J.Crew Moves to Protect Asian Supply Chain

By Soma Biswas

May 04, 2020 7:14 pm EDT

J.Crew Group Inc. moved quickly to protect its Asian supply chain Monday after filing for chapter 11 protection, seeking bankruptcy court permission allowing the retailer to pay up to $20 million to key vendors so it will have the right mix of clothing and accessories when it reopens its stores.

J.Crew sources 86% of its merchandise from Asia and the rest from Europe and has seen its supply chain hit by the coronavirus pandemic, according to court papers. Unlike a number of other fashion outlets, J.Crew designs, makes and sells its clothes and accessories through an integrated system of suppliers and shippers.

Any disruption in deliveries could result in J.Crew getting the wrong merchandise, such as swimsuits out of season, cutting into sales, the company said in court papers.

The retailer is seeking approval to pay some of what it owes its critical vendors right away for goods ordered before it filed for bankruptcy, though what it would pay is a fraction of $240 million owed to them, the court filings showed.

J.Crew is also giving suppliers who shipped goods before its bankruptcy filing on Monday so-called administrative-priority status among claimants, assuring they will be among the first creditors to get paid in the case.

The designation, however, is no guarantee of being made whole, said Kenneth Rosen of Lowenstein Sandler LLP, a bankruptcy lawyer who isn't involved in the J.Crew case. Suppliers and vendors to Forever 21 Inc. and Sears Holdings Corp. still suffered losses in the bankruptcies of those retailers despite having administrative claim status.

The protections and assurances J.Crew is offering its suppliers are standard and go no further than those offered by other retailers that have recently filed for bankruptcy, Mr. Rosen said.

In return for immediate payment for some of the merchandise that J.Crew purchased before it filed for chapter 11 protection, the company is asking suppliers to continue providing goods on credit while it is in bankruptcy, the court filings showed.

J.Crew will ask Judge Keith L. Phillips of the U.S. Bankruptcy Court in Richmond, Va., at a hearing on Tuesday to approve an order authorizing it to pay its key vendors along with an order allowing it to tap a $400 million bankruptcy loan.

The retailer filed for chapter 11 protection after reaching a deal with a group of lenders and bondholders to swap about $2 billion in debt for an 82% stake in the reorganized company.

J.Crew has struggled for years with slumping sales and a hefty debt load from a leveraged buyout by private-equity firms. The retailer posted six consecutive years of losses before the coronavirus pandemic prompted it to close stores and scrap plans to raise cash by spinning off its Madewell chain.

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Rental-Car Industry Gets Crushed by Coronavirus

By Nora Naughton

May 04, 2020 6:59 pm EDT

Avis Budget Group Inc. reported a net loss of $158 million in the first quarter, highlighting the pressures the car-rental industry is facing as the virus outbreak continues to stifle travel and keep people at home.

Avis, one of the nation's largest rental-car companies, said Monday that revenue fell 9% to $1.8 billion in the period as rental days dropped 7%. The performance was largely in line with preliminary results the company released last month.

The New Jersey-based company expects revenue to fall further in April and May, with a gradual recovery potentially beginning in June. Avis said it expects to burn through roughly $800 million in cash in the second quarter and should have enough liquidity to last through the end of the year.

The company reported an adjusted loss of $1.40 a share for the March-ended quarter; analysts were expecting a loss of $1.89 a share.

The big U.S. rental-car companies are scrambling amid the fallout of the pandemic with business getting pummeled from two ends: fewer travel customers and falling used-car values.

Air travel, which accounts for roughly two-thirds of the industry's business, has plunged in recent months as government-directed lockdowns have kept people at home and generally restricted movement.

The vehicles now sitting on rental-car lots are rapidly losing value in a slumping used-car market and yet the rental firms must still make monthly payments on them, adding to financial strains, analysts say.

The threat to the companies crystallized Wednesday when Hertz began preparing for a potential bankruptcy filing after failing to make lease payments on its fleet to preserve cash, people familiar with the situation have told The Wall Street Journal.

Hertz, which was already carrying massive debt and attempting a turnaround before the health crisis, on Monday hired an additional adviser to help prepare for a bankruptcy filing, people familiar with the matter told the Journal. The company didn't immediately respond to a request for comment.

