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Business

Neiman Marcus files for Chapter 11 bankruptcy

The luxury department stores had been struggling to get out from under $5 billion in debt even before the outbreak forced it to shutter all 43 of its U.S. stores

By Abha Bhattarai
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Neiman Marcus Group, the 113-year-old chain known for its high-end department stores, filed for bankruptcy Thursday, making it the second major retailer to do so during the coronavirus pandemic.

The Dallas-based retailer has struggled to pay down $5 billion in debt, much of it from leveraged buyouts in 2005 and 2013. The pandemic has forced it to temporarily shutter all 43 of its stores and furlough most of its 14,000 workers. In addition to its namesake stores, the company also owns Bergdorf Goodman, Horchow and Mytheresa.

The company said it is considering closing some locations but did not provide details. In a letter to customers, chief executive Geoffroy van Raemdonck stressed that the retailer is not liquidating.

“Like most businesses today, we are facing unprecedented disruption caused by the COVID-19 pandemic, which has placed inexorable pressure on our business,” he said in a statement. “We will emerge a far stronger company.”

The luxury retailer said it has secured $675 million from its creditors to cover costs during the bankruptcy proceedings, which are expected to last through the fall.

In its filing, Neiman Marcus said it owed between $1 billion and $10 billion to more than 50,000 creditors, including Monument Consulting ($10.4 million) and Rakuten Marketing ($7.8 million). It also owes millions to several luxury brands, including Chanel, La Mer, Gucci, Dolce & Gabbana, Stuart Weitzman, Christian Louboutin and Yves Saint Laurent.

The company’s filing comes three days after mall-based apparel chain J. Crew filed for Chapter 11 bankruptcy protection. JC Penney and others also are reported to be considering similar measures as they run out of cash.

“The writing has been on the wall for years: Neiman Marcus has an unsustainable amount of debt,” said Steve Dennis, a Dallas-based consultant and former Neiman Marcus executive. “The pandemic just accelerated the inevitable.”

The bankruptcy filing exemplifies the unprecedented challenges facing retailers since the coronavirus brought the economy to a standstill. More than 263,000 stores across the country have temporarily closed in recent weeks, according to GlobalData Retail, and entire shopping malls sit empty as social distancing keeps consumers at home. More bankruptcies are likely in the coming months, analysts and attorneys say, as retailers run out of ways to negotiate leases and other debts.

“You can kick the can down the road for a while, but all of these payments are going to come due in the next 120 days,” said Hugh Ray, a bankruptcy attorney for Dallas-based law firm McKool Smith. “You’ve got a situation where companies that were already failing won’t be able to pay.”

Luxury brands have been especially hard hit as international tourism screeches to a halt. Well-heeled travelers from Asia and Europe account for much of the industry’s sales, and analysts say it could be years before wealthy foreigners return. Global sales of personal luxury goods such as apparel, cosmetics and watches are expected to fall as much as 35 percent this year, according to estimates by Bain & Co. released Thursday.

Americans are pulling back, too. Consumer spending has dropped precipitously in recent months, with sales of clothing and shoes falling by half in March. More than 33 million Americans have lost their jobs since the beginning of the pandemic.

“It’s going to be a long time before consumers are ready to shop again,” said Paula Rosenblum, managing partner at Retail Systems Research in Miami. “There isn’t pent-up demand for clothing — or really, for anything other than haircuts and toilet paper. And with unemployment as high as it is, I don’t see that changing anytime soon.”

The company joins a long list of national retailers that have filed for bankruptcy in recent years. Like Neiman Marcus, many of them were purchased by private-equity firms and hedge funds in the mid-2000s, when a booming economy and low interest rates made leveraged buyouts particularly attractive. The deals were financed using large swaths of debt under the assumption that the good times would continue and companies would grow.

But by the time the Great Recession hit in late 2007, it was clear that many of those retailers were running into trouble. Consumer spending slowed, but expenses such as rent and workers’ wages stayed the same. Many began defaulting on interest payments, and giants such as Sears, Toys R Us and Barneys New York, which were once among the biggest names in retail, tumbled into bankruptcy.

“A lot of brands are hanging on by a thread, and Neiman was one of them,” said Milton Pedraza, chief executive of the Luxury Institute, a retail consultancy in New York. “It had so much debt — from being bought and sold, and bought and sold — that really hampered its ability to invest and innovate.”

Neiman Marcus got its start in 1907, while the country was in the middle of a recession. Even so, it was an immediate success selling high-end clothing to wealthy Texans and made a name for itself as one of the only luxury department stores outside of New York. And though widely known, with ads in Vogue and Harper’s Bazaar, it took 50 years for Neiman Marcus to grow beyond its hometown — with a store in Houston — and another 14 before it opened its first out-of-state location in Florida.

By the 1970s, it was on a tear, rapidly adding stores in Atlanta, St. Louis, Beverly Hills and Washington, D.C. Today the company has 43 Neiman Marcus stores, 24 Last Call outlets and two Bergdorf Goodman locations.

In recent years, though, the retailer has faced an uphill battle to stay relevant as consumers do more of their shopping online. It also has struggled to grow, analysts said. Today’s consumers are less likely to fill their closets solely with designer wear — instead, many favor a mix of high- and low-end brands, as retailers such as Target and Amazon begin offering more trendy apparel. (Jeff Bezos, the founder and chief executive of Amazon, owns The Washington Post.)

“The question always was: How can we appeal to a bigger audience?” said Dennis, a senior vice president at the company from 2004 to 2008. “Neiman Marcus has not been able to attract young customers to replace older customer who are literally dying or are aging out of their peak spending years.”

More importantly, he said, the retailer has been weighed down by the massive debt accrued in two leveraged buyouts. Private equity firms Warburg Pincus and Texas Pacific Group bought Neiman Marcus for $5.1 billion in 2005 then sold it eight years later to private-equity firm Ares Management and the Canada Pension Plan Investment Board for $6 billion.

The retailer has struggled to get out from under its debt load, even as it brings in billions. In fiscal year 2018, Neiman Marcus posted a profit of $251 million on revenue of $4.9 billion. Sales have grown for six of the past seven quarters.

“The profit margins are actually pretty good,” Dennis said, “but when you have all your earnings eaten up by interest payments, there’s an inevitable crisis.”

In April the retailer missed its latest interest payment, according to one of its debt holders. “Sadly, Neiman’s financial distress will come as no surprise to anyone,” the hedge fund Marble Ridge Capital said in a statement.

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