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BANKRUPTCY UPDATE

Expert Analysis

Retail Restructurings Related To COVID-19 Shutdowns

By **Edward E. Neiger**

This issue of the Bankruptcy Update focuses on the latest wave of restructurings in the retail sector, including J. Crew, Neiman Marcus and Stage Stores, as the industry falters under the weight of COVID-19 pandemic shutdowns.

Crew Group

On May 4, 2020, J. Crew Group Inc. and affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Eastern District of Virginia becoming the first major retailer to commence bankruptcy proceedings in the midst of the coronavirus pandemic. *J. Crew Group* (Bankr. E.D. Va. 20-32185).

Originally founded as a catalog retailer, J. Crew opened its first store in 1989 and eventually grew its footprint to 181 J. Crew stores, 140 Madewell stores and 170 factory stores, along with an e-commerce platform. In 2011, TPG Capital and Leonard Green & Partners LP purchased the company for $3 billion. Subsequently, in 2019 J. Crew, contemplated a restructuring that would spin off the Madewell brand to a separate company, though these plans appeared to be abandoned as Madewell is slated to remain part of the company under the envisioned bankruptcy plan.

To fund operations under Chapter 11, the debtors secured a $400 million debtor-in-possession financing facility to be provided by prepetition lenders including Anchorage Capital Group, CSO Capital Partners and Davidson Kempner Capital Management.

The debtors will seek to implement the terms of a transaction support agreement entered into with approximately 71% of the company's prepetition term loan lenders and holders of approximately 78% of their intellectual property company notes and their financial sponsors. The transaction support agreement contemplates a financial restructuring whereby around $1.65 billion of the company's prepetition debt will be converted to equity under a plan of reorganization.

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Neiman Marcus

On May 7, 2020, Neiman Marcus Group Ltd. and affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of Texas. *Neiman Marcus Group Ltd.* (Bankr. S.D. Tex. Case No. 20-32519)

The company, comprised of Neiman Marcus and Bergdorf Goodman locations along with an e-commerce platform, started as a single store operation in Texas over a century ago and grew to 67 stores across the United States.

The bankruptcy filing was widely anticipated as the retailer was battered by store closures necessitated by the coronavirus pandemic and related countermeasures. The closures compounded pressures the retailer already faced as a result of the general shift away from brick-and-mortar to online retail channels and changes in consumer demographics.

The retailer entered bankruptcy armed with a restructuring support agreement entered into with a group of major creditors including holders of over 77% of the debtors' extended term loans, over 99% of the debtors' second-lien notes, and over 69% of the debtors' third-lien notes. The restructuring support agreement sets out the key terms of a forthcoming plan of reorganization, which will seek to deleverage the debtors' balance sheet by around $4 billion and transfer an 87.5% equity stake in the reorganized debtors to holders of 2019 term loan claims.

To fund operations during Chapter 11 the debtors secured a $675 million debtor-in-possession financing facility from their existing term loan lenders and noteholders, with $275 million made available upon entry of an interim order approving DIP financing on May 8, 2020. Access to financing was approved over objections of Marble Ridge Capital, a significant prepetition unsecured noteholder that was engaged in prepetition litigation with the debtors and their equity sponsors Ares Management and the Canada Pension Plan Investment Board. Signaling further litigation, Marble Ridge raised questions regarding propriety of certain prepetition transactions involving the debtors' redesignation of their MyTheresa e-commerce assets into certain unrestricted subsidiaries and subsequent transfer to the Neiman Marcus parent.

Stage Stores

On May 10, 2020, Stage Stores and affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of Texas. *Stage Stores* (Bankr. S.D. Tex. Case No. 20-32564).

Stage Stores was founded in 1988 following the acquisition of the Palais Royal and Bealls retail chains. Following a period of rapid expansion, the company filed Chapter 11 proceedings in 1999. After emerging from bankruptcy, the company acquired the Peebles and Goody's names. Subsequently, in 2017 the company acquired Gordmans via a §363 sale in Gordmans' own Chapter 11 proceeding.

The debtors implemented an operational reorganization in late 2019 by moving to an off-price model. Initially, the debtors converted 82 stores to the new model and planned to convert 220 additional locations when the pandemic forced them to shutter over 700 stores leading to a liquidity crisis. The debtors anticipate opening 550 of their stores by May 15, 2020, another 67 by May 28, 2020 and the remaining stores by June 4, 2020.

The debtors are not seeking approval of any DIP facility at this time and will seek to rely on their prepetition secured lenders' cash collateral to fund their operations under Chapter 11.

The debtors intend to utilize the Chapter 11 proceeding to effectuate an orderly liquidation of their inventory while simultaneously exploring a going concern sale for all or a subset of their stores.

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