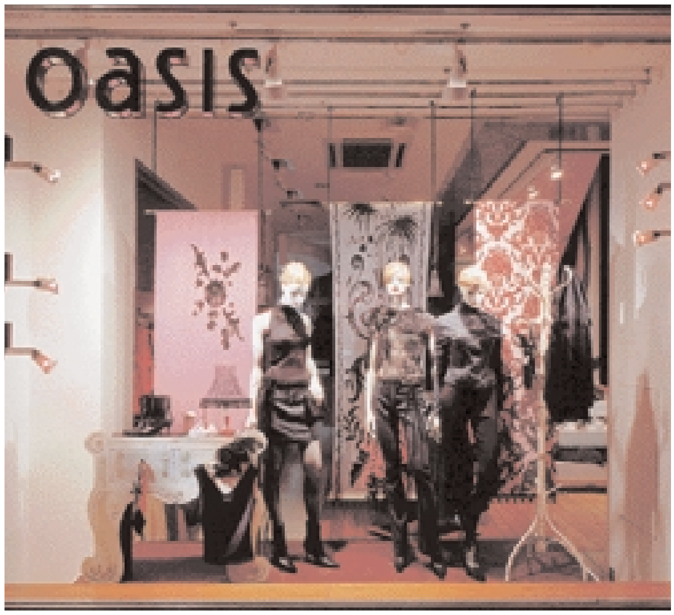
WHAT'S IN STORE FOR OASIS?

JOANNA PARKER FOLLOWS THE TRANSFORMATION OF HIGH STREET FASHION RETAIL COMPANY OASIS FROM PUBLIC TO PRIVATE CONCERN AND EXPLORES THE SPECIFIC IMPLICATIONS FOR THEIR TREASURY MANAGEMENT FOLLOWING THE LBO.



The opportunity for Derek Lovelock, Chief Executive of Oasis Stores, to take the company from public to private arose principally from the desire of the founders, Michael and Maurice Bennett and Vivien Scott to step down from the company and substantially realise their collective 35.9% interest in the company. This potential stock overhang precluded the founders from exiting gradually in the market, even if conditions had been favourable. Oasis' share price suffered adverse investor sentiment with a relatively small market capitalisation in the unfashionable fashion retail sector and the failure of its strong trading performance to be reflected in its financial results.

Following press speculation and share price movements, Oasis announced that a management team had been authorised to formulate an offer for the company. With extensive retail experience at main board level in Sears and Storehouse, Lovelock was well qualified to lead a buyout. He had been brought in as CEO of Oasis in 1998 to improve its disappointing financial performance arising from an aggressive expansion strategy and had gathered together a strong and respected team, including Richard Glanville who was invited to join the board as Finance Director in 2000 having worked closely with Lovelock at Sears and Mothercare throughout much of the previous decade.

VALUE AND DELIVERABILITY. The bidders were not alone. On 17 January 2001 a competitive sale process began involving both trade buyers and venture capitalists to elicit the most attractive offer for shareholders. An independent committee of directors concluded the most attractive in terms of value and deliverability was the cash offer at £1.03 per share by Sierra Acquisitions. The recommended bidder was a joint venture between Lovelock's management team and PPM Ventures (PPMV). PPMV, a leading source of private equity finance specialising in medium and large buy outs and institutional purchases, sponsored this deal for about £30m. It is owned by Prudential, one of the UK's largest institutional investors, and has in excess of £1bn available for private equity investment.

Behind the scenes, Glanville said: "There was a total lack of appetite for retail stories among the venture capital funds and we really had to fight for support – many VCs wouldn't touch us with a barge pole. PPMV had concerns over price the first time we presented to them in October 2000, and we only approached them again after turning down an unrealistic offer from another house. By the time PPMV had heard the story a second time price expectations had fallen, and some of the things we had been talking about had come to fruition and they began to have faith in us."

OASIS COMPANY PROFILE

Oasis Stores is a successful design-led women's fashion retailer operating as two distinct brands – Oasis and Coast, which operate at the upper end of the middle market. The company originates and procures production of all its merchandise which is then sold exclusively through its own stores and concessions.

Oasis is targeted at fashion-conscious young women between the ages of 18 and 30 and sells well-designed, good quality clothes that are both fashionable and perceived as offering value for money. Coast targets women over the age of 30 who are seeking a more flexible but still fashionable range of clothing to reflect their varied lifestyles.

Oasis was created out of Country Casuals in 1991 when there were only 18 stores in the UK. The group now has more than 150 outlets, 79,000 Oasis store cardholders and an 80,000 square feet primary distribution centre in Witney, Oxfordshire as well as a buying office in Hong Kong.

FINANCIALS
y/e 31 January 2001
(Before the LBO)

	£m
Turnover	138.1
Gross Profit	75.2
Ebit	8.4
Ebitda	15.6
Fixed assets	26.6
Net current assets	7.2
Long term liabilities	(1.1)
Shareholders' funds	32.7
Market cap (16/1/01)	33.1
No. of employees	2,300

The final offer was announced on 13 July 2001 and represented a premium of 64.8% to the pre-announcement price on 16 January 2001, valuing the company at £54.5m. Despite the offer being declared final and accompanied by irrevocable undertakings on 42.3% of the issued shares, it did not progress to the 90% unconditional status until 24 August 2001, with some resistance being met from a few key institutions.

Glanville said: "Oasis turned the corner around Christmas and by July 2001 was on the up slope: some analysts thought this should be reflected in the price. Investors could not grasp that the founders had nothing to do with the LBO and would not be short-changing themselves on purpose".

