



# *Demystifying restructuring processes in Retail and Hospitality*

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# Demystifying restructuring processes in Retail and Hospitality

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# Agenda

1. Recent insolvency cases
2. Turnaround and restructuring
3. Guarding against failure
4. Insolvency
5. Important stakeholders
6. Outlook
7. Q&A

# Speakers



## Zelf Hussain

Partner, PwC

### Background

Zelf has over 20 years of corporate restructuring and insolvency experience across a wide range of retail assignments – from advising directors and shareholders on their options and strategies to helping them implement those solutions

### Relevant experience

- Laura Ashley – administrator to the ladies fashion chain which has led to a disposal of the global brand
- Mothercare – advising on the restructuring of the business leading to a carve out of the UK business from the rest of the group and turning the whole business into a franchise model
- Other cases include Coast, Hema, Hamleys, Coast, Maplins Electronics, House of Fraser, Palmer and Harvey, Homebuy Group Plc, Boxclever, Icon Live and Rainforest Cafe



## Mike Jervis

Partner, PwC

### Background

Mike has more than three decades experience of restructuring and insolvency. He co-authored the original market guidance on pre-packaged administration and has been appointed on many iconic insolvency assignments such as Lehman, Enron and Carillion. Mike also leads advisory work for a spectrum of sectors, from Retail and Hospitality to UK financial services sector

### Relevant experience

- Historically led successful disposal of the Game business out of administration, prior to IPO. Litigated the leading case on rent as an administration expenses
- Notable advisory cases – refinancing of a listed UK retailer, lead advisor on a listed UK retailer (now taken private)
- Other cases include: Fish Works, Barracuda, Admiral Taverns, Punch and Brantano

# Recent insolvency cases

## Retail



The Book People

Brantano

Coast

Conviviality Plc

Debenhams

Evans Cycles

House of Fraser

Laura Ashley

Maplin Electronics

Mothercare

Palmer & Harvey

Phones 4u

## Hospitality



Admiral Taverns

Barracuda

Fish Works

JRP Group

Rainforest Cafe

Slug & Lettuce

# Pre-insolvency: turnaround and restructuring

Operation and  
financial restructuring



Crisis  
management



Accelerated  
M&A



Scheme of  
arrangements



Independent  
business reviews



Interim leadership  
(CRO, Monitors, TDs)



Managed  
exit

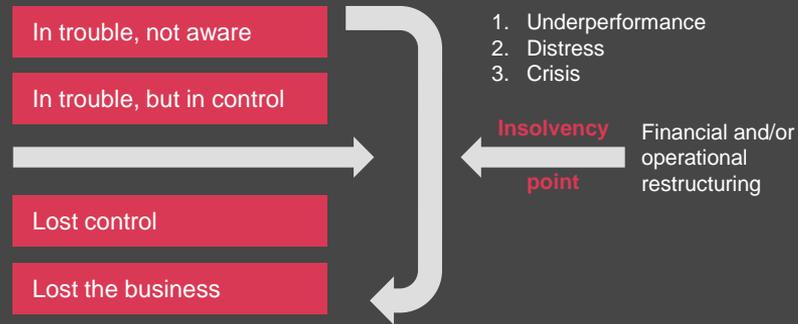


New  
restructuring plan



# Guarding against failure

## Phases of decline:



# Insolvency

1



## Administration

- Widely used in the sector
- Key objectives: 1) rescue company; 2) better result than liquidation; 3) payment to secured or preferential creditors
- Provides automatic moratorium (e.g. interim and final)
- Duty to 'creditors as a whole'
- Possible to do 'admin lite' process (e.g. Debenhams), as well as pre-packs and post-packs to realise maximum value
- A number of routes to appointment (out-of-court vs. court)

2



## New moratorium

- Brand new Corporate Insolvency & Governance Bill 2019-2021 (CIGB) which bring a new moratorium regime
- To be used as both an insolvency and restructuring/'rescue' tool – allowing companies 'breathing space'
- Subject to eligibility criteria and a requirement to engage with a Monitor (a qualified IP)
- Initial period – 20 days, but can be extended
- New restructuring plan and use of CVAs expected to be the most common exit strategy as rescue as going concern

3



## CVA and Restructuring Plan

### CVA

- A formal agreement between a company and its creditors to help compromise current and future liabilities to rescue the business
- An extremely flexible restructuring tool

### Restructuring plan

- Similar, but an alternative rescue tool to a Scheme of Arrangements
- Introduces a 'cross-class cram down' that will allow dissenting classes of creditors or members to be bound

4



## Liquidation

- **MVL** – Debts repaid in full, surplus to shareholders, management/company led, out-of-court process (quick), no automatic moratorium
- **CVL** – Out-of-court process (quick), no automatic moratorium
- **Provisional** – urgent preservation, no automatic moratorium
- **Compulsory** – Court process (expensive, slow), automatic moratorium
- **Special manager regimes**

