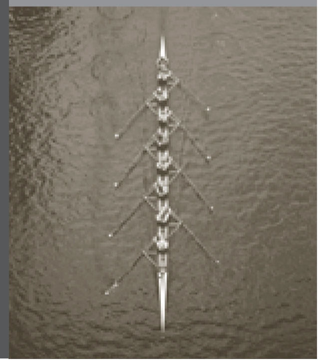
case
2



Laura Ashley Holdings plc: The Battle for Survival

On February 1, 1999 Ng Kwan Cheong took over as chief executive of Laura Ashley Holdings. Cheong was the company's seventh CEO since the death of Laura Ashley in 1985. Indeed, the longevity of Laura Ashley CEOs was shortening. John James was CEO from 1976 to 1990, Jim Maxmin from 1991 to 1993, A. Schouten from 1993 to 1995, Ann Iverson from 1995 to 1997, David Hoare from 1997 to 1998, while Cheong's immediate predecessor, Victoria Egan, had held the job a mere 5 months.

Top management turmoil coincided with a downward spiral for the company. In the financial year ended January 31, 1999, sales were down 17% on the previous year, and the bottom line showed a net loss of £33 million. Ng Kwan Cheong was one of the senior management team of MUI Asia Group – a diversified Malaysian corporation that acquired 40% of Laura Ashley's equity in May 1998. He had been chief executive of MUI's retailing arm, Metrojaya Berhad, as well as holding board positions with several other Malaysian companies. However, despite considerable senior management experience as well as familiarity with the UK (Cheong was a graduate of Middlesex University), little in his prior career could have prepared him for the situation at Laura Ashley. Despite a succession of restructurings and strategy redirections since 1990, the company continued to bleed cash – cash outflow from operations was £11.4 million during the most recent financial year and MUI's cash injection of £43.5 million had been absorbed by debt repayment and covering operating losses. Many outside observers wondered whether there was any future for this icon of the 1970s, or whether Laura Ashley Holdings would follow its founder to the grave.

The History

Development of the Business, 1953–1985

Bernard and Laura Ashley began designing and printing scarves and tablemats in their flat in Pimlico, London in 1953.[1] The products combined Laura's interest in color and design with Bernard's expertise in printing and dyeing. The product range was extended to include Victorian-styled aprons and linen kitchen towels. Laura's designs drew upon British traditional country styles, patterns, and colors. The designs were mainly floral, and the colors predominantly pastel. They sold mainly to department stores such as John Lewis, Heals, and Peter Jones. In 1957 the Ashleys opened a showroom in London, and in 1961 they transferred their production operations to a disused railway station at Carno, Wales, using a flatbed printing process designed by Bernard.

The popularity of Laura's first dress designs encouraged the Ashleys to open a London retail store in Pelham Street, South Kensington in 1968. Although sales were initially slow, advertisements on the London Underground stimulated a surge of interest in Laura Ashley's dresses and fabrics. Throughout the early 1970s, the reaction against modernism, pop art, and other trends of the 1960s rekindled a strong interest in the rural English styles and traditions of the Victorian and Edwardian eras. Laura Ashley's positioning between English bourgeois tradition and hippie abandon, and her ability to evoke nostalgia for the comfort and simplicity of pre-industrial Britain placed her styles in the vanguard of contemporary fashion. During the early 1970s Laura Ashley expanded the company's product range from furnishing fabrics, clothes, and housewares into wallpaper and house paints. What Laura Ashley offered was a coordinated approach to home décor and clothing with a perfect matching of designs and colors across fabrics, wallpapers, paints, and ceramic tiles.

The company expanded internationally with shops in Geneva, Paris, Amsterdam, and Düsseldorf. In Canada, Australia, and Japan licenses were sold to local companies to open Laura Ashley stores. In 1974 Laura Ashley entered the US, initially by licensing McCall's Patterns of New York to distribute its fabrics, and then with an office and retail store in San Francisco.

The business was highly vertically integrated. By the beginning of the 1980s, almost all products were designed by a design team led by Laura and her son Nick (who became design director in 1982) and 85% of all products were manufactured either in the company's own plants or by subcontractors. The majority of sales were through Laura Ashley retail stores. The company became expert in the fast, flexible production of quality fabrics manufactured in small runs. By the early 1980s there were eight garment making-up plants close to Carno in Wales, a fabric plant in Dublin, and two plants in England making home furnishing products and made-to-measure curtains and blinds. Distribution from plants and warehouses to retail stores was done by the company's own transport division. Products for the North American stores were airfreighted weekly; others were manufactured under contract at a plant in Kentucky.

The distinctive design of Laura Ashley products was extended to the retail stores. The dark-green Laura Ashley storefronts were clearly recognizable in the high street, and the interiors with their wooden fittings projected an image of quality and homeliness. The company was an early adopter of electronic point-of-sale systems, which linked retail sales to inventory planning, distribution, and production planning. Laura Ashley also offered mail order sales.

