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1. Introduction

In July 2003, UK fashion retailer New Look was taken private with the support of Apax Partners/Permira. The management of New Look, originally listed publicly in 1998, wanted to transform the company to improve performance and take advantage of several opportunities they believed the UK and European retail sector offered. These transformations would increase business risk and require substantial investments and patience from investors. Given the pressures a listed company faced to meet expectations on short-term performance, management felt the public markets would not provide the right environment for their ambitious new plans. Apax Partners also believed that New Look would be better positioned to take advantage of these long-term opportunities if taken private. Apax Partners partnered with Permira to do the deal. In April 2004, Apax Partners/Permira each invested £100 million in a buy-out vehicle that purchased New Look; each assumed 30.1 percent stake, founder Tom Singh held 23.3 percent and other management held 13.4 percent (3.1 percent was assumed by Dubai-based retail giant Landmark).

The deal represented a growth story: under the buyout management's investment, New Look grew earnings before interest, taxes, depreciation and amortization (EBITDA) annually by an average of 14.6 percent between 2004 and 2007 and increased its full-time equivalent headcount by 7.7 percent per year on average in the same period. As active shareholders, the private equity partners supported New Look in making the long-term investments required in the transformation process and helped both to strengthen its management team around CEO Phil Wrigley and to increase its capital efficiency. The trans-formation process had three key initiatives. First was investment in a new larger distribution centre and re-locating it more centrally in England. Second was a continued and accelerated roll-out of larger store formats, enabling New Look to offer a wider product range in a more conducive retail environment and to include men's and children's wear as counterweights to the cyclicality associated with women's fashion. When the company found itself in a strong enough position to expand to markets beyond the UK, it implemented the third key initiative: pursuing international expansion in France, Belgium, Ireland, Kuwait, and Dubai.

2. The UK retail sector: 1998-2004

By the late 1990s, clothing retailers typically benefited from healthy margins and positive cash flow and generated high returns on capital, making them fundamentally attractive to investors. Yet the sector came with risks as well; fashion was notoriously cyclical – even a warm month during the winter could spell disaster – and for trend-setting brands, one season's miss could represent tremendous losses. Analysts noted that clothing markets were naturally fragmented due to the fact that customers drive demand for niche concepts. Low barriers to entry into the industry meant competition was high. In the UK there were three significant full-priced selling cycles: Christmas, back-to-school and Easter.

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Like-for-like sales (LFL), or same-store sales, were dependent mainly on three things: the company's local consumer environment (the store's location); merchandising, essentially the appeal of the retailer's clothing offerings; and the maturity of the retailer's stores. Same-store sales growth drove a retailer's ability to leverage annual operating cost increases, so opportunities for space expansion and growth in market share determined sustainable growth.

The late 1990s saw several significant forces affecting the retail consumer (Dixon and Marston, 2002). Work and leisure patterns had changed, and a ''money rich, time poor'' consumer had emerged, with a concomitant increase in spending on leisure. Demographics had also changed with fewer young people, more middle-aged consumers, and an increase in single-person households, all of which had implications for spending patterns. The retail sector witnessed an increase in consolidation of sales and a decrease in shop units. According to one study, the number of small independent retailers fell in the UK in tandem with their market share.

By the end of 2000, the British economy had been in the most sustained period of low inflation since the Great Depression. For retailers, price deflation, especially in sectors such as shoes and clothes, had come at a time when UK retailers' margins were already being squeezed. Globalization was the watchword for retailers, who, with saturated domestic markets and need for growth, continued to globalize through mergers and acquisitions, franchising, and catalogue and the internet. Global shortages of real estate to build stores – especially with increasing restrictions in Western Europe – were also thought to play a role in the retail sector's increased merger activity. Catalogue and mail-order shopping also continued to grow, comprising 4 percent of total retail sales in 2000, making the UK the third-largest catalogue market, behind the US and Germany (Dixon and Marston, 2002).

Finally, brands had become an increasingly important aspect of the shopping experience. Research indicated that brands had grown in importance in determining what people buy. Consumers were more likely to make purchases to satisfy their ''wants'' as opposed to their ''needs'' (Dixon and Marston, 2002).