Avis was in a better position heading into the viral outbreak, with the company saying last month that strong results in January and February were pointing toward a record year. But business collapsed in March with global travel virtually halted.

On Monday, the company said it is seeking to raise $400 million by issuing a new secured bond with the proceeds tagged for general corporate purposes.

Stocks for rental-car firms have been hammered in recent weeks as the pandemic played out. On Monday, Avis shares closed at $13.97, compared to $50 at the end of February, according to Factset. Hertz shares have hovered around $4, down roughly 80% since February.

Even before the outbreak, the rental-car industry was fending off threats to its business, including a loss of customers to ride-hailing firms, such as Uber Technologies Inc. and Lyft Inc. With such apps becoming more prevalent, especially for use at airports, many travelers have opted to use them over renting a car, a decision that has led to a decline in bookings in recent years.

In recent months, both Avis and Hertz have cut executive pay and resorted to furloughs and job cuts. In April, Hertz laid off about 10,000 employees in North America.

Enterprise Holdings Inc., which is privately held and doesn't publicly release financial results, has paused hiring, reduced hours for full-time staff and made temporary and permanent workforce reductions, Dave Nestor, its operations chief, said in an interview last month.

Earlier this year, the rental-car industry pressed for government loans and assistance to deal with the health crisis, telling the Treasury secretary in a letter that travel restrictions and lockdown orders were "wreaking havoc."

But only the smaller rental car firms have been in line for the federal money being dispensed, said Greg Scott, a spokesman for the American Car Rental Association, a lobbying group. The larger daily-rental companies have yet to see any aid, he said.

The cost-cutting moves are being felt more broadly with many rental-car firms canceling orders for new vehicles from auto makers, analysts say. Avis, for instance, said last month it was aiming to reduce its fleet size by 20% by the end of June.

Some industry executives say business is likely to rebound when people can move freely again and the economy has had time to recover.

"There is a pent-up demand for people to get out and travel," said Mr. Nestor, of Enterprise. "We're certainly looking forward to that."

Hertz Taps Additional Adviser for Bankruptcy Preparations

By Alexander Gladstone and Cara Lombardo

May 04, 2020 5:52 pm EDT

Hertz Global Holdings Inc. has hired an additional adviser to help prepare for a planned bankruptcy filing, according to people familiar with the matter, as the coronavirus pandemic squeezes the car-rental business.

The Estero, Fla., company, which missed a lease payment last week, has engaged FTI Consulting Inc. to advise on efforts to streamline operations in advance of a possible chapter 11 filing to restructure $17 billion in debt, the people said.

Hertz didn't respond to a request for comment. FTI declined to comment.

In addition to FTI, Hertz is working with legal counsel White & Case LLP and investment bank Moelis & Co.

Car-rental ridership is plunging amid the Covid-19 pandemic and the broad economic pullback, touching off a cash burn at Hertz. At the same time, the company's financing costs are spiking due to the rapid decline in used vehicles prices.

The missed lease payment set off a grace period that expires Monday. Hertz has been working to secure lenders' agreement to hold off on taking action against the company and to continue negotiations.

Revolving lender Barclays PLC is working with Latham & Watkins LLP, while a group of term loan lenders has engaged financial adviser Houlihan Lokey Inc., and law firm Arnold & Porter Kaye Scholer LLP, the people said.

In recent months, both Hertz and rival Avis Budget Group Inc. have cut executive pay and resorted to furloughs and job cuts, with Hertz last month laying off about 10,000 employees in North America. Avis said Monday it would try to borrow $400 million for general purposes.

Even before the pandemic, Hertz and its rivals were struggling with losing customers to ride-hailing firms such as Uber Technologies Inc. and Lyft Inc.

With ride-hailing apps becoming more prevalent, especially at airports, many travelers have opted to use them over renting a car, eroding bookings in recent years, according to industry executives.

Hertz shares closed at $3.59 Monday, giving the company a market cap of $511 million. The shares fell 25% in after-hours trading to $2.71.

—Nora Naughton contributed to this article.

