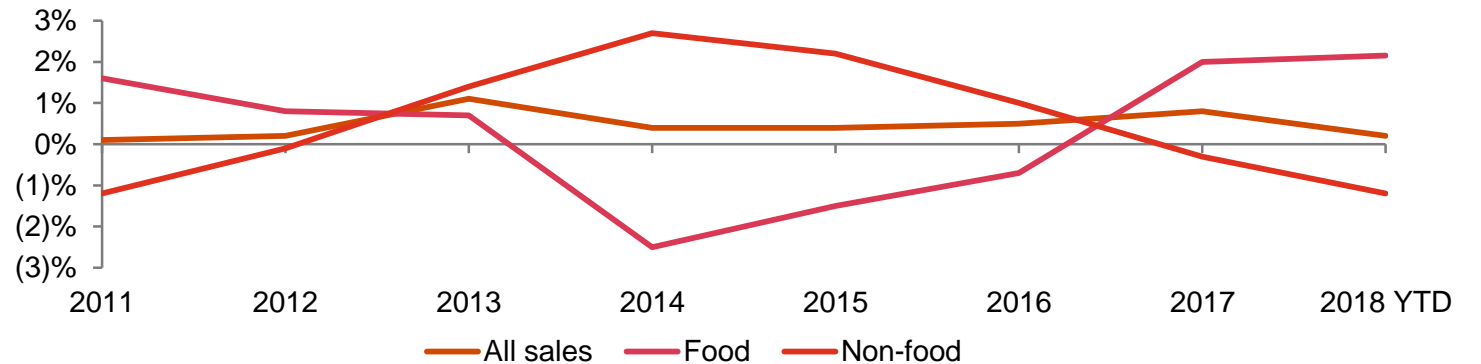
- 1 Business rates
- 2 Sterling depreciation
- 3 National living wage
- 4 Consumer sentiment
- 5 Structural change