# Important stakeholders

## Landlords

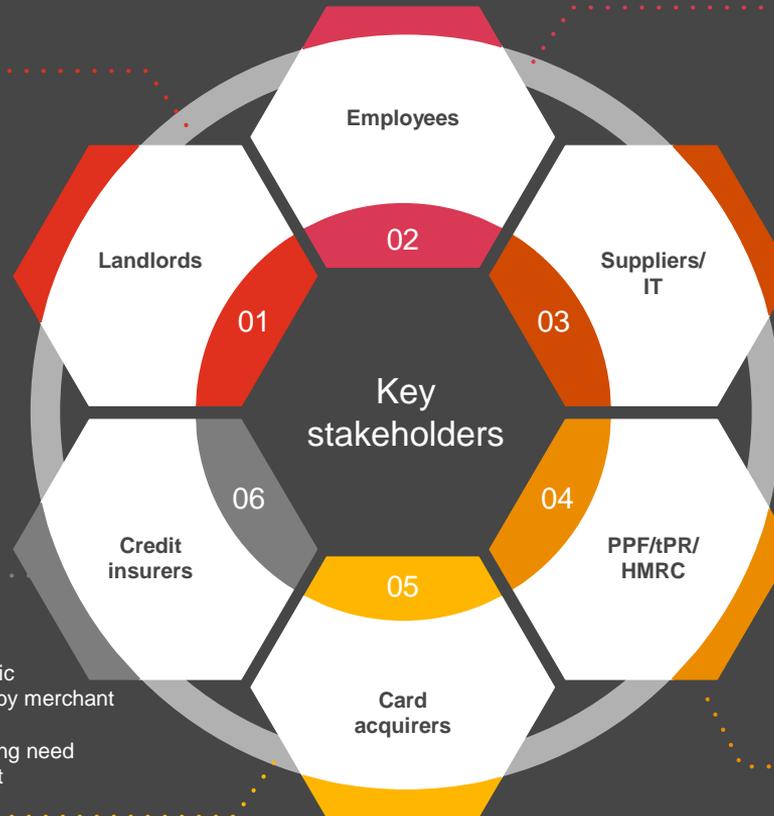
- Typically, largest creditors
- Play a key role to allow trading in insolvency
- Usually significant unliquidated and contingent claims
- Historically, suffered a lot of failed CVAs

## Credit insurers

- Significant current exposure across both sectors
- Challenges in arranging new cover/ extend current cover
- Significant impact on credit terms and this working capital/liquidity

## Card acquirers

- Chargeback claim activity spike due to pandemic
- Significant and prolonged withholding of funds by merchant service provider
- Difficult to negotiate releases – impact on funding need
- Challenges to operate/trade without the support



## Employees

- Usually large employers
- Primarily lower paid jobs across both sector
- Historic and current uncertainty for employees about job security
- Furlough scheme availability and duration
- Labour shortages due to Brexit/COVID

## Suppliers/IT

- Suppliers and IT are lifelines for businesses
- Supply chain disruption, delivery delays and volatility
- Increased online traffic met with reduced capacity

## PPF, the Pension Regulator, HMRC

- DB pensions schemes, usually the largest creditor (s.75 deficit)
- tPR has significant regulatory power for any wrongdoing (moral hazard)
- HMRC – previously tough on arrears, streamlined process for WUP
- Preferential creditor status as of December 2020

# Considerations on insolvency

- 1 Tangible stock rather than services provided through hospitality
- 2 Return on turnover
- 3 COVID
- 4 Cashflow pre-insolvency
- 5 Discounts
- 6 Gift cards
- 7 Liquidation scenario opportunity
- 8 Trading in insolvency – often from smaller number of premises
- 9 Supplier support
- 10 Sale of business
- 11 Cash flow while trading – landlords consents
- 12 Food hygiene and other Health and Safety matters
- 13 Value of brand
- 14 Employees

# Current environment and future outlook

## COVID-19

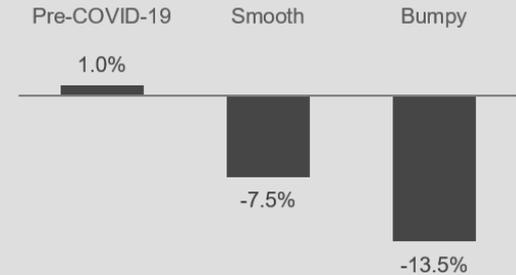
- COVID-19 has had disproportionate impact on the sectors
- Big sector variations post COVID-19, particularly for clothing and footwear
- Expect to see a shift in spending priorities

## Coping mechanisms

- Urgent liquidity/cash flow management
- Rent and rates support
- Government support – furlough scheme, CBILS/Bounceback loans
- Lenders and shareholder support
- Diversification
- Flexibility
- Capitalise on accelerating trends such as digital solutions, local destinations and category shifts

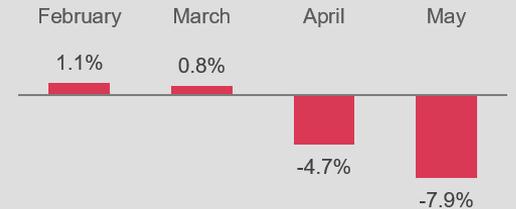
## PwC's 2020 GDP projections <sup>1</sup>

% change on previous year



## Average of independent forecasts for UK 2020 GDP growth, by month published <sup>2</sup>

3-month average <sup>2</sup>, February to May 2020, % change on previous year



1. Pre-COVID-19 projection published in November 2019. 2. Average of all projections submitted to HM Treasury in the three months before the specified month.

Source: PwC Economic Analysis, HM Treasury, Strategy& Analysis

# Q&A



# Thank you

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# *Useful Information*

- ICAEW Coronavirus Hub: [www.icaew.com/coronavirus](http://www.icaew.com/coronavirus)
- Direct enquiries: [www.icaew.com/contact-us/helplines-and-support](http://www.icaew.com/contact-us/helplines-and-support)
- Feedback / Insights: <https://r1.dotmailer-surveys.com/bb41f58a-124mcd1d>
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