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CLOSEOUT CRUNCH

Even store liquidators face risk as retail shutdowns rise

BY STEVEN R. STRAHLER

Harvey Yellen, a cheerful Louisiana native who runs closeout sales, is feeling squeezed.

"Sales are running softer than they ever have in the last 20 years," says Mr. Yellen, chairman of Deerfield-based Great American Group, which he describes as one of the country's two largest liquidation companies. "My expenses are higher. It's certainly taken a toll. I think the whole world is working harder to make a little less."

With retailers dropping almost on a daily basis, demand has never been stronger for the services of Great American and other liquidators, among them a unit of Hilco Trading Co. in Northbrook.

But as they sift the remains of chains like Circuit City Stores Inc., Linens-N-Things and Whitehall Jewelers Inc., liquidators are suffering from shrinking margins as retail casualties mount and surviving stores slash prices to compete with closeout sales. Recession-wary consumers, meanwhile, are passing up even the deepest discounts.

Retail chains shuttered 6,913 locations last year, up nearly 30% from 2007, according to the New York-based International Council of Shopping Centers.

"Projections for 2009 could reach as high as 14,000, which is a historic number," Hilco President Michael Keefe told lenders on a conference call in November. "It's going to be a challenge, no question about that."

The credit environment has further squeezed liquidators, which depend on financing from banks and other lenders that increasingly are skittish about fluctuating collateral values.

"This is a place where many of them have never been before," says turnaround consultant William Brandt, president of Chicago-based Development Specialists Inc. "They are aware that the consumer market is sure to be awash in goods and the universe of spenders is shrinking."

In response, liquidators are protecting themselves by bidding jointly on huge deals and forming consortiums to reduce risk, raise sufficient capital and provide enough bodies to handle appraisals and store closings.

"You bet these deals on models. This year is such an anomaly, some of these models are not prepared for that," says Seth Marks, president of Talon Merchant Capital LLC, a liquidation and restructuring unit started in late 2007 by Chicago investment firm Talon Asset Management LLC. "Now people are going to be more conservative in some of their forecasting. They're clearly not as aggressively bidding these things as they did a year ago."

In January, Great American and three competitors won the bidding to liquidate the last 567 Circuit City stores. To do so, they had to produce an \$850-million guarantee, equal to 70.5% of the electronic retailer's \$1.2-billion cost of goods, in just a week.

"That's a lot of money in seven days," says Mr. Yellen, 62, whose first successful liquidation, before he joined Great American in 1992, was of a North Carolina discount store chain he had failed to resuscitate. "The larger these deals get, the more risk we take."

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[Harvey Yellen, chairman,
Great American Group]

Hilco's Mr. Keefe, who declined to be interviewed, said in the conference call that Linens-N-Things was Hilco's most "resilient" closeout property. "The (values of the) other nine or 10 or 11 deals that we have in our portfolio have dropped off. . . . How long that trend is going to last is obviously the big question."

Although major players in the liquidation industry—all privately held—don't disclose



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revenue and profit figures, the trend is clear: Revenue rose tenfold last year at Newton, Mass.-based Hudson Capital Partners LLC because of the surge of customers, President and CEO Jim Schaye says.

The payoff is less certain. Hudson and Great American, for example, secured a deal in August to liquidate Whitehall. Then came Wall Street's September meltdown, which shattered consumer confidence, especially for jewelry and other discretionary items.

"What we estimated on the initial round was not the final result," Mr. Schaye says. "It's a vicious cycle; it really is."

Mr. Yellen is steering clear of deals more often these days. Great American passed on Carol Stream-based Wickes Furniture and on National Wholesale Liquidators Inc., a 40-store discount clothing chain based in New York, because the inventory quality was either suspect or too expensive, he says.

"Now, it has to be a great value almost from the beginning to the end," he says. "If you don't have a good deal out there, it doesn't matter if you have 70% off or 10% off, nobody is going to buy. We don't have to have a deal."

And yet the deals keep coming. Mr. Yellen plans to hire 100 independent contractors, who do appraisals, store closings and such, to join the 250 consultants and more than 200 full-time employees already working for Great American.