

Chapter 11 Recap

Year in Review for 2022

Highlights

- **2022 retail bankruptcies remained near historic-lows**
- **Macro-economic headwinds setting the stage for a more challenging 2023**
- **We expect several major operators to follow Party City to the bankruptcy courts in the coming months**

The number of retail bankruptcies in 2021 and 2022 reached historic lows following a surge in 2020 precipitated by the pandemic (for a full list of retail bankruptcy filings, see the [ARMS Bankruptcy Database](#)). During that period, the pandemic accelerated the collapse of struggling companies that may have otherwise remained in business but would have continued to flounder. For many of the companies that made it through 2020, sales rebounded during 2021 and early 2022, due to pent up demand following the easing of shelter in place mandates and federal stimulus that left consumers flush with cash. At the same time, supply chain constraints limited the availability of products, allowing some retailers to cut back on promotions and improve margins; fiscal aid and low interest rates also boosted liquidity. Over the course of 2022, the narrative changed, with persistently high inflation, over-ordering, bloated inventories, a pullback in consumers' discretionary spending, and geopolitical unrest. This has set the stage for a rocky 2023.

Inflation has recently shown signs of moderation, however, it remains near 40-year highs, running at just over 7% through November 2022. To combat inflation, the Federal Reserve has aggressively raised interest rates, most recently lifting its benchmark rate another 50 bps to a range of 4.25% to 4.5%, marking the seventh increase in one year, and the highest rate in 15 years. While consumers have shown resilience, they are starting to pull back, shifting dollars away from discretionary items towards necessities in response to high prices. Prior to the 2022 holiday season, many retailers placed orders for goods earlier in response to supply chain constraints but were unable to respond quickly enough to changing consumer demand, leaving them with excess inventory. Companies have been forced to revert to discounting to move product, which together with higher costs and tighter capital markets, will continue to pressure profitability and liquidity in the coming year.

The current economic environment is less forgiving than in previous years due to higher interest rates on borrowing, which is necessitated by weak sales, margins, and cash flow. Consequently, we expect to see an uptick in bankruptcies in 2023, especially from companies that simply benefited from the rising tide that lifted all boats, but lack the pricing power or product selection to retain their new-found customers in the current highly competitive environment. Look no further than Party City, which was the first major retailer to file for bankruptcy this year, with Bed Bath & Beyond reportedly not too far behind. We may even see a rise in "Chapter 22" cases, as some previously reorganized companies may file for bankruptcy a second time. We expect discretionary categories, such as apparel and home furnishings, to be hardest hit, although the macroeconomic environment has dampened the outlook for all of retail in 2023.

David Silverman, (800) 789-0123 x119

Below we provide a recap of significant industry bankruptcy filings in 2022 – including both liquidations and restructuring efforts.



BHCosmetics

Filing Date: 01/14/2022 **Store Closures:** N/A **Outcome:** Liquidation

Direct-to-consumer beauty brand BH Cosmetics, based in Los Angeles, filed for bankruptcy protection in mid-January, attributing its problems to unfavorable changes in beauty frequency and work-from-home routines, due to the pandemic. Revenue dropped from \$55.8 million in 2019 to \$33.6 million in 2020, and the Company entered bankruptcy with \$23.5 million in debt and about \$15 million in unpaid rent and other expenses. On February 25, 2022, Revolution Beauty acquired certain of BH's intellectual property assets and inventory for \$3.9 million, indicating it would consolidate BH Cosmetics into its operations during the course of 2022.



Escada America

Filing Date: 01/18/2022 **Store Closures:** 5/10 **Outcome:** Reorganization

Escada America, the U.S. division of German luxury women's apparel brand Escada, filed for Chapter 11 protection in January 2022, citing the pandemic and failed lease negotiations with certain landlords. The Company closed five of its 10 U.S. locations, with plans to reorganize and repay creditors. Escada America continues to operate stores in Palm Beach, FL; Scottsdale, AZ; Beverly Hills and Costa Mesa, CA; and Chicago, IL, as well as within select Nordstrom, Neiman Marcus and Saks Fifth Avenue department stores across the U.S.



BuyK

Filing Date: 03/17/2022 **Store Closures:** 39/39 **Outcome:** Liquidation

New York grocery delivery service Buyk filed Chapter 11 after less than a year in business, ceasing operations from all 39 locations (31 units in New York City, and eight in Chicago) and selling off its inventory. The Company, which promised delivery in 15 minutes or less with no minimum and no fees, launched in the two cities in September 2021 and was reportedly a spinoff of popular Russian delivery app Samokat, which is partially owned and funded by investors with Russian ties. Management said Russia's war with Ukraine and resulting sanctions imposed on Russia severed Buyk's major funding sources, resulting in the filing. In October, the Company initiated the process of selling its name, website, and physical assets.



