

RETAIL

Sears Canada executive chairman rushing to assemble takeover bid

Shoppers stand in line waiting for a Sears outlet store to open in Halifax in July.

DARREN CALABRESE/THE CANADIAN PRESS
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Sears Canada Inc.'s executive chairman is scrambling to put together a last-minute takeover proposal for the company as a court-imposed deadline looms on Thursday for bids to buy the insolvent retailer.

Brandon Stranzl, who was removed two weeks ago from his day-to-day duties as executive chairman, entered the bidding race this summer with the advantage of being familiar with the retailer and having some members of his management team on his side. Still, not all of the executives want to continue working with Mr. Stranzl, who at times can be unpredictable to deal with, sources familiar with the company said. Mr. Stranzl took the reins at Sears two years ago with a financial background and no hands-on retail experience.

He has talked this month to an array of financial firms about providing asset-backed loans for the management bid, sources said. They include institutions that are part of the debtor-in-possession lender group to Sears in the insolvency process, and Canadian players.

But Mr. Stranzl's plans for Sears have shifted numerous times over the past couple of weeks, they said. He was at one point looking at keeping 58 of Sears's 255 stores, but that number had climbed to 76 more recently – 74 department stores and two home outlets, said people familiar with some of the talks.

"Things are so fluid they seem to change every day," a source said.

Skepticism about money-losing Sears's long-term fate has raised doubts about whether an alternative "going concern" offer will surface by Thursday's 5 p.m. deadline and

whether Mr. Stranzl's proposed bid will be successful and prevent Sears from having to liquidate and close, leaving its remaining 14,000 or so employees in the lurch.

Sears got court protection from its creditors on June 22 with plans to close just 59 of its 255 stores and let go 2,900 of its 17,000 employees.

But Mr. Stranzl's plan would save about 10,000 Sears jobs, sources said, adding that he is in talks to asset-based lenders about contributing roughly \$250-million to his management offer. And he is also talking to investors in California with whom he has worked in the past about throwing in \$25-million or more, depending on whether other equity investors come on board, sources said. He himself would chip in \$1-million to \$5-million, they said.

Mr. Stranzl would not comment, nor would officials at Wells Fargo Capital Finance Corp., which is the main debtor-in-possession lender to Sears during its insolvency process under the Companies' Creditors Arrangement Act. Others in the DIP financing group include U.S.-based Great American Capital Partners LLC and KKR Capital Markets.

But for his plan to succeed, Mr. Stranzl may need concessions from some landlords, such as lower rents or a reduction in store size, a source said.

"I don't think you're going to see any surprise bids from outside groups," said Jeffrey Berkowitz, president of retail real estate adviser Aurora Realty Consultants.

Mr. Berkowitz said potential takeover candidates among major U.S. retailers have considered entering Canada through an acquisition in the past, but are no longer interested. They were scared away by the 2015 collapse of U.S.-based discounter Target Corp. in this country, as well as wider retailer difficulties from the rise of online shopping.

He said Mr. Stranzl would have a better chance of making a go of Sears after the CCAA process is completed and the weakest stores are closed and debt taken off the books.

Still, many industry watchers and bankruptcy experts doubt Sears has a long-term future even if it emerges from court protection as a going concern.

"I think the brand has been severely damaged over the past year or two," said Lou Brzezinski, a lawyer at Blaney McMurtry LLP who represents some Sears suppliers. "I don't know whether the public is ready to continue to shop at Sears. ... And I don't know if suppliers will be prepared to support this new Sears."

Mr. Berkowitz added about Sears: "I give it a couple of years."

Mr. Brzezinski said a key to a takeover offer succeeding is whether Sears's considerable pension deficits are removed in the CCAA process. Lawyers for retirees are trying to get the pension plan wound up, noting that a purchaser would probably not agree to take

over the pension liabilities. Members of the underfunded plan "have a statutory priority for the amounts owing to the plan by Sears on its wind-up," lawyer Andrew Hatnay at Koskie Minsky LLP said. The plan is underfunded by \$266.8-million on a wind-up basis, according to court documents.

Some individual retailers and landlords, ranging from discounter Wal-Mart Canada Corp. to RioCan Real Estate Investment Trust, are interested in picking up a few select stores, sources said. And a separate bid may emerge for Sears's appliance chain, Corbeil, or its transportation division.

Sears Canada has suffered from shifting leaders and strategies over past years under the controlling ownership of the U.S. hedge fund run by Edward Lampert. Much of the proceeds from Sears Canada's significant asset sales over several years, such as some of its most coveted store leases, has gone to Mr. Lampert's hedge fund in the form of dividends.

But Mr. Lampert, who had been an ally of Mr. Stranzl, is believed to not be backing the would-be management bid, sources said. And Mr. Lampert is also not expected to submit his own offer, they said.

Mr. Stranzl has tried to persuade fashion industry star Joe Mimran, who developed the Joe Fresh line for Loblaw Cos. Ltd. and was a co-founder of retailer Club Monaco, to back his offer. And Mr. Stranzl has approached the Serruya brothers, who are best known for their Yogen Fruz chain, to come on board as investors in the Sears management bid.

Mr. Mimran would not comment, but industry sources say he is not planning on getting involved, noting he is subject until next June to non-compete restrictions from Loblaw, which he left more than two years ago.

Officials at Serruya Private Equity would not comment, although the brothers had not made a decision by Wednesday, sources said.

Still, despite Sears's decline over past years, more than 20 groups or individuals had signed non-disclosure agreements last month, court documents said. "A lot of people have gone through the data room," to review the retailer's confidential information, a source said.

Mr. Stranzl has mapped out a strategy for Sears that was starting to show some signs of progress before the CCAA filing in June. His blueprint entails new affordable private-label lines, discounted designer clothing and home decor goods, and a renewed focus on digital retail.

But company insiders have warned recently that the retailer's performance is weakening as it struggles under the CCAA process.

References

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