Sir Tom soars on as Flying Brands takes flak

The billionaire could still meet his charity pledge, despite another profit warning for online operation

By James Thompson

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After a tough few years in retail, the billionaire Sir Tom Hunter was enjoying recent trips to the high street with his West Coast Capital investment vehicle.

The Scottish philanthropist sold Office in a deal worth £150m to Silverfleet Capital last December, which netted him a return of nearly 10 times his investment in the shoe chain in 2003. Less lucratively, he sold the struggling USC and Cruise branded clothing chains to Sports Direct, the sportswear giant, for £7m in July.

But the spectre of a lousy retail investment came back to bite Sir Tom – who in 2007 vowed to give away £1bn to charitable causes during his lifetime – yesterday in the shape of Flying Brands, the online retailer of gardening items, gifts and entertainment products. The group issued its third profit warning this year and said that, "in the absence of any further action", it would breach its banking covenant test in mid-October.

This led to its shares crashing by 7.25p, or 39 per cent, to 11.5p. As a result, Sir Tom, who owns 26.9 per cent of the listed home shopping specialist, has seen the £23.6m he invested in Flying Brands in late November 2006 crash by more than 96 per cent.

Since hitting an all-time high of 324p on 1 December 2006, Jersey- based Flying Brands – which was founded in 1981 originally as Flying Flowers and listed on the London Stock Exchange in 1993 – has largely been on a downward trajectory.

For a plethora of reasons, the group has lost its way. In particular, Flying Brand's two core businesses – Gardening

Direct and Flying Flowers – have seen their market share and competitive edge slowly but surely eroded by specialists, such as Interflora, the big supermarkets, as well as John Lewis and Marks & Spencer.

Robert Clark, the senior partner at Retail Week Knowledge Bank, said: "It is an established marketplace and one where there is quite a lot of competition and the big multi-channel retailers, such as the M&S's of this world, have got in on the act, and they have made life very difficult for the specialists."

However, like any business that runs on hard times, the decisions made by management along the way appear to have contributed to Flying Brand's woes. Sir Tom has at times lambasted its board. For instance, West Coast Capital slated the management team for their inaccurate forecasts in January 2009 after a profits warning. At that time, a West Coast Capital spokesman said: "Last year [2008], we attempted to acquire this business citing its need to significantly restructure; today we see why."

But Sir Tom's decision to walk away from a takeover of Flying Brands in November 2008, either looks like a smart or very lucky one, although hanging on to his stake for so long does not.

Certainly some of Flying Brands' acquisitions have raised eyebrows. In January, it bought Dealtastic, the discounting website. However, just six months later, Flying Brands said its "reduced cash position plus the slower-than- expected sales growth at Dealtastic means that we don't believe it is appropriate for us to continue to fund a start-up internet company," although it continues to have a 25 per cent stake.

Skip forward to yesterday, Flying Brands blamed a dire performance at Gardening Direct, thought to be largely down to a dreadful August, for another profit warning. Its house broker Singer Capital Markets now forecasts it will make a loss of about £1m this financial year.

As for Sir Tom, who declined to comment, it is thought that West Coast Capital is again now agitating for change at Flying Brands to get the business back on track.

The retailer looks like it will breach an underlying-profit-to-cash- flow banking covenant test, unless it sells some of its freehold property assets. The company said it was at a "very advanced" stage concerning the sale of certain "non-core property assets", known to be at least one in Jersey.

But Sir Tom still has plenty of irons in the fire and cash in the bank.

In addition to selling Office last year, he also pocketed about £31m after PSN, in which he had an 8 per cent stake, was acquired by rival energy services firm Wood Group in December.

The entrepreneur could also be in line for another hefty pay day later this year, if the Garden Centre Group, previously Wyevale, is sold for up to £300m.

Sir Tom's equity in the group was slashed from 40 per cent to his current 25 per cent in a debt for equity swap with HBOS (now part of Lloyds) in December 2008. But Rothschild kicked off the process to sell Garden Centre Group this week. The 130-store group's property alone is worth over £300m. While a sale could lead to a merry Christmas for Sir Tom, probably best not to send him a Flying Brands present.

The Billion-Pound Promise

*It was at his luxury villa in the South of France that Sir Tom Hunter made in 2007 arguably the most audacious promise ever made by a British philanthropist.

Speaking to the BBC, he committed to give away £1bn during his lifetime to good causes. But then the credit crunch blew in and he remains a long way off that target. That said, the 50-year-old has already invested "close to £50m" in social causes, such as in Britain and Africa, through the Hunter Foundation. This is no mean feat for a man who started his career selling trainers from the back of a van and went on to sell Sports Division, the sportswear group, to JJB Sports for £290m in 1998.

However, since 2007, his investment record has been far patchier. Sir Tom suffered huge losses on investments in McCarthy & Stone, the British retirement home specialist, and Crest Nicholson, the house builder, during the last recession. But he has recently pocketed some lucrative payouts, notably the sale of Office, his branded shoe chain, for around £150m in December 2010.

He also still has stakes in eCommera, the web technology firm, and 11 per cent in House of Fraser. The department store has defied the downturn and could eventually be sold for a