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RETAIL

US department store giant Neiman Marcus Group files for bankruptcy, sheds $4B in debt

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The Neiman Marcus store in New York's glitzy Hudson Yards area was the last major investment by the department store chain. Image credit: Neiman Marcus

By MICKEY ALAM KHAN

Heavily indebted Neiman Marcus Group, owner of its eponymous department store chain and New York's Bergdorf Goodman, has filed for Chapter 11 bankruptcy as expected.

The May 7 filing, in the U.S. Bankruptcy Court for the Southern District of Texas, Houston Division, comes as Neiman Marcus and its fellow department store chains struggle with changed shopping habits, direct competition from monobrand luxury boutiques and the rise of ecommerce. The addition of COVID-19 store closures was the last straw.

"Prior to COVID-19, Neiman Marcus Group was making solid progress on our journey to long-term profitable and sustainable growth," said Geoffroy van Raemdonck, Irving, TX-based chairman/CEO of Neiman Marcus Group, in a statement.

"We have grown our unrivaled luxury customer base, expanded our industry-leading customer relationships, achieved higher omnichannel penetration, and made meaningful strides in our transformation to become the preeminent luxury customer platform," he said.

"However, like most businesses today, we are facing unprecedented disruption caused by the COVID-19 pandemic, which has placed inexorable pressure on our business."

The 113-year-old company has 43 Neiman Marcus stores, two Bergdorf Goodman shops for men and women and 22 Last Call discount stores in the process of closing. A separate unit, Mytheresa.com, is unaffected by the bankruptcy filing.

"Mytheresa is not part of the Chapter 11 proceedings of Neiman Marcus," said Michael Kliger, CEO of Mytheresa, in a statement. "As in the past years, Mytheresa will continue to operate successfully as a standalone entity legally, financially and operationally. Of course, we are facing difficult times, but we can already see that being an online luxury retailer gives us resilience and the trend to ecommerce will be accelerated by this crisis."

Kate Upton going for the classic chic look in Neiman Marcus' spring 2020 campaign. Image courtesy of Neiman Marcus

KO'd by LBO

Neiman Marcus Group counts around 14,000 employees, most of whom have been furloughed or are on temporary salary reductions March through May 31. The cuts and furloughs may be extended depending on the COVID-19 lockdowns across the United States.

Ten Neiman Marcus stores are currently open for curbside pickup orders comprising all locations in Texas and three in Tampa, FL; Las Vegas, NV; and Tysons Corner, VA.

Neiman Marcus has secured $675 million in creditor financing to enable continuity of operations till it potentially emerges from the bankruptcy proceedings over the fall. The creditors have also offered another $750 million in exit financing.

The department store model has come under considerable stress in the United States as shoppers spend less time in stores and more online. Additional competition from the very brands these stores stock in the form of monobrand shops has also dented sales.

While ecommerce accounts for a large chunk of Neiman Marcus Group's revenue, that does not offset the loss of customers to its bricks-and-mortar stores.

Perhaps the most critical factor in the company's collapse was the $5.1 billion in debt accumulated over two leverage buyouts and the servicing that ate into most of its profits over the years.

Private equity group Ares Management Corp. and the Canadian Pension Plan Investment Board in 2013 bought Neiman Marcus Group for $6 billion including debt. Previous owners were private equity firms TPG and Warburg Pincus, who paid $5.1 billion in 2005 for the retailer.

The Chapter 11 bankruptcy filing will allow Neiman Marcus Group to shed $4 billion in debt as creditors take possession of the company and restructure as a leaner firm with a smaller footprint.

The filing could also invite potential acquisition interest from Hudson's Bay Company, owner of Saks Fifth Avenue, another storied department store giant, albeit on a firmer footing.

Aside from the job losses and write-offs, another consequence of the retailer's bankruptcy filing is the hit to landlords of malls where it is an anchor tenant. Other tenants may ask for lower rents or even leave if anchor retailer Neiman Marcus walks away from the mall very often a condition of leases when brands sign on.

