Suppliers fume over Stuttafords rescue deal

By Rob Rose

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A contentious “rescue plan” to save 159-year-old retailer Stuttafords goes to a vote today in what promises to be a hot-tempered meeting.

Source: Freddy Mavunda via *Financial Mail*

Stuttafords hit a wall last year and was put into “business rescue” in October, owing a sizeable R836m to hundreds of creditors, including R147m to Nedbank.

The list of creditors obtained by the *Financial Mail* reveals that some big brands stand to lose plenty. For example, the company owes Adidas R1.34m, Estée Lauder R53.8m, Levi Strauss R2.1m, L’Oréal SA R13.5m, Puma R2.1m and Tommy Hilfiger R14.6m.

Now, a new rescue plan proposes that these small suppliers (“concurrent creditors” whose debt wasn’t secured) will only get an immediate 5c for every R1 they are owed. Then, over the next year and a half, they will get another 18c for every R1 due to them.

Critics say that, for small suppliers already on the breadline, writing off more than 77% of what they’re owed by Stuttafords could cause them to go bust.

Gareth Cremen, a lawyer from Hogan Lovells who is representing several creditors alongside colleague Alex Eliott, says: “These suppliers are staring down the barrel, and many of them don’t have any other option but to keep supplying Stuttafords.”

Cremen takes issue with the fact that, while the suppliers are facing a monumental loss, Stuttafords’ main banker, Nedbank, will get most of its money back, and its main shareholders (including the Rubenstein family and the Ellerines brothers) benefit at the expense of the creditors. “It’s heavily prejudicial to suppliers,” says Cremen. “The rescue plan also says that while the suppliers will get only a fraction of what they’re owed, Stuttafords also retains the right to pay them by returning a portion of their own stock.”

There’s another catch: if these suppliers don’t agree to the plan, they’re “not entitled to any further distributions” – being that further 18c. “All forfeitures are permanent, irreversible and irrecoverable,” according to the plan.

Despite this criticism, Stuttafords’ business rescue practitioners, John Evans and Neil Miller, say the plan “provides creditors with the best possible outcome”.

Evans told the *Financial Mail* that while Nedbank will get all of the R42m it is owed in “secured credit”, it will also have to write off between 77% and 95% of a R105m “unsecured” claim it has.

Equally, he says the existing shareholders (who are owed R364m) will have to write off similar amounts. “Shareholders are significantly diluted and receive no payments in respect of their shareholding,” he says.

The details of those financials, revealed in the plan, lay bare just how grisly Stuttafords’ finances have been.

For the year to June 2016, the company clocked up revenue of R753m, and made a gross profit of R299m. However, its operating expenses of R276m, as well as its finance costs of R13.8m and depreciation of R28.4m meant it made a bottom-line pretax loss of R17.5m.

Evans claims that in the three months since business rescue Stuttafords’ fortunes have improved, with the company making sales of R178.9m and gross profit of R82.8m. “All stores traded profitably,” says his document.

This is why Evans and Miller believe the company, if rescued, “can trade profitably and on a solvent basis into the future”.

Some creditors say the rescue plan has few specifics on its new strategy. “The plan they’re putting to the vote is essentially just a financial plan,” says Cremen. “It doesn’t say how they plan to fix [the company’s] business model, which was under serious pressure.”

For one thing, Stuttafords’ existing management, led by CEO Robert Amoils, remains in place. Amoils is leading a consortium that will inject R10.3m in new money, and end up with 56% of the “new Stuttafords”.

The shareholding of existing owners will be diluted to 13.9%.

One supplier, who spoke to the *Financial Mail* but didn’t want to be named, believes it’s deeply unfair.

“The big creditors get to keep the money they’re owed, the shareholders keep their shares and the only ones who lose are the smaller guys. This is going to cause a wave of smaller suppliers to go to the wall,” he says.

Either way, Stuttafords is in a race against time. It needs an estimated R210m to buy stock for the coming winter season.

Today, the rescue plan needs to be adopted by 75% of creditors and 50% of “independent creditors”. With Nedbank and the existing shareholders likely to vote in favour, it could be a bunfight.

Source: Financial Mail