WWD

Transformers: Neiman Marcus Group Sets 4-Year Roadmap for Change

The group continues to narrow bottom-line losses and just experienced its fourth consecutive quarter of positive sales increases.

By David Moin on September 18, 2018

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After months of deep analysis and mining the business for opportunities, the Neiman Marcus Group has set a new four-year roadmap for growth and greater profitability, and has a management structure involving high-level changes within the operations and merchant ranks.

The changes are being driven by Geoffroy van Raemdonck, chief executive officer of the Neiman Marcus Group since last February. “It’s a clear path to profitable and sustainable growth. We want to go fast, but get it right.”

On Tuesday, the Dallas-based luxury retailer reported that it narrowed its loss for its fiscal fourth quarter ended July 28 to $75.3 million, from $366.3 million in the prior year. The loss

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included non-cash impairment charges of $357 million.

Adjusted earnings before interest, taxes, depreciation and amortization were $56.1 million, compared to $48.2 million in the prior year. EBITDA excludes certain tax payments; adjustments for purchase accounting; changes in, or cash requirements for, working capital needs; capital expenditures, and the company's significant interest expense, and does not reflect the cash requirements necessary to service interest or principal payments on debt. Interest expense was $77.1 million last quarter.

The luxury retailer reported total revenues of $1.13 billion, representing an increase in comparable revenues of 2.3 percent from the fourth quarter of fiscal-year 2017.

"The fourth quarter was in-line with our expectations and marked our fourth consecutive quarter of positive sales increases," said van Raemdonck.

"Online revenues were up 12.5 percent for the quarter and accounted for 36 percent of our overall business. We also delivered healthy gross margin performance through lower markdowns and strong inventory management. As we look to the future, we are making long-term investments in technology, supply chain and new customer-centric capabilities that will begin to benefit the business in fiscal 2020 and beyond. Our multiyear strategic plan is designed to both protect and advance our existing business, while also positioning Neiman Marcus Group for long-term growth."

For the fiscal year, NMG reported net earnings of $251.1 million, compared to a net loss of $531.8 million in the prior year. Adjusted EBITDA was $477.1 million, compared to $433.8 million in the prior year.

Total revenues were $4.9 billion, representing an increase in comparable revenues of 4.9 percent.

The company recorded non-cash income tax benefits of $391.6 million in fiscal year 2018 due to the impact of the Tax Cuts and Jobs Act.

With the four-year plan, NMG — which operates Neiman Marcus, Bergdorf Goodman, MyTheresa, Horchow, Cusp and Last Call — has new financial objectives, though the company does not provide forward guidance. “We want to grow profit faster than the top line,” said van Raemdonck who, along with his top lieutenants, shared the road map with 1,200 employees during a “town hall” meeting in Dallas on Aug. 22.

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At NMG's town hall Aug. 22, Adam Orvos, Carrie Tharp, Jim Gold, Geoffroy van Raemdonck and Darcy Penick.

The company is saddled with $4.46 billion in long-term debt and is believed to be in talks with creditors about restructuring the debt. Van Raemdonck declined to comment on any possible debt restructuring, but did say the retailer has "ample liquidity" to service the debt.

In an interview, van Raemdonck told WWD that the four-year plan includes 15 initiatives to strengthen customer relationships, create "seamless" shopping experiences across channels, and to bring "magic" to the stores by reexamining what's being sold and how it's sold. Van Raemdonck said he would spell out the initiatives at a later date.

The plan also calls for doubling investment in digital, including e-commerce, analytics and supply chain, and puts a priority on building stronger relationships with and capturing more business with customers spending between $3,000 and $35,000 annually at NMG. “We have an opportunity to speak to them with the same intensity we do with our top customers,” those spending above $35,000 annually. He said the top spenders are extremely loyal to the store. In reassessing the business, Boston Consulting Group was utilized, in particular to help with customer information and data analytics.

Van Raemdonck said growing Bergdorf Goodman’s international digital sales is a major initiative. “We believe Bergdorf Goodman has incredible recognition and a unique heritage in an iconic building in a key fashion city,” the ceo said, adding that the flagship should serve as a “lighthouse” to the world and that Bergdorf’s digital presence should “shine globally.”

For NMG overall, he emphasized creating highly personalized, unique shopping experiences so, for example, it’s possible that one day the landing page on neimanmarcus.com that what one person sees may not be the same as what another shopper does.

