Australian electronics retailer placed in receivership, threatening thousands of jobs

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Following low pre-Christmas sales, Australian electronics retailer Dick Smith went into voluntary administration on Tuesday, after suspending trading in its shares a day earlier. The move endangers the jobs of some 3,300 workers employed at the company's 393 outlets across Australia and New Zealand.

Ferrier Hodgson, the receiver appointed by a syndicate of lenders to the business, led by major banks, HSBC and National Australia Bank (NAB), are seeking offers for the retail chain. However, it is widely predicted that no outright buyers will be forthcoming and that Dick Smith will be wound-down or substantially restructured.

Dick Smith workers have been kept entirely in the dark by the company, the banks and the trade unions. According to a *Sydney Morning Herald* report yesterday, they have been told not to speak to the media. One store supervisor, speaking under conditions of anonymity, commented: "We have no idea what is going on and we haven't had any communication from head office since the trading halt yesterday."

Employees reportedly took to a company-controlled, private Facebook group to express their concerns among one another, but the page was promptly shut down. Customers have been told they will be unable to redeem gift vouchers or receive refunds on layby deposits.

The collapse of the widely-known retail chain, founded in 1968, has underscored the deepening crisis in the Australian economy, including the retail sector. It has also drawn attention to the parasitic and speculative operations of private equity firms that specialise in taking over ailing businesses, cosmetically refurbishing them and selling them off on the stock market.

In 2010–11, amid a broader decline in the electrical goods retail sector, Dick Smith's profits plunged by 14.9 percent to $26.8 million. Having controlled Dick Smith since 1980, Woolworths, one of Australia's two largest retail conglomerates, announced a restructuring in January 2012, including the closure of up to 100 stores, and an intention to sell the business. By the time Dick Smith was sold in September 2012, Woolworths had closed around 60 stores, eliminating as many as 1,000 jobs.

Woolworths offloaded Dick Smith to Sydney-based Anchorage Capital Partners, a private equity vehicle, whose team includes former Macquarie Bank CEO and recently appointed Reserve Bank of Australia board member Alan Moss. Little over a year later, in December 2013, Anchorage Capital floated Dick Smith in a widely-hyped IPO with a valuation nearly $500 million higher than when Anchorage purchased it.

Officially, Anchorage Capital paid $115 million for the business with an initial payment of $20 million, but according to analysis by Forager Fund Management, the initial payment was closer to $10 million, with the remainder made up of $12.6 million of cash already in the business.

Anchorage Capital appears to have then marked-down the assets of the business as much as possible, including $58 million written off from its inventory, which had the effect of boosting the following year's profits. The company also embarked on a major liquidation of stock, with $312 million in stock at the end of November 2012 declining to $171 million at the end of June 2013.

These moves reportedly resulted in a $140 million boost to Dick Smith's operating cash flow, but, according to Forager Fund Management, real profit levels were as low as $7 million. With lower depreciation charges flowing from the equipment and plant write-downs and other measures, Anchorage

Capital appears to have arrived at a profit forecast of some $40 million for 2014, underpinning the December 2013 IPO valuation of $520 million.

Problems rapidly began to appear after the float. The inventory liquidation meant that the business needed to substantially re-stock, resulting in rising debts over the ensuing two years. In October last year, the management cut its yearly profit forecast by 15 percent. The following month, following weak sales, it cut the value of inventories by 20 percent, prompting a plunge of almost 60 percent in share values.

Management responded with a Christmas sale, featuring discounts of up to 70 percent, which appears to have largely failed. With debts approaching $150 million, the banks moved against the retailer.

Anchorage Capital, which describes itself as a "specialised private equity firm that focuses on operational turnarounds and special situations investments" in the Asia-Pacific region, with $450 million under management, has mounted operations that appear to be of a similar nature.

In 2007, Anchorage purchased a controlling stake in food processing firm Golden Circle at 80 cents per share. The following year, US-based company Heinz bought Golden Circle at 1.65 cents per share. Heinz closed three plants, cutting 300 jobs. After Anchorage Capital's 2011 sale of the Burger King New Zealand restaurant chain, which it had owned for two years, that business posted losses over the following years.

Other high-profile IPOs floated by private equity operations have also floundered. Last month, Spotless, a service company floated by Pacific Equity Partners for $1 billion in 2014, announced that its year-on-year net profit would be down 10 percent. Its shares plunged by 40 percent.

As the Australian economy has been hit increasingly by the global slump over the past two years, there has been a turn to ever-more speculative forms of investment that have continued to boost the fortunes of the banks and private equity firms. During 2015, there was what the *Australian Financial Review* dubbed a "float frenzy" of 52 IPOs, each worth over $25 million. According to figures cited by the *Sydney Morning Herald* , private equity outperformed companies listed on the Australian Stock Exchange by over 8 percentage points, delivering yearly returns of 23 percent.

The financial parasitism exemplified by the private equity firms invariably depends on destroying jobs and driving down wages and conditions. Moreover, the trade unions covering the decimated companies work hand-in-glove with the receivers, insisting that workers must subordinate their interests and rights to those of financial markets, in the name of making the businesses "viable."

After the Dick Smith announcement, the Shop, Distributive and Allied Employees Association (SDA), the retail industry trade union, immediately signalled that it would collaborate with the bank-appointed receivers. SDA general secretary Paul Griffin told the Australian Broadcasting Corporation that the union was "currently looking to set up in-depth discussions with the receiver Ferrier Hodgson."

As in countless workplaces throughout basic industries, where a wave of retrenchments is continuing, the thoroughly corporatised unions are committed to suppressing the development of any opposition by workers to the destruction of jobs, working conditions and living standards.