



Restructuring retail to D2C

IBA Global Insolvency & Restructuring Conference

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Grant Thornton UK LLP



Our recent experience





























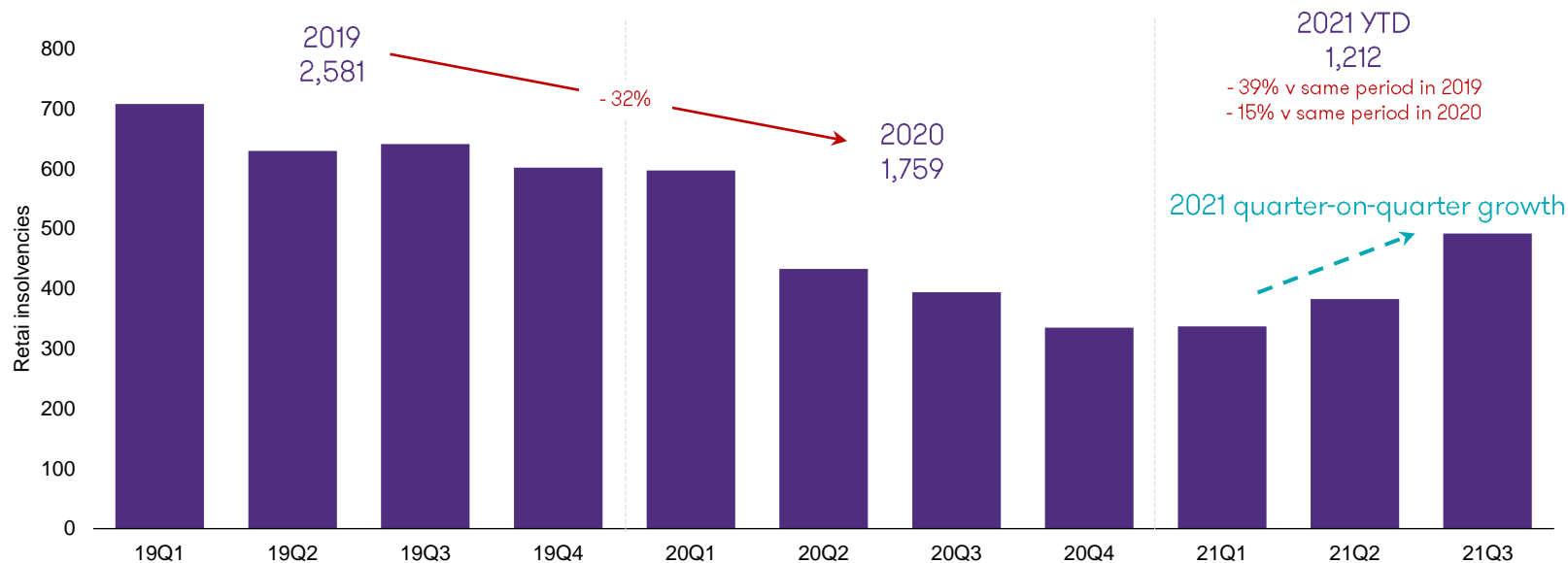



Agenda

- Retail insolvencies
- Retail markets – still growing
- Moving from retail model to D2C model
- Restructuring retail – new tools
- Practical issues with Restructuring Plans

