





SEARS HOLDINGS CORPORATION

A post-bankruptcy dissection of an
Amazon-like company.



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Sears Holding Corp. Background

- Started as Kmart Holding Corporation until their merger with Sears
- Company was renamed Sears Holding Corporation after completion of merger
- Kmart had nearly 2,200 stores at its peak. Sears had nearly 1,500 stores at their peak.
- Currently comprised of 866 Kmart and Sears branded stores
- Stock delisted from Nasdaq in October
- Stock listed as penny stock, now trading at \$0.295 per share.

Brief history of kmart

- Opened in 1899 as Kresge's Five and Dime in Detroit, Michigan
- Kresge continued to expand this brand until 1962 when the first Kmart opened in Garden City, Michigan
- The company quickly expanded, adding 161 Kmart stores by 1966, in addition to the existing 753 Kresge stores
- Kmart continued rapid expansion adding 271 stores in 1976 alone
- Kmart began to introduce new store concepts including Super Kmart, Big Kmart, and Kmart Foods to dominate the market.



2002: Kmart's First Bankruptcy

- Kmart filed for Chapter 11 bankruptcy on January 22, 2002.
- Kmart announced the closure of 284 underperforming stores.
- Bankruptcy is attributed to lack of cash in company, revenue for chain was nearing \$37 Billion in 2002.
- Lack of cash was caused by a series of store purchases in early 1990s, which straddled the chain with heavy debt, with little payoff.

Superfluous Purchases in early 1990s

- **Waldenbooks** (Acquired in 1984, Merged with Borders in 1992, Sold in 1995) \$36 Million
- **Builder's Square** (Acquired in 1984, Sold in 1997, Liquidated in 1999) \$124 Million
- **Sports Authority** (Acquired in 1990, Sold in 1995, Liquidated in 2016) \$75 Million
- **Pace Warehouse** (Started by Kmart, Sold in 1993 to Walmart, Rebranded as Sam's Club)
- **OfficeMax** (Acquired in 1991, Sold in 1995) \$44 Million
- **Borders Book and Music** (Acquired in 1992, Sold in 1995, Liquidated in 2011) \$190 Million

brief history of sears

- Started in 1892 as Sears, Roebuck, and Company, a catalog business based in Chicago
- Opened first brick and mortar location in 1925 located in their distribution center in Chicago
- Continued to expand, adding 26 brick and mortar locations by 1927
- Store count rose to over 400 locations by 1933, and 1,200 at its peak in 1999



kmart and **sears** merge to create Sears Holding Company

- In 2003 Kmart, freshly out of bankruptcy, announced an \$11 Billion deal to purchase Sears.
- Kmart CEO, also the majority stakeholder of Sears, Eddie Lampert pioneered the merger.
- In 2004, The merger was completed, Kmart Holding Company was renamed to Sears Holding Company.

Sears Holding Corp 2004-Present

- Eddie Lampert became CEO of newly-formed Sears Holding Corporation
- Chain began opening new format stores such as Sears Essential, Sears Hardware, KDollar, KWash, Sears Grand, MyGofer all of which have closed
- Lampert has been criticized as stores have not received needed upgrades, and have begun to deteriorate
- Sears Holding Corporation has continued to operate in the red, heavily in debt, and selling assets to keep the company in business

A titan struggles for survival

- Kmart and Sears sales dropped, revenue for 2017 totaled \$16 billion, with operating cost totaling \$17 billion
- In 2015 Sears sold 235 unprofitable stores to Lampert-backed Seritage Growth for \$2.7 billion
- In 2017 Sears sold world-famous tool brand Craftsman to Stanley Black & Decker for \$900 million; this money was needed for upcoming debt payments
- In August 2018 Lampert's other company, ESL, attempted to purchase Kenmore from Sears for \$400 million

2018: Sears Holding Corp. Bankruptcy

- On October 15th, 2018 Sears filed for Chapter 11 Bankruptcy
- On this same day 200 store closings were announced, and on November 8th another 40 store closings were announced.
- Sears reached a deal on November 16th to stay open through Christmas
- On November 22nd, 504 stores were announced as Sears 'Go Forward' stores, these stores will be put up for sale as Sears, and once a buyer is found, the remaining 122 (not including 240 closing stores) would close.
- On November 28th, former CEO Eddie Lampert announced a possible bid for Sears 'Go Forward' stores

What went wrong?

From Titan to Titanic



Store Condition

- Eddie Lampert merged both companies, he saw that the stores needed no modernization because they remained profitable as they were
- Stores began to show their age, and these conditions caused customers to flee to competitors Walmart and Target



Corrupt CEO

- Eddie Lampert has overseen the company since 2002, his private company ESL is Sears biggest lender. Lampert also owns a majority stake in Sears, adding him to board of directors
- Lampert negotiated the 2015 deal between Sears and then-ESL-backed Seritage Growth Properties for most of Sears' and Kmart's profitable stores
- ESL attempted to purchase Kenmore was Sears for \$400 million in 2018; this deal was rejected, Kenmore brand is estimated to be worth \$800 million
- Lampert has been selling off Sears profitable parts in order to pay himself back; then Lampert lends more money to cover losses, and the cycle continued.
- It was reported on November 28th, Sears had bet against itself (through use of subsidiaries) in which Sears (and Lampert) won \$82.5 million because the parent company had filed for bankruptcy.

Lack of Corporate Social Responsibility

People

- Sears has slowly shrunk staffing at stores to cut cost, Only part-time associates (no benefits), and lack of job security have all hurt moral.

Environmental

- Sears has not modernized their stores leading to outdated and less efficient mechanical systems; hazardous lighting; and harmful building materials.

Profits

- Sears is not profitable, and continues to sell profitable assets to help unprofitable assets survive.

Lack of Supply Channels

- Sears has struggled to retain store suppliers, products in store are not quality goods, nor are the prices competitive to Walmart or Dollar Tree
- Sears is not able to fill Sears and Kmart store efficiently, leading to empty shelves in stores, and products being constantly out of stock
- Stores do not carry many name brands outside Sears in-house brands, stores carry third-party 'knock-off' brands.
- Stores have eliminated profitable electronics department due to suppliers like Apple, Microsoft, Amazon, etc don't want their quality products in run-down stores.

Lack of Products



Conclusion:

Sears has quickly deteriorated, the company once championed as the Amazon of its day, but has quickly become an antiquated shell of its former self.

Sears will continue to decline in its current form, the chain must evolve. Sears Go Forward stores are the best way to do this; but the key is keeping Lampert away from the brand.

Sears has hurt their image by neglecting all three bottom lines, ruining employee moral, selling name-sake assets, and chasing their customers away. Sears will continue to decline until these bottom lines are repaired or amends are made.

Any Questions?



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