The family ownership and management of the group was reflected in relationships with employees. There was a cooperative, non-hierarchical working environment with a high level of job security and generous employee benefits.

Continued growth encouraged the adoption of a divisional structure: in addition to design and production divisions, retailing was organized around separate divisions for the UK, Continental Europe, North America, and Asia-Pacific.

In November 1985, the company went public. The offer for 23% of Laura Ashley Holdings plc was oversubscribed 34 times. Just 1 month before the public offering, Laura Ashley died after a fall in her home. *The Economist* wrote:

> *Her popularity lay in the taste she stamped on her international empire, not so much for the elegance and smartness as for the prettiness and comfort. Nobody was intimidated by the look or price of a Laura Ashley design. Her home furnishings offered a cheap and feminine alternative to the drab, the posh, and the sternly post-war Habitat Scandinavian. She made it possible to look smart without paying Liberty prices. Her company's success has been the acceptable face of British capitalism in the past two decades. She was deputy chairman to her husband and her power has been considerable. She prized the loyalty of her staff and cared for their welfare.*

Expansion, 1986–1989

Fueled with capital from the public offering, Laura Ashley Holdings launched a new phase of its growth. Between 1986 and 1989 a series of acquisitions extended the product range and geographical scope of the company. These included Sandringham Leather Goods Ltd, Bryant of Scotland (a knitwear company), Willis and Geiger (a US outdoor clothing company with both production facilities and retail outlets), and Penhaligons (an old-established producer of perfumes and toiletries).

The company also continued its internal expansion. In 1985 a 135,000 square foot textile factory in Wales was completed. This increased the company's production capacity by 50%. The new capacity was supported by heavy investment in a new computer-aided design system, computerized fabric-cutting equipment, and a computerized material-handling system.

Emerging Problems, 1990–1991

The expansion of the late 1980s was followed by a deteriorating bottom line as the UK recession of 1989–92 coincided with a series of internal difficulties. Problems included:

- massive overproduction of Laura Ashley catalogs in 1989;
- losses at the Willis and Geiger subsidiary;
- delivery of the 1989 autumn range to the retail stores was 3 months late;
- manufacturing costs rose with the appreciation of the pound sterling;
- rising interest rates boosted borrowing costs;
- exceptional charges were incurred from the sale or closure of non-core businesses, including Penhaligons, Bryant of Scotland, Sandringham Leather Goods, and the Units chain of stores;
- the closure or sale of several production plants.

As the company shifted from expansion to retrenchment, it simultaneously searched for a new design look that would be faithful to Laura Ashley values while appealing to the 1990s consumer. Table 2.1 shows financial performance during the 1990s.

The Iverson Era

In June 1995, Ann Iverson was appointed Laura Ashley's chief executive. Iverson was one of the most sought-after executives in the retail sector after a successful retailing career on both sides of the Atlantic. She had been a vice president at Bloomingdale's, the US department store, a senior vice president at Bonwit Teller, CEO of Kay-Bee Toys, and had led the turnaround of Mothercare, the British mother and baby chain. With an annual salary of £883,000, Iverson became one of the highest paid retail executives in Britain.

Iverson moved quickly to restructure Laura Ashley's manufacturing, purchasing, and merchandising. Processes were redesigned, decision-making was centralized, international procedures were standardized, unprofitable businesses sold, smaller shops closed, and cost controls tightened. In March 1996, Iverson outlined her strategy for the future (see Exhibit 2.1).

Iverson's first year at Laura Ashley was hailed by investors and industry observers as the long-awaited turnaround in the fortunes of the beleaguered group. *Business Week* enthused:

> *Since becoming CEO of Laura Ashley Holdings, plc last July, Ann Iverson has replaced most of top management, cut the payroll, slashed costs, and unveiled an aggressive expansion plan in the US. "I'm the kind of person who has a steamroller behind her back," says Iverson, 52, who was recruited when shareholders were getting fed up. Now the market's applauding. On April 18, the company reported pretax income of $15.6 million for 1995, compared with a $46.5 million loss a year before. Since Iverson's appointment, Laura Ashley's stock has more than doubled . . . [but] no one knows yet if Iverson can solve the biggest problem: the apparel line with its signature floral prints and long, girlish dresses, is deeply unfashionable in the minimalist 1990s. . . . Iverson acknowledges that the company's Victorian look is dated, but cites recent research showing that the brand could appeal to 19 million women in America and Britain. She hopes the new designer she lured from Carole Little, Basha Cohen, will help freshen the line, but still keep the flowing romantic look. More important, she is betting that home furnishings will boost sales. The company's wallpaper, bedspreads, linens and curtains have proven much more resistant to fashion's whims than the frocks have.*[2]

Even long-serving Laura Ashley executives were heartened by Iverson's clarity of vision and effective leadership. Visiting the first of the new-style, large-format Laura Ashley stores in the US (in North Carolina), Sir Bernard Ashley commented, "I almost cried, it was so marvelous."