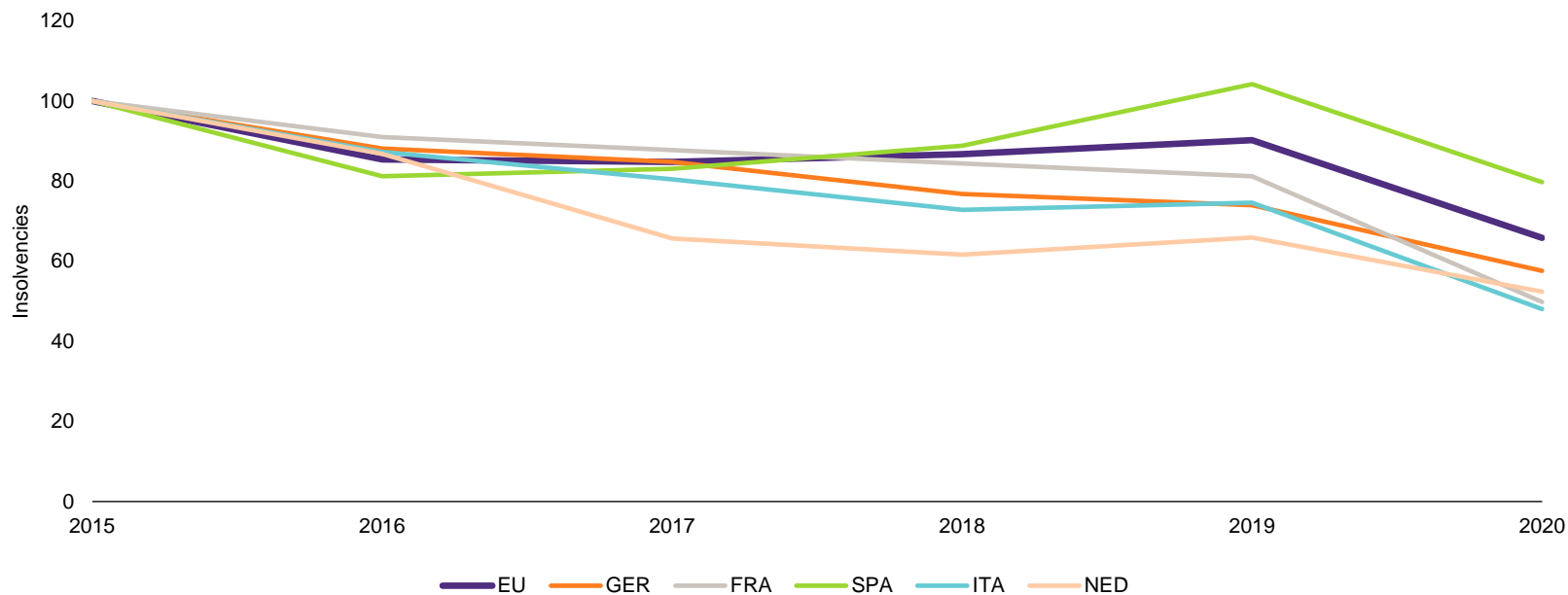
Retail insolvencies

Retail insolvencies - UK



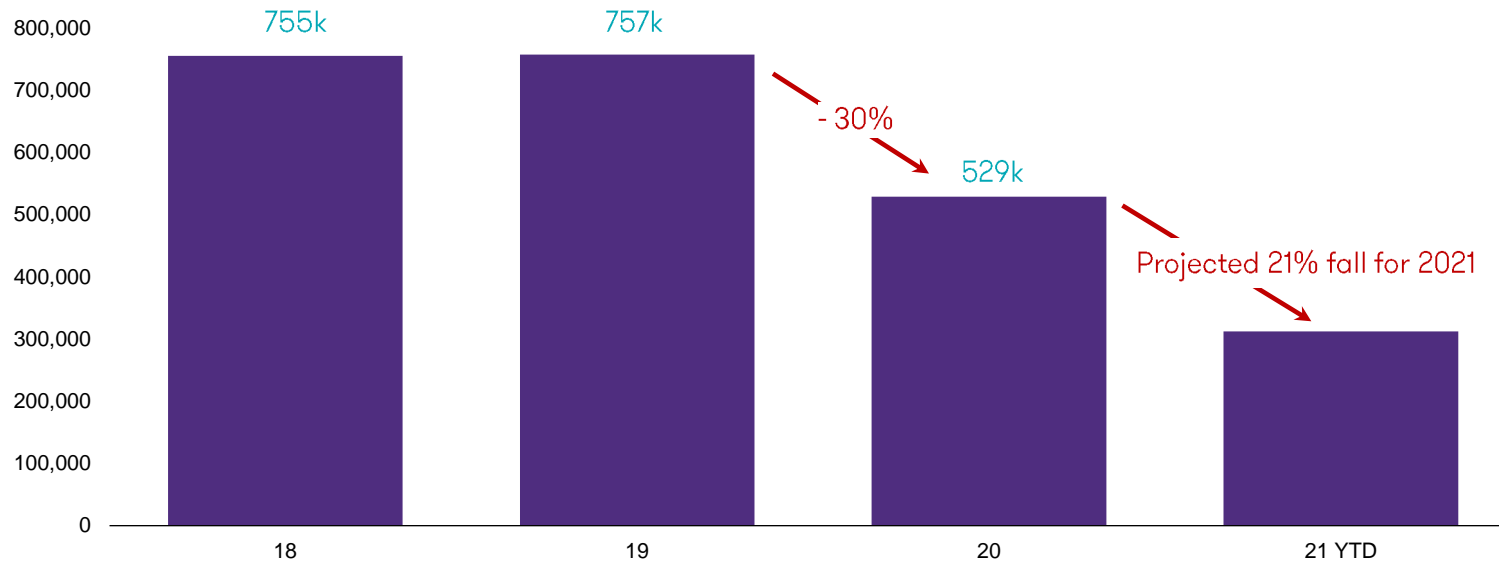
Source: Insolvency Service, Companies House

