New Look: the successful pursuit of a public-to-private transaction

In July 2003, UK fashion retailer New Look was taken private with the support of Apax Partners/Permira. The management of New Look, originally listed publicly in 1998, wanted to transform the company to improve performance and take advantage of several opportunities they believed the UK and European retail sector offered.

These transformations would increase business risk and require substantial investments and patience from investors. Given the pressures a listed company faced to meet expectations on short-term performance, management felt the public markets would not provide the right environment for their ambitious new plans. Apax Partners also believed that New Look would be better positioned to take advantage of these long-term opportunities if taken private. Apax Partners partnered with Permira to do the deal. In April 2004, Apax Partners/Permira each invested £100 million in a buy-out vehicle that purchased New Look; each assumed a 30.1 per cent stake, founder Tom Singh held 23.3 per cent and other management held 13.4 per cent (3.1 per cent was assumed by Dubai-based retail giant Landmark).

The deal represented a growth story: under the buyout management's investment, New Look grew earnings before interest, taxes, depreciation and amortization (EBITDA) annually by an average of 14.6 per cent between 2004 and 2007 and increased its full-time equivalent headcount by 7.7 per cent per year on average in the same period. As active shareholders, the private equity partners supported New Look in making the long-term investments required in the transformation process and helped both to strengthen its management team around CEO Phil Wrigley and to increase its capital efficiency.

The transformation process had three key initiatives:

1. Investment in a new larger distribution centre and re-locating it more centrally in England.
2. A continued and accelerated roll-out of larger store formats, enabling New Look to offer a wider product range in a more conducive retail environment.
3. Pursuing international expansion in France, Belgium, Ireland, Kuwait, and Dubai.

A new distribution centre

In July 2004, the company announced a £400 million investment in a new distribution centre in Newcastle-under-Lyme, which opened in 2005. This larger distribution centre in a more central location made a great deal of sense from the perspective of mid-and long-term performance.

Given the cash-intensive aspect of the investment, building the new distribution centre required a willingness to accept a short-term slowdown in profit growth. One
year later the press reported strong progress in New Look's transformation. Changes to both the chain's distribution network and its design team contributed to an 18.8 per cent rise in total sales during the 14 weeks up to 1 January 2005, according to management. New Look doubled the number of designers working on new ranges to 22 and also strengthened its buying and merchandising team.

**Larger store format**

Management felt the threat of market consolidation and the need for New Look to broaden its presence in the market. In the UK, this was done in part by sheer physical presence, e.g. through acquisitions of the leases and/or property of 30 former C&A stores and new store openings. In addition, a rebrand campaign was launched in 2004: "The New Now" gave New Look a more upmarket image, and presented a clean, modern fashion-oriented store image consistently across the chain.

The management team and the new investors looked closely at expanding the company's clothing and accessories ranges, wanting to roll-out their larger store format further by offering a wide range for the whole family. They followed a rollout of menswear across many stores after the buyout and also launched a separate children's clothing line.

**International expansion**

Management pushed expansion into other European countries and the Middle East with new store openings in France, Belgium, Ireland and Dubai. "Expanding into Europe and Dubai was another key driver in their transformation process," said an insider. "This too would have been difficult to pursue while listed on public markets without being punished by decreasing share prices."

**New Look employees**

The public-to-private transaction was supported both by management and New Look's employees. Employees across the ranks, from middle management and beyond felt privatization would allow the company to expand the brand further. Their own careers would expand, as New Look's presence grew in the market.

**Employee incentives**

Many employees felt the public-to-private transaction brought a culture of inclusion to the company. While New Look had been publicly listed, employees could own shares; however, post-buyout, a programme was set up giving management and a large proportion of employees the opportunity to become New Look shareholders.

Committed to taking as many people with them as possible, the management wanted a vehicle for employees to directly participate in New Look's transformation process. A total of 20 of New Look's extended management team invested directly in the company as it went private. Four levels of managers were able to participate: executive directors, operative directors, controllers, senior managers and select store managers with a stellar performance rating.

To give a wider group of employees the chance to participate in New Look's development, The New Look Trust for Employees was set up, allowing employees to indirectly hold shares in the company as beneficial owners of The Trust. By mid-2006, over 300 people had invested in the option scheme via The Trust, rising to nearly 500 in 2007.

The private equity partners were committed to maintaining the status quo in employment policies. It was considered a general policy to safeguard the existing
employment rights in a company where growing the business is the key management objective. Therefore, there were no changes to terms or conditions of employment, including staff benefits.

**Refinancing**

While New Look was not under financial pressure post-transaction, Apax Partners/Permira suggestions to improve New Look's capital structure were a key contribution. In January 2005, a refinancing package was undertaken. While not a "proper refinancing", there was a surplus of funds for several reasons, including cost reductions, an increase in creditor days, and an EBITDA growth enabling a payout of £100 million in May 2005 to the equity holders. By July 2005, an additional £240 million was returned on the basis of additional substantial EBITDA and profit growth, and excess cash.

New Look found that with the private equity investors on board and closely monitoring the company, debt providers were willing to increase the company's leverage even though the firm's transformation process represented greater risks. Through a debt restructuring in 2006 (which rolled interest up in capital value as opposed to a cash payout) the partners were able to take advantage of the upick in the payment-in-kind (PiK) market. Share structures adjusted slightly, as management holdings increased to 15.7 per cent. In the course of negotiations with debt providers, management received the offer to further increase New Look's leverage. Apax Partners/Permira advised the management to turn down the offer, suggesting New Look steer clear of an aggressive financing strategy, and potentially putting pressure on cash.

The management, Singh and Apax Partners/Permira all agreed that the refinancings had no impact on the management side of the company, nor did they restrict the company's growth or investments. Apax Partners/Permira had not initially expected to be able to refinance the business, but the opportunity arose, and they were able to take advantage of it and got back two times their invested capital.

**Looking for an exit?**

In early 2007, Apax Partners/Permira and New Look's management considered possible exit strategies. The average time horizon for a private equity investment was coming close and New Look offered the additional growth potential necessary to attract a secondary buyout. Even though the expansion within the UK was relatively advanced, there were still many opportunities to extend internationalization across Europe and the Middle East.

The poor reception for other fashion retail public offerings in early 2007, including Debenhams and Sports Direct, influenced the team to decide against a public listing. The management team and Apax Partners/Permira felt that public markets might not differentiate between New Look, still in the middle of an expansion phase, and other listed fashion retailers at various lifecycle stages (e.g. undergoing restructuring). With part of the transformation process still ahead, New Look had further infrastructure investments planned that would once again put pressure on short-term performance. Therefore, all agreed it was not the right time to pursue a public offering.

Instead, the team pursued an exit via a secondary buyout. The potential of a secondary buyout lay in the continuation of New Look's current growth strategy – further expanding in Europe and internationally, and continuing to change from small to large stores. A sale process was run, but this did not result in a successful outcome as credit market turmoil and concerns regarding general consumer spending growth in the UK emerged. Following the process, Apax Partners/Permira made a firm decision against any exit from New Look in the near future, opting instead to keep the retailer in their fold and focusing on continued company growth.
Although a public listing did not appear viable in 2007, New Look's management team considered it a potential option in the near future, believing that when New Look had built a successful and sustainable business internationally, public investors would have the confidence to back the company again. In addition, the broader strategic positioning of New Look could help to reduce cyclicality, enabling the company to manage the pressures of public markets again. However, the private equity investors and the management team all believed a public listing only made sense at a later stage in New Look's transformation process.

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