During 1996, the company's capital expenditures increased as the number of stores and their average size increased. (Table 2.2 shows the expansion in US retail floor space.) However, any prospects of the new strategy delivering improved sale profit performance soon evaporated. Despite the emphasis on expansion in the US, North

TABLE 2.1 Laura Ashley Holdings plc: summary of selected financial data, 1989–1999 (£ million)

	Financial year to January 31										
	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Turnover	288.3	344.9	327.6	336.6	322.6	300.4	247.8	262.8	328.1	296.6	252.4
Operating (loss)/profit before exceptional items	(15.2)	(23.6)	14.8	9.1	4.1	2.3	1.1	(0.6)	3.4	n.a.	n.a.
Exceptional operating costs	(2.9)	(12.4)	(0.4)	0.1	(33.4)	–	–	–	–	–	–
Operating (loss)/profit	(16.6)	(36.0)	14.4	9.2	(29.3)	2.3	1.1	(0.6)	3.4	6.1	23.6
Income from associated cos.	(0.2)	0.5	2.1	2.0	1.5	1.8	1.5	1.9	0.1	(0.2)	42.0
Exceptional items	(13.8)	(11.4)	0.4	–	(1.0)	–	–	(8.1)	(2.6)	(3.1)	–
Net interest payable	(1.3)	(2.4)	(0.7)	(0.9)	(1.8)	(1.1)	(0.8)	(2.3)	(12.4)	(8.6)	
(5.0)											
(Loss)/profit before taxation	(31.9)	(49.3)	16.2	10.3	(30.6)	3.0	1.8	(9.1)	(11.5)	(4.7)	20.3
Taxation	(1.1)	–	(6.1)	(3.3)	(0.9)	(1.9)	(1.0)	–	2.5	(2.1)	
(7.1)											
(Loss)/profit after taxation	(33.0)	(49.3)	10.1	7.0	(31.5)	1.1	0.8	(9.1)	(9.0)	(6.8)	13.1
Dividends	–	–	(2.4)	(1.2)	–	(0.2)	(0.1)	(0.1)	(0.1)	(1.7)	
(4.7)											
Retained (loss)/profit	(33.0)	(49.3)	7.7	5.8	(31.5)	0.9	0.7	(9.2)	(9.1)	(9.8)	8.4
Fixed assets	22.0	42.2	49.5	45.2	48.3	71.7	66.3	60.5	67.1	81.5	80.2
Net current assets	36.7	27.6	49.7	27.0	43.7	50.2	53.9	52.8	66.9	n.a.	n.a.
Long-term creditors	(0.9)	(30.4)	(21.8)	(0.9)	(15.0)	(35.1)	(34.4)	(28.0)	(41.4)	3.5	44.7
Provisions for liabilities/charges	(27.4)	(19.7)	(7.3)	(8.3)	(21.3)	(0.7)	(0.3)	(0.5)	(0.4)	2.9	2.2
Net assets	30.4	19.7	70.1	63.0	55.7	86.1	85.5	84.8	92.2	72.9	79.8
Share capital	19.9	11.9	11.9	11.8	11.7	11.7	11.7	11.7	11.7	10.0	10.0
Reserves	10.5	7.8	58.2	51.2	44.0	74.4	73.8	73.1	80.5	n.a.	n.a.
Equity shareholders' funds	19.7	70.1	63.0	55.7	86.1	85.5	84.8	92.2	72.9	79.8	
Employees											
Total	3,634	3,657	4,104	4,173	4,430	n.a.	n.a.	n.a.	7,800	8,350	8,100
Manufacturing	582	617	859	1,019	1,010	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Retail	2,452	2,415	2,592	2,459	2,639	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Administrative	600	625	653	695	781	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a. = not available.

SOURCE: LAURA ASHLEY HOLDINGS PLC, ANNUAL REPORTS.

EXHIBIT 2.1
Ann Iverson's Strategy

I was delighted to become Group Chief Executive in June 1995 because I saw a retail business that could be fixed and also a brilliant brand with great potential. However, it was a time of great unrest for the organization, as it was showing no signs of improvement or turnaround.

The restructuring program announced last year was needed for the business. With that said, there were many business issues this program did not address. It only looked at overhead costs, it had no retail focus, it identified no change to our business processes and nothing was mentioned about sales growth and improving gross margins. All of these elements are vital to the turnaround of this business and if not addressed could allow history to repeat itself.

When I joined the business I had many impressions that needed validation. I reacted from three different points of reference: as a customer, as a non-executive and finally as the new Group Chief Executive. I saw a business not led by a single point of view; we had multi-design, multi-buying, multi-merchandising and even multi-catalogues.