BLT Restaurant Group

Filing Date: 03/18/2022 **Store Closures:** 0/4 **Outcome:** Reorganization

BLT Restaurant Group filed for bankruptcy after it failed to receive full forgiveness of its Paycheck Protection Program (PPP) loan, and it became evident that there would be no further federal aid in the future. The Company operates four restaurants under the names BLT Steak and BLT Prime and provides management services for an additional four restaurants. In April 2020, it received a \$3.3 million PPP loan, which was to be used to pay employees and for continuing operations. However, BLT was subject to indoor dining restrictions for the entire duration of the forgiveness period and was thus unable to meet the staffing levels required for full loan forgiveness. The Small Business Administration (SBA) forgave approximately \$1.9 million of BLT's loan, leaving about \$1.3 million due for repayment. BLT also had more than \$7.8 million in loans outstanding with its majority owner, JL Holdings 2002 LLC. Prior to filing, BLT Restaurant Group closed four restaurants (BLT Burger in Washington, D.C., Casa Nonna, The Wayfarer in New York City, and BLT Steak in White Plains, N.Y.). The Company attempted to restructure its debt with JL Holdings (which also provided \$600,000 in debtor-in-possession financing) and repay its PPP loan over two years.



Revlon, Inc.

Filing Date: 06/15/2022 **Store Closures:** N/A **Outcome:** Reorganization

Skin care and cosmetics conglomerate Revlon filed for Chapter 11 bankruptcy protection in June amid supply chain irregularities, competition, and \$3.30 billion in long-term debt. Cosmetics use declined during the pandemic as people wore masks and remained at home. At the time of its filing, the Company indicated nearly one-third of customer demand could not be fulfilled in a timely manner due to its inability to source a "sufficient and regular supply of raw materials." Revlon had accessed \$575 million in DIP financing to continue daily operations. In December 2022, Revlon entered into a Restructuring Support Agreement (RSA) under which there will be a rights offering to raise up to \$650 million in new cash and a total debt reduction, including DIP financing, of approximately \$2.7 billion.

Revlon previously indicated that it was exploring a sale as a means to exit bankruptcy; the agreement allows the Company to pursue a sale so long as the offer is high enough to fully repay certain secured lenders. Revlon seeks Court approval of a Plan of Reorganization at a hearing scheduled for April 3, 2023, which would allow it to exit bankruptcy on April 17th. However, there is currently litigation over what collateral actually secures certain loans, consequently, confirmation may not occur until the litigation is settled either through negotiations or a trial.



Enjoy Technology

Filing Date: 06/30/2022 **Store Closures:** N/A **Outcome:** Liquidation

"Commerce-at-home" company Enjoy Technology filed a voluntary petition for Chapter 11 bankruptcy protection, with plans to sell itself to the highest bidder and wind down its U.K. operations. Asurion, a Nashville, TN company that insures electronics and other consumer products, committed to providing a \$2.5 million bridge loan and \$55 million in DIP financing. Asurion was the stalking horse bidder in a bankruptcy auction, and the Company later received Court approval to sell its business to Asurion for \$110 million. Enjoy Technology was founded in 2015 by Ron Johnson, who previously led Apple's retail division and J.C. Penney. The Company provides products and services to customers through a mobile store.



Dynamic Restaurant Acquisition, Inc.

Filing Date: 09/02/2022 **Store Closures:** 5/11 **Outcome:** Reorganization

Dynamic Restaurant Holdings, parent of pizza concepts Happy Joe's Pizza and Ice Cream and Tony Sacco's, sought bankruptcy protection citing pandemic related headwinds, higher food and labor costs, supply chain constraints, and expensive sale-leasebacks of Company operated stores. The filing does not affect the Company's franchised locations, which account for 90% of Happy Joe's and 50% of Tony Sacco's restaurants. Of the nine corporate-owned Happy Joe's and two Tony Sacco's restaurants listed in the filing, three Happy Joe's and both Tony's Sacco's locations have been closed. Dynamic Restaurant Holdings had yet to pay the \$5.3 million owed to private equity firm AAVIN and another \$1.2 million loan related to its acquisition of both concepts in 2017.



