

Income fund on the move

122 stores for Sterling

Andrew Petrozzi

Richmond-based **Sterling Shoes Income Fund's** (TSX:SSI.UN) eastward march shows little sign of abating after the company announced it would more than double the number of its Ontario stores in the coming months.

"Sterling has developed considerable momentum in the marketplace," said **Jeremy Horwitz**, Sterling's president and CEO.

The company has thus far opened 10 stores in Ontario, and Horwitz said Sterling plans to open another 11 Ontario stores in time for the fall 2006 season.

Overall, the company, which had 100 stores as of last July, aims to have at least 122 stores in operation by July 31. Sterling, Horwitz revealed, is also readying a new concept store on Robson Street.

The 800-square-foot outlet will be known as **Gia** and offer fashionable and athletic footwear for women, along with handbags and other accessories, according to Horwitz.

It's scheduled to open in April. Average shoe prices will range from \$120 to \$150; boots will cost from \$200 to \$350 on average, he said.

"The majority of the store will be branded with all the latest fashion athletic brands [such as **Puma**, **Lacoste** and **Diesel**] as well as edgy European brands. There is going to be some product in there from European branded vendors that you're not going to see in many other stores."

Gia will either rollout as a chain or be a testing ground for new ideas and fashion trends for the balance of the chain, said Horwitz.

"We expect it to be profitable right from the word go."

The fund already sells shoes under four retail banners – **Sterling**, **Freedman's**, **Joneve** and **Shoe Warehouse** – three of which are located on Robson near Gia.

Horwitz has no concerns about the stores' proximity. Each caters to different segments of the market, he said.

"There's so much competition on the street as it is, either we control the space or somebody else controls the space and puts footwear in."

Sterling's expansion plans follow the release of strong fourth-quarter results.

The company's store sales increased 22 per cent to \$24.1 million from \$19.8 million compared with the same period in 2004. Quarterly net income was \$1.4 million, or \$0.21 per unit.

Sterling's first annual report covered the 173-day period ending December 31, 2005.

Sales for the 173 days were \$43.7 million, up 19 per cent from the same period in 2004.

Net income was \$4.4 million, or, \$0.66 per unit.

Distributable cash generated was \$4.7 million, from which the fund declared distributions for the 173-day period totalling \$4.4 million, or \$0.67 per unit.

Horwitz pointed out that the forecast for the monthly distribution was \$0.0896 per unit.

He said Sterling's success springs in part from its diversified portfolio of retail banners.

"We're able to target certain banners in certain shopping centres where the opportunities come up for leasing. We're not trying to knock a round peg into a square hole," he said.

For **Michael Penalosa**, a senior retail consultant with **Thomas Consultants Inc.**, the multi-banner approach is being effectively used by a number of fashion retailers including Sterling.

"I think it is a very successful and creative strategy because under one store name or banner you may not penetrate all



DOMINIC SCHAEFER

Sterling CEO Jeremy Horwitz: "Sterling has developed considerable momentum in the marketplace"

of the customer segments," he said.

"The only caution is that when they do this, they have to choose one.

"They have to be very specific in who they are catering to so there is no loss or cannibalization between stores."

Sterling's positioning at the mid-point of the industry's price-point range makes them attractive to the majority of the market, he said.

Sterling also plans to set up an Ontario distribution system, according to Horwitz.

He said it would neither generate additional costs for the fund nor produce any financial savings.

"But it certainly will enable us to get product to market faster," he said.

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