In other words, each market or business category was defining what they thought the Laura Ashley brand was all about. As you and I know, every successful brand has a single message consistently delivered to their customer. That was not the case at Laura Ashley.

I also found serious supply chain inefficiencies and, most importantly, shops that were too small to show the extensive range in garments and home furnishings. There were also no clear lines of accountability, which is an unproductive and demotivating culture to have. It doesn't allow hardworking people to really know what their job is, how they are going to be measured and where to go for answers.

So in my first three months we set about making things right. We consolidated design, buying and merchandising, the pivotal areas of our business, into our Fulham office.

We began the necessary changes in the buying process, reducing the width of the product ranges by 25% and also developing a common catalogue worldwide. We delivered the head count reduction that was identified in the restructuring program, changed and eliminated tasks and put the right structure in place. Simply said, we set about establishing a retail culture.

Additionally, I identified six key initiatives which were critical to the consolidation and turnaround of the Group. They have proved to be exactly the right priorities to have aggressively focused on for the second half of the financial year.

These initiatives are ongoing and I would like to describe them:

- *Product ranges and gross margins*. Improvement of product ranges and gross margins are the most important for topline growth. The key to this is modernizing the fashion offer in garments and expanding our strengths in home furnishings. The improved product offer in fashion will increase sales and reduce mark-downs and is absolutely essential for repositioning this international lifestyle brand. The home furnishings ranges are already very strong and offer the greatest opportunity for growth. They must be expanded, however, to reflect the developments in the market sector and realize the strength of the Laura Ashley brand.

- *Supply chain*. Development of efficient product sourcing is critical in achieving supply chain improvement. This will be accomplished by developing and working closely with our suppliers so they are more reactive to the needs of the business.
- *Manufacturing review*. A total review of manufacturing continues, within the context of the overall supply chain, focusing primarily on home furnishings where we produce 80% of our own product. It is essential that we ensure our factories are competitive as a supplier to a worldwide retailer.
- *Distribution*. In the area of distribution, our costs are well above industry standards. Work is being done to reduce these costs and we will begin to see these reductions coming through in the next financial year. We will strive to achieve best practice industry standards in this important supply chain category.
- *Shop portfolio*. The assessment of our shop portfolio with regard to both location and shop size is underway. Increasing the size of our shops is absolutely necessary to remain competitive in today's retail environment.
- *The US market*. This market should be our greatest vehicle for topline growth and profit improvement. Our brand values, reaffirmed through customer research, show a potential audience of over 19 million female shoppers. But our shops are too small to even begin presenting the width of the range that supports customer perception and demand. We have started to change this and have already opened the first of our new shops, much larger in format, positioned in premier locations.

The strategy of the Laura Ashley brand is already clearly defined. We are the quintessential English company with a timelessness and spirit understood and embraced worldwide. Our research supports the brand values our customer identifies with: love of flowers, family, romanticism, freedom and simplicity and the tradition which directly relates to the enduring brand qualities and its uniqueness.

In the past the business has talked too much about strategy and not about results. It is time we delivered to our customers and shareholders. As a retailer I see clearly what needs to be done and how to do it.

The way forward continues to be about focus and implementation of the key initiatives which are fundamental to the Company's turnaround. Additionally, we have identified two new initiatives, namely: to establish an appropriate infrastructure for licensing, franchising and wholesaling and to build a new mail order business.

Source: "Chief Executive's Statement," *Laura Ashley Holdings plc Annual Report 1996*, London 1996.

American sales fell during 1996. Then, in the spring of 1997, problems of poor coordination caused losses to mount. Overoptimistic sales projections for garments resulted in excessive inventories, while in home furnishings demand was also weak. Clearance sales during spring and early summer devastated margins. Table 2.3 shows sales by region.

In April 1996, John Thornton, a senior partner at Goldman Sachs, succeeded Lord Hooson as Chairman of the Board, and in November 1996, Ann Iverson was replaced

TABLE 2.2 Laura Ashley Holdings plc: retail stores and floor space

Financial year to January 31:	Number of stores				Square footage (000s)			
	1999	1998	1997	1996	1999	1998	1997	1996
UK	234	237	189	174	587	561.5	441.8	394.1
North America	106	132	155	168	301	379.3	349.6	276.8
Continental Europe	69	72	74	76	112	114.1	115.9	117.7
Total	409	441	418	418	1,000	1,055.2	907.3	788.6

SOURCE: LAURA ASHLEY HOLDINGS PLC, ANNUAL REPORTS 1996–9.

