

HOUSE OF FRASER CEO RESIGNS



- 1) Nigel Oddy is reported to have resigned as CEO of UK department-store chain House of Fraser.
- 2) Oddy's resignation is the latest in a series of management departures at House of Fraser since the chain was acquired by Sanpower in 2014.
- 3) Supply Chain Director, Ray Kavanagh, is set to leave, according to media reports.

CHIEF EXECUTIVE THE LATEST IN A RUN OF MANAGEMENT DEPARTURES

House of Fraser's Chief Executive Officer, Nigel Oddy, has resigned, and will leave the company in the new year. Oddy had been CEO since early 2015, and his departure is the latest in a series of senior management changes. Chief Customer Officer, Andy Harding, left the business in May, and Supply Chain Director, Ray Kavanagh, is set to be the next to depart, according to *The Sunday Times*.

The newspaper reported that House of Fraser's management team had become frustrated at a reluctance by controlling firm Sanpower to inject cash into the business, and the owner's lack of understanding of the retail market. China-based Sanpower acquired 89% of House of Fraser in 2014, when its Chairman, Yuan Yafei, reportedly pledged to invest £75 million in the department-store chain.

A House of Fraser spokesperson told *Retail Week*, "Since the acquisition, Sanpower has committed to support House of Fraser in the event that the business development plans required them and the board had requested them. ... Since the beginning of 2015, there has been no request from the board of House of Fraser as the business is self-funding through the bond issue last year and its own cash."

Oddy's departure comes after a weakening of performance at House of Fraser, following a period of robust top-line growth. In 1H17, the company reported comps of 0.9% (excluding Virgin Travel), a significant slowing from comps of 4.2% in the year ended January 30, 2016. In 1H17, EBITDA was down 88% year over year to £1.1 million; EBITDA was impacted by a £3.9 million decline in financial services income, due to the expiry of a financial services contract, in June 2015.

We provide a timeline of developments since the Sanpower acquisition below.

Figure 1. House of Fraser: Timeline of Significant Events

November 27, 2016	<i>The Sunday Times</i> reports that Nigel Oddy resigned as CEO in October. The newspaper claims that the company's management team had become frustrated at Yuan Yafei's reluctance to inject cash into the company as well as his lack of understanding of the retail market.
September 27, 2016	The company reports 1H17 results: total sales flat, comps +0.9%, EBITDA down 88% to £1.1 million; EBITDA is impacted by a £3.9 million decline in financial services income, due to the expiry of a financial services agreement. The company announces it will add six Hamleys concessions in stores in 2H17, and that it will open its first Chinese store in Nanjing. The company says it has seen "challenging trading conditions" and "trading continues to be volatile" in the first weeks of 3Q17.
June 1, 2016	The <i>FT</i> reports that House of Fraser has delayed its launch in Mainland China, due to Sanpower failing to provide funding. Sanpower is reportedly renaming existing properties Oriental Fraser, rather than opening new stores.
April 24, 2016	<i>The Sunday Times</i> reports that Sanpower is in talks to sell House of Fraser to Chinese firm C.banner, a shoe retailer and owner of UK toy retailer Hamleys. C.banner's cofounder and Chairman is the brother of Sanpower's founder and Chairman, Yuan Yafei. The sale does not materialize.
April 18, 2016	Chief Customer Officer, Andy Harding, resigns and leaves in May.
April 13, 2016	House of Fraser reports results for the year ended January 30, 2016. Comparable sales rose 4.2%, adjusted EBITDA increased 3.0% and pre-tax profit (before exceptionals) of £1.3 million is the company's first profit since 2006.
April 6, 2016	<i>Retail Week</i> reports that House of Fraser's head of home, food and beauty, Ysanne Jenkins, has left the group in the wake of a restructure.
March 24, 2016	House of Fraser hires Maria Hollins from ASOS to be Executive Director for buying and design, effective May.
February 17, 2016	Director of Global Multichannel Trading, Martin Francis, leaves to join online and catalog retailer Wool Overs.
December 14, 2015	Brand Marketing Director, Tony Holdway, leaves to join rival department-store chain BHS in January, <i>Retail Week</i> reports.
April 27, 2015	Media reports that CFO, Mark Gifford, will leave the company in September, after eight years in the role and 13 years at House of Fraser. Colin Elliot replaces Gifford, effective May 1.
April 21, 2015	The company announces that it will open its first shops in China in 2015, and start trading online in the country. A second Abu Dhabi store will open "shortly." House of Fraser reports strong full-year results, with comps up 5.8% and EBITDA up 7.0%.
February 18, 2015	The company appoints Nigel Oddy as CEO and Frank Slevin as Executive Chairman. John King departs as CEO.
May 4, 2014	Yuan Yafei, chairman of parent company Sanpower, says House of Fraser will open four franchise stores in Russia and two in Abu Dhabi over the next two to three years.
April 13, 2014	Reports say that "as many as 50" stores could open in China under the name Oriental Fraser, following the acquisition by Sanpower.
April 4, 2014	House of Fraser announces the sale of 89% of the company to China's Sanpower Group, owner of China's oldest department store, Nanjing Xinjiekou. The sale is completed on September 2 2014. The company was previously privately owned; Chairman, Don McCarthy, held 20%, and failed Icelandic banks, largely Landsbanki, owned 49%.

Source: Company reports



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CHALLENGES FACING HOUSE OF FRASER

Among the challenges we perceive for the company are:

- **A tough UK apparel market:** In 2016, consumer spending on clothing and footwear has been the weakest in several years, as we have discussed in reports such as *UK Apparel Malaise Signals A Shift In Consumer Spending Priorities*.
- **A reliance on promotions:** Rivals Debenhams and Marks & Spencer are pulling back on price promotions, but House of Fraser has pushed discounts very heavily. As we noted in our recent report, *Black Friday UK 2016: A Refocusing On Electronics*, such is the scale of discounting at House of Fraser that this year's Black Friday deals merged into other promotions, and it is possible that some promotions lacked credibility among shoppers.
- **Pushing private labels at the expense of brands:** House of Fraser has for several years been growing its private labels in terms of number of brands and the floor-space given to them. The push on private label has come at the expense of the branded offering, and we think this may have diminished House of Fraser's appeal for some customers. In 1H17, private-label sales fell 3.7%, and Oddy told *Retail Week* that House of Fraser would trim the number of womenswear own-brand labels it offers and "reassert their value credentials."



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