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# THE REAL WORTH OF DICK SMITH STORES

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Early last month, the Senate announced an inquiry with terms of reference that cover the collapse of prominent electronic retailer Dick Smith Electronics. There is a lot for senators to mull over in the float and subsequent failure of Dick Smith.

The Senate now has the opportunity to consider issues that make Australia seem like a difficult place to invest in shares including:

- Divergent financial disclosures and untimely information for prudent investment decisions to be made
- Uneconomic outcomes from external administration because secured creditors have overarching power over companies in the process of failure
- Delays and asymmetric information in external administrations facilitating over-servicing by insolvency professionals but not the original object of the law
- Conflicts of interest and "soft landings" for directors of failed companies.

On 26 November 2012, Anchorage Capital purchased the Dick Smith business from Woolworths for A$115 million. On 4 December 2013, Dick Smith was floated with market capitalisation of A$520 million. The float has since been described as "the greatest private equity heist of all time" while the chain's founder, Dick Smith, who has not been actively involved in the business since 1982, reportedly described it as "utter greed and seemingly unethical".

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Divergent financial information surrounds Woolworth's sale of the Dick Smith business to Anchorage. Firstly, the parties do not agree on the book value of Dick Smith inventory at the time of the sale transaction. Secondly, the parties seem to have irreconcilable accounting for the transaction. Woolworths claims it made a small gain after a series of devaluations and provisions. Anchorage claims it made a gain of AUD$146 million because it bought a business at a significant discount to the fair value of net assets.

On 30 November 2015, Dick Smith surprised the market by announcing it required an inventory write-down of $60 million. 3 months before, the company's financial statements for 28 June 2015 were audited with no adverse findings. Inventory management is an essential metric for a retailing business and would be seen as a key risk area for the auditors. Therefore, the inventory problem either happened over a short period or it has developed over a longer period and was missed by the directors and the auditors.

On 5 January 2016, Dick Smith announced that receivers and administrators had been appointed. Customers who purchased Dick Smith gift cards for Christmas 2015 were told these would not be honoured. The secured creditors (banks) of Dick Smith determined the timing of the receivership and they rank before other creditors.

Dick Smith had over 2,000 stores located across Australia, most of which will now be closed, with a small proportion converted to JB- FI-HI. The store closures will leave a significant tenancy gap in the many shopping centres in which they were a tenant.