National minimum wage



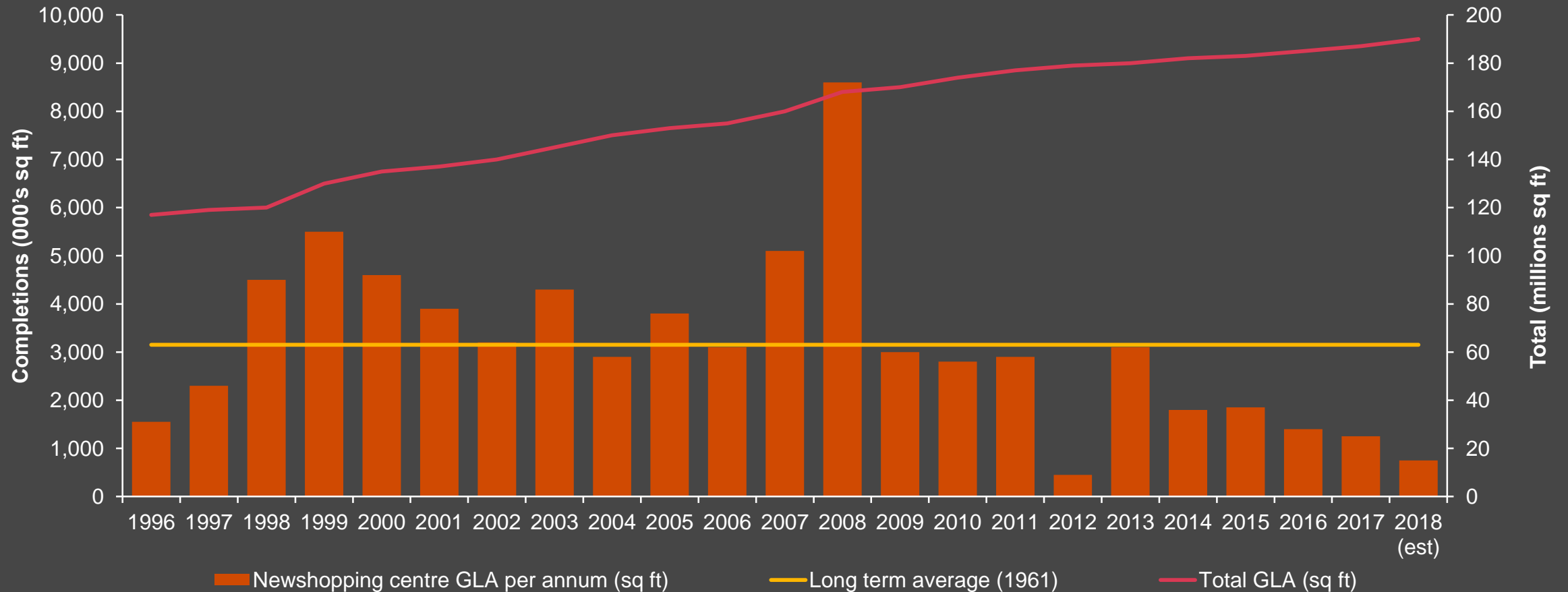
BRC annual average 3 month LfL sales

LfL sales growth %, 2011-18



Source: BRC Nov 18, National Minimum Wage: Low Pay Commission 2018 Report

Structural change – additional 60% shopping centre square footage whilst >20% of non-food sales have moved online



So what can be done from a financial perspective to reposition and fund future growth? – some of the levers and tools available

