

# US Midwest retail chain Art Van Furniture to file for Chapter 11 bankruptcy

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Suburban Detroit-based Art Van Furniture, the number one furniture and mattress retailer in the Midwest, announced on Thursday that it is shutting down its company-owned stores and beginning liquidation sales today. The company, which is expected to file for Chapter 11 bankruptcy reorganization early next week, employs 3,100 people at locations in Michigan, Illinois, Indiana, Ohio, Missouri, Maryland and Virginia.

Unless one or more buyer steps forward to stop the liquidation, all Art Van Furniture, Art Van PureSleep and Scott Shuptrine stores will be closed permanently within 60 days.

The company's press announcement also noted that subsidiary Levin & World Furniture, with locations in Ohio and Pennsylvania, would be sold while eight World Furniture Stores would be closed.

Diane Charles, a representative of Art Van Furniture, said, "Despite our best efforts to remain open, the company's brands and operating performance have been hit hard by a challenging retail environment."

A majority ownership of the mid-priced furniture retailer—founded in 1959 by Archie Van Elslander in the city of East Detroit (now Eastpointe)—was sold to the private equity firm Thomas H. Lee Partners in January 2017 after the death of the founder at age 87. Although the exact price was never disclosed, it has been reported that the Boston-based private equity company financed the deal worth over \$550 million.

As explained by the *Detroit Free Press*, "Private-equity firms use debt to acquire companies, and the debt is then owed by the company. The debt loads can leave companies with little room to maneuver if business conditions deteriorate. And any problems that arise can be exacerbated by the fees that private-equity firms ordinarily charge companies in their portfolios."

Such concerns were not expressed by the in January 2017 when then-Art Van CEO Kim Yost and the sons of the founder Gary and David Van Elslander announced the deal with great fanfare. Fears of asset stripping by the private equity vultures were waved away amid grandiose plans announced by the owners for new stores in major markets like Chicago, Indianapolis, Columbus, Cincinnati, Cleveland and Pittsburgh.

The local corporate media was also enthusiastically hailing the "commitment" made by Thomas H. Lee Partners to continue Art Van's sponsorship of Detroit's annual Thanksgiving Day Parade. Representatives from the private equity company declined to comment on the size of Art Van's debt.

The rapid expansion added more debt to the Art Van balance sheet and, when sales faltered under the impact of growing online furniture and mattress retail, the company could not maintain its repayment obligations. Private equity fees also played a role in the precarious financial position of the company. When suppliers began to refuse making deliveries for fear that they would not get paid, the handwriting was on the wall for the imminent bankruptcy.

In addition to the decline in retail foot traffic at Art Van showrooms, industry experts pointed to the impact of the Trump administration's tariffs on Chinese furniture imports over the past year and a half. The ten percent import tariffs have forced furniture retailers to choose between raising prices to consumers and driving down sales or taking a hit on their operating margins.

Thomas H. Lee Partners has been in business since 1974 and specializes in buying consumer retail, health care, financial services and technology solutions companies. It operates with \$26 billion in investment capital—from corporate pension funds, sovereign wealth

funds, financial institutions, endowments and wealthy families—and controls 150 “portfolio companies” and completed over 400 “add-on acquisitions” with a total combined “enterprise value” of \$200 billion.

Apparently, Thomas H. Lee Partners considered Art Van Furniture to be a “growth business” opportunity at the time of its acquisition. According to the marketing language on its website, the private equity company invests “in growth-oriented businesses with strong free cash flow characteristics ... Organically, we invest in resources to expand into new products, new markets, new geographies and new channels of distribution.” However, once the investment company had reached the limit of financial benefit from this strategy, it decided to cut Art Van Furniture loose, a pattern that has been repeated many times by private equity parasites.

Alex Calderone, of the Calderone Advisory Group based in Birmingham, Michigan, told the *Detroit News*, “The private equity playbook, which almost always results in aggressive use of leverage which increases the risk of failure exponentially, has not worked out for other retailers in the past and didn’t serve Art Van well either. When an investment thesis doesn’t pan out, equity sponsors tend to cut their losses quickly.”

Jim Fouts, the mayor of Warren, Michigan, where the corporate headquarters of Art Van Furniture has been located since the 1970s, said that he was going to contact Democratic Michigan Governor Gretchen Whitmer to see what options are available to force Thomas H. Lee Partners “to honor their commitment to the workers and taxpayers.”

“The city receives \$2.2 million per year in tax payments from the furniture company,” Fouts wrote in a publicly issued statement, demanding, “There has to be a national or state law that would prohibit investment companies from buying off and selling all assets at the expense of the workers and the community it is in.”

Such laws will never be enacted without a massive unified struggle by the entire working class, independent of the Democrats and Republicans, against the dictatorship of the financial elites over the whole of society. The criminal practices of investors and corporate boards alike over many decades—leading to the destruction of jobs and living standards of workers throughout Metro Detroit—have proceeded without any

resistance in a region that is dominated by the treacherous alliance between the pro-corporate UAW and AFL-CIO and the Democratic Party.



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