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Puerto Rico Wants Debt Payments Scaled Back Further, Citing Coronavirus

By Andrew Scurria

May 04, 2020 12:45 pm EDT

Puerto Rico's government called for deeper cuts in debt repayment in light of the coronavirus pandemic's severe economic impact, saying a $35 billion restructuring proposal from financial-oversight officials "is simply not feasible."

The U.S. territory said its financial-oversight board should abandon a proposed restructuring of government bonds and public pensions now that previous assumptions around Puerto Rico's economic trajectory are no longer viable.

The board, which is overseeing Puerto Rico's public finances, has already put an indefinite pause on the proposed debt-adjustment plan while assessing the economic impact of the pandemic.

“As a practical matter, the board’s commitments made to various creditor groups in the proposed plan of adjustment no longer work,” the government said Sunday in a document outlining the long-term fiscal outlook.

A spokesman for the board, which gets the final say on whether debt repayments need to be changed, said it was reviewing the government’s suggestion.

The government predicted it could lose at least $1.5 billion in “tax revenue due to a combination of reduced economic activity and delays or postponements of tax payments” in the current fiscal year, which ends June 30. Through the 2022 fiscal year, the total economic impact could reach $5.7 billion, the government said.

The warnings come as U.S. states face an increasingly grim fiscal outlook and some ask for federal assistance to make up for lost revenues and help with health-care costs and unemployment-insurance payments. Senate Majority Leader Mitch McConnell (R., Ky.) last month said he didn’t favor using federal aid to pay back liabilities accumulated before the pandemic and suggested instead giving states access to bankruptcy protection, which they don’t have.

As a territory, Puerto Rico was granted access to court-supervised bankruptcy under a 2016 federal rescue law. The oversight board’s debt-adjustment plan must be approved in bankruptcy court to take effect.

The debt proposal, backed by competing bondholder groups and representatives of public retirees, would write down $35 billion in Puerto Rico debt by 70% while scaling back government pensions. Some financial creditors, including bond guarantors with billions of dollars on the line, don’t support the proposed terms, which would pay back some revenue bonds at pennies on the dollar.

Puerto Rico put in place some of the nation’s earliest and most stringent lockdown rules to fight the spread of coronavirus, imposing curfews, closing schools and curtailing most business activity. Gov. Wanda Vázquez on Thursday joined various U.S. state leaders in planning to partially reactivate their economies. In Puerto Rico that includes the important manufacturing and tourism industries.

The governor said some smaller businesses could reopen starting Monday if they respect social-distancing rules and provide protective equipment to workers. By next week, she said, heavy industrial businesses can qualify to reopen as well.

Before the pandemic reached Puerto Rico, Gov. Vázquez and top lawmakers said they wouldn’t support the restructuring proposal unless pension cuts were removed. The board’s chairman has also suggested restoring pension benefits to counteract the pandemic’s economic fallout.

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Gold’s Gym Files for Chapter 11 to Withstand Coronavirus Pandemic

By Jonathan Randles

May 04, 2020 4:45 pm EDT

Gold’s Gym International Inc., which like other gym operators has temporarily closed locations across the globe in response to the coronavirus pandemic, filed for chapter 11 bankruptcy Monday in order to restructure its debt to withstand the economic fallout.

The Dallas, Texas, company said the pandemic has forced it to permanently close about 30 corporate-owned gyms and restructure its balance sheet in chapter 11. Gold’s Gym said it would keep paying its suppliers and other vendors while under court protection and it seeks to emerge from bankruptcy by Aug. 1, if not earlier.

During the restructuring, the company said that it would still support its nearly 700 gyms world-wide and that it is working with its landlords and following direction from public-health officials on which locations may reopen.

The chapter 11 filing highlights how government orders to close nonessential businesses to fight the spread of Covid-19 have hit the fitness industry particularly hard. Along with Gold’s Gym, the parent company of New York Sports Clubs and Lucille Roberts gyms has hired lawyers to explore a debt restructuring, which could include a bankruptcy filing.

Gold’s Gym Chief Executive Adam Zeitsiff said the purpose of the chapter 11 filing is to ensure the company’s continued viability for decades to come. The company was the first national gym to temporarily close its locations in March due to the coronavirus, according to Mr. Zeitsiff, who said the Covid-19 pandemic “has affected Gold’s Gym deeply and in many ways.”

