Dick Smith retail chain failure gives capitalism a bad name

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This is article explains what happened with the Dick Smith retail chain (Note: Dick Smith himself sold his chain, including his own name as the brand name. It starts with a fire sale.

Why is Dick Smith Electronics closing down and why are it's 3,300 employees now out of work? Let's run through a very simple timeline of events in plain English.

1. In 2012 Anchorage Capital, a private equity group, purchased Dick Smith from Woolworths for $115 million.
2. Anchorage pays $20 million in cash with the balance plus interest to follow.
3. Dick Smith has cash reserves of $12.6 million so Anchorage has effectively paid only $7.4 million.
4. On 26 November 2012, Dick Smith had inventory that was valued at $371m but Anchorage now wrote the value down by $58 million.
5. In 2013 Dick Smith had EOFY clearance sales where the stock was sold off. The clearance sales saw $200 million of stock sold for $140 million (the operating cash flow) but due to the write downs $7 million was profit. Dick Smith did not restock the inventory so the $140 million was now classed as profit.
6. Anchorage uses $117 million of the "profit" to pay Woolworths the balance of the purchase plus interest and uses the rest to open 15 new stores and take over the electronics departments of David Jones to maximise the company's initial public offering (IPO) valuation.
7. Anchorage now has a company with little inventory, huge sales growth and big profits. The books look amazing and Anchorage now forecasts a huge profit for 2014 and the business is floated on the stock market at $2.20 a share which brings in $520 million.
8. Anchorage sold the last of the shares in late 2014 and walked away with a $500 million return for their $10 million investment two years earlier.
9. The new shareholders were now footing the bill for repurchasing inventory. This should have resulted in a poor operating cash flow, but most of the repurchasing was funded by suppliers. Come the end of the 2015 financial year, the operating cash flow was negative $4 million and the suppliers were demanding payment.
10. The shareholders are now forced to take out a $71 million loan to finance purchases while sales and profit margins are sinking. Now owing $150 million Dick Smith goes into administration.
11. In 2016 the stores are closing down and 3,300 employees are looking for new jobs.

Economist Jason Murphy said Anchorage had used a perfectly legal accounting manoeuver to write down the value of its inventory, raise profits through a national fire sale, neglect to restock shelves and open a massive number of new stores to maximise the company's IPO valuation.

It's what private equity firms do, and why some people live in $12 million harbour-front mansions, while others scratch their heads wondering what just happened.

It's just an example of what gives capitalism a bad name, and engenders socialist calls for state-ownership.