



HMV UK

Share purchase, operational support and seasonal working capital facility

Background

HMV is the UK's last remaining nationwide bricks and mortar specialist retailer of audio and visual entertainment products. Operating from 130 stores, the business has been the cornerstone of the UK entertainment market for the past 90 years.

HMV's UK and Irish businesses were suffering from declining performance due to a number of external factors. The impact of widespread price deflation, combined with increased competition from large non-specialist retailers focusing on chart products was compounded by rising store and central overheads, reduced footfall and the rapid growth of online entertainment sales.

The Transaction

The directors of HMV Group plc placed the UK and Irish companies into administration and receivership respectively in January 2013. Hilco has considerable experience in the sector, having acquired and successfully turned around HMV's Canadian business in 2011. Hilco purchased all of the group's debt from its syndicate of bankers after the UK and Irish businesses had entered into administration and receivership and acted as agents to the Administrators to ensure that the stores were able to continue to trade. Hilco acquired the business and assets for £50m in April 2013 and is providing a £25 million working capital facility.

Hilco's Role

Hilco is providing operational support and financial expertise to the board. In particular, Hilco is assisting management in relaying and remerchandising the entire store estate, introducing new high margin lines to replace cash intensive tablets, designing a revised marketing and promotional plan, including new signage and marketing collateral, and is providing management with additional financial resources to support capital expenditure in a new digital platform and relaunched loyalty scheme.

HMV had a number of loss making stores in the UK and Ireland. Hilco's specialist property team negotiated with landlords and were able to retain a core portfolio of 130 stores where appropriate market rents were achieved. In a number of cases, hmv has been able to relocate to appropriately sized stores, warehouses and

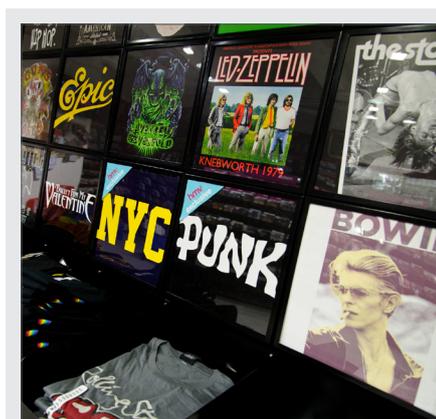
head offices and significantly reduce the total operating costs. In addition, HMV has been able to open or re-open ten stores across the UK and Ireland, including a flagship store at 363 Oxford Street where HMV's original store was opened by Sir Edward Elgar in 1921.

Hilco and HMV UK's management have been in discussions with the key suppliers to the business to ensure their continued support. The key suppliers have been supportive to date, as demonstrated by the business having its best in stock position in core categories for many years, and remain of critical importance to the future of the business.

Hilco's operational team is providing management with additional advice and analysis to identify ways of reversing sales declines and increasing volumes. HMV is emphasising everyday low prices and tactical multi-buy offers, which will help achieve a significant reversal of declining sales trends. These trends will be further reinforced through the PureHMV customer loyalty programme and the work being done in developing HMV's website and digital platform.

Results

The support of Hilco has ensured that approximately 2,300 jobs have been preserved and the UK's last remaining specialist entertainment retailer continues to trade in both the UK and Ireland.



Key Facts

- › 138 stores in UK and Ireland
- › £400m turnover
- › Last remaining specialist entertainment retailer in UK
- › Provision of financial and operational support
- › £25m seasonal working capital facility

Result

- › Key suppliers remain supportive
- › 2300 jobs saved
- › Re-opened Irish business after it had been closed by the receiver
- › Annual overheads reduced by more than £25m
- › EBITDA positive business