From 2000 to 2002, retail trends faced increasing pressure in the face of a global economic slow-down, marked by a recession, a bursting internet bubble and terrorist attacks. By 2002, most analysts worried that consumers had snapped their wallets firmly shut throughout the Eurozone. Two slow Christmas seasons in a row continued to impact performance and by 2003 retailers were regularly discounting clothing earlier in the season in the hopes of getting some lift in their sales.

The economic slowdown throughout the retail sector continued to put downward pressure on sales, and with interest rates rising by late 2003, many predicted conditions would get worse. Most warned that the UK's consumer boom was coming to an end, and a rash of mergers and acquisitions activity in the sector seemed to confirm the market's uncertainty. Department stores Selfridges and Allders, as well as fashion retailer Arcadia Group, succumbed to takeover bids (Board, 2003).

3. History of a fashion retailer: New Look (1969-2003)

In 1969, Tom Singh opened the first New Look store in Taunton, England. New Look was conceived as a ''high street'' retail store, offering fashion-for-less to women. Its product focus included clothing, lingerie, and shoes. New Look's premise leveraged short supply-chain lead times, proposing to bring new fashion lines from the drawing board to the racks in two weeks, refreshing style ranges regularly. Growth was limited to the UK in the early years, but by 1988, New Look had gained a national profile and crossed the Channel, opening stores in France. By 1990, it had a total of 70 stores. By 1994, that had increased to 200. In 1995, the company launched stores in Scotland as well as their own in-house brand – 915, a casual girl's wear line.

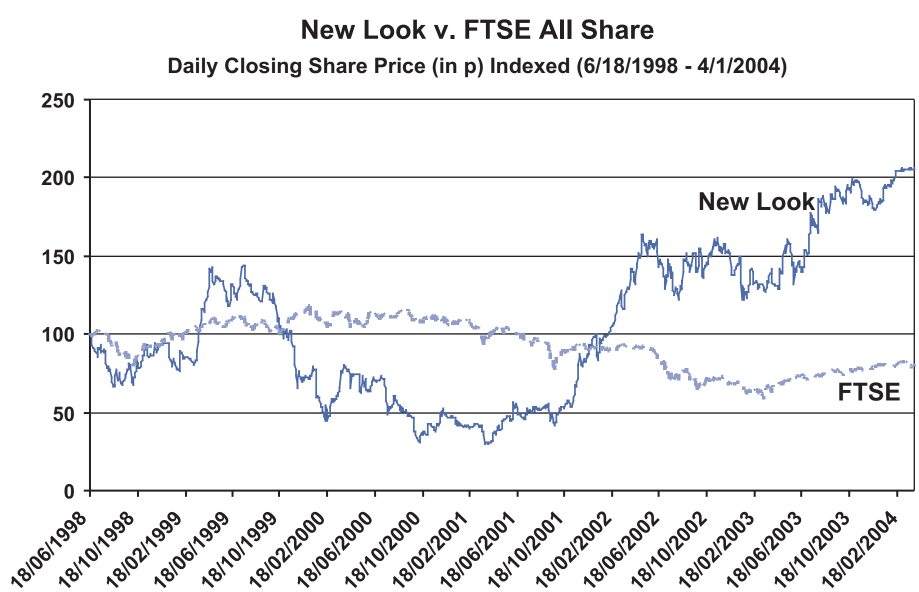
Concerns over having so much of his family's wealth tied up in one business so closely linked to the cyclical and unpredictable nature of the fashion world prompted Singh to disperse his holdings, but his first attempt to take the company public, in 1994, failed. In 1996, two private equity investors, Prudential Venture Managers and BZW Private Equity, acquired a 75 percent stake in New Look and two years later in 1998 New Look was listed on the London stock exchange. Pre-tax profits in 1998 were £38.9 million and the company had 409 stores across the UK and 31 in continental Europe (SG Equity Research, 1998).

From 1998 to 2001, the UK clothing market experienced a slowdown, and the chain's share price hit a low of 50p in March 2001 (the June 1998 IPO price had been 168.5p) (Figures 1 and 2). The clothing market had witnessed an intensely competitive period during this time.

