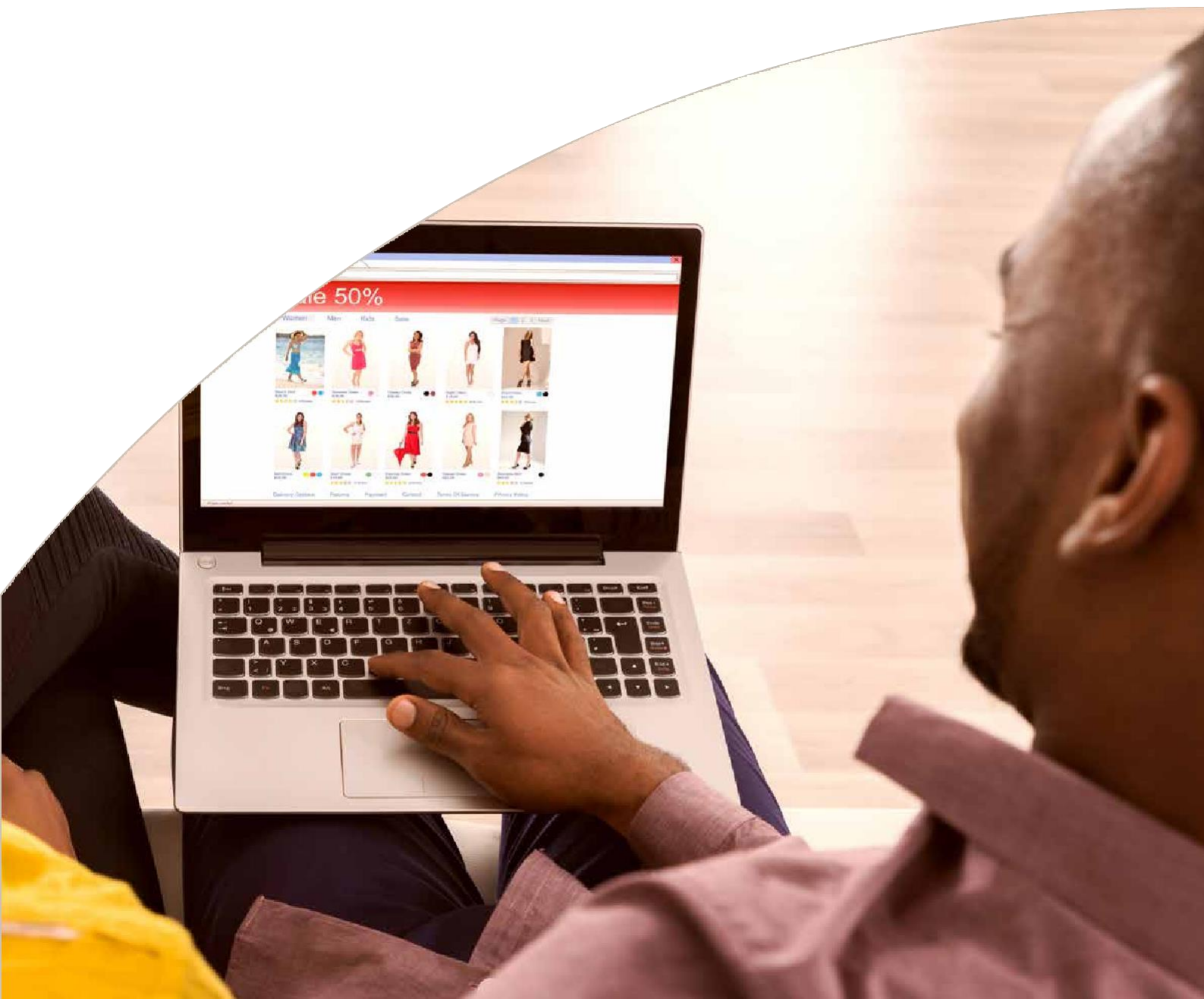


Retail: securing the future post COVID-19

Sustainable growth strategies

2021





In this report

2020 saw the retail industry experience significant disruption. But with the roll out of vaccines and optimism beginning to return, business leaders can now begin to focus on the future.

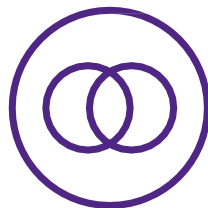
The priority for businesses should now be trying to build on the lessons learned over the past 12 months and establish sustainable and well executed growth strategies. And for those businesses that remain under significant stress, there will still be opportunities to effectively restructure and reposition for future success.

