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Sears and K-Mart Stores File Chapter 11. Sears Seeks to Sell Approximately 400 Stores as a Going Concern

10.17.2018

Iconic American retailer, Sears Holding Company, which operates both the Sears and K-Mart brand locations (including Big-K, Sears Automotive Centers and other related companies) filed Chapter 11 Bankruptcy in the Southern District of New York.

Sears formed over 120 years ago, and, at the time, pioneered the sale of consumer goods via mail order catalog, allowing rural customers access to the most current retail products – with the famed Sears catalog being something like a pre-internet version of Amazon. As the US population became more urban, Sears transitioned to hundreds of bricks and mortar stores selling everything from appliances to clothing.

Sears has struggled substantially to adapt to the new business environment and competition. In addition, Sears has been hamstrung by legacy liabilities, including obligations on its defined benefit retirement plans for employees and its secured obligations.

In the words of Sears' proposed financial advisor:

Years of declining sales caused by adverse market conditions and competitive pressures from online retailers combined with high debt burden have resulted in a severe liquidity crisis. Despite the Company's efforts to monetize assets, improve operational efficiencies and reduce overhead, Sears has not been able to stop the decline in its sales, EBITDA and overall cash position. In addition, the Company's substantial debt burden resulted in an annualized cash interest expense of approximately \$440 million. This combination of operating pressures and a high level of interest expense resulting from an unsustainable capital structure has pressured the company's cash flow and led to a liquidity strain that ultimately precipitated the filing of these cases.

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Declaration of Mohsin J. Meghji, managing director of M-III partners, proposed financial advisor to Sears.

Sears remains a significant retailer. Sears sales in FY 2017 were \$16.7 Billion. However, this was a substantial decrease of over \$5.4 billion from 2016, and even more from previous years. Over the last 5 fiscal years, Sears' revenues have declined by \$19.5 billion.

In its Chapter 11 Case, Sears intends to sell 400 profitable stores as a going concern and to separately sell other non-core assets. At the same time, Sears is moving immediately to close 142 non-performing locations, which have caused a \$125 million monthly operating burn. There are another 145 stores as to which Sears has not yet made a decision.

Sears' Chapter 11 Case impacts suppliers, financial institutions, landlords, other retailers, and Sears' 60,000 employees. Butzel Long's experienced restructuring and insolvency team, led by Tom Radom and Max Newman are available to assist with any questions or concerns.

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