Largest UK department store chain, Debenhams, goes into administration

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Tens of thousands of workers' jobs throughout the UK retail industry are threatened by the UK's largest department store chain, Debenhams, going into a "pre-pack administration." Under a pre-pack administration, the sale of the company and its assets are negotiated prior to the appointment of administrators.

Debenhams employs around 25,000 workers across its 166 stores, warehouses and offices. In the UK, other jobs in Debenhams' supply chain are also dependent on the company's survival. Debenhams owns Danish department store chain Magasin du Nord and a subsidiary in Ireland. With its Danish and Irish operations, the firm operates 178 stores. The multinational company's roots lie in the establishment of a draper's shop in London in the late 18th century.

Last October, Debenhams announced losses of £500 million and said it planned to close up to 50 of its stores, representing nearly a third of its portfolio. Those would result in the loss of around 5,000 jobs. These closures were confirmed following the administration announcement. It is thought the first wave of a possible 12 store closures will take place next year. The total debt pile now stands at £621 million.

In 2003, Debenhams was acquired for £1.7 billion by a consortium of companies. They comprised private equity company CVC and investment firms Merrill Lynch and TPG. In 2006, the consortium refloated the company on the stock market at its purchase value, but it had by then 10 times the 2003 debt.

The Centre for Retail Research, writing on Debenhams' crisis last October, noted, "Its current difficulties relate particularly to the debt problems inherited from the private-equity episode and the strategies followed subsequently."

Remarking on the 2003 private equity takeover, it explained the consortium "raised £1.7bn of which £600m was equity. … This 'equity' was made a debt charge on the business which sold and leased back stores it owned, signing long leases with property companies to raise the funds. Within three years, the partners had trebled their capital investment and floated the much-diminished company again in 2006."

Quoted last week in the *Norwich Evening News*, Professor Joshua Bamfield of the Centre for Retail Research said, "Debenhams has had problems because all of its value was extracted out of it, and it was used as a money-making machine. … Debenhams lost their value twofold—they sold their sites but also stopped investing. They didn't refurbish sites so they ended up looking old and tired—they couldn't compete."

After the company was refloated on the stock exchange, one investor who began building up his Debenhams stock portfolio was Mike Ashley, the billionaire founder of sporting goods supplier Sports Direct. In late 2015, two undercover *Guardian* reporters, who had been taken on at the Sports Direct warehouse in Shirebrook, produced articles detailing the exploitative working conditions the retail giant imposes.

Ashley had built up a near 30 percent stake in Debenhams and offered to inject £200 million into the company, providing he was made chief executive officer. His offer was turned down. With Debenhams going into administration, Ashley's £150 million share stake in the company was wiped out along with the stake of other shareholders. Sports Direct has launched a legal challenge alleging the administrator, FTI Consulting, had acted to prevent Ashley from taking control.

Ashley has bought up several financially distressed retail outlets, including House of Fraser, Evans Cycles and lingerie retailer Agent Provocateur. A *Retail Gazette* article published last November noted, "According to analysis from *The Sunday Times*, the Sports Direct tycoon's method of buying up retailers in pre-pack administration deals, which means he can acquire the assets but not the debt, has come at a cost. … [It] has cost the high street over 6,000 jobs and over £1 billion in unpaid bills."

Following its fall into administration, Debenhams has new owners, the group of lenders that had been propping it up financially. They are Bank of Ireland, Barclays Bank, Silver Point Capital and Golden Tree Asset Management.

Golden Tree was established in 2000 with offices in London, New York and Singapore. Its business is based on taking on high-risk investments that promise high rewards. Silver Point Capital, founded in 2002 by former partners of Goldman Sachs, operates a similar model to Golden Tree.

The lenders will seek to sell the Debenhams chain, and Sports Direct has registered an interest. However, according to BBC News, Sports Direct does not expect to be in the running. The BBC cites Sports Direct Deputy Chief Financial Officer Chris Wootton saying, "The way this has all been set up suggests to us [the owners] already have a plan to sell it to a third party, not us."

One possible bidder may be Philip Day, the owner and chief executive of Edinburgh Woollen Mills. Retail research director at GlobalData Maureen Hilton said, "Day is developing a department store concept, so he might want to take some of their stores. … [H]owever the whole chain might prove too big."

Debenhams' pre-pack is the clearest sign that the slashing of retail jobs can only be expected to continue. Noting Debenhams' administration and the collapse of many other fixtures of the high street, the *Financial Times* commented, "For UK retail, 2019 has so far proved a continuation of the *annus horribilis* of 2018." It added, "[O]nline sales have grabbed about 20 per cent of the UK [retail] market," and "a brutal shakeout is under way. It pits retailers and lenders, desperate to cut space, against landlords—themselves often with high loan to value ratios—that had expected a long-term steady income from their properties."

In the first six months of 2018, major retail chains including Poundworld, Toys 'R' Us and Maplin went bust. According to the Centre for Retail Research, 2018 saw the loss of nearly 150,000 retail jobs with the closure of 20,000 shops and restaurants. According to the *drapersonline* website, retail job losses this year will be even higher—at 164,000.

One of the latest casualties is the up-market fashion chain LK Bennett, which recently went into administration after closing five shops in a bid to stem losses. It was announced April 12 that Rebecca Feng, who ran Bennett's Chinese franchise, had bought the LK Bennett chain. Under the deal, 21 shops representing 325 jobs will remain but 15 shops will close with the loss of 110 jobs.

Retail workers continue to shoulder the costs of the collapse of the retail sector, losing their jobs and seeing their terms, conditions and pensions rights attacked.

Last week, it emerged that billionaire retail owner Sir Philip Green, who owns the Arcadia Group, plans to cut its £50 million contribution to the employees' pension scheme in half, paying just £25 million. Arcadia includes fashion outlets Topshop, Burtons and Dorothy Perkins. The proposal is part of a restructuring plan that could see dozens of Arcadia stores close. The group has implemented a company voluntary agreement in an attempt to restructure its debts.

Of Green's plans, ex-Labour MP Frank Field, who is chair of the parliamentary Works and Pensions Select Committee, said, "Does he really think he's going to get away with his old tricks again? Run the business down, pocket whatever cash is left, stiff the pensioners and sail off on the Lionheart [Green's superyacht] leaving employees, pension schemes and his long-suffering creditors in the lurch? Not if we have anything to do with it."

Yet Green has "got away" with what Field's committee previously described as "systematic plunder" for years and continues to do so.

Only three years ago, the high street retailer British Home Stores (BHS) collapsed. Green bought BHS for £200 million in 2000 via a leveraged buyout, and proceeded to bleed the company dry, slashing wages and conditions and squeezing his suppliers. While this enabled him to boost BHS's profits in the short term, it fatally undermined its long-term viability. Green pocketed £420 million in dividends before selling the firm in 2015 to Retail Acquisitions, led by former bankrupt Dominic Chappell, for £1. BHS collapsed just months after with 11,000 jobs lost and a pension deficit of £571 million, endangering the pensions of 20,000 people.