Figure 1 New Look daily closing share price

Source: Thomson Financial's Datastream, accessed December 5, 2007

Figure 2 New Look daily closing share price



Source: Thomson Financial's Datastream, accessed December 5, 2007

Analysts worried that New Look had ''drifted away'' from its staple customer, the fashion-oriented 20-to-45 year old woman (about 50 percent of New Look's customers were over 25) with its move toward a younger demographic: teenagers. Analysts felt this shift, intended to expand the stores' customer base, had in fact alienated the brand's core base, which found it ''hard to buy anything they wanted amid the confusion of the small cramped stores selling products ranging from lifestyle and home ware products to skimpy tops'' (HSBC, 2002).

Stores were increasingly cramped and in need of refurbishment. The company had extended into lifestyle products, such as candles and pillows, which some believed made stores seem cluttered and distracted from the chain's core offering – clothing. Additionally, analysts pointed to the company's poor merchandising, with limited choices and overstretched logistics function. The 480 stores nationwide were still serviced by a distribution centre in Weymouth in the south of England, making timely and efficient delivery across the chain's network challenging.

In 2001, much of the public market's criticism focused on New Look's store size and its expansion into France. Over 70 percent of the chain's space was accounted for by stores under 4,000 square feet and average store size was 2,000 square feet. This restricted store space was seen as holding back LFL sales development. Additionally, analysts claimed, the company had ventured into France ''without the appropriate level of local expertise'' and had been running a loss in that market for some time.

As the retail environment in the UK improved, and New Look worked to address its performance issues, analysts began to note improvement in the company's performance in early 2002. The management team had undergone changes, appointing new managing and operations directors, and had turned its attention to cutting head office costs by 10 percent, primarily by reducing headcount. The acquisition and merger with MIM France, a company with a similar profile and target consumer, but with intimate knowledge of the French market, shored up New Look's French operations. The chain's stores in France were rebranded as MIM, and duplicate locations were closed. Analysts projected a £4 million profit for 2002, after a loss of £1 million in 2001. Share price had also improved, rising 474 percent under management's efforts to cut costs, drive sales and increase market share (HSBC, 2002).

By 2002, profits were up a reported 70 percent (Hubbard *et al.*, 2002). New Look had become the fourth largest womenswear retailer in the UK with an estimated 3 percent of the market (HSBC, 2002). Homewares and lifestyle products were discontinued, coats and tailoring were successfully added and within the year coats had gone from zero to a £5 million business. A new line, Inspire, aimed at women sizes 16-24, was launched to great acclaim and filled a gap in the market.

The retailer's performance continued to improve into 2003 and management saw the opportunity to move New Look beyond refurbishing stores and smaller-scale cost-cutting, and into the broader transformation they envisioned, including investing in a new distribution centre, a further roll-out of larger-format stores and a more aggressive international expansion. New Look's management wanted to continue to improve the chain's performance, but they were also eager to capture additional opportunities. Fashion retailing was undergoing a consolidation – Littlewoods and Etam, for example, were struggling to find a good market position. New Look's management wanted to take advantage of these shifts and push for further growth.

The public markets continued to pound the company on its fluctuating LFL sales track record (Citigroup SmithBarney, 2003). Internally the management anticipated the public markets would be unsupportive of their vision since it would require longer-term investments and put pressure on short-term performance. They spoke with a number of analysts about their plans to test how public markets might react to their plans. Analysts reacted quite negatively to the company's ambitious plans, as they saw that the risk and complexity of New Look's business would increase significantly with the proposed transformation. ''The transformation implied making infrastructure investments,'' said then-COO Phil Wrigley, which meant raising more cash. He explained: ''As a public company we felt that an allergic reaction from the City was quite possible as communication possibilities with analysts are limited.'' Singh also recalled, ''The public markets were unsupportive of our strategy.''

New Look's management felt it would have taken enormous effort, time and resources to explain to the City the rationale behind the chain's future transformation, diverting time and resources from implementing the strategy itself. ''You spend a lot of time with investors explaining your business and these investors do not truly understand your market,'' Singh noted. Yet abandoning their vision for New Look's transformation was not a viable option. ''We felt that not undergoing a transformation process would mean a big risk for our brand – a risk to miss out on great market opportunities,'' one team member said. The management team decided to continue considering alternative options to achieve their vision.