TABLE 2.3 Laura Ashley Holdings plc: sales by product group and by region (£ million)

	UK and Ireland	North America	Continental Europe
Year to 1.31.99			
Garments	70.0	37.1	19.4
Furnishings	85.4	25.9	21.1
Year to 1.31.98			
Garments	85.9	57.0	23.0
Furnishings	90.0	34.5	24.7
Year to 1.31.97			
Garments	82.3	49.7	21.7
Furnishings	76.9	34.5	24.1
Year to 1.31.96			
Garments	80.8	60.1	28.6
Furnishings	67.4	35.9	31.9
Year to 1.31.95			
Garments	78.3	61.8	27.2
Furnishings	59.9	36.6	30.1

SOURCE: LAURA ASHLEY HOLDINGS PLC, ANNUAL REPORTS 1996–9.

as CEO by David Hoare, formerly a partner with Bain & Company and chief executive of the conglomerate Cope Allman plc.

Retrenchment: November 1996–April 1998

Almost immediately, David Hoare began undoing much of the previous strategy. Plans for new stores were pruned and several existing stores were closed. Attention was focused on cost reduction, particularly on reducing inventory. To staunch losses and raise finance, several manufacturing plants were sold, and a 13% stake in Laura Ashley Japan Ltd. was sold to Laura Ashley's Japanese partner Jusco for £9.5 million.

In March 1998, David Hoare reported on his progress since September 1997 and on his plans for the future (see Exhibit 2.2).

EXHIBIT 2.2

David Hoare's Three-Phase Strategy

I am pleased to have joined Laura Ashley in September 1997. I am well aware that over the past 12 years, since flotation, Laura Ashley's financial performance has been most disappointing. A number of serious problems face our business and need to be addressed. However, we have an opportunity to build a successful business on the back of a strong international brand.

Key Problems Facing Laura Ashley

- *Complexity of the Business*. Laura Ashley is too complex for a business of its size. We attempt to be experts in design, manufacturing, distribution, retailing in 13 countries, franchising, licensing and mail order. Our management information systems are outdated and our cost base is too high. We have not been sufficiently focused on our core competencies of brand management and retailing.
- *Garment Design*. Over the past three years, the garment range has been repositioned towards the High Street and a younger market. However, it has been taken too quickly and too far in this most competitive sector of the market. We have confused our loyal customers and not attracted sufficient new ones.
- *North American Expansion*. In 1996, we operated 168 stores in North America, with an average size of 1,600 sq. ft. This small-store format was not profitable. Over the past two years our North American store portfolio was restructured by closing 68 smaller stores and opening 32 larger stores (5,000 sq. ft.) in prestige mall locations. Store merchandising was centralized in London. This program was implemented rapidly without sufficient planning and knowledge of market conditions and with an inadequate supply chain. Costs, particularly rents, have increased whilst sales have not grown significantly.

Overall, these problems led to a shortfall in sales against expectations and excess stocks in both garments and home furnishings, across all markets, which was cleared throughout the year with heavy discounting. As a result, gross profit margins reduced by 10% from 48% to 38% on sales of £345 million, a £34 million adverse gross profit variance. In addition, operating costs rose by 8% or £11.5 million, principally due to a 16% increase in floor space in North America and the UK. As a result, we have reported an operating loss before exceptional items and tax of £25.5 million for 1997/98 against £16.2 million profit last year. In addition, exceptional charges of £23.8 million have been taken mainly to restructure our North American and manufacturing business.

Recovery Program

Whilst it is clear that we have had a number of significant problems at Laura Ashley, and that it will take time to fix them, it is also clear that there are great opportunities for our business. Laura Ashley is one of the best known international brand names, representing the quintessential English country lifestyle. We trade in 34 countries, in over 550 owned and franchised stores. We have a base of loyal customers who, though disappointed in the recent past, will return provided we can develop products and services that meet their aspirations.

In order to tackle our current problems and take advantage of the significant opportunities, we have put in place a three-phase recovery plan to be implemented over the next five years.

- *Phase I. Stabilize the Business*
  - stop significant new store development
  - rebuild the senior management team
  - generate cash by reducing stocks and selling non-core assets
  - raise additional finance
- *Phase II. Improve the Profitability of the Business*
  - return to full price retailing
  - redesign the product to meet the wishes of our core customers
  - fix the North American retail business
  - reduce business complexity and costs
  - invest in systems
- *Phase III. Grow the Business*
  - focus on core competence of brand management
  - build our brand internationally with new products, new distribution channels and new partners

Phase I

In late 1997 and into 1998 good progress was made to stabilize the business. Store expansion was stopped, and we refocused on managing the existing business. Our worsening trading position in the autumn of 1997 required us to renegotiate with our banks. They supported us with a 15 month £170m bank facility through to April 1999. Cash outflow was minimized by reducing year end stock by 32% from £93 million to £63 million. In addition, following the year end, we announced the sale of part of our shareholding in our Japanese licensee, Laura Ashley Japan, to Jusco, the majority owner . . . in a transaction which realized aggregate gross proceeds of 9.5 million pounds. The transaction included a revision of the terms of the license agreement between us.