This report looks at the steps retail businesses need to take to put themselves in the best position to realise growth opportunities and overcome the diverse and complex challenges retailers face. We also consider implications for retailers and how financial planning for the medium and long term will be affected.

We will cover:



Sustainable growth strategies



Mergers and Acquisitions



Liquidity



Cost management



Debt and restructuring



What Grant Thornton is doing to help retailers

Challenges and growth opportunities

The picture for the retail industry in 2021 is one of incredible resilience and adaptability. The impact of COVID-19 on economies across the globe led to a significant drop in revenue and closed stores, with many in the discretionary sector adopting novel, online solutions.

Restaurants pivoted to offering meal boxes, coffee suppliers adopted subscription-based services and fashion retailers introduced live video shopping experiences. Many businesses still remain in a precarious position and will be examining all of their options closely.

The grocery sector, on the other hand, has dealt with unpredictable needs and a huge increase in demand for online delivery services. For many businesses, the sharp economic shock was initially exacerbated by tight liquidity and high fixed cost profiles. The grocery sector is likely to have benefitted from disruption to the restaurant and hospitality sector, and businesses will be looking to capitalise further on this position.

Sustainable growth strategies

The disruption caused by COVID-19 has accelerated the shift towards online retail, but it could also have other effects. These could present opportunities for retail businesses in the coming years. If significant numbers of businesses retain homeworking as an operating model, the numbers of commuters could reduce as well. This would impact the long-established strategy of locating retail stores in and around train stations and other commuter hubs. It is uncertain just how much this global public health crisis is going to alter consumer behaviour and whether these changes will extend into the long-term.

Retailers with an established omnichannel strategy have been better able to adapt and operate with agility. Creating a seamless user experience requires all points of customer contact (online, in-store, phone and delivery) to be integrated

Retailers with an established omnichannel strategy have been better able to adapt and operate with agility.

and working smoothly together. Consumers are likely to expect the flexibility they have seen from some retailers to continue to be available once the pandemic has receded.

Retailers must ensure their businesses are as resilient and flexible as possible going forward. Lenders and stakeholders need to know there is a working strategy for transitioning from the present disruption to operating in the new normal. This means reducing physical footprints, growing online, creating a multichannel presence and restructuring, but the aim should always be identifying a target market and creating a core group of loyal customers.

Mergers and acquisitions

The mixed performance of different parts of the retail industry presents opportunities for those looking to acquire extra capabilities or market share, as well as private equity firms. In particular, businesses that have a strong and well-established online presence and those that can capitalise on the trend towards increasing physical activity and outdoor recreation are presented with significant opportunities in 2021.

For those companies that have been able to survive, it is important to have a viable business strategy in place for sustainable growth once pre-pandemic levels of demand return. COVID-19 could speed up the existing trend of retail chains looking to downsize their physical footprints and boost their online activities. But while investors may be looking to pick up brands or acquire capabilities to bring in-house, it is still unclear whether securing additional physical store space is a priority. Recent acquisition strategies in the UK have seen examples of 'online only' operators acquiring high street brands and moving them into their 'online only' portfolio, closing the physical stores.

Liquidity

Just as it has been in a wide variety of industries, cashflow forecasting and management has become a serious challenge for many retailers, big and small. An immediate priority over the short to medium-term is preserving cash and increasing liquidity. While government schemes all over the world have allowed businesses to temporarily reduce or defer some of their operating costs, particularly with regards to staff and tax payments, these measures will not go on indefinitely. The feasibility of prioritising an online model requires an ability to balance lower profitability per sale and reduced staff with potentially higher operating costs.



The extent to which supply chains are being affected will also be a big factor in whether retailers can adapt their processes. Spikes in demand in the grocery sector have caused stock shortages and supply chain issues, as data driven stock planning and merchandising models failed to make it easier to plan what products were needed. The spike in demand for online services has caused significant pressure. Some brands simply did not have the infrastructure in place to deal with the surge in orders. For shops that are closed or sitting on large amounts of stock that they cannot sell, fixed costs are a serious issue. If they cannot move online, these businesses will need to seek help from the government, lenders or their shareholders.

Cost management

Cost reduction has become an immediate strategic objective across the industry, and we are seeing many businesses looking carefully at their lease and infrastructure costs as well as their physical footprints. For most retailers, the three biggest costs are stock, property and labour. While staffing levels can be reduced, managing other costs may be more difficult.

Many landlords are granting businesses payment holidays, and we may see more flexibility built into the system, such as leases as a percentage of sales. But without revenue coming in there is still uncertainty about how long businesses can operate. For apparel retailers in particular, many of which

are sitting on large amounts of unsold seasonal stock, we are seeing heavily discounted prices. For those stores that remain open, COVID-19 has affected almost every part of their supply chains.