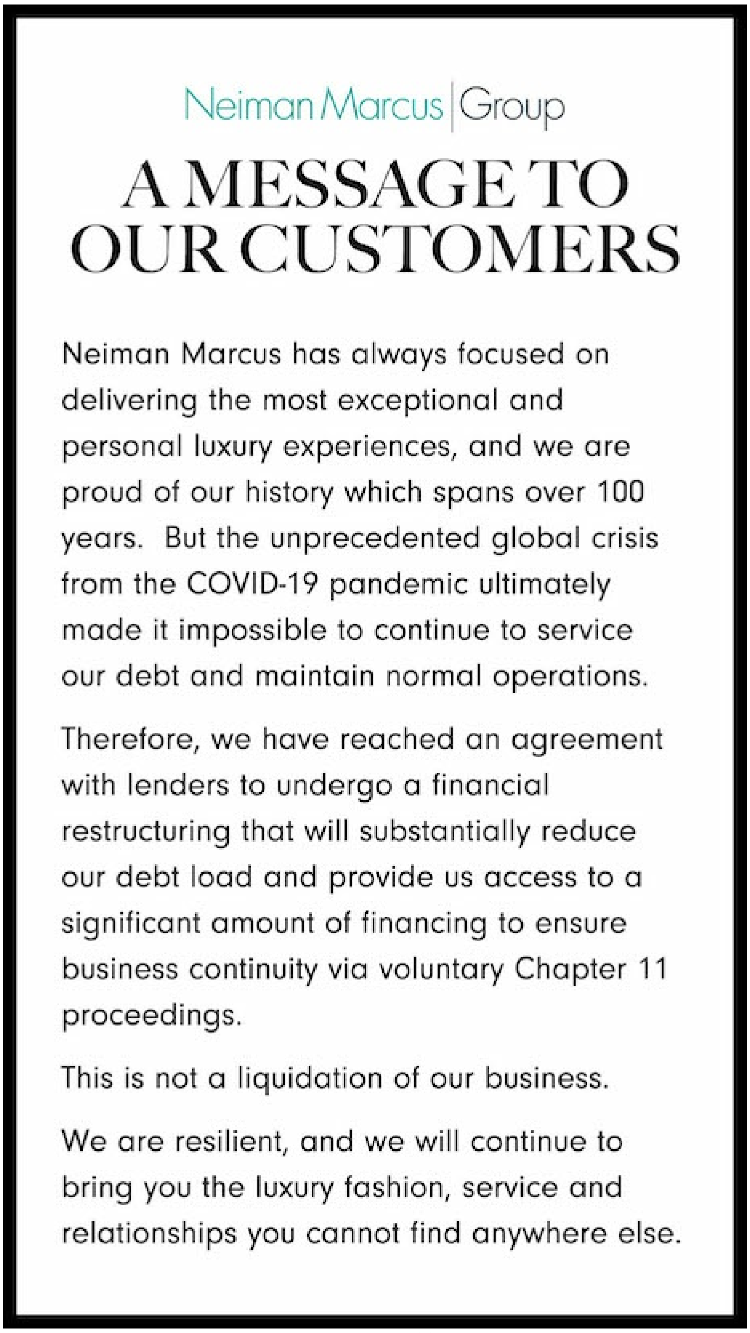
A second, but equally major blow, will be felt in the wholesale channel for luxury fashion, leather goods, footwear and jewelry. Fewer stores mean reduced geographical access for many luxury brands.

Also, payment terms with vendor luxury brands may have to be renegotiated.

"Among all legacy retailers, Neiman Marcus possibly stood to lose the most once the COVID-19 crisis broke out," said Kelly Lynch, retail solutions manager at ActiveViam, New York. "Plagued by a heavy debt load and increased competition from other ecommerce players within the luxury space, Neiman Marcus's struggles have long been documented.

"However, given the brand still carries significant cache within the luxury space in particular, it will be interesting to see how the company emerges on the other side of this crisis," she said.

"In order to avoid mistakes of the past, Neiman Marcus needs to dramatically rethink their process for decision making and analytics and start implementing more advanced technology solutions to optimize their most coveted asset, which is their inventory. Purchase quantities, assortments and pricing related decisions will be critical for Neiman Marcus to emerge in a stronger position for the long run."


Neiman Marcus | Group

A MESSAGE TO OUR CUSTOMERS

Neiman Marcus has always focused on delivering the most exceptional and personal luxury experiences, and we are proud of our history which spans over 100 years. But the unprecedented global crisis from the COVID-19 pandemic ultimately made it impossible to continue to service our debt and maintain normal operations.

Therefore, we have reached an agreement with lenders to undergo a financial restructuring that will substantially reduce our debt load and provide us access to a significant amount of financing to ensure business continuity via voluntary Chapter 11 proceedings.

This is not a liquidation of our business.

We are resilient, and we will continue to bring you the luxury fashion, service and relationships you cannot find anywhere else.

Neiman Marcus message to customers via Twitter on bankruptcy filing

Model evolution

Sadly, Neiman Marcus Group may not be the only casualty in the department store space a model already under threat from brands going direct to customer with their own monobrand stores and ecommerce pure-players such as Net-A-Porter, Moda Operandi, Matchesfashion and Farfetch.

JCPenney, another mall-based department store chain that caters to affordable fashion and accessories, is also said to be considering bankruptcy. The Texas-based company has also missed its interest payment on debt for April, so it is technically in default albeit within a 30-day grace period.

Macy's Inc., a New York-based department store chain that owns Macy's and Bloomingdale's, is also in peril.

Family-controlled, Saks Fifth Avenue whose HBC parent is asset-rich and Seattle-based Nordstrom seem to be the only luxury department store chains with enough cash to sit out the lockdown for a few more months.

But all U.S. department store chains have furloughed employees and asked their top management to take pay cuts and forego bonuses, including Neiman Marcus (see story).

DESPITE THE ROUGH going, these retailers have dug deep to repurpose facilities to produce masks and protective gear for healthcare workers.

A direct consequence of the COVID-19 virus is the lasting damage to U.S. retail a sector that employs more than 10 percent of the country's workforce and contributes $3.9 trillion to the GDP. J. Crew, another U.S. specialty retailer, preppy but not luxury, filed for bankruptcy a few days ago.

"My team and I appreciate the partnership and the steadfast support of all our stakeholders and board of directors through this process," Mr. van Raemdonck said in a statement.

"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," he said.

"We will emerge a far stronger company. 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."