“Gold’s Gym is absolutely not going anywhere,” Mr. Zeitsiff said in a video message.

Mr. Zeitsiff said in an interview with The Wall Street Journal that Gold’s Gym plans to open locations in Oklahoma on Friday and gyms in other states in accordance with local guidance in the weeks to come.

“We are getting back to business the best we can in the states that are allowing [it], Mr. Zeitsiff said.

The bankruptcy filing isn’t expected to affect the gym’s licensing division, which sells Gold’s Gym branded merchandise, nor franchise gyms.

Gold’s Gym has had discussions with its various landlords leading up to Monday’s filing, Mr. Zeitsiff said. Some have been more accommodating to the chain’s needs than others, he said, adding that the company understands landlords have responsibilities to their stakeholders as well. The company has also provided support to its franchisees, including advice on how to talk with their landlords, he said.

Mr. Zeitsiff said he has been having conversations with the chief executives and chief operating officers of other large and medium-size gym chains to discuss their plans for safely reopening their locations.

The gym’s holding company listed both assets and liabilities of between $50 million and $100 million, according to a chapter 11 petition filed in the U.S. Bankruptcy Court in Dallas.

Gold’s Gym said it is preparing to file several customary motions in bankruptcy court that will allow the business to keep paying wages and suppliers. The company has furloughed most of its staff—nearly 4,600 employees—in response to the crisis, court papers say.

U.S. Bankruptcy Judge Harlin DeWayne Hale has been assigned to the case, number 20-31318.

Gold's Gym has retained the law firm Dykema Gossett PLLC to advise it on the chapter 11 filing.

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Tyson Braces for Months of Coronavirus Disruption

By Jacob Bunge

May 04, 2020 2:21 pm EDT

Tyson Foods Inc. warned that the coronavirus pandemic will disrupt business for months to come, reducing its meat production and threatening supplies to consumers.

The top U.S. meat supplier by sales has been struggling to fulfill certain orders after Covid-19 closed some plants, executives said. Meanwhile, it is rerouting millions of pounds of meat each week, as demand shifts abruptly toward grocery stores and away from restaurants.

Tyson's efforts to keep plants operating, including chartering planes to deliver protective masks and setting up mobile health clinics, are adding costs.

"In my career, this is the most significant and severe crisis that we've gone through," Tyson Chief Executive Noel White, who has worked in the company's operations for 35 years, told reporters on a conference call.

The impact is already registering at Tyson. On Monday, it reported overall profit fell 15% to $364 million for the quarter ended March 28, during which supermarket shopping ramped up and restaurant visits fell. The company said it couldn't project profitability for the remainder of its fiscal year. Tyson's stock dropped 8% in midday trading.

Covid-19 outbreaks among workers at meatpacking plants have forced closures at Tyson and other companies like Cargill Inc., JBS USA Holdings Inc. and Smithfield Foods Inc. Other plants remain open but with curtailed operations as health worries keep many workers home. The Centers for Disease Control and Prevention last week estimated 4,913 coronavirus cases among workers at 115 U.S. meat plants, and 20 deaths.

President Trump last week enacted a Korean War-era law enabling meat plants to continue operating under the discretion of the U.S. Department of Agriculture, shielding meatpackers from state or local pressure to close down as cases spread. Several of Tyson's largest beef and pork plants remain temporarily shut; and, while executives said the president's move provided a consistent national standard for meat plant operations, Tyson could shut down more plants if needed. Mr. White said

Plant closures and slowdowns have cut into overall meat production, leading some supermarket operators to brace for shortages. Tyson is dealing with shortfalls in some products for both grocery stores and restaurant customers, executives said, and the company is focusing its capacity on products that can be made the fastest and in the highest volumes.

“We’re in constant dialogue to make sure those disruptions are as minimal as possible,” Mr. White said.

Stay-at-home directives for consumers in most U.S. states abruptly shifted Tyson’s business, with supermarkets now making up about two-thirds of the company’s sales, compared with 45% normally, executives said. Restaurant chains and other food service operations usually account for about 40% of Tyson’s sales, but that business is down by at least a quarter due to widespread dining room closures.