Social distancing and increased cleaning is, in many cases, increasing costs and slowing processes down, meaning many companies will be looking for profit improvement strategies. In the grocery sector, the need to drive efforts upstream in supply chains could lead retailers to stock fewer individual brands and instead opt for deeper relationships with particular suppliers. Those with bigger cash reserves will continue to implement automation and self-service solutions, while others could be further incentivised to prioritise these technologies.

Debt and restructuring

With revenues flat and many retailers facing a sustained period of depressed demand, finding constructive solutions for debt payments is a major priority. It is important that businesses maintain clear communication with landlords, shareholders, banks and other stakeholders about their ability to operate. Banks may be willing to reschedule debt payments, but only if companies can demonstrate the viability of their recovery strategy. For businesses, this means putting together funding proposals for shareholders, using insolvency tools to restructure quickly, or even exploring options like bankruptcy protection.

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Critical considerations as you plan for the future

The value chain of the retail industry is highly interconnected with other industry groups and domestic, regional and global economic and social activity. Many of the forces impacting the retail industry are driven by factors outside of retailers' control; this complexity has been highlighted by the impact of COVID-19.

Current market conditions are driving liquidity and operational challenges, but can also provide opportunities to those with strong balance sheets and access to supportive lenders and investors. The interconnectivity of the retail industry drives the need for well thought-through, integrated solutions. These solutions must critically address the needs of multiple stakeholders, particularly where there is separation between asset ownership, the operator and the funders.

Advisors from our network of Grant Thornton member firms can help you to define the next steps in your planning. We consider the questions on the next page as some of the more important areas to focus on for the industry when looking to assess, protect and restore value – some will be more relevant to your business than others.