Retail insolvencies – EU and selected countries



Source: Eurostat

US Bankruptcies



Source: ABI

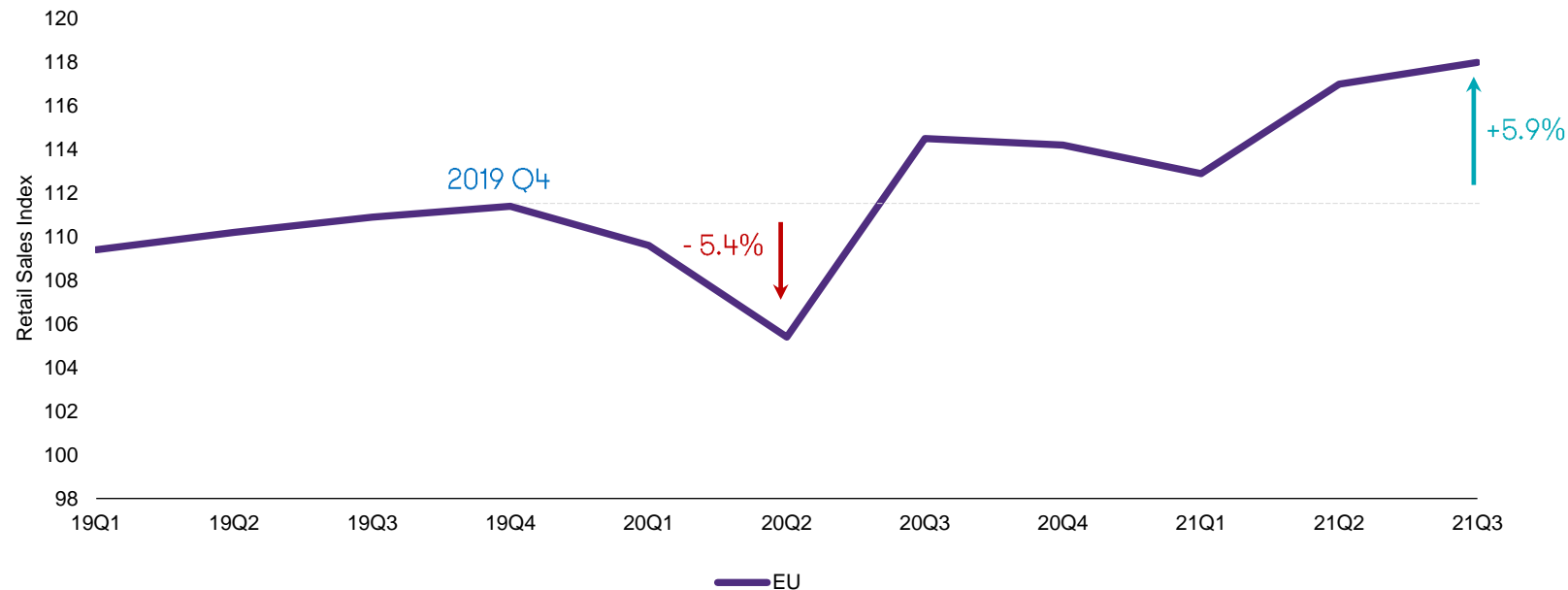
Retail market

Retail sales - UK



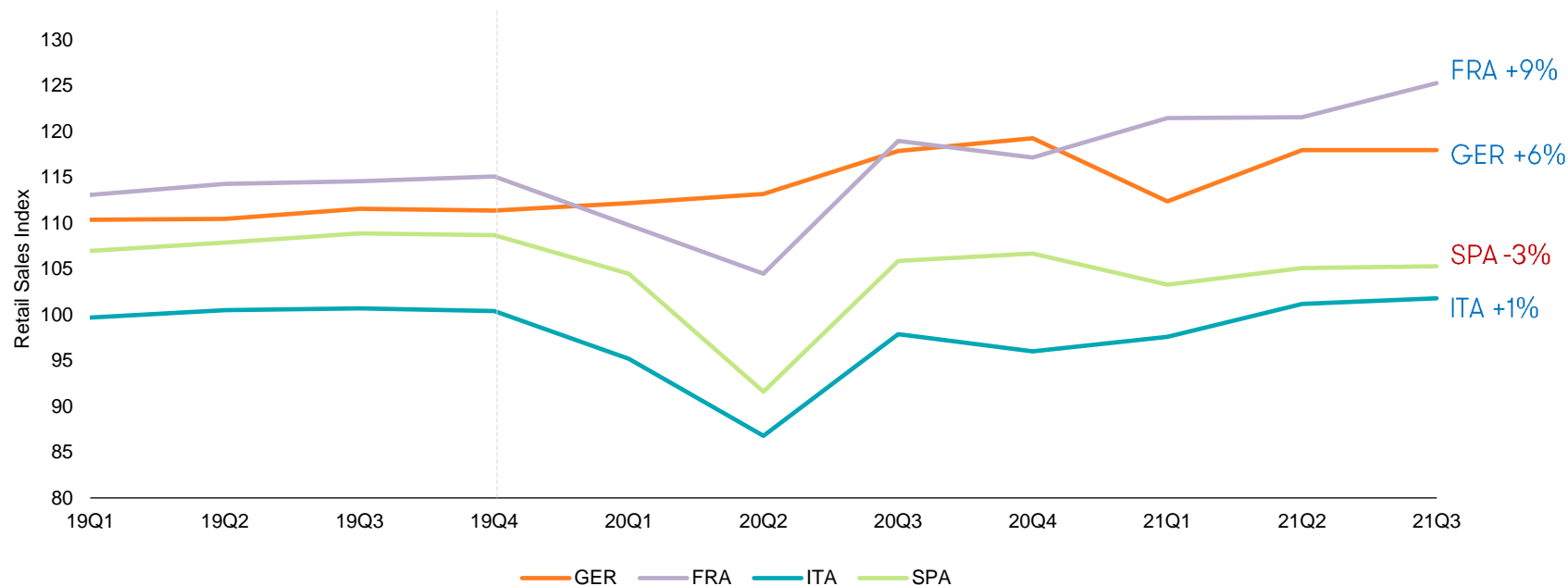
Source: ONS

Retail sales - EU