Phase II

Progress has also been made in improving the profits of the existing business. Following our January 1998 end of year sale, we returned to more normal full price retailing with occasional marketing promotions. We recognize that our garment range has moved too far towards the High Street and a younger market and has lost an element of its Laura Ashley signature. We are redesigning our product range, which, because of lead times, will be only partly evident in our Autumn/Winter 1998 collection. More substantial change will be seen in Spring/Summer 1999.

North America remains a major challenge. Our business there has suffered disproportionately from the problems affecting the Group. The product range was not right, the large-stores format did not work and the complexity of the business led to severe supply problems. Significant losses were incurred. However, research shows that there is a major opportunity in North America for lifestyle brands aimed at discerning 30–50 year old customers, and we believe that our quintessential English country brand can succeed in this market.

In order to fix our North American business . . . a decisive program of restructuring, cost reduction, store closures and carefully targeted new investment will be required. As part of this program, we intend to close a number of larger stores while investing in information systems, store refurbishment and brand development.

Throughout the Group, our overheads are too high, partly as a result of the complexity of the business and partly due to the weakness of our systems which require significant investment. Some steps have been taken to reduce costs but greater progress will need to be made in 1998.

As a first step to simplifying our business we announced, in January 1998, our intention to sell our manufacturing operations with a continuing supply agreement.

Phase III

We have significant opportunities to expand our franchise, license and wholesale activities internationally. In 1997/98 we opened 22 new franchised stores. In addition, we continue to expand our range of licensed products. However, we will pursue this expansion program only once we are satisfied that we have the right product, service and infrastructure to give the required levels of support.

Equity

In the light of last year's results, the investment need in North America, the opportunities in the rest of the business and the current levels of debt, we have added additional equity capital essential to improve the financial stability and operational health of the Group. On 17 April 1998 we announced that we intend to raise new equity of £43.7 million net in a subscription by the Malayan United Industries Group. The Board believes that raising this new equity is essential in order to implement the recovery plan.

Source: Extracts from the "Chief Executive's Statement," *Laura Ashley Holdings plc Annual Report 1998*. London 1998.

By the end of 1997, Laura Ashley's need for new financing became increasingly evident. Debt had more than doubled to £30.6 million and renegotiation of the company's bank facility had resulted in an agreement that Laura Ashley could use within the business the £9.5 million received from the sale of shares in Laura Ashley Japan, but could not draw further on its banking facility, and nor could it use funds from outside of North America to fund continued losses within North America.

MUI to the Rescue

In April 1998, the Board agreed to increase the issued equity of Laura Ashley Holdings and to sell the new equity to the MUI Group, a diversified Malaysian group with interests in retailing, hotels and resorts, food and confectionery, cement and building materials, real estate, and financial services. After the equity sale, MUI would own 40% of Laura Ashley's equity and would appoint four board members. Mrs Victoria Egan, president of MUI's retail subsidiary in the Philippines, would become chief executive and Mr Paul Ng Tuand an Tee, executive director of Metrojaya, would become President of Laura Ashley North America.

The £43.5 million that the equity sale would raise (net of expenses) put Laura Ashley on a sounder financial footing. Extensive restructuring and repositioning were needed, especially in North America. (Tables 2.4 and 2.5 show the deteriorating financial performance of the North American business, while table 2.6 shows performance by business segment.) The North America recovery program would require about £20 million (mainly for store closures) and £6.5 million was needed to upgrade its logistics and information systems. The Board agreed with its banks to reduce its existing £50 million revolving credit facility to £35 million pounds by the end of 1998.

TABLE 2.4 Laura Ashley Holdings plc: retail sales and contribution by geographical segment (£ million)

	UK and Ireland	North America	Continental Europe	Total retail
Turnover				
Year to Jan. 31, 1999	155.4	63.0	40.5	258.9
Year to Jan. 31, 1998	175.9	91.5	47.7	315.1
Year to Jan. 31, 1997	159.2	84.2	45.8	289.2
Contribution				
Year to Jan. 31, 1999	15.0	(7.1)	6.9	14.8
Year to Jan. 31, 1998	14.9	(12.9)	7.3	9.3
Year to Jan. 31, 1997	24.5	7.6	10.7	42.8

SOURCE: LAURA ASHLEY HOLDINGS PLC, ANNUAL REPORTS 1999 AND 1998.

