WWD

Another Casualty: Neiman Marcus

● The luxury retailer ultimately collapsed under its $5.5 billion debt load and the coronavirus shutdown.

Neiman Marcus is looking for a quick stay in bankruptcy.

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BUSINESS

Neiman Marcus Group finally fell on Thursday — but is looking to get back on its feet quickly.

Crushed under $4.5 billion in debt from its latest private equity buyout, starved of revenues by the coronavirus shutdown and racing to connect with consumers in a more digital world, the luxury department store filed for Chapter 11 protection from creditors in the U.S. Bankruptcy Court for the Southern District of Texas.

But the tony retailer came into court prepared with a plan to be taken over by its lenders and exit bankruptcy in the fall — a fast turn for such a large bankruptcy, although it's largely the balance sheet that needs to be fixed at the company, which is still seen as having a strong brand and loyal customers and suppliers.

If not unexpected, the filing still caused the luxury world to miss a beat.

Neiman's is a cornerstone of high-end retailing and even if the biggest brands are now retailers themselves and prefer to drive traffic to their own stores, the fashion world has not given up on the idea of refined retail palaces filled with a selection of luxury goods from a broad spectrum of brands.

Unlike Barneys New York — which tugged at fashionista heartstrings as it wound through bankruptcy last year, but failed to find a player to take control of the retailer as a going concern — Neiman's still has a large business, with 43 of its namesake stores (although that number could shrink in the weeks and months ahead).

Just how relevant Neiman's remains is unclear, both in its annual revenues, which tally $5 billion, and the brands it carries, many of which are now owed millions of dollars for orders already shipped.

The top four creditors in the bankruptcy were bondholders (UMB Bank, which does not own the bonds, but is a trustee, was listed as the top two creditors representing debt of $137 million), advisers (Monument Consulting, owed $10.4 million) and Internet advertising (Rakuten Marketing, $7.8 million).

But the creditors list below that was littered with high-profile brands that sold goods to the retailer.

Among the hardest hit were Chanel Inc. (owed $6 million), Veronica Beard ($4.3 million), La Mer ($3.5 million), Gucci America ($3.2 million), Dolce & Gabbana USA ($2.7 million), Stuart Weitzman ($2.6 million), Theory ($2.5 million) and Christian Louboutin ($2.3 million).

All together, Neiman's said it owes its trade creditors nearly $200 million.

Prior to the COVID-19 shutdown, shipping to the heavily indebted Neiman's was something of a calculated risk. The retailer has been under the microscope for a least a year with many industry players watching warily, waiting for the situation to unwind. But the end came quicker than many expected as a result of the coronavirus.

Now the company is at least on the path toward getting a fresh start, having received money from lenders to tide it over during the bankruptcy.

"We will honor our commitments with our vendors and be well-positioned to pay invoices for goods and services we receive from May 7, 2020, onward under our normal payment terms. In addition, there will be no impact to the orders we've placed," the company said.

It's a whole other story for orders received before that. Payment will be overseen by the court and typically vendors see only a small portion of what they are owed — a bad situation at any time, but one that could be deadly for suppliers looking to hold on through an economic storm not seen since the Great Depression.

But for Neiman's, at least, its big moment of change has come.

The company has been lumbering for years under an unsustainable debt load that stemmed from its 2013 takeover by Ares Management and the Canada Pension Plan Investment Board. At the time of its filing, Neiman's had funded debt obligations of $5.5 billion. (Mytheresa, which was shifted away from the retailer in a move contested by some lenders, is not a part of the bankruptcy and will continue to operate independently).

Ares and the CPPIB paid a surprisingly strong $6 billion to take the company off the hands of TPG and Warburg Pincus, which owned the company for eight years themselves. The private equity handoff saddled Neiman's with about $300 million in annual interest payments — leaving the company encumbered as it tried to reinvent for the digital age.

The bankruptcy process gives the retailer something of a fresh start.

Neiman's went to bankruptcy court with $675 million in debtor-in-possession financing and a binding restructuring agreement with lenders holding more than two-thirds of the company's outstanding debt. Creditors have also committed to a $750 million financing package to exit bankruptcy and continue its evolution.

