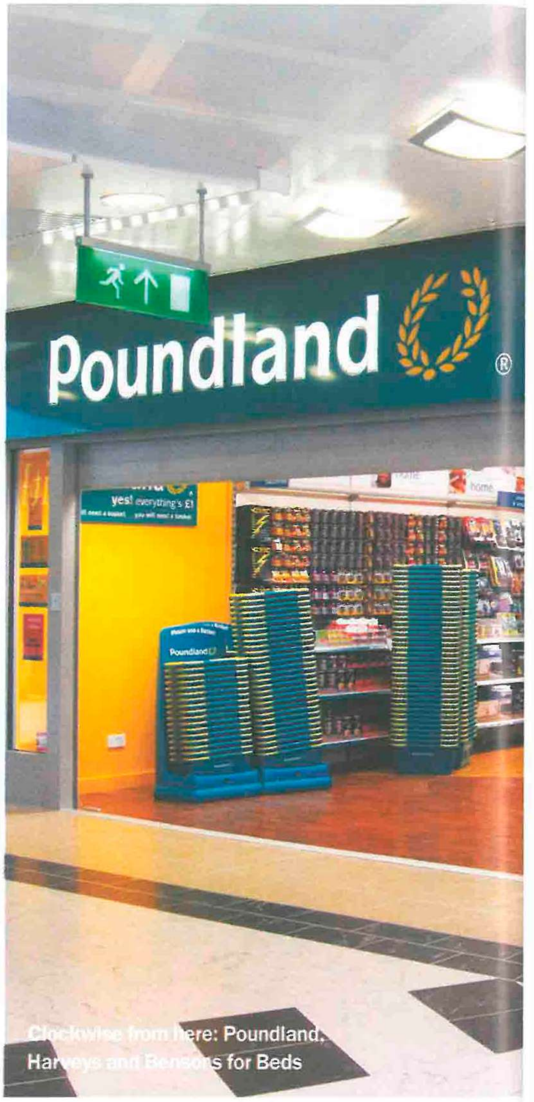
THE BIG STORY



Clockwise from here: Poundland, Harveys and Bensons for Beds

Steinhoff's survival slog

After uncovering accounting irregularities that led to the resignation of its boss, Grace Bowden asks what the South African retail giant's troubles mean for its UK businesses

Steinhoff, which owns 40 retail brands across more than 30 countries, has had a cataclysmic fall from grace since it postponed its full-year results last week to investigate "accounting irregularities". Its share price subsequently tanked 75% and boss Markus Jooste resigned.

Just how irregular they are remains to be seen but, if Jooste's departure is anything to go by, there will be some dramatic revelations in the coming months.

The former Steinhoff head honcho – who had been with the business for nearly 30 years – said in his resignation letter that he had "made some big mistakes" and would "take the consequences of [his] behaviour like a man".

Whatever the outcome of the probe, Steinhoff in its present form is unlikely to survive. It has already moved swiftly to set up a new sub-committee, tasked with keeping a closer eye on its corporate governance.

Johan van Zyl, a Steinhoff non-exec and the joint-boss of financial services firm African Rainbow Capital, will lead the three-man panel. He will be joined by Steve Booysen, the chairman of Steinhoff's audit and risk committee, and former investment banker Heather Sonn, who has sat on Steinhoff's board for four years.

But there is likely to be plenty more change afoot, particularly after the conglomerate said it has "received expressions of interest in certain non-core assets" that would release a minimum of €1bn (£881.5m) of liquidity.

So what does all of this mean for Steinhoff's stable of UK retailers?

Poundland

The value sector is undergoing rapid growth and change and Poundland has been at the forefront of that in many ways. This year alone, the business has unveiled a multi-price proposition, brought a fashion offer to more than 130 of its stores via Pep&Co shop-in-shops and this month began a trial selling vacuum-packed mattresses.

Steinhoff subsidiary Pepkor's European chief operating officer Sean Cardinaal told Retail Week that Poundland had ambitious plans to open up to 1,000 stores across Europe over the next five years in order to "build a pan-European discount variety business that is of real significance".