4. A public-to-private transaction in early 2004

Singh saw a public-to-private transaction as a way to sell part of his family's share in the chain. Singh had business contacts with Apax Partners, who had retail expertise, and the team decided to approach the private equity firm with the concept of a public-to-private transaction for New Look.

Apax Partners was a global private equity group operating since the late 1970s; in 2007, it had over $20 billion in funds advised worldwide. The group covered five sectors:

1. Technology and telecommunications.
2. Media.
3. Retail and consumer.
4. Healthcare.
5. Financial and business services.

After reviewing the opportunity, Apax Partners confirmed the deal's attractiveness and, due to the size of the deal, they brought Permira in as a partner. Permira, active since 1985, advised 19 funds totalling approximately €20 billion in 2007, and also had expertise in retail among several sectors such as chemicals; industrial products and services and technology, media and telecommunications. New Look's conviction that the public markets would not have supported its growth strategy drove the proposal of a deal.

By late summer 2003, New Look was trading at 310.5p per share. In early September, Singh put forward an indicative offer of 330p a share (equivalent to a valuation of £662 million) for New Look, supported by Apax Partners/Permira. In October 2003, the partners raised their indicative and the independent directors of New Look agreed to enter into a period of due diligence. A slowdown in sales of winter clothing increased doubts about the takeover bid materialising at first, but on 13 February 2004, Singh put forward a 348p per share (£699 million valuation) proposal to bring the business back under private control. On 16 March 2004, more than 99 percent of investors voted to accept the offer (only Fidelity lodged a no vote) (Mesure, 2004). New Look joined Debenhams, Selfridges and Hamleys as private retailers.

5. A private New Look: 2004-2007

New Look set off on its transformation as soon as the public-to-private transaction was closed. The agenda included three main initiatives: building a new distribution centre and reorganizing the company's logistics, adding new stores in the UK and shifting over to the larger store format; and extending a men's and children's wear line while also focusing the women's line more closely on fashion offerings, and expanding internationally. In addition, the management team was strengthened and, within the next two years, the company's capital structure was changed.

5.1 Corporate governance: a public versus private New Look

Post-buyout, both the executive and non-executive boards were changed. Wrigley, the COO and main advocate of the new vision for New Look, became the CEO. He brought several new members to the management board, including Paul Marchant as managing director for Buying Merchandising and Design, and Michael Lemmer as international director. Singh assumed a more hands-on role as managing director, commercial and executive member of the board. As one private equity investor noted: ''The new management team changed the direction of New Look. The change in the management team made the growth story happen.''

The board initially consisted of four non-executive members, two from each private equity firm. The two board members from Apax Partners were Alex Fortescue (head of Retail and Consumer Sector in Europe) and Mirko Meyer-Schönherr. When Meyer-Schönherr left Apax Partners, Matthew Brockman, previously a board observer, became non-executive board member. Martin Clarke (head of Consumer Sector) and Leanne Buckham were the Permira board members. Both investment partners were committed to continuity on the board through the deal and up to exit. ''We do not change board members in the life cycle of a company,'' one partner said. ''We believe that it is all about the relationship with the management and it is important to have consistency over time.''

Fortescue was chairman of the board until Richard Lapthorne, non-executive director and chairman of Cable & Wireless, was brought in by the private equity investors. If New Look went back to the public markets the team wanted someone with experience in managing a public company chairing the board. They felt they had already covered retail experience sufficiently with the other board members and, therefore, wanted to have someone with public market experience.

The management team saw the company had benefited from having been publicly listed because it had disciplined management in becoming more professional in their corporate governance and reporting. Many of the changes due to increased information requirements by public investors were still kept post-buyout and highly valued by the management team.

The corporate governance as well as strategic decision-making processes in New Look changed substantially in other respects, due to the different shareholder structure post-buyout, also leading to changes in the board. All three parties – the management team, Singh and Apax Partners/Permira – had the expectation of a close relationship with each other, with the private equity investors more active than their public market counterparts. Due to this closer relationship, ''New Look doubled the rate of investments,'' Fortescue recalled. ''They were willing to take more risk in exchange for longer term success. We were willing to take more risks as well, given our relationship with New Look was closer than it would have been for investors on the public market.''