Key questions to consider

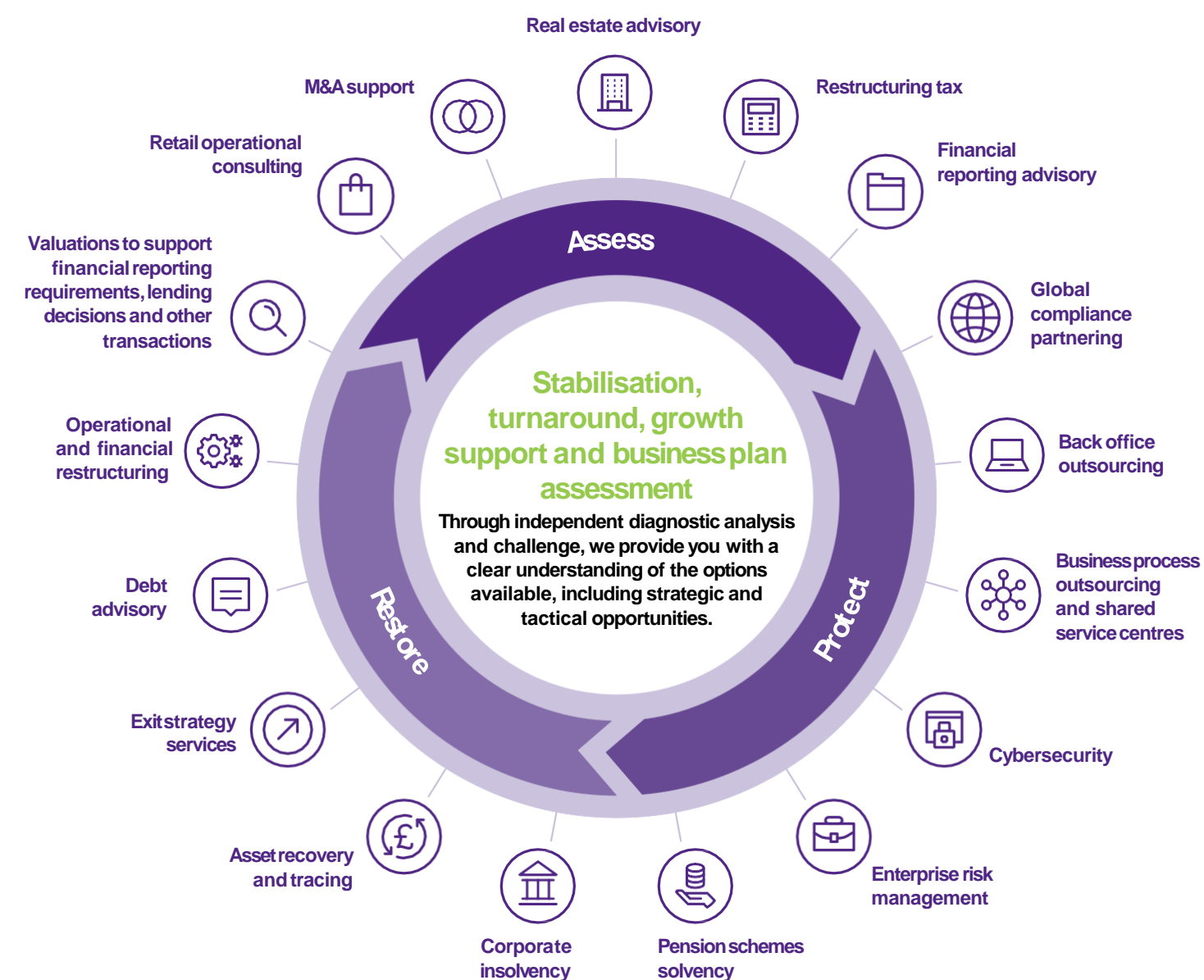




How Grant Thornton's solutions can help you

“Grant Thornton” is a network of member firms around the world. Our approach in supporting you to assess, protect and restore value in your business starts with helping you to regain control by stabilising the business, whilst developing a robust and realistic turnaround plan, and longer term strategic plans. Grant Thornton member firm advisers draw on deep expertise across many different areas, customised to your specific needs.

Successful turnarounds require the development of a credible plan that has been stress tested against various scenarios, along with a transparent communication strategy that meets the needs of all stakeholders. Building trust, and not breaking promises, will be critical if the plan is to be realised.



Stabilisation, turnaround, growth support and business plan assessment

In the early stages of a turnaround the right support is necessary to create financial stability, assess cashflow and identify opportunities to improve short-term liquidity.

Through independent diagnostic analysis and challenge, we provide stakeholders with a clear understanding of the options available, including strategic and tactical opportunities.

This crucial activity provides comfort and support to management teams and can underpin the credibility of the turnaround and long term strategic plans as part of the assessment process of financial stakeholders.

Grant Thornton member firms regularly work with leadership teams to support the effective delivery of their plans.

Our solutions



Operational and financial restructuring

Our multi-disciplinary operational and financial restructuring specialists provide support to realise significant business process improvement, implement new business strategies, divest non-core businesses and design new capital structures aligned to the dynamics of the business.



Retail operational consulting

Running a successful bricks-and-mortar retail space involves a lot of behind the scenes activity. Using our specific industry experience, we can help with workforce planning, back of store process efficiency, rostering/labour efficiency, in-store fulfilment of online orders, space optimisation, format development, and store renewal. In order to remain competitive in today's market most retailers are investing in their online offering and our experience includes working with retailers to optimise online capability and support efficient product delivery to the customer, including: online fulfilment; model rollout and optimisation; integration of online into merchandise and store operations; and order management system design and delivery.



Real estate advisory

Our real estate advisory team can help you create a flexible real estate strategy and plan, allowing your business to adapt when it needs to. With the foundation, strategy and plan in place, we will help you optimise your business' efficiency and productivity. Capital raised as a result and in addition to strategic disposals can be re-invested elsewhere and support your business growth. Finding the right space, in the right location, provides a foundation to promote success through your business' operations, people, technology and access to market, enabling you to focus on your business goals.



Debt advisory

We provide specialist advice on the raising and refinancing of debt. Through our deep understanding of the funding landscape and detailed knowledge of the credit process, we devise tailored funding solutions as part of a sustainable capital structure in line with the strategic ambition of our clients.



Exit strategy services

We apply a tailored methodology and fully project-manage and implement the sale or closure of underperforming or non-core corporate entities at maximum value.



Valuations to support asset-backed lending decisions, restructuring and transactions

We provide valuations to support asset-backed financing, including valuing shares and intangible assets, and provide periodic valuations of assets to confirm that the terms of the loan agreement continue to be met. For mergers, acquisitions, restructuring and proposed financial structures, we provide an independent view on value delivering robust advice within the constraints placed by the deal deadlines.



M&A support

We provide advice and manage transactions associated with the acquisition or disposal of distressed and non-distressed assets or businesses, frequently to short timescales. Our team helps businesses navigate complex transactions – whether buying or selling, restructuring or providing capital solutions – always with competence, speed and agility. From deal strategy and valuation, to evaluating the financial, IT, tax, commercial and operational issues affecting performance and identifying strategic alternatives, we address concerns, manage risk, support the structuring of the purchase agreement and help our clients seize opportunities.



