Is Sears Holdings Corp. About to Implode?

Description

Traditional retailers have long-struggled with the advent of online and mobile purchasing. The emergence of online retailers in particular has left many of the traditional, big-store retailers without a plan or the resources to combat these new competitors.

One such retailer is **Sears Holdings Corp.** (NASDAQ:SHLD). Long regarded as a staple of the retail sector, Sears has struggled over the years to maintain a position in the increasingly competitive retail sector. Declining traffic to large stores, the emergence of online retailers, and changing consumer tastes are all problems that Sears has failed to tackle, resulting in a significant decline to the company's bottom line.

This week Sears may have passed the point of no return.

In the annual report released this week, Sears noted, "substantial doubt exists related to the company's ability to continue as a going concern." In other words, Sears cast some serious doubts over its ability to stay in business.

While the admission was shocking to hear, most investors were expecting something similar to this to happen for the last few years. To put the situation into perspective, nearly a decade ago, Sears had a war chest of US$1.7 billion, whereas in the most recent annual report, the company noted it had just US$286 million left and reported a loss of US$2.22 billion.

Even worse, the last time Sears posted a profit for a fiscal year was in 2011. In short, Sears hasn't generated cash flow from operations in over a decade, is bleeding cash, and likely owes much more than it is worth.

But wait. There's more.

One of the most concerning aspects of the admission is the timing of it. Keep in mind that the busiest time of year for retailers is the holidays, and orders for that season are typically made starting in the spring through the summer. If Sears is having cash flow issues, acquiring merchandise from vendors (or the credit to acquire those goods) to put on shelves for the holiday season may be a major issue.

Sears already owes US$13.19 billion in liabilities, and considering that it only has a market cap of approximately $840 million, those problems may begin to compound.

Can Sears last the year?

Sears did note that the sale of the highly successful Craftsman tool brand for US$900 million to **Stanley Black & Decker Inc.** will capitalize the company for the coming year, but that's only a bandage. If anything, the Craftsman sale may be nothing more than a case of "cutting off your nose to spite the face."

And then there's also the pensions of retired Sears employees. Through the Craftsman sale, the overseeing Pension Benefit Guarantee Corp. struck an agreement with Sears that stands to put a claim on some assets which will be used to continue to pay retired employee pensions.

Sears is already under obligation to make a US$250 million cash payment to the pension plan within three years, and that same pension board has a lien on future Craftsman sales owed to Sears for the next 15 years.

As I write this, Sears is down over 15% for the day, and given the market, what is owed, and what Sears can do to turn around, there's little, if any, hope for this once-admired retailer.

At this point, there are much better investments in the retail sector to consider over Sears, and there is little reason to maintain a position in the stock.

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