Working capital optimisation

Cost optimisation, including bi-lateral rent negotiation

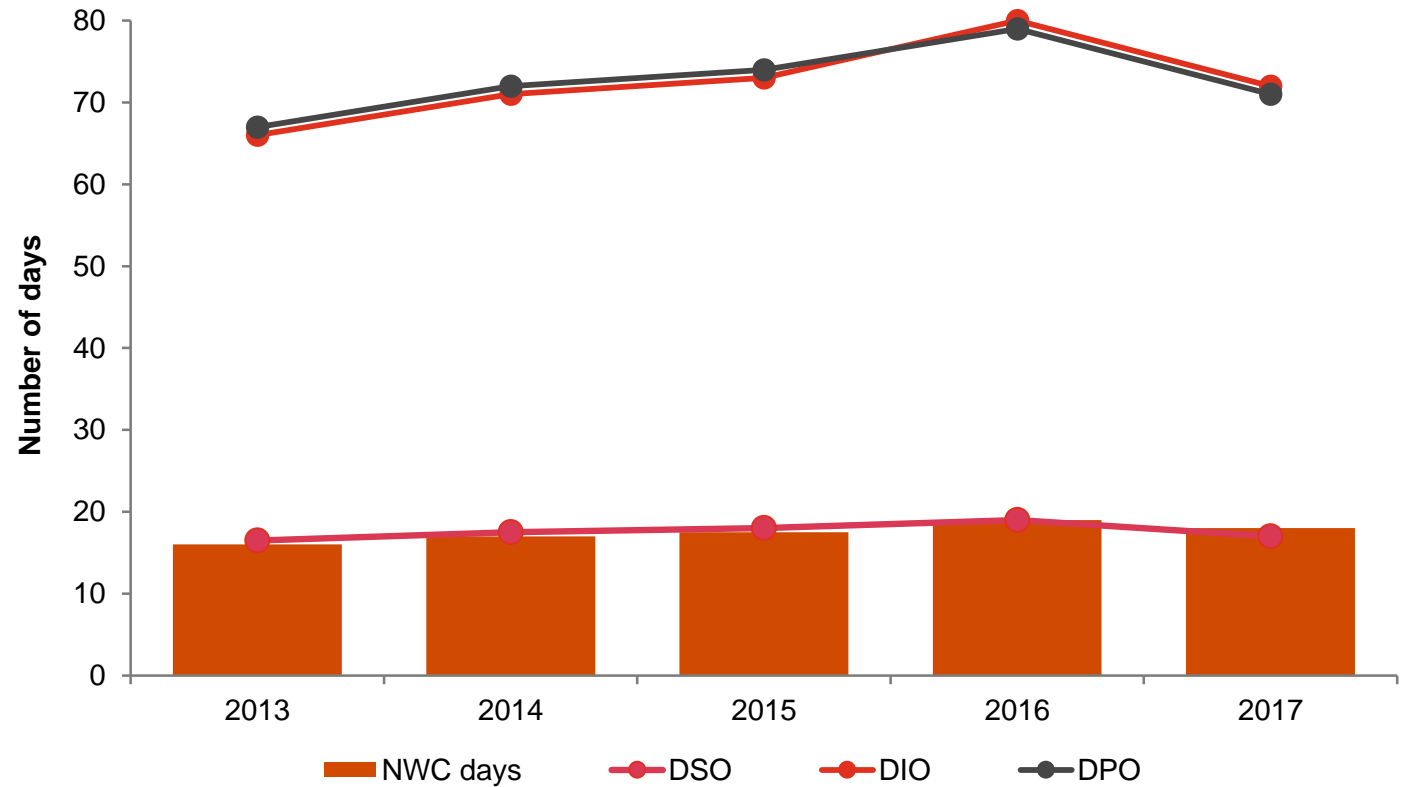
CVA

Full financial restructuring

Working capital optimisation – applicable in all circumstances

- Cash/liquidity is important regardless of circumstance
- Borrowing is becoming more expensive
- Optimisation ‘free’ route to additional liquidity for:
 - Returning to shareholders
 - Investing
- Small adjustments can have a big impact
- Developing the culture
- In stressed situations; building a runway for a turnaround

Working capital days, retail, Europe



Source: PwC Working Capital Report 2018/19

Cost optimisation – much has already been done, what are the next steps?

What are we seeing?

- Many have already implemented cost reduction programs
- Focus on the store portfolio:
 - Identifying the 'right' store footprint
 - Bilateral negotiations with landlords
 - Rates challenges – yielding material returns
 - Segmentation of the portfolio to prioritise investment; planned portfolio transformation – exit/maximise returns/transform/invest

What challenges are arising?

- Landlord fatigue
- Incomplete strategies/lack of knowledge of the customers
- Need to consider the wider financial impact of decisions – impairment/covenants/merchandise and inventory (can be long lead times)/brand impact
- Constrained by results/stakeholder expectations rather than targeting the optimum portfolio
- 'What will the impact of closing a store be on e-commerce?'

Creditors Voluntary Arrangements ('CVAs')

What are they?

- Insolvency process, specific to the UK
- Directors remain in control
- Allows a company to negotiate with unsecured creditors e.g. suppliers, landlords
- Purpose to generate liquidity whilst maintain the business as a going concern

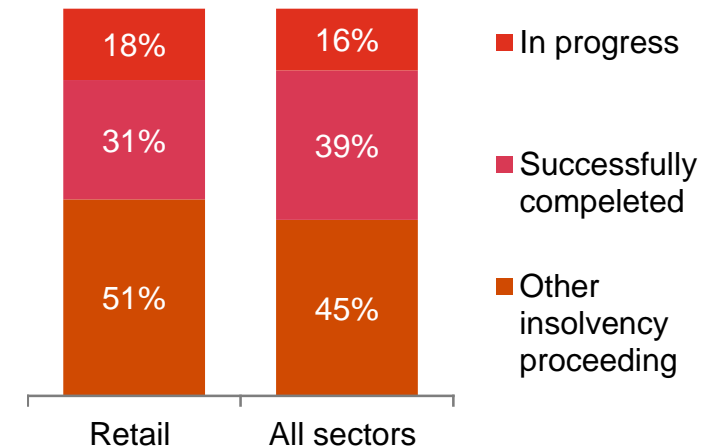
How do they work?