Asset recovery and tracing

Asset recovery and tracing normally form part of formal insolvency processes such as liquidations, or are carried out in support of ongoing litigation or fraud investigations. We use specialist approaches to identify and recover misappropriated assets, including those held in offshore trusts, to provide cost-effective value recovery.



Corporate insolvency

Where a business cannot be saved or where a formal insolvency process is required to affect a restructuring, we

provide advice and support to distressed companies, their creditors and other stakeholders in order to protect assets and maximise recoveries. In some situations, we take on the role of Chief Restructuring Officer.



Pension schemes solvency

In many parts of the world, we offer a specialist capability to advise corporates and trustees on the solvency of pension schemes.



Enterprise risk management

Our enterprise risk management (ERM) specialists help organisations implement the leading approach to managing and optimising risk. We are able to tailor the approach to our client's individual challenge and create bespoke strategies that work, enabling them to strategically identify, analyse and monitor potential risk to their organisation.



Cybersecurity

Our cybersecurity solutions are designed for clients seeking to address a variety of complex security requirements. We can help organisations assess their security vulnerability, establish or improve their IT security processes and remediate breaches or compliance failures.



Business Process Outsourcing and Shared Service Centres

Increasingly, large organisations are looking to fully outsource their transactional end-to-end finance and accounting processes, leaving them free to focus their finance resources on important strategic business value. We typically commit to reduce costs and/or improve productivity and quality. We also advise organisations on optimising finance and accounting processes, and can take our recommendations through to implementation, whether this involves building a full-scale Business Process Outsourced delivery capability or setting up a Shared Services Centre.



Back office outsourcing

We provide outsourced accounting, payroll, human resource and tax services to domestic SMEs or local branches of

international organisations. Our services are managed centrally to deliver a consistent experience for each of our clients, however widespread their operations. We exploit innovative digital technology to give our clients access to their data round the clock; the same technology gives our large corporate clients access to new and cost-effective offshore platforms. Where our clients face complex tax and payroll challenges, our tax, global mobility and wealth management specialists provide expert, value-adding advice.



Global compliance partnering

Our global compliance partnering solution delivers all local statutory financial reporting, centralised statutory audits, tax compliance (corporate, sales and payroll), payroll administration and local country filings for multinational organisations through a single point of contact. We are the leading adviser to dynamic organisations delivering a solution that improves reporting efficiency and enhances risk management. By providing full transparency, real-time monitoring and highlighting upcoming deadlines, we enable local and central management teams to ensure full compliance at all times.