The retailer is also developing an in-store micro-loans proposition with Steinhoff stablemate Capfin.

Steinhoff bought Poundland for £610m just over a year ago. Would that price tag and the scale of its growth ambitions render Poundland safe from a potential fire sale of the group's assets? GlobalData analyst Matthew Walton does not think so.

823
The number of Poundland stores

"The way Steinhoff has phrased it, it sounds like everything is on the table for a sale, and the retailer in the UK that will give the highest returns and is therefore the most likely to be sold is Poundland," he says.

"The discount sector is an attractive market at the moment and a lot of its rivals are looking to expand quite aggressively."

Poundland has 823 stores, the vast majority of which are in the UK – if B&M were in the market for more stores, it would certainly give it the foothold in the Southeast that it has pursued in recent years. However, Peel Hunt analyst Jonathan Pritchard doubts a Poundland rival would want to acquire it outright.

"At the beginning of the recession everybody and his dog was opening space in the discount sector, but now there are only two retailers opening with any aggression and that's B&M and Home Bargains.

"Realistically, is there a retailer in that space now that would want to acquire all of Poundland's stores overnight? Probably not."

Poundland's stores are by and large based on primary through to tertiary high street locations, which puts it in a relatively unique position.

Rivals including B&M, Home Bargains and Poundworld are pursuing out-of-town and retail park locations.

One analyst told Retail Week that, for that reason, it is more likely that Poundland will be snapped up in a private-equity deal than by a trade buyer, if a sale were to take place.

Another industry insider noted that, given the scale of Steinhoff's problems, selling Poundland for less than it bought it for as a means of freeing up assets quickly could also be a possibility.

In Steinhoff's most recent financial update in June, Jooste said: "We remain excited about the Poundland acquisition providing the general merchandise business with the necessary scale in the UK. Poundland is trading ahead of

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expectations with continuing positive like-for-like revenue growth."

Ironically, the recent success of the value retailer may be the exact reason that Steinhoff could choose to sell it after just over a year of ownership.

Harveys and Bensons for Beds

The two homewares businesses have been owned by Steinhoff since 2005, but sales have been muted since the re-emergence of rival Dreams and a wider market slowdown.

Steinhoff drafted in Australian retailer Target's former boss Stuart Machin – who himself stepped down from that role last April amid an accounting probe – to lead the two businesses in June.

Machin has since restructured Harveys and Bensons for Beds senior team and poached The Range's multichannel director Alexander Bartholomew last month to bolster the development of the retailers' respective ecommerce propositions.

However, whether changes under way are enough to make them appeal to potential buyers is unclear.

Additionally, Walton believes the interwoven nature of Bensons for Beds and Harveys, which have 270 and 157 stores respectively, might dim their appeal to prospective buyers.

"A lot of the sites are dual fascia, so it wouldn't just be a case of buying just Bensons or just Harveys, a buyer would have to take over all stores and then have to bump one or the other out, which is an added level of complexity," he explains.

"Bensons for Beds also do a lot of mattress manufacturing so I don't think a retailer would want to buy them and then have to deal with that side of the business. If they are going to be sold, I think a private-equity buyer is more likely."

However, one furniture retail expert was not convinced there would be much private equity appetite either.

"I cannot think of anyone who would want to buy Harveys or Bensons for Beds as retailers right now – they have far too many shops between them and it's just not the right business formula," he suggests.

"But Bensons' involvement in manufacturing might put them in a better and more resilient place than some of Steinhoff's other retailers."

Furniture specialists Feather & Black and Multiyork have gone into administration in recent weeks, indicating that times are tough in which to operate a successful retail operation in the big-ticket category.

A lack of appetite for Harveys and Bensons for Beds could mean a sale of the respective businesses is not on the cards – but what that means for their long-term survival and that of their beleaguered parent company Steinhoff is less clear.

But as Steinhoff's share price remains under pressure and demand grows for a full explanation of what has happened, Steinhoff may not have long to find answers to its problems. RW