

Lessons Learned from the Reorganization of Sur La Table

July 29, 2021

By George N. Koutsonicolis, Managing Director at SOLIC Capital Advisors, a leading financial advisory firm providing restructuring, investment banking and distressed asset support services

As with most predominantly brick-and-mortar retailers, Sur La Table had to implement an almost overnight shutdown of its 130-plus stores at the start of the COVID-19 pandemic in early 2020. The Seattle, Wash.-based retailer was forced to quickly shift its largely physical sales of its high-end cookware, cutlery and home goods to an e-commerce sales channel, requiring a range of technical and business adjustments.

With everything in motion, Sur La Table also filed for Chapter 11 bankruptcy to reorganize and effect a potential sale that could keep the company going in the face of unprecedented, accelerated changes. Let's take a look at these two major changes the retailer endured last year and how execution of the strategy set up the going concern company for long-term success.

Flexibility supports move to e-commerce channel

First and foremost, to support the shift in demand to online sales, Sur La Table management had to be flexible in adjusting its business model. Given its already tight liquidity and inability to order additional product on trade credit, the company worked to create vendor support for continued sales and implemented a drop ship program to fulfill the explosion in its e-commerce sales.

Sur La Table also successfully navigated supply chain challenges by running multiple shifts at its sole warehouse — and notably without an incident resulting in disruptions. Savvy inventory management practices in the warehouse and across store locations was critical, including the sourcing of products from stores to fulfill e-commerce sales ("ship from store"). Implementation of various liquidity preservation initiatives was also necessary, including reduction of a significantly high fixed cost structure and inventory liquidation sales at approximately one-third of the company's store fleet.

Due to consumers not dining out during the pandemic, an increased demand for cookware and cooking tools sustained the retailer's sales via its e-commerce channel, allowing the company to achieve its full-year revenue budget.

Given the demand for Sur La Table's specialty products, inventory liquidation resulted in recoveries significantly higher than expected. The use of a highly experienced third-party liquidator, Great American Group, boosted material recoveries on liquidated inventory.

Bankruptcy auction offers jobs-saving alternative

Filing for Chapter 11 bankruptcy provides a means by which a retailer can renegotiate market leases, maintain physical location and achieve profitability — or at a minimum, stem its operating losses.

To align interests and receive support in the restructuring process, it was important for Sur La Table to engage in transparent discussions and negotiations with various stakeholders, including its asset-based lender (ABL), holder of the senior secured loan (SSL), vendors, landlords and employees. For example, without the support of the ABL lender in its restructuring process, Sur La Table could have been liquidated, resulting in the loss of thousands of jobs.

The timing of Chapter 11 filing had to be managed to coincide with the ability to re-open a significant portion of Sur La Table's store fleet. Once the filing took place, the company would be expected to start paying rent post-petition as an administrative expense.

Additionally, Sur La Table, under the protection of Chapter 11, concurrently ran a going concern sale and orderly liquidation. The company rationalized its physical footprint, identifying locations that were not profitable based on an extensive "4-walls" analysis, and some market leases could not be renegotiated. Sur La Table ultimately liquidated one-third of its store fleet. The going concern sale was comprised of the retailer's e-commerce platform and about two-thirds of its store fleet.

By running a robust sale process pre-COVID and pre-bankruptcy, which contacted more than 125 strategic and financial buyers, Sur La Table realized a value in excess of two times the initial letter of intent submitted for purchase of the going concern. The holder of the SSL submitted a stalking horse bid that set a floor price for the going concern sale.

During the bankruptcy auction, the SSL holder bid the full-face value of Sur La Table's debt, with the winning bidder then topping this bid. The bankruptcy auction proceeds, in addition to liquidation of one-third of the stores, ultimately yielded higher recoveries than what a going concern reorganization would have realized when adjusting for execution risks, macro risks and specific retail sector risks, saving thousands of jobs.

Without these actions, reorganization of Sur La Table would have required significant capital investment for implementation of omnichannel initiatives such as BOPIS, expanded e-commerce capabilities, IT infrastructure and a refinancing of the existing ABL and SSL holder, including a new ABL facility that would provide for inventory purchases to fulfill seasonal sales demand.

By executing the strategy under the protection provided by the Chapter 11 bankruptcy, Sur La Table's new buyer [a joint venture between e-commerce investment firm CSC Generation and Marquee Brands LLC] could both pay a significant purchase amount above the LOI and provide the capital investment and infrastructure to support the necessary improvements to keep the company in business long term.

About The Author

George N. Koutsonicolis serves as managing director at SOLIC Capital Advisors, a leading financial advisory firm providing restructuring, investment banking and distressed asset support services. He specializes in capital restructuring, operational restructuring, mergers and acquisitions, divestitures, capital raising initiatives, and alternative recovery strategies on behalf of the firm's clients.

###