The three parties today agree that their expectations were met and they consider the collaboration highly positive. The private equity partners monitored the business activities closely and supported the strategic decisions made by the management team. Apax Partners/Permira did not impact day-to-day operations but had a vital role in making high level strategic decisions. ''Before the buyout, public investors were mainly concerned about how well New Look performed financially. After the buyout, the primary debate was on what would be the right strategy going forward, so the board was more a power house focussing on strategy rather than financials,'' Fortescue said. A new monitoring system for operating indicators was put in place and used to monitor the company more closely.

5.1.1 A new distribution centre. In July 2004, the company announced a £400 million investment in a new distribution centre in Newcastle-under-Lyme, which opened in 2005. This larger distribution centre in a more central location made a great deal of sense from the perspective of mid- and long-term performance. However, as Alastair Miller, current CFO of New Look, recalled:

> If we had still been public at that time, Wrigley and I would have spent most of our time in road shows around the City explaining to institutional investors why this initiative was necessary.

Given the cash-intensive aspect of the investment, building the new distribution centre required a willingness to accept a short-term slowdown in profit growth. One year later the press reported strong progress in New Look's transformation (Morrell, 2005). Changes to both the chain's distribution network and its design team contributed to an 18.8 percent rise in total sales during the 14 weeks up to 1 January 2005, according to management. New Look doubled the number of designers working on new ranges to 22 and also strengthened its buying and merchandising team (see Table I for New Look's key financials).

5.1.2 Larger store format. Management felt the threat of market consolidation and the need for New Look to broaden its presence in the market. In the UK, this was done in part by sheer physical presence, e.g. through acquisitions of the leases and/or property of 30 former C&A stores and new store openings. In addition, a rebrand campaign was launched in 2004: ''The New Now'' gave New Look a more upmarket image, and presented a clean, modern fashion-oriented store image consistently across the chain.

The management team and the new investors looked closely at expanding the company's clothing and accessories ranges, wanting to roll-out their larger store format further by offering a wide range for the whole family. They followed a rollout of menswear across many stores after the buyout and also launched a separate children's clothing line.

5.1.3 International expansion. Management pushed expansion into other European countries and the Middle East with new store openings in France, Belgium, Ireland and Dubai. ''Expanding into Europe and Dubai was another key driver in their transformation process,'' said an insider. ''This too would have been difficult to pursue while listed on public markets without being punished by decreasing share prices.''

5.2 New Look employees

The public-to-private transaction was supported both by management and New Look's employees. Employees across the ranks, from middle management and beyond felt privatization would allow the company to expand the brand further. Their own careers would expand, as New Look's presence grew in the market.

5.2.1 Employee incentives. According to Wrigley, many employees felt the public-to-private transaction brought a culture of inclusion to the company. While New Look had been publicly listed, employees could own shares; however, post-buyout, a programme was set up giving management and a large proportion of employees the opportunity to become New Look shareholders. Committed to taking as many people with them as possible, the management wanted a vehicle for employees to directly participate in New Look's transformation process. A total of 20 of New Look's extended management team invested directly in the company as it went private. Four levels of managers were able to participate: executive directors, operative directors, controllers, senior managers and select store managers with a stellar

Table I New Look key financials

	In £ million									
Key financials	*1999/ 2000*	*2000/ 2001*	*2001/ 2002*	*2002/ 2003*	*2003/ 2004*	*2004/ 2005*	*2005/ 2006*	*2006/ 2007*	*CAGR 1998/1999-2002/2003 (%)*	*CAGR 2003/2004-2006/2007 (%)*
Sales (ex. vat)	419	470	584	643	696	813	862	1,017	15.4	13.5
Percentage of growth		12.2	24.3	10.1	8.2	16.9	6.0	18.0		
EBITDA	62	50	84	109	118	160	174	177	20.7	14.6
Percentage of sales	14.8	10.6	14.4	17.0	16.9	19.6	20.2	17.4		
Percentage of growth		(28.1)	35.1	17.9	(0.4)	16.2	2.8	(14.0)		
CAPEX	31	28	20	39	42	59	70	98	8.0	32.6
Percentage of growth		(9.7)	(28.6)	95.0	7.7	40.5	18.6	40.0		

