

THE COLLAPSE OF THE ARCADIA GROUP

BUYER:

ARCADIA GROUP

SECTOR:

RETAIL

COUNTRY:

UK & IRELAND

The Arcadia Group, which can trace its origins back to 1903, was acquired by the Green family in 2002. It dominated the British high street for decades with flagship brands such as Top Shop, Miss Selfridge, Burton and Dorothy Perkins, trading from 2,765 outlets.

During the five years leading up to the pandemic, the group's trading performance had been steadily deteriorating.

Increased competition from on-line brands such as Boohoo and ASOS, as well as more contemporary fast-fashion retailers such as Zara and H&M, piled pressure on the business.

The group also faced issues that are common to other high-street retailers including rising business rates and labour costs and inflexible leases that made it hard to close loss-making outlets. The lack of a strong e-commerce strategy, driven by digital innovation, also contributed highly to its demise.

Arcadia was significantly impacted by the COVID-19 pandemic. All its stores were forced to close during national lockdowns and any recovery was hindered by the slow footfall return in city centres. On November 30th, 2020, the group collapsed into administration.

RED FLAGS



Lack of strategic direction & timely investment in e-commerce



Loss of market share due to increased competition from online retailers & other high-street brands



Loss of relevance due to lack of investment in their brands



High senior management turnover



Too many stores chasing declining sales & deteriorating financial performance over a number of years

THE FINAL STRAW

Prior to the pandemic, Arcadia was already struggling to survive, and its trading performance had been steadily deteriorating. The Group had a historically weak equity position because in 2005 a £1.2bn dividend, funded through bank debt, was paid to shareholders.

The latest audited accounts for FYE Sept 2018 revealed that turnover from continuing operations had declined by 4.5% to £1,819m, generating a loss after tax of £169.2m (against a 2017 profit of £49.4m). Net liabilities were £73.7m (vs. £4.9m in 2017).

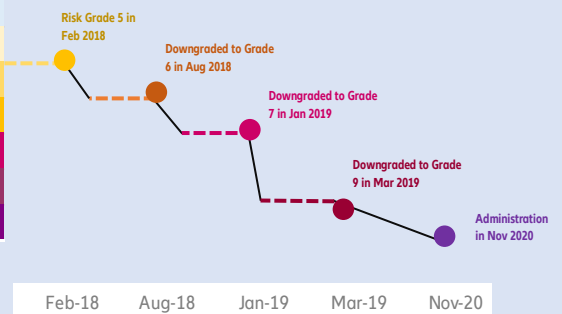
In May 2019 Arcadia’s financial difficulties culminated in it announcing that, in order to restructure the business, it had launched seven Company Voluntary Arrangements (CVAs) alongside a comprehensive turnaround plan. The CVAs were subsequently approved in June 2019. The large cash reserves in the balance sheet as at the 1st Sept 2018 had disappeared because of the group’s poor trading performance.

In 2020, the pandemic hit and all Arcadia’s stores were forced to close during national lockdowns. Its heavy presence in shopping malls and city centres, where footfall has been slow to return, hindered its recovery. On November 30th, 2020, just as it was entering its peak trading season, the group collapsed into administration.

RISK RATING

EH Risk Rating	Generic Description
1	Exceptional
2	Strong
3	Good
4	Above Average
5	Average
6	Below Average
7	Weak
8	Distressed
9	Uninsurable
10	Failed

Euler Hermes’ 1-to-10 risk rating are reliably based on multiple sources of information and cross-checked thoroughly by our team of expert risk underwriters. This chart shows how the risk rating for Arcadia Group progressed leading up to its collapse.



FINANCIAL HIGHLIGHTS

→ **WEAK EQUITY POSITION**

£1.2bn dividend paid to shareholders
funded by bank debt in 2015

→ **PLUNGES INTO LOSSES**

4.5% turnover declines to £1,819m in FYE Sept 2018 accounts
Loss after tax of £169.2m against 2017 profit of £49.8m
Net Liabilities £73.7m vs. £4.9m in 2017

→ **TURNAROUND PLAN**

Launches 7 CVAs & a turnaround plan in May 2019

→ **COVID-19 HITS**

The pandemic hits in Mar 2020
Collapses into administration in Nov 2020

CONCLUSIONS

The pandemic was just “the final nail in the coffin” for Arcadia, as the group was already struggling to survive. The increased competition from on-line brands and more contemporary fast fashion retailers increased pressure on the business and like other high-street retailers it faced rising business rates, labour costs and too many unprofitable stores tied to inflexible leases. The lack of a strong e-commerce strategy also contributed to its demise.

Euler Hermes monitored this Group very closely for many years, and met the management team on many occasions. We were concerned about the group’s deteriorating financial position and ‘red flags’. For this reason, EH stopped covering further deliveries in September 2017 and withdrew all cover some 18 months later in March 2019. We communicated our concerns fully to our Policyholders at every stage of our exit strategy.