

## ANALYSIS

# Could Sir Philip pull off a deal?

Reports of an Arcadia sale were strongly denied by Green last week. However, should he opt to offload his stable, what would he need to do? **Becky Waller-Davies** reports

**R**eports that Sir Philip Green is in the process of selling Arcadia to Chinese textiles firm Shandong Ruyi have been aggressively rebutted.

According to *The Sunday Times*, Green and Shandong Ruyi were in talks over a potential deal.

But Green issued a typically combative denial, pouring cold water on talk of a sale and attacking journalist Oliver Shah, who is writing a book about Green, for using “the front page of a prominent Sunday newspaper for a totally false story and his own personal vanity project”.

A spokesman insisted that Arcadia was “not in discussions with any party regarding a partial or total disposal”.

However, many in the retail industry were not surprised at the suggestion that Green has been contemplating a sale of some or all of Arcadia’s brands.

If the tycoon did want to sell Arcadia at some point, could he secure a deal?

Some observers believe that the damage to his personal reputation in the aftermath of BHS’ demise, coupled with the trading difficulties faced by many bricks-and-mortar fashion retailers, could lead to him wanting to sell up. This would be a watershed moment given Green’s towering presence on the UK high street for many decades.

However, any potential deal would be fraught with complications.

From a hefty pension fund deficit – although payments are being made into Arcadia’s schemes – to ongoing poor trading and Green’s reputational issues post-BHS, the pugnacious billionaire would need to address many issues

to get to the point where a new owner can sign on the dotted line.

Retail Week takes a look at some of the challenges and opportunities.

## Potential opportunities

Arcadia’s brands have been struggling for some time, and like-for-likes are understood to have been in freefall, even at jewel-in-the-crown Topshop.

Arcadia’s brands sit squarely in the mid-market and it has haemorrhaged talent over the past year. At present, many think it is a disadvantaged player in a dog-eat-dog market.

So, in order to attract a halfway decent offer, Arcadia needs to undergo significant changes or give any buyer a substantial dowry.

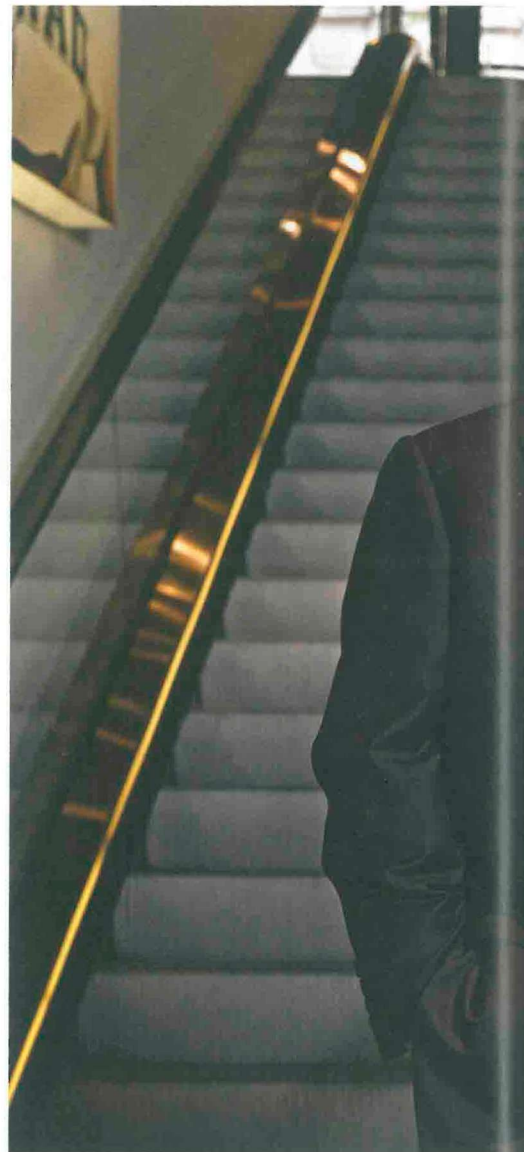
While Arcadia is currently trading poorly, the brand cache of Topshop/Topman, the scale of the business and its history on the British high street could make it an attractive trophy asset to some investors.

Arcadia has a vast store estate but it has not yet fully exploited the potential of online or market-places such as Asos and Zalando, which could really light a fire under its sales.

Take, for example, New Look, which saw its third-party online sales rocket 21.9% while its own online sales fell 15% over the 39 weeks to December 23.

Another opportunity would be for Green to be architect of the turnaround of Topshop and stablemate Topman, both of which still hold significant brand power.

Many believed the appointment of Paul Price as joint chief executive of Topshop/Topman was the first step in splitting the business away from the rest of the Arcadia



group. Price is the first person charged with overseeing both Topshop and Topman. His predecessors, Mary Homer and Philip Cooke, were managing directors of Topshop and Topman respectively.

Price has been at the helm for a little under six months – so far he has stripped out a layer of middle management in-store and closed the estate for a day for a merchandising refresh, but little else is known of his plans for the businesses.

While they have their problems, both Topshop and Topman are still fundamentally strong with great brand value and good product.

Their issues have more to do with intense competition frometailers and a strong showing from players such as Zara – and it doesn’t help that Topshop’s prices outstrip both of those despite targeting the same market segments.

## Anglo-American relations

A turnaround would be very challenging and require substantial investment but could please US investor Leonard Green, which owns a 25% stake in the two chains.

25%

US investor Leonard Green's stake in Topshop and Topman

Follow Arcadia's ongoing woes  
with our news and analysis  
[Retail-Week.com/Arcadia](http://Retail-Week.com/Arcadia)



## Finding a buyer would be a significant challenge even without Arcadia's pension deficit and the political sensitivity that surrounds it

Leonard Green acquired that stake in December 2012 via a shareholder agreement that allowed either party to trigger a sale or float of the business after five years.

That five years has now come to an end and Leonard Green is understandably keen to ensure that its investment does not deteriorate further. Sir Philip may have the added pressure of Leonard Green looking for its payday.

A turnaround of the Arcadia group seems difficult to pull off without a significant re-engineering of strategy and assets.

While some brands, such as Miss Selfridge, could continue to carve a niche for themselves, other brands look ill-equipped for competition on the high street.

This includes brands such as Burton, which has lost its relevance, and Dorothy Perkins, which has increasingly turned to discounting. That means any prospective buyer would need deep pockets.

Companies linked to Arcadia and Green own much of the fashion group's store portfolio. Any buyer of the group would have to accept that Green would effectively be its landlord.

However, this could work to their advantage as Green would have the power to grant significant reductions and to end leases as and where he sees fit.

### Pension problems

Finding a buyer would be a significant challenge even without Arcadia's pension deficit and the political sensitivity that surrounds it.

Arcadia is currently paying £50m a year into its pension scheme, which is in deficit by £565m on an ongoing basis or almost £1bn on a buyout basis. At its current rate, it expects to close the deficit in eight to nine years.

But because of what happened at BHS – even though it was not under his ownership at the time of collapse – all eyes will be on Green whatever the terms of any deal.

“The political scrutiny around any deal specifically will be very difficult,” one source said. “We all know there is a pension issue there, and after BHS, whatever happens there will be looked at very closely.”

“The deal parameters are very different this time around,” one expert commented.

“He has to be seen to be whiter than white after BHS.”

Of course, many deals are done despite difficult owners, pension issues or plummeting like-for-likes. But, in the words of one source, this combination of circumstances represents “a toxic cocktail”.

Green will be hoping to find someone who can stomach it. **RW**