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Will Sears' Annual Meeting on Wednesday Be Its Last?

To stay afloat, Sears Holdings' strategy has been to sell off its best brands and real estate, while being propped up by loans from its CEO and chairman Eddie Lampert.

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May 9, 2018 7:56 AM EDT

The approaching end of Sears (SHLD - *Get Report*) has been well documented and that slow burn should continue.

As Sears Holdings Corp. stages its annual meeting on Wednesday, May 9, retail experts believe it may hang on longer, although not by conventional means for a department store chain. "Despite constant speculation about its demise, Sears is the great survivor," GlobalData Retail manager partner Neil Saunders told TheStreet on Tuesday, May 8. "Sears has bought itself time by monetizing assets and receiving loans from its CEO [Eddie Lampert]. Those two dynamics can't continue indefinitely."

Saunders added that asset sales are especially troubling because while they provide liquidity to cover trading losses, they also weaken the balance sheet at a time when Sears has a heavy debt load. Sears has needed some $2 billion in liquidity for the last six years just to keep operating, according to Fitch Ratings.

The stock is also hanging by a thread. It has fallen more than 73% since this time last year, closing at $2.76 on Tuesday. Shares sank to a 52-week-low of $1.99 on Feb. 12.
"Key is the proposed sale of assets to Lampert's fund," Brian Davidoff, head of Greenberg Glusker's Bankruptcy and Financial Restructuring Group, told TheStreet. "While the assets to be spun off will likely produce good cash flow when unhinged from the company's debt burden, in the long term what is Sears left with to restructure its operations if its more profitable businesses are carved off? While the solution may pay dividends to the buyers of the Kenmore and related assets, it deepens the company's problems."

Davidoff was referring to Lampert's bid in April on behalf of his hedge fund, ESL Investments, to buy Sears' Kenmore brand, its SHIP and Part Direct businesses and some real estate for $500 million.

"As a retail business, Sears is fundamentally broken and the future looks bleak," added Saunders. "Operationally, the economics just don't stack up."

Those economics show a company for which business as usual is store closings and employee layoffs — one sign of a company headed toward Chapter 11, according to Davidoff.

Sears, which began in 1886 and grew to be a fixture for American shoppers, really the Amazon of its day, has laid off legions of workers and closed thousands of stores over the last several years. The toll mounted this year when the company announced in early January, the closing of 64 Kmart stores and 39 Sears stores, and later that month said that 220 workers at the company's headquarters in Hoffman Estates, Ill., had lost their jobs.

The economics also show faltering quarters, including the most recent, in which same-store sales for Kmart, owned by Sears, and Sears plummeted 12.2% and 18.1%, respectively. A year before, those figures dived 11.4% and 15.2%, respectively, for the two brands. Both brands have been reported falling same-store sales for six straight years, according to Bloomberg data. Inventory dove 29% to $2.8 billion to close out the fiscal year amid Sears' liquidation sales, but also because it maintained lean positions in many merchandise categories in an effort to hold onto cash.

Sears' and Kmart's lean inventories are influenced in part also by its inability to convince vendors to sell to them, another sign of a company headed toward bankruptcy, according to Davidoff.

"The shelves at Sears' store are empty," Ron Friedman, a partner at the accounting firm Marcum LLP, which specializes in retail clients, told TheStreet on Tuesday. "Eddie Lampert does business with vendors who are desperate or demand cash upfront or to be paid right away."

Sears did not respond to a request for comment.

At Wednesday's annual meeting, shareholders will be asked to approve the election of six directors, including Sears chairman and CEO Lampert, and okay their compensation. Lampert earns a token annual salary of $1 annually, but is paid in stock, which last year was worth $4.3 million. His stock "payment" totaled $1.14 billion for the three years between 2015 and 2017, according to a Securities and Exchange Commission filing.

A "median employee," as defined by Sears in the filing, earns $16,442 annually, and is a part-time hourly worker at a Sears Fulfillment Center. The calculation did not include Lampert's compensation.

Sears has also sold off or entered into agreements to offer some of its best-known brands to be sold by other outlets. In 2017, Sears sold its tool line Craftsman to Stanley Black & Decker Inc. (SWK - *Get Report*) in a deal estimated to be worth $900 million. The same year, Sears began selling its Diehard brand, which makes jump starters and battery chargers, and its Kenmore appliance line on Amazon.com Inc. (AMZN - *Get Report*)

"Sears will likely fail at some point," added Saunders. "Predicting when is far from easy."