Robb & Stucky's survival depends on potential investors

If retailer emerges from bankruptcy, it's likely to be smaller

By Clint Engel -- Furniture Today, February 23, 2011

FORT MYERS, Fla. — Robb & Stucky's plan to secure going-concern investors while it works through Chapter 11 bankruptcy proceedings could be a struggle, according to a consulting and turnaround specialist familiar with the case.

But another source close to the proceedings said a group of investors planning to continue running a scaled-down version of the upscale chain is waiting in the wings.

Changes in the bankruptcy code six years ago and the unattractiveness of some of the upscale retailer's hardest hit markets make the prospects for an investor to acquire the business as a going concern unlikely though not impossible, said John Young, senior managing director of consulting firm Conway Mackenzie in Houston.

Young, who serves as financial advisor to the unsecured creditors committee in bankruptcy of Texas furniture retailer Lack's Stores and was the chief restructuring officer and board director for Finger Furniture in Houston, said the bankruptcy code changes in 2005 shortened the time allowed to assume or reject leases to 210 days. That's not a lot of time for prospective buyers of any ongoing business to decide which properties to keep, he said, adding that since the code changes, the industry hasn't seen too many companies emerge from bankruptcy as going concerns.

And then there are the markets the 19-store Top 100 company operates in - especially its home state of Florida and in Scottsdale, Ariz., Young said.

"I don't know many investors who want to go long on retail in Arizona and Florida markets," he said. "The real estate markets in Arizona and Florida are horrible, and when you have a bad real estate market you don't expect to have a robust retail market."

Young, who has been evaluating the Robb & Stucky bankruptcy but is not currently involved, added, "I think there's a low likelihood of seeing a going-concern buyer successfully competing against a liquidator - someone wanting to come in and liquidate the inventories."

Indeed, the stalking horse bid in the case filed Friday was struck with liquidators Hudson Capital and Hyperams to serve as agent for liquidation of substantially all assets, subject to better offers at an auction. According to the agreement, the bidder would pay 75.2% of the value of the inventory, or would receive a break-up fee of $475,000 if another bidder makes a higher offer.

An auction date of March 7 has been proposed, according to court records.

Young estimated Robb & Stucky's inventory value at roughly $42 million, which would bring in about $31.5 million to the estate under the agreement. Not only will that be difficult for a going concern investors to compete with, "Given the amount of debt and what I see in the assets of the business, it's going to require a very skillful effort for the vendors to see any significant recovery."

However, an industry source close to the process who asked not to be indentified, said the retailer is moving forward in discussions with investors that would close certain locations, but would continue the business as a going concern.

"The company has some good, solid performing stores but needs to trim some unprofitable locations for the go-forward plan," the source said. He wouldn't name the prospective investors or the stores targeted to close, but said, "With everything lining up, it's leaning toward Robb & Stucky will be here to stay."

Separately, according to a local report, Robb & Stucky filed a notice with the state of Florida that it plans to lay off 178 employees at its Fort Myers corporate headquarters by April 23.

Industry analyst Jerry Epperson of Richmond, Va.-based Mann, Armistead and Epperson said he wouldn't be surprised to learn that some manufacturers would invest in the retailer "as a way of keeping Robb & Stucky an ongoing concern, because they are so important in big key markets for high-end merchandise."

Young said that even if vendors do invest in Robb & Stucky in order to keep the distribution channel open, the buyers would have to partner with a liquidator and the retailer would "have a significantly reduced footprint." But even then, he added, it would be a high-risk proposition.

Fourteen of the retailer's 20 largest unsecured creditors are home furnishings companies owed about $8 million. The largest is Woodard, a casual and outdoor furniture vendor that is owed $1.13 million. High-end case goods and upholstery resource Marge Carson is owed $1.05 million. Neither vendor, nor Lexington Home Brands - the fourth largest industry creditor - returned calls seeking comment.

Michelle Campbell, managing director at consulting firm AlixPartners - hired by Robb & Stucky along with FTI Consulting - said the retailer has no comment beyond its initial press release, but said more could be coming following a court hearing today.

In a declaration document, Kevin Regan, chief restructuring officer for Robb & Stucky and an FTI senior managing director, said the retailer began a formal process of exploring sales of assets - as a going concern or through liquidation - in early February. It ultimately talked to about nine groups regarding liquidation bids and about nine groups interested in purchasing some or all assets as a going concern - a process that culminated in the liquidation stalking-horse bid.

Robb & Stucky expects some locations will be forced to close even in the event of a going-concern sale winning out, Regan said in the declaration.

According to court documents, Regan started with Robb & Stucky in October at $25,000 per week. Robb & Stucky has paid FTI a total of $647,615 since early December.

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