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UK Department Stores 2009

Profitability under threat...

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Verdict's analysts and consultants work closely with retailers, suppliers, consultancies, investment banks and property companies to identify the key issues, sector and company data and strategies driving the changing retail market.

Our research identifies how retailers can enhance product, store and brand performance as well as the factors that determine future retail success. Our specialist in-store auditing team continuously collects price and product data across locations, brands, fascias, ranges and retail sectors.

> **"Verdict are the company of choice for any research analysis and insight into retailing"**
>
> **Sir Stuart Rose**
> Executive Chairman
> Marks & Spencer

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Our in-house retail expertise and rigorous research methodology ensure our reports provide complete and accurate analysis of the major players, issues and trends together with a detailed examination of the strategic implications for the retail market.

For key players in the retail industry, our reports are the first source of information on sector forecasts, retailer performance, store and product portfolio developments and trading strategy.

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In addition Verdict regularly appears in the international media. News sources quoting Verdict analysts and data include CNN, the International Herald Tribune, The Australian, Los Angeles Times, and New York Times.

UK Department Stores 2009

Profitability under threat...

The UK department store sector has been through a period of change since the millennium from exits and consolidation. It now faces further contraction as the non-food sector suffers during the recession. The sector is set to increase its floorspace by 5.6%, but this extra capacity is coming into a market with consumer demand in steep decline. As a result, average sales densities per square foot will decline, putting operating profit margins under severe pressure, just one of the factors that will affect profitability in the sector.

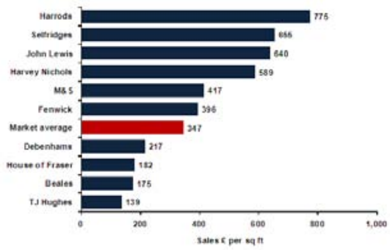
UK Department Stores 2009 is a new report published by Verdict Research that provides a comprehensive analysis of the market and supplies an extensive range of key data and metrics essential for participants to fully understand the dynamics of the market and form winning strategies.

10 Key Company Profiles

Beales	Harrods
Debenhams	John Lewis
Fenwick	Marks & Spencer
Harvey Nichols	Selfridges
House of Fraser	TJ Hughes

Identify the strengths and weaknesses of the leading players in the UK department store market and understand the key market trends and strategies that are driving growth...

Department stores year end 2007/08 sales density comparison



Source: UK Department Stores 2009

"The luxury end of the market emerges with the highest sales densities in the group, with Harrods leading the field followed by Selfridges. These players have high revenues per sq ft but also face high costs in the form of staffing levels and the amount of investment (and depreciation) entailed in their upmarket store environments..."

- **Make informed strategic decisions** using this report's 10 year datasets charting market performance and authoritative analysis of key market issues.
- **Benchmark business performance for all the leading department stores across key operating parameters** using unique market share, comparable sales densities and operating margin data.
- **Compare store portfolios for all leading UK department stores** with 10 year store number, space and sales density records enabling you to make informed judgements about each retailer's physical estate.
- **Identify the key developments in the department store market** using in-depth analysis of the key drivers, including inflation, space growth, store refurbishments and own-brand development.

UK Department Stores 2009

This report answers key questions including…

- Which UK department stores gained the most market share in 2008 and why?
- How are UK department stores managing expansion?
- What are the key factors driving total market growth in the UK?
- Which department stores are driving space growth in the market and what are the key players' store opening plans?
- How did non-food sectors perform in the last recession and what are the prospects in this one?
- What are the opportunities for UK department stores in 2009 and how do we expect them to perform?

