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Execs in a hole as Krispy Kreme sours

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FAST FOOD

A GROUP of prominent businessmen, including RAMS Home Loans founder John Kinghorn and veteran investor Robert Millner, has been caught up in the collapse of the Krispy Kreme doughnut chain, which is seeking to restructure under the watch of an administrator.

Krispy Kreme Australia has appointed insolvency firm Smith Hancock to oversee the business, blaming a number of under-performing stores across the group.

However, financial accounts for the fast-food chain, which has grown to more than 50 stores nationwide since its launch seven years ago, reveal it has been struggling for several years.

Filings to the Australian Securities & Investments Commission reveal Krispy Kreme Australia posted a \$12.5 million loss in 2008. And while sales jumped 7 per cent to \$57.9m last year, the company reported a profit of just \$62,000, with trade debts and payables outweighing liquid assets by more than \$5.5m.

It is understood the company's board had been in considering a restructure or a sale, but was concerned about its ability to trade through the process.

Krispy Kreme Australia managing director John McGuigan said a combination of factors, such as location, sales declines, high rents and distribution costs, resulted in some stores losing money.

"Directors have determined that a restructure is necessary and the appointment of a voluntary administrator is the responsible action in view of the risk of insolvency," Mr McGuigan said.

"The appointment has the support of the company's secured lender and its franchiser, Krispy Kreme Doughnut Corporation."

The local arm of the US-owned chain was established by Mr McGuigan, a former chairman of global law firm Baker & McKenzie, and opened its first store in June 2003.

His fellow directors include Mr Kinghorn, who is reportedly worth more than \$300m, Brumby's Bakeries co-founder Michael Sherlock and one-time NSW government adviser Greg Jones.

Continued on Page 26

Execs hit as Krispy sours

Continued from Page 25

Investors include Mr McGuigan's Australian Donuts, Souls Private Equity, which is chaired by Mr Millner, and the collapsed Allico Managed Investments.

Souls Private Equity wrote down its \$18.8m investment in the company to nil in 2008, announcing it would make no further investments.

Despite its initial popularity

and rapid growth, Krispy Kreme has sparked various health concerns. The American parent company has also struggled to maintain sales amid a consumer backlash but has recently shown signs of a turnaround.

The administrators to the local group have yet to advise whether any of the 800-plus employees will lose their jobs,

but Mr McGuigan has promised that all entitlements will be met in full.

"The directors believe the company's core business . . . remains strong and that a financially stable company will emerge from the process," he said.

Stores are expected to continue trading throughout the administration.