Source: New Look, casewriter research performance rating. To give a wider group of employees the chance to participate in New Look's development, The New Look Trust for Employees was set up, allowing employees to indirectly hold shares in the company as beneficial owners of The Trust. By mid-2006, over 300 people had invested in the option scheme via The Trust, rising to nearly 500 in 2007. The participation schemes were developed jointly by shareholders and management. Shareholders proposed the structure and the amount of equity available and worked with advisors to turn them into reality, while management worked on allocating the equity among employees and communicating the message.

The private equity partners were committed to maintaining the status quo in employment policies. It was considered a general policy to safeguard the existing employment rights in a company where growing the business is the key management objective. One of the private equity investors said:

> It was very clear early on that New Look was a growth story, not a restructuring story. The turnover of staff is relatively high in retail and our aim was to keep employees longer, to increase retention, particularly for key people.

Therefore, there were no changes to terms or conditions of employment including staff benefits such as discounts, life assurance, income protection for senior managers, medical insurance and company cars. The bonus scheme remained unchanged. Training and development programmes for employees remained in place and were reviewed and improved regularly. As employment conditions were unaffected by the buyout, employee satisfaction remained high.

5.2.2 Employment growth. The company did not buy any new entities, continuing to grow organically. From March 2004 to March 2007, group employee numbers grew by 8.9 percent per annum, from 12,166 to 15,708 employees; full-time equivalent headcount grew from 6,498 to 8,120 (see Table II for employment development). New Look was able to outperform some of its main UK competitors, such as M&S and Debenhams, who realized less employment growth over the same period. However, several market players had even greater increases in the number of employee (see Table III for employment numbers of select competitors).

Table II Employment development at New Look (2003/2004-2006/2007)

	2003/2004	*2004/2005*	*2005/2006*	*2006/2007*	*Total change*	*CAGR 2003/2004-2006/2007 (%)*
Average group employees						
Retailing	11,020	11,428	12,754	14,806	3,786	10.3
Admin and distribution	1,146	1,141	1,021	902	(244)	(7.7)
Total group employees	12,166	12,569	13,775	15,708	3,542	8.9
Group FTE employees	6,498	6,942	7,377	8,120	1,622	7.7
Average UK employees						
UK employees	10,999	11,216	11,912	13,410	2,411	6.8
UK FTE employees	5,548	5,928	5,976	6,689	1,141	6.4
Employee cost (in £ million)						
Branch	66	74	82	101		14.9
Distribution	16	17	18	25		17.6
Head office	22	23	28	28		8.2
Total employee cost	104	113	129	154		14.0
Employee cost per FTE employee (in £ thousands)	19	19	22	23		7.1
Employee productivity (in £ thousands)						
Revenue per FTE employee	107	117	117	125		5.4
EBITDA per FTE employee	18	23	24	22		6.4

Source: New Look

Table III Employment development at competitors (2003-2006)

Average employees	*2003*	*2004*	*2005*	*2006*	*Total change*	*CAGR Dec-2000 to Dec-2003 (%)*
NEXT						
NEXT brand	32,580	39,179	44,945	45,360	12,780	11.7
NEXT sourcing	N/A	N/A	3,038	3,596		
Ventura	3,494	4,366	6,567	8,447	4,953	34.2
Other activities	2,600	2,765	52	51	(2,549)	(73.0)
Total employees	38,674	46,310	54,602	57,454	18,780	14.1
Marks & Spencer						
UK stores	57,526	60,427	61,132	62,288	4,762	2.7
UK head office	3,613	3,674	3,332	3,057	(556)	(5.4)
Financial services	1,467	1,619	-	-	(1,467)	(100.0)
Overseas	4,527	4,381	4,399	2,959	(1,568)	(13.2)
Total employees	67,133	70,101	68,863	68,304	1,171	0.6
H&M						
United Kingdom	2,794	3,095	3,408	3,617	823	9.0
Other European countries	22,696	25,011	27,836	30,990	8,294	10.9
Canada	8	125	294	608	600	323.6
USA	2,255	2,812	2,406	4,383	2,128	24.8
Other countries	656	658	670	770	114	5.5
Total employees	28,409	31,701	34,614	40,368	11,959	12.4
Debenhams [a]						
Full time			7,845	8,358	513	6.5
Part time			15,495	16,358	863	5.6
Total employees			23,340	24,716	1,376	5.9