Financial reporting advisory

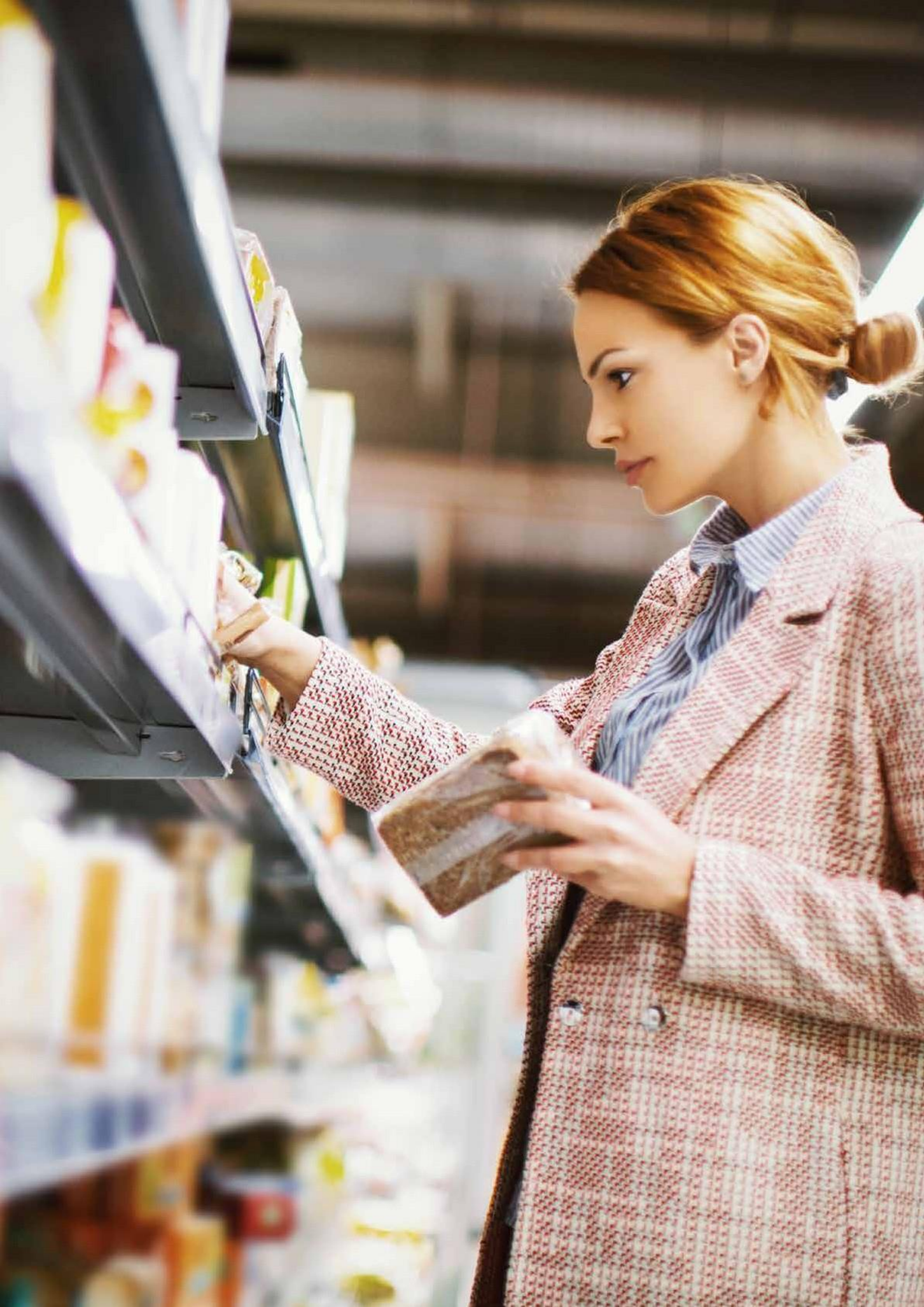
We provide clear and practical solutions to address complex accounting and financial reporting issues. We support businesses in navigating the accounting and reporting of government stimulus packages. We're also able to help navigate the accounting and reporting of complex areas including leases, impairment and going concern.



Restructuring tax

Our restructuring tax teams specialise in providing tax advice in all aspects of restructuring scenarios. In particular, this includes advising on the tax aspects of:

- independent business reviews, options reviews and contingency planning
- business restructuring, eg debt restructuring
- mergers and acquisitions
- disposals of trade and assets or wind down of businesses
- corporate insolvencies
- fraud investigations.



Credentials

In this section, we share examples of relevant credentials from member firms in the Grant Thornton network.



Profitability optimisation

Client Business description: A leading department store chain which has operated across the country for well over 100 years. The business offers customers products and services from leading local and international brands in fashion, beauty, homewares and technology.

Engagement description: Our client required a review of the full suite of trading terms for its supplier base, with the objective of driving material improvements in profitability. Our team was engaged to scope and size the opportunity, craft the approach, and execute alongside the buying and merchandise teams within the business.

Challenge: Supplier trading terms from a corporate end-to-end view had not been forensically reviewed for some years. The initial challenge was to establish a baseline opportunity for supplier rebates and income, before adding additional strategic elements to the negotiation process, including opportunities for the retailer to share new insights with the supplier base.

Solution: Grant Thornton initially scoped a *Discovery* project, implementing our standard supplier trading terms toolkit, using two years of historical supplier data across all categories. This helped to generate the size of the opportunity. The results were quantified and prioritised to a set of opportunities across the full supplier base.

The second stage was a structured *Negotiation and Implementation* project, developing tailored and quantified supplier negotiation packs for each of the top 100 suppliers. The team worked collaboratively with each of the buying teams to manage the strategic approach for each individual supplier, supporting iteratively with each specific supplier negotiation.

Outcome: In collaboration with internal stakeholders the team delivered several millions of dollars in-year P&L benefit, driving significant improvement to the company bottom line. Further, the streamlined trading terms drove working capital benefits across all categories.



Operational restructuring

Client Business description: US\$0.5bn Jewellery Retailer based in the United States.

Engagement description: A well-known jewellery company with a storied past was beginning to experience signs of profitability underperformance. Executive leadership engaged Grant Thornton to evaluate the firm's operations and identify areas to enhance near-term profitability to enable future success.

Challenge: The distant memory of historical financial success paralysed leadership's ability to successfully navigate emerging threats that are disrupting historically dominant industry players. As a result of the organisation's failure to overcome these compounding threats, profitability began to weaken, accentuated by a particularly underwhelming holiday season.

