

Sears races to avoid outright liquidation after bankruptcy filing



Ruth Parrington, a librarian at the Chicago Public Library, studies early Sears Roebuck catalogues in the library's collection © AP

Alistair Gray in New York OCTOBER 15, 2018

[Sears](#), the US department store chain that filed for bankruptcy on Monday, has urged its creditors and suppliers not to throw the once-dominant company into the “dustbin of history” as it races to avoid an outright liquidation.

About 68,000 jobs are in jeopardy as the retailer, a byword of suburban consumerism for generations of Americans, battles to emerge from Chapter 11 and stay in business as a smaller entity.

Some lenders and investors have warned that liquidation could be unavoidable given Sears’ persistent failure to adapt successfully to upheaval in the industry. The company is burning through about \$125m in cash per month, according to court papers. About 200 vendors have stopped shipping merchandise within the past two weeks.

President Donald Trump described the company’s downfall on Monday as “very, very sad”.

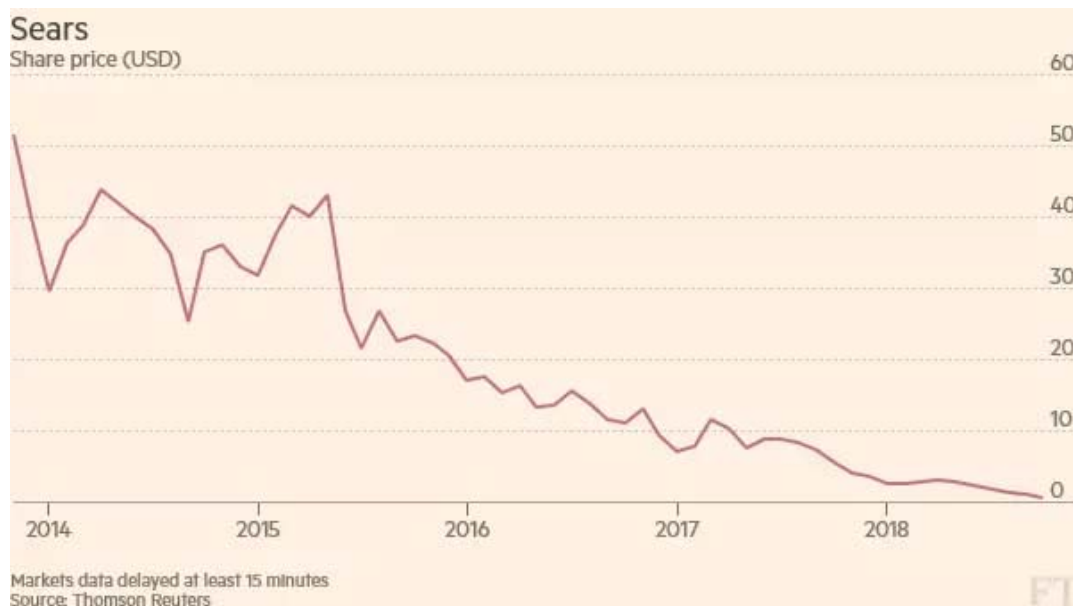
“It’s been, obviously, improperly run for many years,” the president said.

Eddie Lampert, who has led the group for about 14 years, remains hopeful that Sears can escape liquidation by restructuring around a smaller number of stores.

“The following question should remain at the forefront of every stakeholder’s mind: will Sears be relegated to the dustbin of history, and will 68,000 Americans lose their jobs, or will [it] enter the next chapter,” said Robert Riecker, chief financial officer.

Among Sears’ largest trade creditors, according to court papers, are Whirlpool Corporation (owed \$23m), Frigidaire (\$19m) and Winia Daewoo (\$15m). Cardinal Health is owed \$14m and Tata Consultancy Services \$5m.

The biggest unsecured creditor is Pension Benefit Guaranty Corp, the US government agency that insures pensions, but the sum it is owed is classified in court documents as “unknown”. Total liabilities of \$11.3bn compared with \$6.9bn in assets.



Lenders have stumped up \$300m in so-called debtor-in-possession funding to allow the retailer to keep operating during the bankruptcy. As part of the arrangement, at least 142 stores will close. Liquidation sales will begin shortly.

Mr Lampert himself, who is also Sears’ largest creditor, is in talks to contribute a further \$300m in such funding through his ESL hedge fund to help the company continue to do business through the year-end festive season. This would be subject to court approval, however. Mr Lampert is stepping down as chief executive and his role will be split between three senior executives, including Mr Riecker.

ESL could yet purchase some of the assets out of bankruptcy. It said it was in discussions about making a so-called stalking-horse bid for the purchase of a “large portion” of the store base.

Sears traces its roots to a mail order company in the 1880s that went on to become the country’s largest retailer. The eponymous tower that housed Sears’ head office in Chicago was once the world’s tallest building.

But the company floundered in its efforts to compete first with lower-cost rivals such as Walmart and Costco in the 1970s and 1980s, and more recently with online retailers such as Amazon.

Sears Holdings, created by a combination engineered by Mr Lampert in 2004 of Sears and Kmart, another big-box department store chain, has racked up more than \$10bn in losses since the turn of the decade.



© Bloomberg

Hugh **Ray**, head of bankruptcy practice at McKool Smith law firm, said: “Some of the lenders have sort of said, ‘You’ve had enough second chances — this is the end of the line’.”

Sears, now based in suburban Chicago, is the latest casualty in an industry grappling with the rise of ecommerce, and the most high profile since the [liquidation of Toys R Us](#) last year.

Yet the bankruptcy filing comes at a time when the outlook for the sector is looking brighter as a robust US economy has encouraged consumers to spend, a sign that Sears’ corporate shortcomings — rather than wider trends — were its undoing.

Weil, Gotshal & Manges is serving as legal counsel, M-III Partners as restructuring adviser and Lazard Frères & Co as investment banker. William Transier, a restructuring expert, is joining the board.

Get alerts on Sears Holdings Corp when a new story is published

Get alerts

[Copyright](#) The Financial Times Limited 2018. All rights reserved.