For Tyson, the supermarket surge isn’t enough to make up for lost restaurant profits. The growth in sales to grocery stores is coinciding with a general shift to lower-profit products, and the company isn’t planning to raise prices for supermarket customers, Tyson President Dean Banks said. The company also expects its chicken business—which is more restaurant-dependent than its pork and beef operations—to lose money between now and early October, when its fiscal year ends.

In response to the drop-off in restaurant business, Tyson and other chicken producers are restraining production, slowing how fast they raise birds and, in some cases, breaking eggs rather than hatching them.

Tyson said it generated $10.88 billion in sales for its latest quarter, up from $10.44 billion a year earlier, but below analysts’ forecast. Tyson reported a profit following adjustments of 77 cents a share, short of the $1.04 a share that analysts expected.

—Micah Maidenberg contributed to this article.

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Boyd Gaming: A Different Equation

By Kimberly Noland, Gimme Credit

Apr 30, 2020 6:06 pm EDT

Boyd Gaming Corp.’s preliminary first-quarter results showed the severe effect of the closure of all its casinos in mid-March because of the Covid-19 pandemic. As state authorities shut down nonessential businesses, the company took significant action to cut operating expenses, including furloughing most employees, and it is suspending capital expenditures except for necessary maintenance. Management said on the earnings call that cash burn is about $60 million a month. Its current cash on the balance sheet is $831 million that includes a recent $670 million draw on its revolver. At this level the company can pay its expenses for just over a year, providing a good buffer to delayed openings by states. Once the casinos have been reopened and health protocols put into place, the “drive to” character of Boyd’s properties could be a big advantage versus casino companies with destination or international resorts that are more dependent on airline travel.

Before the closures, Boyd’s casinos were performing well: It would have been the 20th quarter of growth for its Las Vegas locals market while nearly three-quarters of its other regional casinos were showing double-digit growth in earnings before interest, taxes, depreciation, amortization and rent expense, or Ebitdar. The first-quarter decrease in the “locals” market revenue (-20%) reflected a decline in Nevada gaming win of 40% in March (the Strip underperformed down 46%) and April will be worse. Despite Boyd’s geographic diversification (65% of revenue now comes from the Midwest and South segment), the story is the same. Management distinguished the 2008-2009 recession as one where 90% of customers spent only 50% as much at the casinos. It believes there will be both pent-up demand and some permanent cost savings post pandemic. There is still little certainty about re-openings, but Boyd said it would operate all its “locals” casinos given their distinct customer bases. Boyd probably will open its regional casinos, but the fate of Downtown Las Vegas properties is less certain because of weak tourist demand.

In the quarter, consolidated revenue was down 18% to $680 million. The largest Midwest and South segment, two-thirds of property level cash flow, and the Locals segment each posted adjusted Ebitdar declines of about one-third to $106 million and $47 million, respectively. Downtown Las Vegas reported similar percentage declines in revenue and adjusted Ebitdar. With last-12-months consolidated adjusted Ebitda of nearly $720 million, leverage was 6.2x and net leverage was 5x because of the big cash balance.

Before the casinos were closed, management guided to full-year 2019 adjusted Ebitdar of $885 million to $910 million (or nearly $800 million Ebitda after subtracting rent). Our projections are based on the re-opening of Las Vegas and most other casinos by June with reduced customer visitation until the fall. Our 2020 guesstimate assumes no Ebitda in the second quarter and still results in positive free cash flow (Ebitda less capital spending, and interest). Boyd’s fixed rent expense (structurally senior to bonds) is manageable and far less than some peers, providing it additional flexibility. Yet projected total leverage still rises to 9x by year end while by our calculation net leverage is closer to 8x.

Boyd operates in a very competitive gaming landscape that could affect the eventual re-

openings if saturated markets become promotional. Sports betting (Boyd has four sports books open in the Midwest) and “icasino” is growing. We had changed our recommendation to underperform when the health crisis emerged. While Boyd is well-positioned to restore its business, the uncertainty about re-opening dates makes us cautious.

This report was originally published April 30.

—Opinions expressed are those of the author, not of The Wall Street Journal.

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