CREDIT STORY. The offer needed additional financial support and various banks pitched for the honour of arranging the financing, including Oasis' existing bankers and Bank of Scotland. Bank of Scotland came up with a fully underwritten offer and provided a package of senior facilities structured to support the offer profile principally the £28.5m term loan and indemnity facility and a £12m working capital line (see *Table 1*).

The credit story was well founded on a conservative purchase price, dependable historic cashflow, strong brand and sound competitive position, proven and incentivised management, quality equity sponsor, conservative financing structure, supporting diligence and encouraging current trading. But, even so, one banker admitted it was a hard sell because retail is not well understood, has no asset backing and is considered high risk.

TABLE 1
SENIOR FACILITIES.

Tranche	£m	Tenor	Type	Margin
Term Loan A	22,750	6 years	Amortising	2.25%
Term Loan B	5,750	7 years	Amortising	2.75%
Revolver	12,000	7 years	Bullet	2.25%
Total	40,500			

The senior facilities have an average life of just under four years before anticipated prepayments/cash sweeps and are fully secured and controlled by a robust suite of covenants, including limitations on capex and monthly reporting requirements. Financial covenants on senior interest cover, total service payments cover and total debt/Ebitda are tested quarterly and are subject to tightening hurdles. The margins step down on tranche A and the revolving credit facility by 0.25% when certain senior interest cover targets are reached. The interest rate exposure has been hedged in accordance with recommendations by the independent treasury consultants (see below) for 16 months on 60% of the outstanding debt and 50% for a further 18 months.

FOCUS ON TREASURY. The equity investors elected to tolerate the conservative bank financing terms to complete the transaction and because refinancing can be undertaken without penalty after the first year. This is not pie in the sky, as the senior debt represents only 1.8 times Ebitda – Oasis has historically produced operating cash of £15m a year, and this before the fruit of recent working capital initiatives.

Glanville said: "With external debt to manage, Oasis are now managing for cash and not profit." It is not unusual for there to be a deficiency of treasury expertise in a LBO as spin-offs from larger corporations often forego the services of a centralised treasury function. Furthermore, companies like Oasis, which were cash-generative and debt-free, have not necessarily focused on treasury management.

More and more treasury consultants are being appointed to assist with the treasury aspects of the LBO process in setting up the treasury function in the new company. To this end, PPMV introduced PMC Corporate Treasury Consultants to Oasis, which appointed PMC to provide treasury support services from reviewing and summarising the loan documentation, defining treasury policies and reviewing foreign exchange exposure to supervising the transition of banking to the Bank of Scotland and the like.

Glanville welcomed this appointment, as the LBO process had taken a year and demanded huge due diligence work with presentation after presentation straining his time and priorities. He said: "It is important to concentrate on the business and not shirk from employing professionals when you have to. Why learn from scratch and make mistakes when you can be guided through by experts?"

Once the business was understood, the LBO became "a people story", with a lot of interest in the management team and a deep demand on people. As far as possible, Lovelock and Glanville bore the brunt of these demands, leaving their management team to focus on the business. When their retail colleagues were brought in they were bright, fresh and unsullied by the LBO process and able to inspire the financiers with confidence. These are key lessons Glanville would like to pass on, saying: "I would never have got through without employing a professional, effectively a temporary financial director who allowed me to take an eye off some of my key responsibilities in the early days."

This was even more important because Oasis' financial controller went on a long-planned sabbatical, leaving a vacuum in the finance department at this crucial time. A hefty responsibility fell on Maxine Sadler, the Financial Accountant and qualified Chartered Certified Accountant who was propelled from capably managing the electronic banking and array of other accounting functions, to also having responsibility for a host of treasury issues. Receptive to new thoughts and processes, Maxine worked closely with the treasury consultant. She said: "The shift in corporate culture to cash and debt management has changed my role from passive monthly reporting to active daily cash management, bringing with it a new awareness of financing efficiencies and initiatives that make a positive contribution to the business."

TREASURY FOLLOWING THE LBO. Never as simple as it should be, the impact of the LBO was not just a change of ownership. Term debt now had to be managed, along with a revolving credit facility. Daily banking had to be transferred to Bank of Scotland, along with all the ancillary facilities such as letters of credit, customs deferment bonds, other guarantees, employee Visa cards and the like, and these are not things that just happen. Foreign exchange and interest rate swaps had to be understood and deals executed and recorded. Cash collection accounts in sterling and euros had to be fed into cash management accounts and daily cashflow patterns identified and managed. New electronic banking systems had to be installed and a transition period of several months endured, while new facilities were set up and prohibited ones run down.

Some banking relationships blossomed during this arduous process. Oasis has long enjoyed a good relationship with Giro Bank taking advantage not only of its high street presence to deposit store takings nationwide, but keen money market and foreign exchange prices over the years. Although it has had to forego some of the business, Giro were very accommodating during the banking transition process and patient while its client got to grips with swapping foreign exchange contracts forward.

Within a few months top management at Oasis have embraced their new cash culture with action, and the message is filtering down and across the organisation. Treasury policies have been endorsed by the board of directors, working capital has been reduced through cordial renegotiations of terms with overseas suppliers and tighter credit control, foreign exchange requirements are managed more efficiently, cashflow forecasting is being introduced, and daily cash is being managed for an efficient net borrowing position. Further treasury refinements are in train and we should not be surprised to see a refinancing sooner than later.

Joanna Parker is a panel member of PMC Corporate Treasury Consultants. Joanna and others in PMC provided treasury consultancy services to Oasis during the LBO process.
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