Restructuring Stockmann, the iconic department store operator

Jyrki Tahtinen and Robert Peldán report on the most significant restructuring in Finland since the 1990s

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Stockmann Oyj Abp ("Stockmann"), founded in 1862, is the largest department store operator in Northern Europe. Stockmann's group consolidated revenue in 2019 was €960.4 million and the number of employees was 7,000.

Stockmann is one of the most iconic brands in Finland and the only top-tier luxury department store operator in the Finnish retail market; some even call it the Harrods of Finland. Stockmann operates six department stores in Finland and one in Tallinn and Riga each. Stockmann owns a Swedish company Lindex AB that operates more than 460 stores selling lingerie and women's and children's clothing globally.

The restructuring of Stockmann is the most significant restructuring case in Finland since the economic depression of the 1990's, and one of the largest restructuring proceedings to occur in Finland in the recent years. It is very rarely that companies listed on a stock exchange like Stockmann commence restructuring proceedings. Stockmann found itself in financial difficulties due to unsuccessful expansions, long-term decrease of footfall in the department stores and last but not least, an e-commerce platform that was not able to compete with its competitors.

The striking blow for Stockmann, as for many other brick-and-mortar stores, that ultimately put the company on its knees, was the COVID-19 pandemic. Unlike in many other restructurings, Stockmann wasted no time to file for restructuring and as a result, Stockmann had sufficient amount of liquidity at hand once the restructuring proceedings were commenced.

Complex finance structure and unresolved legal issues

The company's financing structure was complex: bank loans and bonds sharing the same security (the flagship real estates in Helsinki, Riga and Tallinn), commercial paper and hybrid loans. It was widely feared that the case would have substantial negative systemic effects on the loan markets (especially commercial paper and hybrid loans). The scale of this restructuring was vast and challenging with some 2,000 foreign and domestic creditors involved in the proceedings.

The case involved many cross-border-related issues and a number of department store lease agreements had to be renegotiated in connection with the proceedings. The proceedings have put the current Finnish Restructuring Act to the test on several legal questions, and the restructuring administration as well as creditors and contracting parties have sought expert opinions from university professors on various legal issues.

The restructuring proceedings of Stockmann involved the use of various financial advisers to support the administration in:

(i) valuating the company's real estate and business assets (including the wholly-owned subsidiary Lindex AB);
(ii) evaluating the group's business operations, forecasting the cash flow and the future strategy; and
(iii) putting together a plan to strengthen the company's operations and its balance sheet.

The administration has solved and handled a notable number of legal questions related to the debtor's agreements. The active creditors committee consisted mostly of senior financiers (instead of insolvency lawyers). Most of the senior financiers involved noted that the case is quite significant to the Finnish market as a whole, with an expectation that solutions adopted here would be followed in other cases for years to come.

More than 10 legal opinions have been acquired from Finnish insolvency law professors during the process. Most of them were related to matters such as what the reasonable amount of compensation can be for the premature termination of lease agreements, the extent of set-off rights of the tax authorities and pension insurance creditors, and the expenses of the creditors participating in the restructuring proceedings that should be paid by the debtor. There are still several ongoing disputes that are awaiting court proceedings in arbitration tribunals as well as in ordinary courts. The value of these disputes is close to €100 million.

Swift execution and new tools

The Finnish Restructuring Act does not provide for a debt-to-equity conversion, yet it was extremely crucial for the creditors' overall position and operation of

the relevant markets that a conversion could take place. Many innovative solutions were introduced into the restructuring programme, including a partial debt-to-equity swap for the hybrid and unsecured *pari passu* debt, combining different share classes and sale and lease back of the real estate (Helsinki, Tallinn and Riga department store properties) to provide a payment of approximately €400 million to settle the first rank secured debt (bank loans and bonds) in order to deleverage the balance sheet. A "game changer" is a novel option for the unsecured creditors to convert their 8-year restructuring plan payments (80% of their receivables) into 5-year bonds secured by shares in Lindex AB, thereby making the plan payments liquid and allowing for the company to access the financing market and come out of the restructuring in an expedited manner if its business succeeds.

By implementing the restructuring programme, Stockmann is paying off the abovementioned first rank secured debt, converting 20% of its unsecured debt (including commercial papers and suppliers) and 50% of hybrid loans into its shares, and is combining its A and B share classes into one share class. The remaining 80% of the unsecured debt is subject to the 8-year payment plan with the abovementioned conversion option into a secured 5-year bullet bond at each creditor's discretion. A prospectus respecting both securities and restructuring laws was published relating to both the equity and the bond offerings.

The unsecured creditors were entitled to convert their receivables under the payment programme of the restructuring programme, by way of set-off, to senior secured bonds on a euro-for-euro basis. The terms of the bonds are quite novel as they had to combine features of the restructuring law with the terms usually found in the bond market. The aggregate principal amount of the bonds subscribed for by the unsecured creditors was EUR 66 million. Following the share and bond conversions, the remaining unsecured restructuring debt amounts to approximately EUR 21.8 million. The result: save for a haircut of the (subordinated) hybrid debt (partially offset by a price increase of the shares received in conversion), the creditors and the shareholders have suffered very little loss and the feared systemic effects on the markets have been avoided.

The District Court of Helsinki approved the restructuring application on 8 April 2020, only two days after the restructuring application had been filed. Borenius' Attorney Jyrki Tähtinen acted as the restructuring administrator of Stockmann, with the restructuring plan filed to the District Court on 14 December 2020. The restructuring programme received nearly unanimous support of the creditors that provided their opinions on the programme.

Due to this overwhelming support, the restructuring programme was approved by the District Court of Helsinki in an expedited procedure on 9 February 2021 and an administrator was appointed to oversee the implementation of the restructuring programme. Stockmann's restructuring proceedings spanned ten months. This is a remarkable achievement, taking into consideration Stockmann's status as a large listed company and knowing that on average restructuring proceedings take longer. The quick conclusion of Stockmann's restructuring proceedings required considerable legal engineering and process management. It did not go unnoticed that the District Court acted without any delays during the whole term of the restructuring proceedings, which was very much appreciated by all of the parties involved.

Post-restructuring era

Partly due to the restructuring measures and partly to the COVID-19 situation easing, Stockmann's operations for Q2/2021 were profitable and the stock price for Stockmann's shares increased for over 20 percent. Both Stockmann and Lindex improved their results, thus, Stockmann group adjusted operating profit improved from EUR 0.8 million to EUR 26.7 million whereas the liquidity increased and amounted to EUR 155 million at the end of June. During the first six months of 2021, lease liabilities decreased and net gearing improved. The conversion of the debt to equity and new bonds, in accordance with the restructuring programme, was successfully completed in July. ■

Photo by Kenneth Luoto

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Footnote:
The restructuring programme, which is in English, can be found under the following link:
www.stockmanngroup.com/documents/10157/1446412/Draft+restructuring+programme+Stockmann+plc+Unofficial+Translation+EN%2815225971.1%29.pdf/2881006a-93e5-99df-3ee8-187666bc8ff4