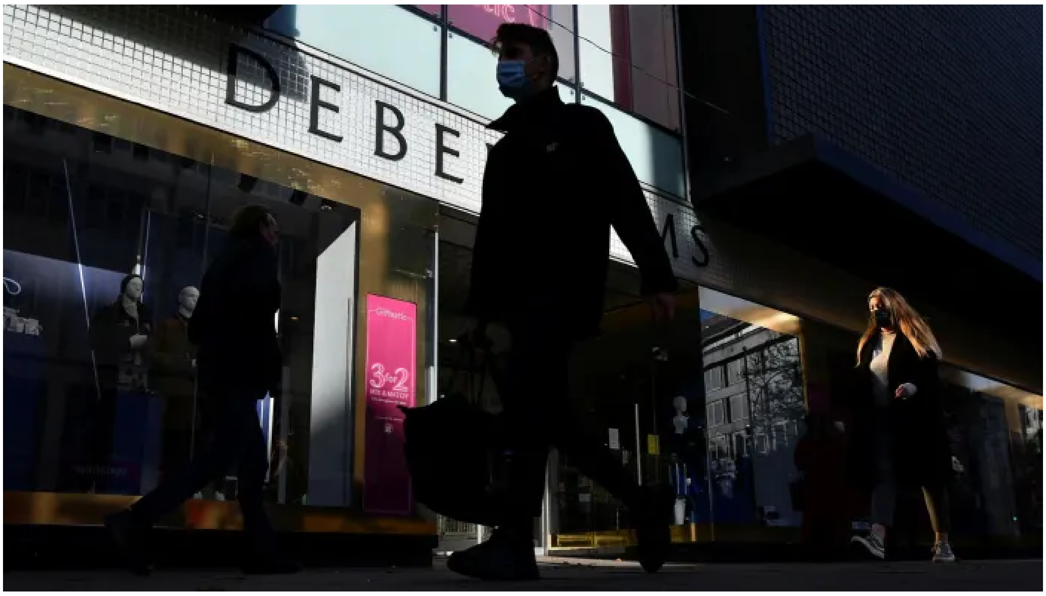
Debenhams PLC

Debenhams liquidation compounds crisis in UK high street

Store chain will wind down operations next year, putting 12,000 jobs at risk, after JD Sports abandons rescue



A Debenhams store in London. The chain was placed in 'light touch' administration in April © Justin Tallis/AFP/Getty

Jonathan Eley DECEMBER 1 2020

Debenhams is on course to be liquidated in the new year with the probable loss of more than 12,000 jobs, bringing 200 years of retail history to an ignominious end and compounding the crisis on the UK high street.

The department store chain's fate was sealed on Tuesday when JD Sports decided not to launch a rescue bid. It came just hours after Philip Green's Arcadia fashion empire collapsed into administration, putting more than 400 stores and 13,000 jobs at risk.

For both retailers, the Covid-19 pandemic and the national lockdown was the final nail in the coffin and followed a brutal few years for high street retailers as they tried to adapt to the growth of online commerce and a new generation of competitors.

Debenhams had been holding out for a rescue bid but on Tuesday said it had no other option than to enter liquidation in the new year. FRP Advisory, which was appointed as the company's administrator in April, said the uncertain outlook for 2021 meant that continuing trading was not realistic.

Debenhams now plans to trade through the Christmas trading peak and then wind down its UK operations in the first quarter of 2021.

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>
> **Ian Cheshire, former Debenhams chair**

"The decision to move forward with a closure programme has been carefully assessed," said Geoff Rowley at FRP. "While we remain hopeful that alternative proposals for the business may yet be received, we deeply regret that circumstances force us to commence this course of action."

The roots of the group's problems predate the pandemic. During a period of private equity ownership, Debenhams was laden with debt and much of its freehold real estate sold and leased back.

CVC Partners, TPG Group and Merrill Lynch took large dividends out of Debenhams — helped by a sale-and-leaseback deal in 2005 that raised £495m. The company reduced its debt load following a return to the stock market but that left little for investment in stores and ecommerce.

Ian Cheshire, who chaired Debenhams in its final years on the stock market, said the long leases signed by the private equity houses left the group "like a frog boiling in water", with sales and profits stagnating but costs growing.

"There was a salvageable business in there but we could not get to it from where we were," he added. "Then the pandemic blew a hole in the side of it."

The private equity trio were the last owners to make much in the way of returns out of the company. Shares in the group were priced at 195p when it was refloated in 2006 but were worthless by the time a consortium of its lenders, including Silver Point Capital, Barclays, Bank of Ireland and Golden Tree, bought Debenhams in a prepack administration in 2019.

Mike Ashley, the founder of Sports Direct, was forced to write off about £150m, having built a 29 per cent stake in the company.

The lenders may have done better, depending on their entry price and how much they can make by selling off the stock. But according to FRP, Debenhams went into administration with more than £700m of secured debt and £200m of trade creditors.

The company's store portfolio faces an uncertain fate. Debenhams has 124 stores, which are the size equivalent of 148 football pitches, according to business rates consultancy Altus.

It is likely that Mr Ashley may take some individual stores for his rival House of Fraser chain, which has taken over a Debenhams store in Wolverhampton vacated as part of a previous restructuring. Next and discounters such as Primark and TK Maxx may also be interested in isolated stores.

But many will be left empty. "They're just too big," said one commercial real estate agent. "Most will need rethinking and repurposing once a new normal resumes."

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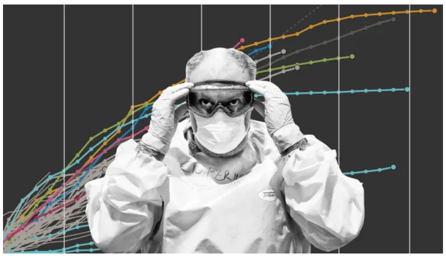

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That will hurt footfall at other retailers, particularly in shopping centres where such anchor tenants typically pay low rents in return for their ability to lure customers.

A closing down sale in 124 shops across much of the peak trading period is also the last thing that most rivals need. "It is going to be a Christmas of bargains for shoppers," said David Beadle, senior credit officer at Moody's. "But every discounted sale made at Debenhams or Arcadia is a sale that could have gone somewhere else."

Debenhams was placed in "light touch" administration in April by its owners, a consortium of financial investors led by Silver Point Capital and Golden Tree, for the second time in as many years.

Although the group traded ahead of internal expectations in recent months, sales in the six months from April to October were just £323m, according to a progress report from FRP. In its final year as a quoted company, Debenhams' UK operations generated revenues of £1.8bn.

The group's Irish operations were closed earlier this year. The company's upmarket Danish operation, Magasin du Nord, is the most realistic hope of salvaging some value.

JD Sports was the last remaining interested party in a sale process for Debenhams' UK operations that investment bank Lazard initiated in July.

The FTSE 100 sportswear retailer recorded strong growth over the past decade under executive chairman Peter Cowgill, in part because of its relationships with brands such as Nike, Adidas and Under Armour and a successful expansion outside the UK.

But its share price reacted badly to reports that it was planning a bid for Debenhams, falling almost 10 per cent last week. JD's shares rose more than 4 per cent on Wednesday as Mr Cowgill walked away.