The plan is to finish pushing Neiman's through the Chapter 11 process in the fall and eliminate $4 billion in debt along the way, leaving the company in the hands of its lenders.

"The binding agreement from our creditors gives us additional liquidity to operate the business during the pandemic and the financial flexibility to accelerate our transformation," said Geoffroy van Raemdonck, chairman and chief executive officer of the retailer. Prior to the filing, Neiman Marcus Group and the associated Mariposa Intermediate Holdings were set up with new boards to lead the restructuring process. Both boards are chaired by Van Raemdonck.

"We will emerge a far stronger company," Van Raemdonck said. "In a world that is changing, we are uniquely positioned to give our brand partners access to our loyal luxury customers like no other company. We will deliver that through the strength of our associate relationships and digital solutions."

The new owners under the plan are TPG Capital, Pimco and Davidson Kempner Capital Management. One source noted that TPG Specialty Lending, led by ceo Joshua Easterly, has been deeply involved in the process and a key lender set to play an important role at the company.

That brings TPG back into the picture at Neiman's, which seems like some luxury jewel that private equity players and bigmoney investors can't quite help but covet.

There are instances where private equity companies have helped supercharge businesses and strengthen them. Carlyle Group spent big to buy into Supreme, which is positioned for continued growth now that it's secured its Chinese trademark, and Canada Goose Holdings has gone from strength to strength with the backing of Bain Capital.

But lately the more troublesome private equity examples have been in the fashion headlines. The TPG Capital and Leonard Green & Partners-backed J. Crew Group Inc. went belly-up on Monday, and the Lion Capital-backed John Varvatos filed for Chapter 11 bankruptcy on Wednesday.

Ironically, the terms of the J. Crew bankruptcy are similar to those at Neiman's, with the creditors taking control of the retailer in a debt-for-equity swap.

The arrangements are an indication of how in the boom years private equity players loaded both retailers with what was in the end unsustainable debt in the hopes that they could eventually flip them at huge profits — and how few and far between potential buyers for those businesses are in the current economic environment.

J.C. Penney Co. Inc. — which never quite recovered from the failed reinvention that came after Pershing Square Capital Management started pushing for change and Ron Johnson was brought in as ceo — is seen as next in line and is expected to file next week, although the company is still said to be exploring its options.

Real alternatives — for Penney's which missed an interest payment last month and for retail overall — are being harder to come by.

"This is a really scary time for any nonessential retailer or brand that relies heavily on brick-and-mortar retail sales," said Matt Kaden, managing director of MMG Advisors Inc. "The collective magnitude of this pandemic on physical retail and potential collateral damage dwarfs any one filing.

"Neiman Marcus, like J. Crew, was so overleveraged that this seemed unavoidable precrisis," Kaden said.

"This pandemic was an accelerant to that inevitability."

Now that the deed is done, Neiman's can focus more squarely on the future — not that the road will be easy.

The company said its stores — including Neiman Marcus, Bergdorf Goodman and Last Call — would remain mostly closed for the rest of this month, extending furloughs and salary reductions.

However, 10 of the company's stores are offering customers a curbside pickup service, including all of the Texas Neiman's stores and locations in Tampa, Las Vegas and Tysons Corner stores in Virginia. And this week stores in Atlanta and Dallas started allowing private appointments with customers.

The firm operates 43 Neiman's stores and two Bergdorf Goodman locations, as well as an online business that includes neimanmarcus.com and bergdorfgoodman.com.

For vendors, the key question is whether Neiman's will be able to pay its bills during the bankruptcy, and what sort of assumptions the retailer is making about its ability to

reopen and just how many stores it plans to keep.

Gary Wassner, ceo of Hilldun Corp., a key fashion factor guaranteeing shipments to retailers, said: “I’m very encouraged by the announced terms of the filing.