Note: [a]Total change and CAGR refers to the period 2005 to 2006
Source: Annual reports

Employment increased across different categories and functions, with slightly higher growth in part-time employees compared to full-time employees. Group employee costs grew annually by an average of 14.0 percent from 2004 to 2007. Employees in administration and distribution decreased between 2003 and 2007 in order to increase efficiencies in production and distribution. The higher efficiencies were also captured in increasing employment productivity, e.g. with earnings before interest, taxes, depreciation and amortization per employee increasing 6.4 percent per year between March 2004 and March 2007 (refer to Table II).

The new distribution centre affected employment, as many of the Weymouth employees would not relocate. The management team worked hard to mitigate the negative outcome of this investment. The announcement of the new distribution centre was made public in July 2004, with the closure of the Weymouth distribution centre scheduled for November 2005. The company undertook a major communications programme to ensure all employees fully understood the business rationale for the move. New Look put a retention bonus scheme in place to encourage employees to remain with the company through to closure, and a full programme of retraining was made available to assist employees in re-deployment. With this scheme, New Look was able to reduce its staff turnover rate from 28.9 to 16.2 percent. The new distribution centre opened in September 2005 with its full complement of 530 employees; the Weymouth distribution centre closed two months later. Approximately 15 employees were brought into vacant positions in the head office, and 20 employees relocated and joined the new logistics contractor at the new site. The remaining 545 staff, mostly warehouse operatives and drivers, left New Look. The distribution centre commenced operations under the management of DTS Logistics, part of Clipper Group, in September 2005. In December 2006, New Look took over full management control of the warehouse operations; all staff employed by Clipper transferred to New Look and were employed under the same conditions.

5.3 Refinancing

While New Look was not under financial pressure post-transaction, Apax Partners/Permira suggestions to improve New Look's capital structure were a key contribution. ''We very much benefited from their expertise in raising finance,'' an insider noted. In January 2005, a refinancing package was undertaken. While not a ''proper refinancing'', there was a surplus of funds for several reasons, including cost reductions, an increase in creditor days, and an EBITDA growth enabling a payout of £100 million in May 2005 to the equity holders. By July 2005, an additional £240 million was returned on the basis of additional substantial EBITDA and profit growth, and excess cash.

New Look found that with the private equity investors on board and closely monitoring the company, debt providers were willing to increase the company's leverage even though the firm's transformation process represented greater risks. Through a debt restructuring in 2006 (which rolled interest up in capital value as opposed to a cash payout) the partners were able to take advantage of the uptick in the payment-in-kind (PiK) market. Share structures adjusted slightly, as management holdings increased to 15.7 percent (see Table IV for details on leverage over time, and Table V for shareholder data over time). In the course of negotiations with debt providers, management received the offer to further increase New Look's leverage. Apax Partners/Permira advised the management to turn down the offer, suggesting New Look steer clear of an aggressive financing strategy, and potentially putting pressure on cash. As Miller recalled:

> They prevented us from getting overleveraged and encouraged us to stay under a certain leverage ratio.