Cineworld

Filing Date: 09/07/2022 **Store Closures:** 23/747 **Outcome:** Reorganization

Cineworld Group plc, the world's second largest movie theater operator and owner of Regal Cinemas, filed for Chapter 11 in early September aiming to deleverage. The filing was precipitated by the difficult operating environment for theaters during COVID, a relatively weak slate of movie releases, and a highly leveraged balance sheet. As part of the restructuring process, the Company expects to pursue a real estate optimization strategy in the U.S, which includes negotiations with landlords to improve lease terms. Cineworld secured commitments for an approximate \$1.94 billion DIP Facility provided by certain existing lenders, which will be used to, among other things, fund the Group's operations and refinance certain prepetition funded indebtedness. The Debtors intend to operate cinemas as usual during the restructuring process with plans to emerge from Chapter 11 during 1Q23. In late October, landlords and lenders agreed to explore a potential sale of certain assets and to allow creditor input on the business plan. In December, reports stated that lenders held talks on selling the Debtors' eastern European operations. The Debtors recently noted that more theaters will be closed, although no details were provided. Ultimately, the Debtors plan to sell the entire business to a third party. Recently, management denied it was in talks with AMC Entertainment Holdings Inc. regarding the sale of any of its cinema assets.



Filing Date: 09/11/2022 **Store Closures:** 35/35 **Outcome:** Liquidation

Olympia Sports Acquisitions, LLC filed a voluntary Chapter 11 petition in mid-September 2022 which provided for the closing of all 35 remaining retail stores. At its peak (2012), Olympia operated 230 locations throughout the northeast and mid-Atlantic regions, which was reduced to 75 stores at the time it was acquired by CriticalPoint Capital in 2019. The bankruptcy filing followed the closing of 22 of its existing 63 stores in April 2022 to generate cash flow; additional closures took place during the summer, at which time the Company made the ultimate decision to close all locations. Management highlighted that the COVID pandemic hindered sales and left it with aged inventory, the effects of which were compounded by issues related to a new order processing system implemented in April 2021, which promised elevated sales but led to numerous inefficiencies. The falloff in sales combined with the resources expended to rectify the system also impacted availability under its ABL facility. As of the Petition Date, the ABL had been fully paid off, and the Debtors had around 570 unsecured creditors with claims totaling \$28.7 million.



Filing Date: 12/12/2022 **Store Closures:** 121/121 **Outcome:** Liquidation

Sears Hometown filed for Chapter 11 in mid-December with liquidation sales taking place at all 121 stores. Sears Hometown was spun off from Sears Holding Corporation in 2012 to generate cash; it was later acquired by Transform Holdco LLC (the successor to Sears Holdings). As of the petition date, the Company operated approximately 121 stores, down from nearly 500 at the time it was acquired; the units are much smaller in size than traditional Sears stores and sell appliances, tools, and outdoor equipment. Sears

Hometown suffered from declining sales, higher costs, and the lingering impacts of the pandemic. The filing was partly precipitated by the Company's reliance on Transform Holdco to provide key products and services; management stated that Transform Holdco declined to provide further inventory and "this lack of inventory has caused a rapid downward spiral that contributed to the filing of these Chapter 11 Cases."

Company Name ↑	Industry	State	Case #	Date Filed	Closures	Outcome	Petition
BHCosmetics	Retail	CA	22-10052	01/14/2022	N/A	Liquidation	View
BLT Restaurant Group	Food/Drug, Restaurant	NY	22-10335	03/18/2022	N/A	Reorganization	View
BuyK	Food/Drug, Service Providers	NY	22-10328	03/17/2022	39	Liquidation	View
Cineworld	All Other Amusement & Recreation	UK	22-90168	09/07/2022	23	Reorganization	View
Dynamic Restaurant Acquisition, Inc.	Food/Drug, Restaurant	IA	22-10839	09/02/2022	5	Reorganization	View
Enjoy Technology	Service Providers	CA	22-10582	06/30/2022	N/A	Liquidation	View
Escada America	Retail	CA	22-10266	01/18/2022	5	Reorganization	View
Olympia Sports	Retail	CO	22-10853	09/11/2022	35	Liquidation	View
Revlon, Inc.	Manufacturers	NY	22-10760	06/15/2022	N/A	Reorganization	View
Sears Hometown	Mass Merchandisers	IL	22-11304	12/12/2022	121	Liquidation	View

This information is issued to the Subscriber for its exclusive use only and is compiled from sources which NS Info Holdings LLC d/b/a ARMS, does not control and unless indicated is not verified. NS Info Holdings LLC, its principals, analysts, writers and agents do not guarantee the accuracy, completeness or timeliness of the information provided nor do they assume responsibility for the information reported herein nor for failure to report any matter omitted or withheld. This information and/or any part thereof may not be reproduced, and/or transmitted in any manner whatsoever. Any reproduction and/or transmission without the written consent of NS Info Holdings LLC is in violation of Federal and State Law.