



Sears Canada Inc.: The End of an Era?

Description

For the second time in less than a month, the stock price of **Sears Canada Inc.** (TSX:SCC) took a nose-dive.

The beleaguered retailer is rumoured to be in the process of seeking bankruptcy protection within the next few weeks. Just last week, the company announced that it was casting a “significant doubt” over its own future after failing to secure as much financing as was hoped to continue operations over the next 12-month period.

Sears had hoped to secure \$175 million in financing but was only able to negotiate up to \$109 million.

That financing was key to being able to meet debt obligations and to stock what stores are left with orders for the holiday season; orders are now starting to come in, and the holiday season is only six months away.

A slow and painful decline

The news shouldn’t come as a major surprise to followers of the once-giant of retail. Despite serving Canada for well over 60 years, Sears has attempted and failed to evolve for over a decade, leaving a trail of failed turnarounds and a revolving door to the management suite.

Back in 2013, Sears sold off several locations, including the flagship store in Toronto. While those attempts bought the retailer some time and savings, the ultimate downfall of the retailer can be attributed to not evolving to the needs of consumers — specifically e-commerce and mobile shopper needs.

Last year, Sears began yet another turnaround that tried to address these needs, but like other well-known brands that were too slow to adapt to change, it was too little, too late.

This past spring, Sears Canada revealed that the company lost \$321 million in the most recent fiscal year.

Sears Canada is not alone in this — parent company **Sears Holdings Corp.** (NASDAQ:SHLD) is in a similar predicament and even made a nearly identical admission about being able to stay in business this past spring, but the situation south of the border is even worse. Sears Holdings hasn't seen a profit in years and has started selling assets and brands to shore up financials and keep operating.

Sears Holdings owns 12% of Sears Canada's stock, and the CEO of Sears Holdings, Eddie Lampert, owns 45% of Sears Canada's shares.

What's next for Sears Canada and its shareholders?

The stock price has already plunged over 20% since the announcement, settling at near \$0.60. In the past 12-month period, Sears stock has tanked over 84%, nearly wiping out any value.

While Sears Canada will more than likely end up going to liquidation and be sold off either whole or in small parts, any existing shareholders in the company stand to lose the most in the event of a bankruptcy, as lenders and creditors would be prioritized in terms of payments.

At this point, it's fairly safe to say that Sears Canada is a falling knife, and you don't want to get stuck when that knife hits the floor.

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dafxentiou

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