

U.S. Insight: Everything Must Go: The COVID-19 (Coronavirus) Pandemic Is Devastating The Retail Industry

The past few years have been especially challenging for many players in the retail industry. Due to a number of different factors, including (i) increased competition, (ii) falling consumer foot traffic, and (iii) the rise of online shopping, the entire industry has struggled to expand and pay off mounting debt. More recently, this painful period has intensified due to the global coronavirus pandemic, causing retail giants such as J.C. Penney, J. Crew, and Neiman Marcus, among others, to file for Chapter 11 protection.

Bill Wafford, the Executive Vice President and Chief Financial Officer of J.C. Penney Company, Inc., gave insight into the company's financial performance leading up to the global pandemic. In his declaration filed in the bankruptcy court for the Southern District of Texas, he states:

“Before the pandemic, the Company had a substantial liquidity cushion, was improving its operations, and was proactively engaging with creditors to deleverage its capital structure and extend its debt maturities to build a healthier balance sheet. Unfortunately, that progress was wiped out with the onset of COVID-19.”¹

Although Mr. Wafford saw the company moving in a positive direction, nationwide social distancing orders and the closure of non-essential businesses unraveled those efforts. Similarly, Neiman Marcus Group Ltd. LLC and Chinos Holdings, Inc. (a/k/a J. Crew) cited the coronavirus as a direct contributor to their debtor status.²

The pressure is so great that some companies do not have the option of restructuring and instead are forced to liquidate. One such company is Pier 1 Imports, Inc. After exhausting other potential options to emerge from bankruptcy, Pier 1 decided it was in the creditors' best interest to liquidate. According to a court document filed by the debtor, Pier 1 referred to the company's already faltering performance coupled with the recent COVID-19 virus as the main drivers for deciding to liquidate. “The Debtors' financial and operating performance and the complications of the COVID-19 pandemic on their operations has made Wind-Down of the Debtors' business their only option.”³

¹ *In re J.C. Penney Company, Inc.*, Case No. 20-20182 [Docket No. 25] (Bankr. S.D. Tex. May 15, 2020).

² *In re Neiman Marcus Group Ltd. LLC*, Case No. 20-32519 [Docket No. 86] (Bankr. S.D. Tex. May 7, 2020); *In re Chinos Holdings, Inc.*, Case No. 20-32181 (Bankr. E.D. Va. May 4, 2020).

³ *In re Pier 1 Imports, Inc.*, Case No. 20-30805 [Docket No. 671] (Bankr. E.D. Va. May 19, 2020).

Whether or not the retail industry was doomed even before the global pandemic ensued is inconsequential. With a combination of pressures from a declining industry and a global pandemic, the future remains bleak for retail companies both small and large. Restructuring professionals will be in high demand due to the importance of navigating bankrupt companies in and out of the Chapter 11 process.

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Please feel free to contact Curtis' Restructuring and Insolvency senior attorneys if you have any questions on this important development:



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