Neiman Marcus should be much stronger henceforth, and continue to pursue its plans as outlined pre-petition, more vigorously. I look forward to being able to approve future orders as soon as the dust settles on the bankruptcy and I fully understand the financials. We’ve always had a transparent and very productive relationship with Neiman Marcus and Bergdorf Goodman, and I respect the talent and intelligence of the leadership.

This bankruptcy was inevitable, and now a positive future can be the focus, even during these challenging times.”

Ellen Kinney, president of Los Angelesbased contemporary sportswear firm A.L.C., said: “We will begin shipping Neiman’s if/when our factor, Hilldun, approves them. Hopefully they will restructure and prevail. They are great partners to us, but we cannot take any risk in house.”

Deirdre Quinn, cofounder and ceo of Lafayette 148, said she also plans to keep shipping.

“Yes, as soon our bankers work with theirs, we are good, and I am happy about that,” Quinn said.

Mark Badgley, partner with James Mischka in Badgley Mischka, noted Neiman’s has been their flagship account for more than 30 years. “They are our largest account and amazing partners and always have been. We’ve never missed a season with them. James and I have done countless, hundreds and hundreds, if not thousands of events with them over the decades. James and I just did our 30-year anniversary and went to all their top doors [15 of them] and did a series of events with them with all their top customers. They’re like family to us.”

The brand plans to continue to deliver to the retailer. “We’re working on the assortment right now, just waiting for final plans,” Badgley said.

“It’s nice to have some sort of closure because it’s been looming for a very long time,” added Mischka.

“We’re talking with our buyers and our divisional and we’re friendly with the upper management there, and they’ve been very helpful.” As opposed to 9/11 when stores were canceling orders left and right, Mischka said stores are now trying to flow their deliveries, including Neiman Marcus, so Badgley Mischka is not stuck with merchandise they can’t do anything with. And when Neiman Marcus needs merchandise, they’ll be ready to go.

“We were just talking to their buyer, and they’re very excited because now they have a road map to follow as well,”

Mischka said. “They’re getting a huge amount of support from management at the store.

…I think everyone's glad to know what's really going on."

Neiman's filing highlights some of the biggest challenges facing retail during the COVID-19 pandemic. It's difficult to court potential consumers, or even to make reliable revenue projections, while stores are still closed. Some companies are starting to reopen, but only tentatively as local governments give the go-ahead and everyone is watching closely to see if the number of COVID-19 cases spikes with a little less social distancing.

Bankruptcy during this morass of uncertainty is uncharted territory.

"The big point of suspense is, what's their business going to be like when the pandemic is over? Will the luxury customer come back?" said Mark Cohen, director of retail studies at Columbia Business School, who was previously chairman and ceo of Sears Canada Inc.

"No one knows with any clarity when the businesses can reopen, and…under what circumstances can they open, and how will the customer feel about shopping from a health point of view or a financial point of view," he said.

The bankruptcy proceedings themselves may also be complicated by a lack of visibility into revenues in the coming weeks and months. That uncertainty complicates the calculus not only for vendors, which may hesitate to continue shipping to a retailer unable to pay its bills during the bankruptcy, but is also likely to deter lenders uncertain of what returns they can expect from a transaction in the current climate.

"Restarting a business after having it shut down is not like turning on a light bulb," said Bradford Sandler of Pachulski Stang Ziehl & Jones LLP, who is not involved in the bankruptcy.

"It takes a huge effort, and, in all likelihood, it has to be done in stages," he said. "Until the consumer public feels it's safe outside, it's going to take time for revenue to ramp up, and no one knows how long that will take."

Neiman's now has some breathing room to figure it out.

But it hasn't been and easy road.

The company was on said to be on the edge of filing for weeks and while some out parties showed some interest — including Hudson's Bay Co.'s Richard Baker — the financing package was seen as touch and go with sources at times, indicating that an outright liquidation was possible.

Ultimately, the company went into bankruptcy with a plan for a quick exit and the way its restructuring plan was put together shows how it worked with its secured lenders to make it happen.

Secured creditors are theoretically entitled to full repayment of their debts, but if there isn't enough to go around, creditors lower down the totem pole could expect losses.

