

# David Jones sale: Woolies freed to focus on SA and Country Road businesses

By  Lauren Hartzenberg

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Woolworths Holdings Limited's (WHL) chief executive officer Roy Bagattini expects the sale of Australian department store chain David Jones to be "transformational" for Woolworths' balance sheet.



Source: Reuters/Jason Reed

Speaking to media on a conference call on Monday, 19 December [following the announcement](#) of the deal, Bagattini said the offloading of the "strategic distraction" that was David Jones will allow Woolworths management to refocus time, attention and resources on its businesses that are delivering better returns - namely its Woolworths food, fashion, beauty and home business in South Africa and the Country Road Group, which it owns in Australia.

"The David Jones experience for Woolies has not been a great one. It's been a painful one for us and for our shareholders," Bagattini said.

The deal, which sees Woolworths selling the David Jones business to Australian private equity fund Anchorage Capital Partners, will remove about R17bn of liabilities related to the David Jones portfolio. The financial terms of the deal are still confidential but will be finalised and communicated by the end of March 2023, when the transaction is expected to be completed.



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19 Dec 2022



WHL management expects to realise value in excess of the carrying value of the David Jones assets. "Apart from meeting and exceeding the carrying value, the balance sheet impact is quite profound. We're going to grow our returns by several percentage points, literally overnight," the CEO said.

## Country Road Group expansion

Despite the offloading of David Jones, Bagatinni said that Australia as a market still remains an attractive investment case for Woolworths, particularly for the Country Road Group (CRG). In 1997, WHL acquired a controlling interest in CRG, with the remaining shares acquired in 2014. CRG currently comprises brands Country Road, Witchery, Trenery, Mimco and Politix.

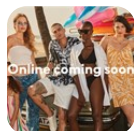
Bagatinni said that CRG has “significant headroom” and that it holds opportunities beyond the Australian market, which WHL is beginning to pursue. “We do see the Country Road Group, which is based in Australia, becoming a bigger part of the WHL group going forward. We remain very committed to that business and will continue to invest in it.”

## Turnaround to profitability

Woolworths bought David Jones for R21.4bn (\$1.5bn) in 2014, but the iconic 184-year-old Australian retail chain underperformed and left Woolworths saddled with debt. Following an extensive restructuring of David Jones, Bagatinni said the Australian business is “now profitable, it is self-funding, and it is very cash generative”.

“We've been enthusiastically pursuing the turnaround. We felt that getting the business into the shape that it's in would set us up with optionality which is what we've been able to do and execute with this particular transaction. Had we not done that I think we'd be in a much different situation,” he noted.

While David Jones may be in a more promising financial position today than it was some years ago, it wouldn't make sense for WHL to hold onto it. “I think, over time, if David Jones had a much more limited store footprint, and a very strong online [business] integrated into the experience, I think it could be a very compelling proposition in that market.”



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But Bagatinni said the structural economics are fragile. “[David Jones] needs extensive amounts of investment going forward, not only in the store portfolio but also in terms of its online business and back-end system capabilities. That capital investment just doesn't work for us.”

He added, “I'm pleased we've been able to engineer and configure an outcome that is absolutely positive for us in many senses of the word ... We can as management now invest our time and effort in businesses that really make a difference to our group.”

## ABOUT LAUREN HARTZENBERG

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