BIZCOMMUNITY

Truworths seeks new CEO for smooth transition

By Nick Hedley

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Fashion retailer Truworths International is looking for a new CEO to replace the incumbent of 23 years, Michael Mark, whose contract term ends in June next year.

Truworth's outgoing CEO, Michael Mark

The credit-based retailer made the announcement yesterday in its results for the 52 weeks to June 29, in which it reported a 6.8% rise in retail sales to R10.8bn and a 1.5% gain in earnings, amid a weak credit and consumer environment.

Diluted headline earnings per share grew 1.5% to 569c, while net profit was unchanged at R2.4bn.

After being sold off in recent days following poor results from food retailer Shoprite and from Massmart, Truworths' share price rose the most in five years, by 8.14% to close at R71.05 yesterday, 21 August 2014.

36One Asset Management equity analyst Daniel Isaacs said that while Truworths' trading performance was weak, apparel retailers had higher gross margins than food retailers and had the benefit of growing interest-received revenues. "So their bottom line was more protected," Isaacs said.

CEO search

Meanwhile, Truworths said it had embarked on a CEO succession process with the support of external consultants, but said "Michael will continue in his role as CEO and continue to support the transition process for as long as is necessary".

Mark said in an interview that while his contract ended in June next year, he had not given the group a firm deadline for his succession, which depended more on ensuring a smooth transition.

Isaacs said the market would probably want Mark's successor to deal more actively with the threat of international entrants to the market, while also putting Truworths' large cash pile to use.

International trends now local

All South African fashion retailers needed to be "very cognisant" of the substantial influx of global brands such as H&M, Zara and Cotton On, Isaacs said. While Mark had done "an unbelievable job" of turning Truworths into a strong company, "a fresh set of eyes could be helpful with this".

Fashion retailers could no longer follow overseas trends as their international competitors were now competing with them in the same malls, meaning they had to develop more of their own unique style.

Investors would also be keen to see Truworths use its accumulated cash pile, which would amount to R1.6bn at the end of June.

"I think people will be quite interested to see a new outlook on what to do with this - whether it's some form of large acquisition or a higher dividend, or something to that effect," Isaacs said.

Reflecting its tighter credit strategy, the group's cash sales grew 11% and credit sales were up 5% in the year to June, resulting in credit sales contributing a slightly reduced 71% of overall retail sales. Mark said that although the credit environment was not improving, it was "perhaps stabilising at a low level".

"It's still deteriorating but at a slower rate," he said.

Credit metrics

Meanwhile, Truworths' credit metrics were possibly showing early signs of an improvement, with the help of its more stringent credit model. "Delinquent accounts on our debtors' book have reduced from 15.1% to 14.2%, collection rates are improving, and it is encouraging that at year-end, 83% of active account holders were able to purchase because they are not in arrears, compared to 82% last year," he said.

Mark said Truworths' restrictive credit granting criteria had led to its new account acceptance rate decreasing to 26% from 31%. This resulted in lower customer account growth and slower credit sales. Its performance was also weighed down by a 24% rise in debtor costs and a R36m foreign-exchange loss, from a gain of R47m in the prior year. The foreign-exchange loss and higher debtor costs contributed to an erosion of Truworths' operating margin, which fell to 32.1% from 34.5%.

The group opened a net 37 new stores in the year, increasing its trading space by 10.3%. Truworths now operates 641 outlets. It closed two stores in Lesotho during the period, reducing its number of stores elsewhere in Africa from 40 to 38.

The group's annual dividend was raised by 6.4% to 385c per share.

Mark said the current credit slump felt more difficult and more enduring than in the 2008-09 financial crisis.

Source: Business Day