

The CVA – a retailer's new best friend?

KPMG LLP (UK)

JJB Sports plc (JJB) is a high street retailer which had fallen into difficulties and couldn't determine a mechanism for dealing with the lease costs of its closed stores, which created cash pressures. A rescue of the business would only be possible if its landlords consented to a compromise. However, there had already been other high-profile failures to achieve landlord consent. We developed a tailored Company Voluntary Arrangement (CVA) which was approved by 99% of creditors. Blane Leisure Ltd's CVA (a wholly owned subsidiary) was approved by 98% of creditors. No one in attendance at the Creditors' Meeting on 27th April 2009 voted against the proposal.



The company

JJB is now one of the UK's leading high street sports retailers, but was originally formed in 1971 to acquire a single sports store which had been established in Wigan during the early 1900s. The store portfolio grew to 120 stores in 1994, at which point the Company was floated on the London Stock Exchange. In 1998, JJB acquired the business of Sports Division, which was JJB's largest competitor at the time. The acquisition then made JJB the largest sports retailer in the UK. At the time of KPMG's initial involvement, it had acquired Qube Ltd and Original Shoe Company Ltd, and had a further 250 open stores, 55 fitness clubs, and 140 closed stores (the result of its own restructuring programme).

The position

JJB had several critical issues to resolve — cash requirements, unprofitable divisions, unprofitable stores in otherwise profitable areas, and a lack of a long-term sustainable strategy; and therefore it was facing insolvency if these issues could not be addressed urgently.

Dealing with the issues

We provided advice on how to manage, forecast and generate working capital which enabled JJB to remain within its bank facilities which was key to it remaining outside administration, and provided the comfort to its lenders that appropriate measures were being taken to preserve the position in the short-term whilst a long-term solution was put in place.

Our Debt Advisory practice assisted management in modelling a long-term sustainable debt position, with their negotiations on standstill agreements with the lender group and assisted JJB to obtain new funding facilities.

JJB was then left with the issue of how to deal with unprofitable group companies — specifically Qube Ltd and Original Shoe Company Ltd and with unprofitable or closed stores in otherwise sustainable areas of business. The unprofitable companies were reviewed in detail and, in the case of the Lifestyle division, it was determined that it could not be part of the group in the future.

The Lifestyle division companies therefore entered administration in a controlled fashion to achieve a managed exit from this area. The Fitness Clubs division was not part of the long-term strategy, but was able to be sold as a solvent entity for cash consideration.

Stores and landlords

The most difficult piece of the jigsaw was to achieve a resolution of the closed stores rent roll, of approximately £17.3 million per annum.

The route chosen was a Company Voluntary Arrangement. A CVA is a very flexible, inclusive means of compromising the debts of unsecured creditors. The proposals to creditors can be tailored to the exact needs of the business, and provided that 75% of all creditors by value who vote approve them, they will be binding on all unsecured creditors. A members' vote is also taken but this cannot override the wishes of creditors.

A CVA is also rapid — between 14 and 28 days' notice to creditors is all that is required — and as soon as the meetings of creditors and members are held it is effective.

The CVA received overwhelming support from the landlords due to its fairness and the certainty and clarity of what the landlords would receive. In contrast, the earlier Stylo CVA proposal, which attempted to change significantly the terms of open store leases to turnover based rents and force lease surrenders, which was met with strong opposition from landlords.

Both our approach and that of JJB was praised by The British Property Federation, which represents some of the biggest landlords, for "the open and honest manner in which proceedings have been carried out".

The conclusion

We believe that a CVA such as this could provide a valuable lifeline to retailers during this recessionary period, providing the business can overcome the reasons that cause cash-flow problems. There will be some tough decisions to be made for management teams on operational efficiencies and stakeholder management. Finally we have shown that working with landlords to resolve issues at retailers is a realistic possibility. We've also demonstrated that CVAs can be considered as an alternative to administrations on any company including those fully listed on the main market of the London Stock Exchange, as the CVA was approved without the protection of an administration order or a share suspension — a first in the UK.

Above all, the key component for the successful outcome on the JJB proposal was the complete transparency of communication between the management, advisors, stakeholders, shareholders, suppliers and other creditors. From the outset everyone was clear as to what was required to achieve the result, and the steps necessary to make it happen. Everyone has gained, notably the 7,000 staff.

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Designed and produced by KPMG LLP (UK)'s Design Services.

Publication name: The CVA – a retailer's new best friend?

Publication number: RRD-142501

Publication date: May 2009