Table IV New Look's leverage data in 2004 and 2007

	In £ million			
	April-2004	*Leverage ratio (x EBITDA[a])*	*March-2007*	*Leverage ratio (x EBITDA[b])*
Senior Debt	335	2.9x	579	3.3x
Second Lien	–		80	
Total Senior	335	2.9x	659	3.7x
Mezzanine	100		60	
Total debt requiring cash payment	435	3.7x	719	4.1x
PiK Debt	–		401	
Total drawn debt	435	3.7x	1,120	6.3x

Notes: [a]Multiples of LTM EBITDA of £118 million; [b]Multiples of LTM EBITDA of £177 million
Source: New Look

Table V New Look shareholdings in 2004 and 2006

	April 2004 (%)	*Post June 2006 PIK (%)*
Apax Partners	30.1	27.8
Permira	30.1	27.8
Tom Singh and family	23.3	22.5
Landmark	3.1	2.9
Management	13.4	15.7
Warrant holders	–	3.3
Total	100.0	100.0

Source: New Look

The management, Singh and Apax Partners/Permira all agreed that the refinancings had no impact on the management side of the company, nor did they restrict the company's growth or investments. ''Our financial health was never threatened,'' Wrigley noted: ''We could always sleep well at night.'' Apax Partners/Permira had not initially expected to be able to refinance the business, but the opportunity arose, and they were able to take advantage of it and got back two times their invested capital.

6. New Look: looking for an exit?

In early 2007, Apax Partners/Permira and New Look's management considered possible exit strategies. The average time horizon for a private equity investment was coming close and New Look offered the additional growth potential necessary to attract a secondary buyout. Even though the expansion within the UK was relatively advanced, there were still many opportunities to extend internationalization across Europe and the Middle East.

The poor reception for other fashion retail public offerings in early 2007, including Debenhams and Sports Direct, influenced the team to decide against a public listing. The management team and Apax Partners/Permira felt that public markets might not differentiate between New Look, still in the middle of an expansion phase, and other listed fashion retailers at various lifecycle stages (e.g. undergoing restructuring). With part of the transformation process still ahead, New Look had further infrastructure investments planned that would once again put pressure on short-term performance. Therefore, all agreed it was not the right time to pursue a public offering.

Instead, the team pursued an exit via a secondary buyout. The potential of a secondary buyout lay in the continuation of New Look's current growth strategy – further expanding in Europe and internationally, and continuing to change from small to large stores. A sale process was run, but this did not result in a successful outcome as credit market turmoil and concerns regarding general consumer spending growth in the UK emerged. Following the process, Apax Partners/Permira made a firm decision against any exit from New Look in the near future, opting instead to keep the retailer in their fold and focussing on continued company growth.

With exit discussions precluded, one of the private equity partners looked back on the deal:

> This case is all about company growth. Private equity helped grow the company. Once New Look was private, we were able to make long-term investment decisions. If New Look were still public, I don't believe they would have been able to follow the same growth path they've achieved today.

Although a public listing did not appear viable in 2007, New Look's management team considered it a potential option in the near future, believing that when New Look had built a successful and sustainable business internationally, public investors would have the confidence to back the company again. In addition, the broader strategic positioning of New Look could help to reduce cyclicality, enabling the company to manage the pressures of public markets again. In 2007, however, the private equity investors, the management team and Singh all believed a public listing only made sense at a later stage in New Look's transformation process.

In mid-2008, market conditions for retailers on the high street became increasingly difficult. The financial market turmoil and subsequent recession lead to decreasing consumer expenditures across different retail sectors. The fashion retail market bore the brunt as consumers faced a decrease in their disposable income and became more cautious in their spending behaviour. In the UK, the pound's weakness further worsened the situation as it led to increasing costs for imported clothes. Small independent retailers suffered badly from these tough market conditions, but over the next year large retailers, such as Woolworths, Ethel Austin and Mosaic Fashions, were also forced into administration due to the economic downturn. Even fashion giants such as Next and Debenhams reported decreasing sales (ICC, 2009). Despite these unstable market conditions, New Look was among few retailers who announced increasing LFL sales and margin growth in 2009. Carl McPhail, who became CEO in April 2008, explained the reasons for their continued success:

> Whilst we recognise that in part we benefit from retail spending shifting towards ''value for money'' brands in response to the squeeze on household finances, the strength of our management team means that we are confident in having great product in-store at the right time, at a great price (New Look, 2009).

In Autumn 2009, rumours in the press suggested that New Look might be gearing up for an IPO early in the next year, which would give Apax Partners/Permira the chance to exit their investment. However, McPhail noted in October 2009 that the management had a number of options and that their current focus was to deliver positive results for the upcoming Christmas trading period (Retail Week, 2009).

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