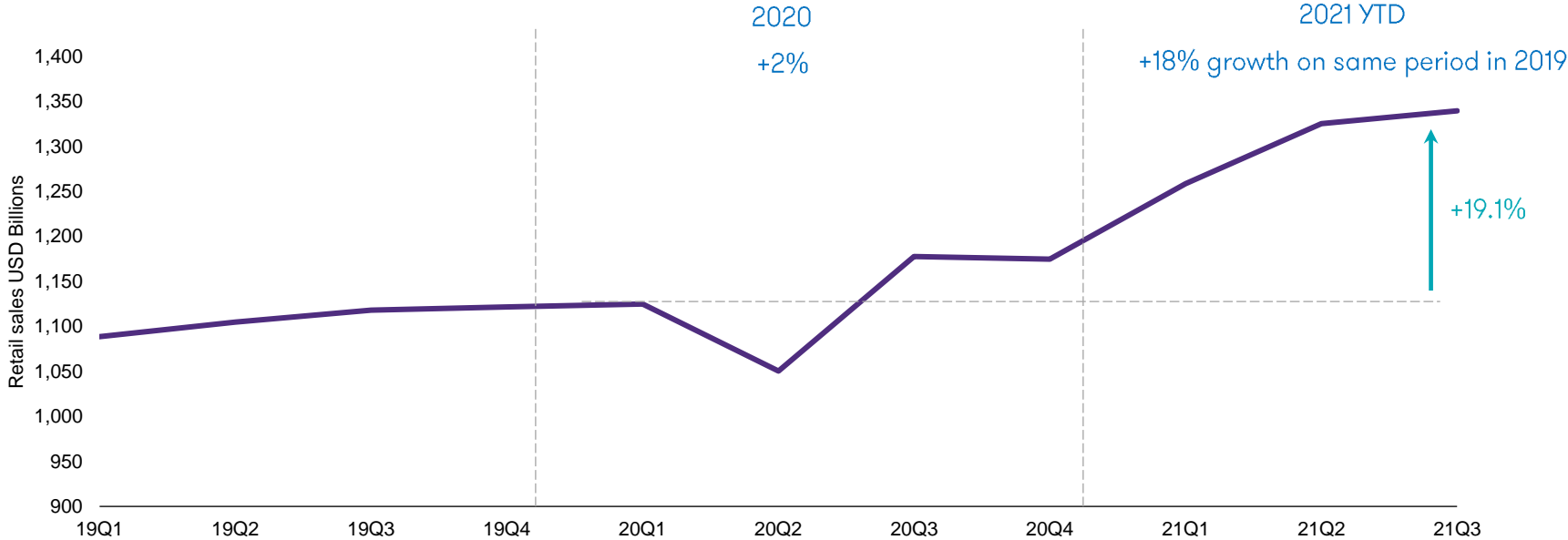
Source: Eurostat

Retail sales – selected EU countries



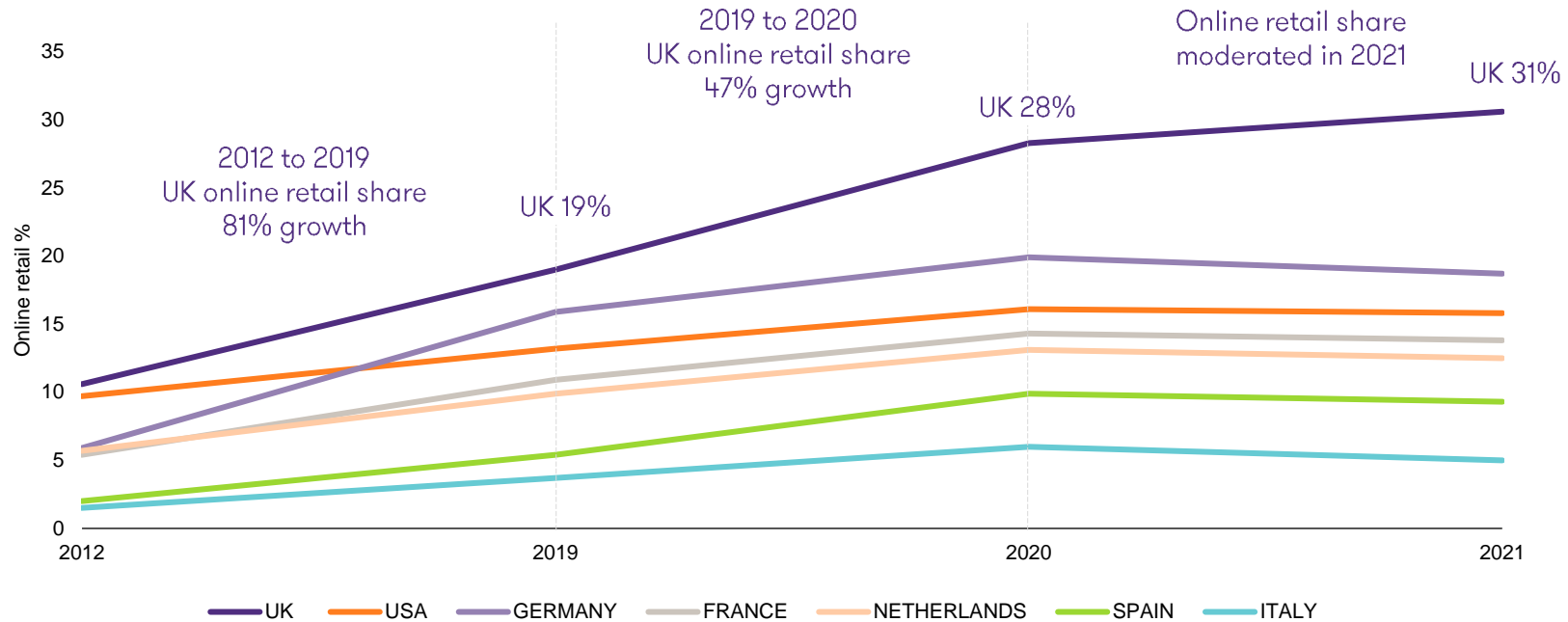
Source: Eurostat

Retail sales - US



Source: US Census Bureau

Online retail share - selected economies



Source: ONS, Eurostat, CRR

From retail to D2C

Retail now – the challenges

Consumer behaviour



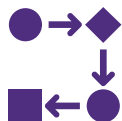
- Working from home and shopping locally
- More acceptance of online shopping
- ESG awareness
- Shopping journey starting with online
- Fickle

