

Woolworths

Operational management, store closures and lease disposal

Background

Woolworths, after 99 years of operation in the UK market, had become a bellwether of the retail sector, touching the lives of a vast proportion of the population through its 819 stores. However, despite a turnover of approximately £2.1 billion and over 27,000 employees, Woolworths was struggling financially. The burden of the leased property arrangements arising from its 2001 demerger from Kingfisher, combined with an inefficient buying structure and an uncompetitive customer proposition, meant the business was set for another year of losses and a debt burden of over £365 million. The latest Lender to the company was a syndicate of asset-based lenders whose focus on asset levels led them to conclude that the business could not continue to trade.

The Transaction

Hilco offered to acquire the retail division along with its existing and ongoing liabilities with the intention of restructuring the core business and closing unsustainable stores. This proposal was accepted by the Group management. However, the banking syndicate's preference was to immediately appoint Administrators over the retail division and the music and DVD wholesale subsidiary and to try to sell 2Entertain, a joint venture with the BBC.

Given that Hilco had been involved – as agent or principal – in every major retail restructuring in the UK in recent years, it was natural for Deloitte, the appointed Administrators, to engage Hilco as its agent for the operation of this extensive retail business during the administration.

Hilco's remit was to provide a full operational management package covering all operational aspects of Woolworths on a day-to-day basis whilst buyers were sought for the whole or parts of the business. In the event that store closures were required, Hilco would be responsible for the management of the entire stock disposal process with the objective of maximising the cash generation from that process.

Hilco's Role

Within a week of appointment Hilco had assigned over 100 retail support specialists to manage the retail and logistics infrastructure and deployed a high profile 'Biggest Ever Sale' promotion in all stores. The promotion quickly became a national event, delivering sales of £27 million on the first day – the biggest day's trading in Woolworths' 99 year history.

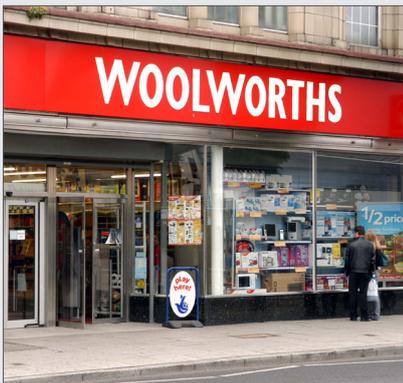
Using a unique methodology and financial models, a senior team from Hilco devised a pricing and discount strategy to drive incremental sales. Working within the existing logistics function Hilco worked to minimise supply chain disruption and maximise stock flow into stores for the critical pre-Christmas trading period.

Hilco managed the liaison with all suppliers to ensure continuity of supply and negotiated settlements of all ransom claims and Retention of Title disputes on behalf of the Administrators. Hilco handled all staff related queries and payment claims and implemented an incentive scheme for staff and consultants during the administration.

In the largest retail property agency instruction to be granted by any retailer or Administrator in the last decade, Hilco Property managed the disposition of all 807 leasehold store properties, leading the due diligence process and supervising the existing corporate estate managers. Hilco Property was able to achieve net property recoveries in excess of all expectations.

Results

Although no purchaser for the core business came forward, with Hilco's retail team at the helm the net cash recovered from the retail division far exceeded all expectations and contributed significantly to the 100% recovery of all debt owing to the primary lenders. The largest retail inventory liquidation ever carried out within Europe was executed and completed within six weeks, recovering some £280 million of cash, after all operating expenses.



Key Facts

- › **Over 800 stores** selling toys, children's clothing, homewares and confectionery
- › Facilitated trading whilst buyers were sought
- › Managed liaison with all creditors, ensuring continuity of supply and any negotiated settlements

Results

- › Disposed of leasehold store properties, achieving net property recoveries in excess of all expectations
- › Achieved a **100% recovery** of the ABL borrowings attributed to the retail business and met every financial target set in advance of the administration