TABLE 2.5 Laura Ashley Holdings plc: sales, profit, and net assets by geographical segment (£ million)

	Year to 1.31.99	Year to 1.31.98	Year to 1.31.97	Year to 1.31.96	Year to 1.31.95
Sales:					
UK and Ireland	176.1	197.2	175.1	160.0	145.2
North America	68.2	96.4	92.7	104.6	107.0
Continental Europe	42.5	50.2	57.7	65.8	57.4
Other	1.5	1.1	1.1	1.3	0.9
Profit before tax (after exceptionals):					
UK and Ireland	(21.7)	(12.6)	8.6	(0.5)	(29.5)
North America	(20.0)	(29.4)	3.3	1.7	(1.2)
Continental Europe	10.7	(7.8)	1.4	5.6	(0.8)
Other	(0.9)	0.5	3.2	3.5	1.6
Net assets:					
UK and Ireland	(3.6)	16.0	25.7	15.4	14.1
North America	(5.6)	(18.6)	11.4	13.3	14.3
Continental Europe	38.0	19.9	29.2	32.5	26.4
Other	1.6	2.4	2.3	1.8	0.9

SOURCE: LAURA ASHLEY HOLDINGS PLC, ANNUAL REPORTS 1996–9.

Victoria Egan's approach was to continue with the three-phase strategy developed by the previous CEO with a particular emphasis on reducing losses, restructuring the North American business, and disposing of assets. In August 1998, a reorganization plan was announced, involving the creation of three profit centers: Europe, North America, and Franchising. A £2.5 million provision was made to cover the redundancy costs associated with this reorganization. However, during 1998, the business continued to deteriorate – especially in the US. (Tables 2.4 to 2.6 show financial performance by region.) Although inventories were reduced and the costs of closing US large-format stores remained within budget, sales were sharply lower than the

TABLE 2.6 Laura Ashley Holdings plc: sales, contribution, and net assets by business segment (£ million)

	Year to 1.31.99	Year to 1.31.98	Year to 1.31.97
Turnover:			
Retail	258.9	315.1	289.2
Non-retail	29.4	29.8	22.9
Contribution:			
Retail	14.8	9.3	42.8
Non-retail	7.8	7.6	12.1
Net assets:			
Retail	14.6	(0.6)	40.7
Non-retail	15.8	20.3	27.9

Retail includes Laura Ashley managed retail stores and mail order. Non-retail includes wholesale, licensing, franchising, and manufacturing.

SOURCE: LAURA ASHLEY HOLDINGS PLC, ANNUAL REPORTS 1998 AND 1999.

year-ago period. The half-yearly results (to August 1, 1998) were greeted with a fall in Laura Ashley's share price to 17 pence – an all-time low.

February 1999

As he prepared for his first board meeting as group chief executive of Laura Ashley Holdings, Ng Kwan Cheong reviewed the company's financial statements for the financial year ended January 31, 1999 (see Appendix). His immediate concerns were for Laura Ashley's cash position. MUI had pumped £43.5 million into Laura Ashley in order to underpin its recovery program. This sum, plus the £7.9 million raised from the sale of 13% of Laura Ashley Japan, had been eaten up by debt repayment, restructuring and closure costs, and continuing operating losses. With continuing operating losses together with the need to close unprofitable stores, and refurbish profitable stores, Laura Ashley would need to find new sources of finance during the coming financial year. Given the weakness of Laura Ashley's balance sheet and the continuing cash drain, it was unlikely that the banks would be willing to lend. It seemed as though the parent company, MUI, was the only possible source of additional funding. With Chairman John Thornton stepping down to become president and chief operating officer of Goldman Sachs, and MUI's Khoo Kay Peng taking over his position and chairmanship of Laura Ashley, this might be an opportune moment to press MUI for additional funding.

But did it make sense for MUI to continue to invest in Laura Ashley? Despite an improvement in margins, sales had continued to decline. Did a profitable market exist for Laura Ashley products? If so, was this market primarily within Britain, or did it extend overseas? And how could Laura Ashley best access and develop this market?

Appendix

TABLE 2.A1 Laura Ashley Holdings plc: profit and loss statement (£ million)

	Year to 1.31.99	Year to 1.31.98	Year to 1.31.97
Turnover	288.3	344.9	327.6
Cost of sales	(159.9)	(214.0)	(168.9)
Gross profit	128.4	130.9	158.7
Operating expenses	(146.5)	(166.9)	(144.3)
Other operating income	1.5	–	–
Operating profit/(loss)	(16.6)	(36.0)	(14.4)
Share of operating (loss)/profit of associate cos.	(0.2)	0.5	2.1
Profit on sale of investment in associate	7.5	–	–
Profit on sale of freehold property	2.0	–	–
Amounts written-off investment	–	(2.4)	–
Provision for disposal of businesses	(23.3)	(9.0)	–
(Loss)/profit on ordinary activities before interest	(30.6)	(46.9)	16.9
Net interest payable	1.3	2.4	0.7
(Loss)/profit on ordinary activities before taxation	(31.9)	(49.3)	16.2
Taxation on (loss)/profit on ordinary activities	(1.1)	0.0	6.1
(Loss)/profit on ordinary activities after tax	(33.0)	(49.3)	16.2
Dividend	0.0	0.0	2.4
Retained (loss)/profit for the period	(33.0)	(49.3)	7.7

SOURCE: LAURA ASHLEY HOLDINGS PLC, ANNUAL REPORTS 1997–9.