Physical retail estate



- Uncertain physical retail recovery
- Unwanted stores in unwanted locations
- Long leases & upward only rent reviews
- Under-invested and uninspiring stores
- Smaller centres and retail parks preferred

Supply chain and logistics



- Established, slow supply chain
- Volatility – stock outs more regular
- Supply chain cost pressure
- Too many SKUs

Strategy and operations



- Propositions not distinctive
- Too many brands
- Integrated in-house full retail model
- Profit growth relied on store openings or brand additions
- Channel silos
- ESG only slowly gaining attention and will be transformation driver
- Disruptions becoming a constant
- Retail execution not consistent
- Customer retention ineffective

Financial status



- Burden of pandemic debt and unpaid rent
- Management have little 'skin in the game'
- Working capital cycle volatile
- Future cash flow and value growth challenging
- Zombie corporates – insufficient returns for stakeholders

Future D2C – key features

Strategy and business model



- Leaner, agile, omni channel operating model
- Focused brand strategy
- Infrastructure focus only on core strengths
- Scaling up through third party platforms (ecommerce & physical estate)
- ESG priorities at core of strategy, brand management and operations

Data is critical



- Data critical for effective operating model
- Systems need to deliver seamless experience for customers across all channels

Bolted in services with trusted providers



- Third party platforms for ecommerce and physical retailing
- Third party logistics
- Bought-in services for payments management, front-end credit offerings, procurement & design

Physical retail estate still relevant



- Physical stores still relevant:
 - Solves customer needs
 - Brand awareness
- Better invested and focused on customer experience
- Mobile retailing at store visits

Implications for restructuring

- D2C transformation – will drive corporate restructurings
- Future value – brands, data, technology, logistics
- Leadership and capabilities will need to adapt
- Multiple contractual arrangements and dependency on third parties
- Leases – terms will have to change
- Stock – more in the control and locations of third parties
- Increased complexity and proliferation of key stakeholders

Retail restructuring toolkit

Retail restructuring toolkit

Established

Out-of-court consensual negotiations

- Inefficient
- Difficult to achieve effective solution with differing commercial interests

Pre-packs

- Highly efficient
- Cost-effective
- Potential for disruption

CVAs

- Well-used
- Solution is typically fudged

New additions

Part 26A Restructuring Plan (“RP”)

- Powerful tool for holistic solutions
- Cross-class cramdown
- Virgin Active example for multi-site retail situations
- Needs rigorous consideration and credible submissions:
 - Relevant alternative
 - Valuation
- Costs – adaptation for mid-market?

Moratorium

- Risk for Monitor
- Impact on debt priorities
- Capital market instruments excluded
- Not relevant for large & complex situations

RP – relevance of Virgin Active to retail situations

- Virgin Active was third cross-class cramdown to be sanctioned
- Considered the leading authority on application of RPs
- Plan compromised financial debts and lease rental obligations
- Property lease creditors crammed down
- Not a single creditor voted in favour in some classes
- Landlords made well documented challenge – which did not succeed

RP – Relevant Alternative

- Needs to be considered carefully
- Insolvent liquidation or simple insolvency not always the Relevant Alternative
- Hurricane Energy:
 - not simple insolvency
 - trading on for 12 months...and range of potential scenarios at that point
- Consider and document

RP – Valuations (1 of 2)

- Robust valuation assessments required
 - Rigour of analysis
 - basis of valuation
- Needs adaptation for specific circumstances – no fixed rule
- Ensure independent valuation expert will take stand as an expert witness, if required – and is well-prepared
- Need to plan ahead and cover off potential risk of challenge

RP – Valuations (2 of 2)

- Challenges require credible alternative expert testimony
- Need to consider and document reasons for use of / lack of M&A process
- Greater scrutiny in periods of economic uncertainty
- Pre-empt likely challenge:
 - thorough preparation
 - credible valuation assessment

Key takeaways

Key takeaways

- Moving to D2C model will drive restructurings
- Tried & tested tools still have place – pre-pack still relevant
- New D2C model changes value drivers
- Restructuring Plan is a powerful tool
- Valuation assessments
 - Rigorous analysis
 - Robust assessment
 - Pre-empt challenge with thorough preparation



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