Solution: Through a series of interviews with key stakeholders throughout the organisation, including executive leadership coupled with extensive financial and operational analysis, the engagement team identified a series of opportunities with an annual EBITDA improvement of 25%.

The client engaged Grant Thornton to establish and support a Transformation Office tasked with accelerating the value capture of strategic initiatives. Immediately thereafter, COVID-19 hit and the company's executives faced the impending challenge of navigating through the pandemic. The Grant Thornton team was quickly re-aligned with helping the client to prepare, respond, and recover from the economic impact of mandated store closures, including the development and execution of a datacentric store reopening strategy and a corporate workforce optimisation initiative. Through close collaboration, the Grant Thornton team helped guide the client to capitalise on this opportunity to "rightsize" its retail footprint, optimise corporate costs, and prioritise reopening stores that would accelerate their profit recovery.

Outcome: The Grant Thornton team partnered with the client to develop a transformation roadmap to realise the various opportunities with an annual EBITDA improvement of 25%. Specific to COVID-19, the data-centric store reopening strategy allowed the client to realise an additional US\$1m in income. In addition, Grant Thornton helped guide the company through a series of internal cost optimisation efforts, resulting in an additional per annum savings of US\$6m.



Transaction advisory

Client Business description: A Brazilian company that operates iconic retail brands across a footprint of more than 1,000 stores with net revenue of approximately US\$5bn.

Engagement description: Grant Thornton were engaged to undertake financial, tax, and labour/social security due diligence in divisions focused on logistics, app development and digital payments.

Challenge: As part of a strategic review, the group decided to accelerate its investment in e-commerce and the infrastructure required to support this. Investing in start-ups was an important way of achieving this and securing a point of differentiation in a highly competitive landscape. Identifying the right opportunities and assessing the financial status of carefully selected opportunities was key to the group's success.

Solution: Grant Thornton undertook an analysis of the key risks associated with the businesses that were targeted and conducted a financial review of their operations and forecasts; informing the crucial go/no go decision on acquiring these businesses.

Outcome: The group was able to rapidly establish its digital financial services solutions, putting it ahead of its competitors at a critical time during the COVID-19 pandemic.

Acquisition, business separation and operating cost review

Client Business description:

Two separate retailers in the home appliance and furniture retail space with a combined 300 stores and revenues of US\$950m.

Engagement description: Our client engaged Grant Thornton to provide due diligence and cost saving analysis to assess their acquisition of two businesses.

- Target A was a retailer of home appliance and furniture with 130 stores that were being carved out from another distressed retail business
- Target B was a low cost furniture retailer with 170 stores that had grown rapidly.

We were engaged to perform financial and tax due diligence, tax structuring and purchase agreement advisory. We were also asked to review the cost saving initiatives and management's synergy analysis from combining the two businesses and to identify additional potential areas for cost savings and synergies through our work. A subsequent work stream included Grant Thornton establishing a carve out plan for the post acquisition integration of the businesses.

Challenge: Separating a business from its wider operations is complex and challenging as it is a 'live' activity that affects all aspects of the business operation. Care had to be taken not to disrupt operations while designing and supporting the implementation of a smooth carve out process.

Solution: Through extensive financial and operational analysis, the engagement team established a business carve out and integration plan, and identified significant cost savings and synergies related to:

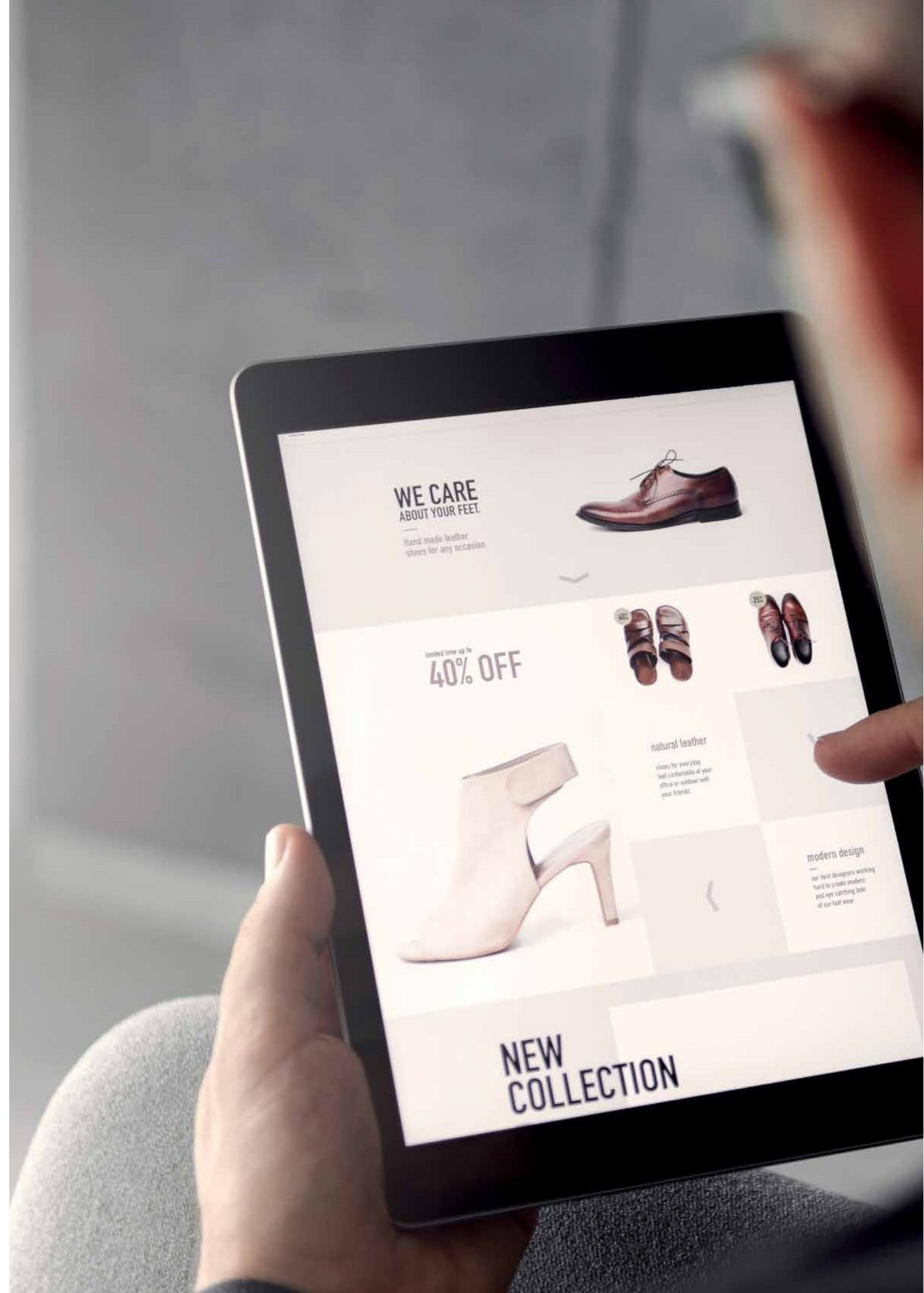
- Target A was a retailer of home appliance and furniture with 130 stores that were being carved out from another distressed retail business
- Corporate headcount
- Field organisation headcount
- Marketing spend
- Freight costs
- Corporate occupancy costs

The Grant Thornton team was also able to critically examine a proposed store closure programme, providing challenge and insight to the decision-making process.

Outcome: Grant Thornton supported its client through the successful closing of both transactions, the raising of debt and a smooth integration of the businesses. We also helped our client structure the transactions in a tax efficient manner and helped the client negotiate the accounting elements of the purchase agreement and net working capital targets.

As part of our work, in addition to the items mentioned above, we were also able to identify further potential cost savings across:

- Supply chain operations
- Facilities and warehouse utilisation
- Employee benefit plans
- IT and vendor costs.



Helping your business in a post COVID-19 world

We are immersed in the retail industry and our professionals are uniquely positioned to assist you in all aspects of the creation and execution of your turnaround plan and long term strategic plans.

1

You will be working with people who are part of your industry, have a track record of achieving success for their clients, and will bring that experience to your challenges

2

We will take a holistic view of the challenges you face and deliver targeted solutions throughout the various elements of the retail value chain including operation, franchising, ownership and funding

3

We will work closely with you to implement performance and working capital improvements and drive effective restructuring strategies. These include providing independent critique of refinancing proposals and acting as a respected bridge between lenders and the senior management team

4

Our experience of effective divestment/investment strategies for investors, funders and corporates will help you identify and maximise opportunities for value creation or protection and to improve liquidity availability if necessary

5

Regardless of the complexity of your group structures, or the international footprint, we have a global network of firms and market-leading teams in all the key offshore financial centres

6

We are at the heart of the development of cross-border restructuring legislation, giving our clients access to leading-edge and best practice restructuring solutions.

Contacts

Get in touch with our retail professionals or visit grantthornton.bh to find out more.



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