TABLE 2.A2 Laura Ashley Holdings plc: balance sheet (£ million)

	At 1.31.99	At 1.31.98	At 1.31.97
Fixed assets			
Tangible fixed assets	19.5	38.9	44.0
Investment in associated undertaking	1.7	2.5	2.2
Own shares	0.8	0.8	3.3
Total	22.0	42.2	49.5
Current assets			
Stocks (inventories)	56.4	63.2	93.1
Debtors	19.7	21.2	24.4
Short-term deposits and cash	8.4	10.2	6.2
Total	84.5	94.6	123.7

TABLE 2.A2 *continued*

	At 1.31.99	At 1.31.98	At 1.31.97
Creditors: amounts due within one year			
Borrowings	0.1	9.9	0.0
Trade and other creditors	47.7	57.1	72.6
Total	47.8	67.0	74.0
Net current assets	36.7	27.6	49.7
Total assets less current liabilities	58.7	69.8	99.2
Creditors: amounts due after 1 year			
Borrowings	0.0	29.2	21.0
Trade and other creditors	0.9	1.2	0.8
Total	0.9	30.4	21.8
Provisions for liabilities and charges	27.4	19.7	7.3
Net assets	30.4	19.7	70.1
Capital and reserves			
Share capital	19.9	11.9	11.9
Share premium account	87.1	51.6	51.5
Profit and loss account	(76.6)	(43.8)	6.7
Equity shareholders' funds	30.4	19.7	70.1
Ordinary shares issued (millions)	398	236	236

SOURCE: LAURA ASHLEY HOLDINGS PLC, ANNUAL REPORTS 1997–9.

TABLE 2.A3 Laura Ashley Holdings plc: cash flow statement (£ million)

	Year to 1.31.99	Year to 1.31.98	Year to 1.31.97
Net cash flow from operating activities	(11.4)	5.2	(0.7)
Returns on investments and servicing of finance:			
Interest received	0.5	1.2	0.8
Interest paid	(1.6)	(3.3)	(1.2)
Interest element of lease payments	(0.2)	(0.3)	(0.3)
Dividends received from associates	0.1	0.2	0.1
Net cash outflow for returns on investments and the servicing of finance	(1.3)	(2.2)	(0.6)
Tax paid	(1.6)	(5.5)	(1.6)
Capital expenditure and financial investment:			
Acquisition of tangible fixed assets	(3.9)	(9.6)	(14.2)
Disposal of tangible fixed assets	4.6	0.1	0.2
Net cash flow for capital investment	0.7	(9.5)	(14.0)
Acquisitions and disposals	7.9	–	–
Equity dividends paid	–	(1.4)	(2.1)
Net cash outflow before financing	(5.6)	(13.4)	(18.8)

TABLE 2.A3 *continued*

	Year to 1.31.99	Year to 1.31.98	Year to 1.31.97
Financing:			
Issue of ordinary share capital	44.6	0.1	1.4
Expenses of share issue	(1.1)	–	–
Settlement of currency swaps	–	0.5	4.0
Loans taken out	–	18.1	21.0
Repayment of loans	(39.0)	–	(5.0)
Capital element of lease payments	(0.8)	(0.9)	(1.2)
Net cash inflow from financing	3.7	17.8	20.2
Increase in cash	(1.9)	4.4	1.4

SOURCE: LAURA ASHLEY HOLDINGS PLC, ANNUAL REPORTS 1997–9.

TABLE 2.A4 Financial ratios: Laura Ashley compared with other clothing retailers

	Laura Ashley	Talbots	Next plc	Ann Taylor Stores	The Limited	Monsoon plc
Sales ($, m.)	478	1,142	2,041	912	9,347	212
Gross profit margin (%)	44.4	34.4	30.1	48.8	32.1	61.0
SGA/Sales (%)	50.8	28.5	17.6	38.4	24.6	45.0
Operating margin (%)	(5.8)	5.9	12.7	10.4	7.5	15.1
Net profit margin (%)	(11.5)	3.2	10.0	14.3	22.0	9.9
Inventory turns*	5.1	6.6	8.7	6.6	7.6	10.2
Total asset turns*	2.7	1.7	1.5	1.2	2.8	2.5
Current ratio*	1.8	2.4	1.8	2.3	1.0	1.3
ROE (%)*	(108.6)	9.1	22.8	7.9	72.0	47.5

*Based on balance sheet values.

SOURCE: LAURA ASHLEY HOLDINGS PLC, ANNUAL REPORTS 1997–9.

Notes

1 This section draws upon "Laura Ashley: History," Laura Ashley Holdings plc; and J. L. Heath, *Laura Ashley Holdings PLC (A) and (B)*, European Case Clearing House, 1991.

2 "Giving Laura Ashley a Yank," *Business Week*, May 27, 1997, p. 147.