RESTRUCTURING IN RETAIL

The retail casualties of 2016

Tough trading conditions

We may be only a few months into 2016, but already we have seen some casualties on the high street with the likes of Ben Sherman, Brantano, Beales and BHS all requiring financial intervention. Back in December, analysts warned of a "perfect storm" of widespread discounting due to poor Black Friday sales figures, warmer-than-average weather and poor Q4 performance – the most important time of a retailer's year. According to Begbies Traynor, the insolvency firm, nearly 25,000 retailers across the UK were suffering "significant financial distress" in December and these figures are likely to have risen over the past few months.

Ben Sherman

BGSL1963 Limited (**BSGL**), the UK licence holder for menswear retailer Ben Sherman, entered administration in February 2016, immediately to be rescued by way of a pre-pack administration sale to BMB Clothing Limited (**BMB**). A pre-pack administration sale involves a company entering administration and then immediately being bought, or parts of it being bought by a different company (sometimes connected to the insolvent entity), allowing the business to be rescued, shed its debt and start over. BGSL's administrators' proposals as filed at Companies House reveal estimated debt of £14.1m, of which approximately £12.9m was secured and which BGSL was unable to continue to service. BMB acquired stock held at seven of BGSL's retail sites and 13 concessions, the lease for four UK retail outlets and 3 UK retail stores and equipment at those 7 premises. Of note, the deal will lead to the closure of 3 of the 10 UK stores, all of which are in London (Covent Garden, Islington and Portobello).

Brantano

The shoe retailer Brantano was placed into administration in January this year with an estimated deficiency of £16,768,963 to creditors, following trading difficulties in which poor Christmas trading is believed to have played a significant role. A lack of digital presence is also cited as part of the retailer's demise. The company's statement of affairs contained a figure of £5,149,536 in respect of a provision for lease commitments. The business was traded by the administrators whilst interested buyers were ascertained. However, the healthier parts of the business were reacquired by Alteri, the private equity firm which owned Brantano and which put the retailer into administration, leading to some scepticism around the shedding of debts and struggling stores.

Beales

Department store Beales proposed a company voluntary arrangement (**CVA**) to creditors in a bid to reduce rents on a number of its stores, which was approved in March 2016. A CVA is a procedure to help a company address its financial difficulties which will typically see a rescheduling or reduction of a company's debts. If the necessary majority of creditors vote in favour of the proposals, a CVA will then bind all unsecured creditors of the company (at the time of the CVA). A CVA does not affect the rights of secured or preferential creditors unless they agree to the proposals.

BHS

In March 2016 household name BHS announced that it desperately needed to restructure its finances because the rent it is paying on shop units was too high. BHS Limited and BHS Properties Limited proposed CVAs with their creditors with the hope of slashing rent at more than half of stores, with some even closing. The CVA proposals comment that the profitability of the BHS group has declined over the last decade, with 7 consecutive loss making years and increasing losses anticipated for the year 2014/15. Several reasons are cited for this, including a competitive market place, especially in the context of budget retailers such as Primark and the introduction of clothing into supermarket chains. A failure to capitalise on the growing digital sales market has also been attributed to the decline. Both proposals were accepted by creditors in late March.

What is the outlook for the rest of 2016?

Somewhat positively, a recurrent theme amongst those retailers who have entered a process so far this year is that of rescue, whether by a CVA or administration, where struggling businesses have been able to survive notwithstanding difficult trading circumstances and high rents.

However, the outlook for 2016 may present further problems for retailers, especially those already struggling with declining profit margins.

On 1 April 2016, the National Living Wage ("NLW") became law, which has been designed to protect low income workers. From 1 April 2016, all workers aged 25 and over are now legally entitled to at least £7.20 per hour. This represents an increase of 50p per hour per eligible worker (or an extra £4.00 per 8 hour day). Whilst this may not seem like much, multiplied across a large workforce this may have a detrimental impact on the profit margins of some businesses that are already struggling to remain competitive in the marketplace.

Rising business rates will also add to the margin challenge. As has been cited in a number of the recent insolvencies (especially the BHS and Beales CVA), high rent and accompanying business rates have put added strain on profit margins, although the recent Budget announced new measures for the business rates system, including a decision to reduce the burden on ratepayers, ensuring the smallest businesses pay no rates at all and more frequent revaluations.

There are however indications that consumer spending will stay strong during the course of 2016 as commodity prices continue to fall and inflation remains low. Furthermore, where the NLW may have a detrimental impact on retailers' profit margins, this may be balanced by an increase in income for a percentage of the population and a subsequent increase in discretionary spending, although it is yet to be seen how and if this may translate into increased spending in the retail sector.

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