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Retailers thrive on cash bonanza

By NHADA GOODFELLOW

CONSUMERS have been on a year-long spending spree, the share market is at record highs and the domestic economy is strong.

Ideal ingredients, it seems, for a series of retail and consumer-related companies to raise capital through public listings.

So far this year, more than \$1.7 billion has been raised by companies such as Pacific Brands, Just Group, The Reject Shop and Nick Scali.

That will soon be raised to almost \$2 billion by other floats including Super Cheap Auto and The Retail Cube.

A number of the capital raisings are private equity groups that have rescued an ailing company, turned it around and are taking advantage of favourable market conditions to exit.

For others, it has been an opportunity to raise funds for expansion and growth.

The best performer of the recent retail listings has been furniture retailer Nick Scali, the shares of which have soared almost 30 per cent in value.

Others, such as Just Group, Pacific Brands and The Reject Shop have struggled to trade above their issue price.

"For some of the larger ones like Just Group and Pacific Brands they've been basically floats to allow investors to exit the stock," Commonwealth Securities retail analyst Craig Woolford said.

Floating the revamped business was a "way for these private equity investors to realise their profit on their investment", he said. But the right market conditions were required in order to secure those profits, Mr Woolford said.

"Retail spending has been quite strong - consistently for the past three years it's been above trend," he said. "Therefore, the profitability of these companies has been quite strong and people are willing to pay a reasonable price for them.

"That's why these companies have been willing to list on the share market. It's a reflection of the strength in retail spending."

The Australian Retailers Association's executive director in South Australia, Stirling Griff, said the retail industry had performed "extremely well" nationally during the past year, despite being a bit flat in SA.

"Most listings, or people considering going public, are really interested in what's happening on a national basis and the national market has performed really well," he said.

"It's no surprise there's renewed interest in retail brands, particularly as the industry is responsible for a sizeable chunk of gross domestic product and many of the top brands are performing strongly for their shareholders," Mr Griff said.

Mr Woolford said while some private investors took advantage of those conditions to make a profit, other companies like Nick Scali were raising funds for expansion and growth.

"They saw a way of increasing capital by listing and getting extra funds to expand their store base," Mr Woolford said.

These growth-related floats have easily outperformed those ones where investors are exiting.

Mr Woolford said in the latter case, companies exiting a stock were looking to make the most profit possible, so the shares were never going to be sold "at a cheap price".

In contrast, Nick Scali had offered shares at a more attractive price to "entice investors".

Dick McIlwain, UNiTAB managing director and chairman of the soon-to-list Super Cheap Auto, said there were many similarities between Super Cheap and the successful Nick Scali.

Super Cheap was not owned by venture capitalists, but was a family company established 30 years' ago, he said.

"In the past 10 years, the company has grown by more than 20 per cent per annum," he said.

"It has grown quite quickly and there's more growth. As a result, they need to get access to capital."

Mr McIlwain said with the shares being offered at between \$1.75 and \$2.13 he was hopeful the price "will hold quite OK" on listing, scheduled for July 6.

"The founders are selling it now while there's more in it so there's upside for the new shareholders to capture," he said.

Founder Reg Rowe will retain 52 per cent of the issued shares.

Other retail listings to come include Retail Cube, UnderCoverWear and Concept Sport.

Retail Cube chief executive Robert Estcourt said companies such as Pacific Brands and Just Group had used a bookbuild to sell their shares.

"By definition you get the highest price . . . but almost by definition there's not much left for investors," he said.

"I think the bookbuild market is now finished for a while," he said.

Mr Estcourt said Retail Cube, which operated the Athletes Foot, King of Knives and Amazing Paints outlets, was listing to secure future growth.

He said unlike some of the new listings that had underperformed, Retail Cube was neither a fashion nor a discount retailer, but rather was a specialist retailer.

"These are specialist shops and this is not a vendor cutting and running to achieve the highest price.

"This is about nurturing the growth of the companies."