Mike Ashley's end-game uncertain after Sports Direct's £90mln acquisition of House of Fraser

Sports Direct International PLC’s (LON:SPD) acquisition of collapsed department store chain House of Fraser (PRIVATE:HOF) on Friday occupied acres of newsprint - and page impressions - over the weekend and into Monday, with commentators mainly undecided on what owner Mike Ashley's end-game might be.

The controversial billionaire - who also owns Premier League football club Newcastle United - paid £90mln in cash for the 169-year-old retailer's 58 UK department stores, the House of Fraser brand and its stock after it collapsed into administration.

READ: Harrods of the High Street: Ashley's ambition as Sports Direct grabs House of Fraser for £90mln
In a statement on Friday, the Sports Direct chief executive commented: "We will do our best to keep as many stores open as possible. It is vital that we restore the right level of ongoing relationships with the luxury brands. Our deal was conservative, consistent and simple. My ambition is to transform House of Fraser into the Harrods of the High Street."

The acquisition sparked chatter that Ashley could engineer a merger of House of Fraser with listed department stores rival Debenhams, in which Sports Direct holds a 30% stake.

Newspaper reports at the weekend speculated that Ashley will undertake a massive overhaul of HoF and then use his stake to push for an equally radical restructuring of Debenhams.

Rival retail billionaire eyed
The Daily Telegraph said rival retail billionaire, Edinburgh Woollen Mill Group owner Philip Day - who reportedly missed out to Ashley in the bidding for House of Fraser - could also target Debenhams as the battles on the high street intensify.

However, in an email, a spokesman for Philip Day said: "Mr Day has absolutely no interest in Debenhams."

Meanwhile, the Times said Day had urged House of Fraser's new owner to "do the right thing" and pay at least £70mln to all the department stores group's suppliers and concession holders because he clinched the deal so cheaply.

Strategy far from clear
In a comment on Ashley's purchase on Monday, independent retail analyst Nick Bubb said that "it is far from clear if he really knows what he has taken on", adding that "there must be a big risk that the deal will back-fire on him".

Bubb continued: "Our first reaction was that £90mln was quite a lot to pay for the business, even debt-free, given that it
is heading for a loss of over £50mln on gross sales of c£1.1bn this year (albeit first-half weighted) and restructuring will cost a lot of money”.

He added: “Despite the claim that ‘We will do our best to keep as many stores open as possible’ we suspect that he will end up selling on a handful of the best stores to John Lewis/Selfridges and dump the worst stores with the likes of Philip Day and try to keep the rump as an upmarket trophy to show off to Nike and Adidas.”

Eclectic investments
Meanwhile, Laith Khalaf, senior analyst at Hargreaves Lansdown said in a note on Friday: “While by no means all of Mike Ashley’s eclectic investments across the retail landscape have been failures, Sport Direct recently witnessed a 72.5% fall in profits as a result of an £85.4mln loss on its 30% stake in Debenhams.”

He added: “Investors might be more willing to accept such setbacks if there was a better sense of a joined-up strategy at play, though that has been distinctly lacking from Sports Direct’s portfolio of strategic investments, and is notably absent from the House of Fraser purchase.

"Hopefully more details will be forthcoming in the coming days, though for the moment Sports Direct shareholders will be left scratching their heads, and House of Fraser staff will still be wondering what the future holds.’

WATCH: Mike Ashley’s Sports Direct rescues House of Fraser in £90mln cash deal
But analysts at Liberum Capital were slightly more upbeat, saying: “The potential to leverage HoF’s assets could provide another leg to SPD’s elevation strategy, and enhance brand relationships for both businesses."

In a note to clients on Monday, they said: "While we await further details of the deal, we see the rewards of the strategic move as credible although acknowledge it is not without risks.”

The Liberum analysts added: “The shape of the future HoF business remains uncertain, but the rescue deal, supported by SPD’s balance sheet and strong management team, is likely to steady the ship over time and secure a more sustainable growth platform.

“This is a potential negative for Debenhams PLC (LON:DEB), where we expect the management team will be less pleased now that Mike Ashley has become a direct competitor.”

However, the market seemed focused on the potential for corporate action at Debenhams in the wake of the HoF move, with its shares up 8.9% in afternoon trading on Monday at 12.67p.

Investors were more sanguine over Sports Direct shares, which lost 1.5% at 399.4p.

-- Adds comment from Philip Day spokesman --
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