- Company must be insolvent or contingently insolvent
- Overseen by an Insolvency Practitioner
- Unsecured creditors vote on the CVA proposal
- 75% of creditors who vote must approve the CVA
- No more than 50% of unconnected creditors may vote against the CVA

Who uses them?

- Largely issued by retail and leisure businesses as these sectors generally have a large property footprint
- Companies facing pressure on their margins
- CVAs can be a way for a company to restructure cost bases and property footprint

51%
**retail CVAs
historically fail**



Financial restructuring – in certain cases, a restructuring of the capital structure is necessary to build to the future

When?

- Covenants may be breached
- Additional liquidity required
- Forthcoming maturities
- Additional equity required to bolster the balance sheet/reduce debt to sustainable levels
- Material changes to the business/material disposals

Things to consider

- Be pro-active; stay in control
- Robust business plan
- Liquidity runway to fund through the restructuring and turnaround
- Timing of key events
- Who are the relevant stakeholders?
 - Behaviours of financial institutions has evolved
 - Pension regulator now more active
- Have a plan B (or C!)

Thoughts to leave you with

- Regardless of whether funding innovative investment, a turnaround or a full restructuring – cash is key
- Whilst in some circumstances a CVA may seem like a neat, quick fix, a successful turnaround will need to be coupled with the right investments
- Are the current pressures short or longer term? – If action needs to be taken, think big and strategically
- If trading becomes challenging, it's important to have a robust plan in place to remain in control – give yourself room for manoeuvre with a 'plan B'

Investment priorities

Tom Woodham

Where to invest across the moments that matter to your shoppers – the role of technology in digital supply chain

New digital technologies

- 1 Internet of Things
- 2 Big data solutions, AI and analytics
- 3 Late customisation via 3D printing
- 4 Augmented Reality and Virtual Reality
- 5 Robotics and Drones
- 6 Robotic Process Automation and Blockchain



Changing end-customer expectations

- 1 Digital lifestyle drive proliferation of interaction models and willingness to share information
- 2 Consumers expect seamless experience across channels
- 3 Demand for personalized products and services
- 4 Customers expect order and delivery visibility
- 5 Increased customer expectation for 'instant' order fulfilment/just in time

Our recent survey showed the supply chain investment priorities for UK retailers in 2019

Demand Sensing

IKEA

**Dixons
Carphone**

Building on historical forecast algorithms by adding non-standard information like weather, advertising, competitor offers to increase accuracy

End-to-end visibility

Argos

Office DEPOT

Using visualisation tools to see real-time stock information across the store and online estate plus extending to suppliers and returns

Warehouse automation

Kroger

SHOP DIRECT

Developing new automated warehouses to reduce lead-time, make better use of space and improve labour productivity

Some retailers also trialling new technologies likely to be key in 2020 and beyond

Drones

amazon

Blockchain

Walmart

**Autonomous
Vehicles**

Alibaba Group

Plus AI is now changing the way that we interact with the consumer

Key AI growth areas in 2019

Individualised comms and marketing

Amazon

Drives c.35% of sales through its in-house built recommendation algorithm

DIANE VON FURSTENBERG

Curates mobile web pages (reported 4x increase in conversion)

AI-powered customer service (e.g. chatbots)

SEPHORA

Assists from appointment bookings to shade matching (via uploaded images)

asos

Helps to navigate the range – e.g. Enki helps to identify similar styles based on photo

Commercial data strategy

SHOP DIRECT

Reshapes board structure to incorporate data and technology to its strategy

ZARA

Recruits talent from start-ups and partners with El Arte de Medir (a big data company)

Plus enabling the supply chain

Intelligent demand forecasting

Uber

Stock optimisation

Walmart

RFID and single inventory pool

RIVER ISLAND

Automation/robots in warehouses

ocado

Last mile delivery optimisation

dfs

Payment fraud and ID checks

Telefonica, O₂

Omnichannel integration (with emphasis on mobile and social commerce)

Alibaba, Starbucks

Thank you

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