In other actions, Neiman’s is equipping digital stylists with the same customer information and selling tools that store associates have, and accelerating efforts to innovate the merchandising through “testing and learning” about new products, categories and experiences. NMG’s “Idea Factory,” led by Ed Burstell, will be instrumental in this.

“It’s really about transforming our business and making sure we drive profitable and sustainable growth and leveraging all the digital tools we have and data analytics to provide the best customer experience,” van Raemdonck told WWD. “If we do that, the outcome is a predictive, intimate luxury experience tailored to individual customers....In my mind, the future of luxury retailing resides in leveraging data and analytics to create truly personalized, intimate and engaging experiences, whenever and wherever the customer chooses to engage.”

In the new management structure, Carrie Tharp, senior vice president and chief marketing officer, has been promoted to executive vice president, chief digital officer, overseeing evolving data and digital analytical tools to enhance omnichannel experiences and customer engagement, as well as continuing to oversee marketing.

Tharp’s team expands to include Lindy Rawlinson, senior vice president, customer experience and e-commerce, and a key new hire, Stefanie Tsen, who on Oct. 1 will become senior vice president, omnichannel customer experiences. Tsen was vice president of omnichannel experience at Sephora and earlier vice president, country manager, Canada.

Adam Orvos, who started at Neiman Marcus Group in April as chief financial officer, has been promoted to executive vice president, cfo and chief operating officer, adding responsibilities for information technology, cyber security, supply chain and operations, and legal. A member of his team, Tracy Preston, senior vice president, general counsel, will expand her responsibilities as chief compliance officer.

Jim Gold, president and chief merchandising officer, has reorganized his team. Melissa Lowenkron, formerly with Bergdorf Goodman, joins Neiman Marcus as general merchandise manager of accessories, ladies shoes, handbags, designer jewelry and precious jewels.

Lisa Kazor is adding fine apparel to her responsibilities, becoming general merchandise manager for all of women's apparel, while Russ Patrick continues as general merchandise manager of men's, children's and home. Beauty reports directly to Gold. The former beauty general merchandise manager, Jonathan Joselove, is retiring. He also handled ladies shoes and handbags.

As previously reported, Darcy Penick has been named president of Bergdorf Goodman, after running ShopBop. Her top priorities include growing BG's digital sales and converting what were offices on the eighth and ninth floors of the main women's store into 24,000 square feet of selling space. No decisions have been made on what categories will be sold there, van Raemdonck said, though he suggested new ones could be introduced and categories currently sold in the store but considered under-spaced could be enlarged. One source said that a new footwear floor is a possibility. Van Raemdonck would not confirm that.

In other news, Neiman's has been testing markdown optimization in women's apparel and a few other categories, saw some margin improvement and has decided to roll out the technology to all categories.

Van Raemdonck said the 190,000-square-foot, three-level Neiman's store in Manhattan's Hudson Yards is on track to meet its March opening date. Sources said the retailer was given a reprieve from paying rent for three or four years as an incentive to open in the complex. Van Raemdonck declined to comment. Hudson Yards will be the 43rd Neiman Marcus store and the first in New York City.

Neiman Marcus Group is owned by Ares Management LLC and the Canada Pension Plan Investment Board, which together bought the business for $6 billion in 2013, bringing long-term debt up to $4.46 billion. NMG has interest expenses of around $300 million annually, dragging down the profitability. The debt maturities don't actually start until October 2020 with a $2.8 billion term loan and in 2021, there's a $1.6 billion unsecured bond.

"They have to refinance at some point," said William Susman, managing director of Threadstone Advisors. "But the situation generally feels much more stable than six or nine months ago. Neiman Marcus has always been a strong cash flow entity. The challenge has been the amount of debt the company has."

Susman noted that essentially, there are three ways to manage high debt levels — refinance to lower average interest cost, refinance to extend maturities and buy more time, and refinance but reduce the total amount of debt through some repayment. "My sense is today a refinancing would accomplish the first two — lower the interest rate and extending the maturity to give more time," Susman said.

For years there have been talks on and off between the owners of Neiman Marcus Group and Saks Fifth Avenue on a possible merger. It is believed that such talks are not active right now. “Ultimately the combination makes great operational sense, but until both parties have healthier capital structures, I think the timing is wrong for a combination,” said a financial source.

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