And so Neiman's negotiated its restructuring plan with holders of extended term loans as well as second and third lien notes — that is, investors who may be lower on the hierarchy of secured creditors, and who otherwise risk not being paid in full, experts said.

For this group of creditors, investing in a restructured Neiman's may be a better financial bet than to just accept potentially smaller recoveries as a result of the retailer's bankruptcy.

"The lower-priority creditors on that debt stack probably realized it was more valuable to equitize their debt than to face the bankruptcy treatment, and they decided to do that," said Joseph Acosta, partner at Dorsey & Whitney LLP's bankruptcy practice. Acosta is not involved in the Neiman's case.

"People on the lower debt stack can decide to assist the company, so that their debt isn't cut as a result of the Chapter 11 process," he said. "They may find more value...just in owning the company and the stock, which may be worth more than getting a fraction of their debt."

The company's filings also indicate some plans for its future viability and the strength of its e-commerce business, saying that roughly a third of its annual revenue comes from online sales.

The restructuring plan, by writing off the debt, also puts it on a course to potentially even court new buyers once it exits bankruptcy, Acosta said.

"That's a huge deleveraging," he said.

"There's room to adjust e-commerce, room to wait until COVID-19 is over with, and room to do a lot of things now that they don't have $5.5 billion in debt."

Neiman's and J. Crew's strategy of walking into Chapter 11 proceedings with a restructuring plan in place could stir other retailers looking to survive through a Chapter 11 process to try to negotiate similar plans with their lenders before filing, Acosta said.

"That's the beauty of filing a prenegotiated plan — you've laid out the groundwork...and it's not that hard to figure out where the company is going to land as soon as it exits bankruptcy," he said.

"These people that are converting their debt to equity are sophisticated investors — they want to have a high yield for doing all this, they're not just in it for saving the company," he said. "If you can attract them and build a plan for the future that has less debt, a great name brand, and a strong market presence, these investors will be on board."

Although a restructuring plan might be a ticket through a smooth Chapter 11 journey, it doesn't necessarily guarantee the strength of the future of the company, considering that store reopenings and customer habits are still unpredictable.

That may be particularly so for the retail industry, where the struggles of physical stores

precede the COVID-19 pandemic, said Brian Davidoff, who chairs the bankruptcy, reorganization and capital recovery practice at Greenberg Glusker Fields Claman & Machtinger LLP. Davidoff is not involved in the Neiman's bankruptcy and commented generally.

"I think that the real question for Neiman Marcus that so many highly leveraged companies are facing in the retail world, is that even though they're going into bankruptcy with the intention of reorganizing and reopening, whether that turns out to be viable," he said. "We've seen even prior to the COVID-19 outbreak, where retailers undertook that effort and ended up liquidating. So even if Neiman's can restructure its balance sheet, and reduce its store count, are they going to have enough cash flow to service their remaining debt and overhead?"

In the meantime, the company will likely be negotiating with landlords and vendors through the bankruptcy process. On Thursday, Neiman's said it owes nearly $90 million to its critical vendors, who provide it with essential goods and services that support its daily operations, and sought the bankruptcy court's approval to pay them back up to $50 million, including an interim payment of $25 million, according to a filing on Thursday.

It said repaying critical vendors was essential to maintaining ongoing relationships with them, and indicated it has already strained those relationships by delaying payments to them during the COVID-19 crisis.

"As stated, the debtors operate in the highly competitive, luxury fashion business," Neiman's wrote in a motion.

"Accordingly, it is essential to the success of the debtors' restructuring efforts that they be able to maintain the level of service and the supply of brand-name goods that customers have come to expect from the Neiman Marcus experience.

"As such, the debtors believe that the critical vendors have already reached their limits, and if the debtors further delay payments for the critical vendor products and services, the critical vendors may cease to supply the critical vendor products and services altogether," the company wrote.

The first day hearing in the case is scheduled for today — mark that as the first day of the rest of Neiman's retail life. ■

"In a world that is changing, we are uniquely positioned to give our brand partners access to our loyal luxury customers like no other company."

GEOFFROY VAN RAEMDONCK, NEIMAN MARCUS GROUP