Key Retailer Data

Ten year market size and growth

Six years of market share data

Ten year trading records of top ten operators

sales, and sales and profit densities

Operating profit and margins

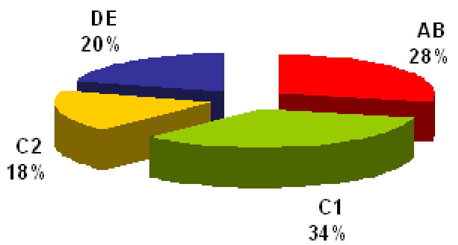
Retail proposition and Store portfolio analysis

Space allocation by product

Advertising spend

Key issues examined in this report…

Department store customers by socio-economic group 2009



Source: UK Department Stores 2009

"The ABC1 group is also more likely to look at shopping as a leisure activity and to be more demanding about the environment in which they do it, expecting more comfort and refreshment opportunities in cafés and restaurants. The convenience of multiple purchases in one environment is also important for those who find multiple-destination high street shopping trips too troublesome or tiring…"

- **The effect space expansion will have on profitability in 2009.** Retailers committed to new store developments well ahead of the downturn in the economy, now they are facing expansion just as spending contracts, diluting sales densities.

- **The need to focus on core shopper.** By focusing on the demands of the 45+ shopper, department stores are likely to find ways of distinguishing themselves in comparison to rival channels of distribution, particularly supermarkets and specialist retailers in areas like clothing, footwear, health and beauty.

- **Using sector performance in the previous recession to assess risk and opportunity now.** While a strong degree of caution is necessary in comparing the current economic downturn with the last in 1990-91, Verdict expects a degree of similarity in patterns of consumption. This could have important implications for department stores' planning of shorter term tactics like range development and department space allocations.

Chapter 5: Beales

Trading Record - Year to October 2008

- In the 52 weeks to 1 November 2008, Beales saw gross sales fall by 17.4% compared with the previous 53 week period while revenue from continuing operations, excluding concession sales, fell by 18.5% – a greater amount due to the increasing proportion of concession sales. On a like-for-like basis (excluding the closure of the Ealing store in October 2007) gross sales fell by 6.8% and revenue by 7.8%.

- Operating losses grew from £1.07m to £1.23m, despite a rise in gross margins from 54.2% to 54.9% and a reduction in administrative expenses of £5.4m, or £2.3m excluding the closure of the Ealing store.

Table 19: Beales trading record 1998-2008

Year to October	Gross Transaction Value £m	Y-o-Y Change %	Operating Profits £m	Operating Margin %	** Sales Post-FRS5 (ex VAT) £m
1998	63.9	3.8	4.2	6.6	45.7
1999	68.2	6.8	2.9	4.3	48.8
2000	75.1	10.1	3.5	4.7	53.8
2001	78	4	3.9	5	55.9
2002	88.6	13.6	2.7	3	63.5
2003	114.2	28.9	1.3	1.1	69.1
2004	109.6	-4.1	0.5	0.5	65.3
2005	108.7	-0.8	0.4	0.4	61.9
2006	107	-1.6	0.5	0.5	59.9
* 2007	107.8	0.7	-1.1	neg	58.8
2008	89	-17.4	-1.2	neg	47.9

* 53 weeks ** Less discounts, reward vouchers and concession sales, estimates to 2002

Source: UK Department Stores 2009

- The company says its main aim is to improve bought-in margin, allowing it to implement a new promotional strategy and pass on some benefits from this in the form of lower prices to its customers.

Current Trading

- Like for like sales including concessions but excluding VAT for the 13 weeks to 31 January 2009, Beales Q1, were down 3.2%, however the retailer was hit by the poor weather in February (snow) and even though its sales recovered in March like for like sales for the first 19 weeks, to 14 March, were 4.5% below the previous year.

- In January 2009 the retailer arranged new banking facilities available from February 2009, specifically a £9.0m two-year loan repayable in February 2011, and a £0.5m overdraft repayable on demand. Nevertheless it still said that given the difficult economic conditions, it might have to renegotiate its banking covenants during the year, ‘creating material uncertainty, which may cast doubt on the group's ability to continue as a going concern’. The company stated at its AGM that trading remained challenging but it was operating well within its banking terms.

Store Portfolio

- The company closed its Ealing store in a pre-emptive move in October 2007, reducing store numbers to 11. An offer of a £375,000 premium for the surrender of the lease (Primark took over the store) was very attractive considering the competition the store would be up against once the new Westfield retail centre nearby in White City opened in 2008. Net closure costs were £108,000.

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