

## Will the year of the CVA be followed by the year of the administration?

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Following a string of company voluntary arrangements in 2018, Tim Hance, partner at property consultancy HRH Retail, argues that 2019 will be dominated by retail administrations.

Following several high-profile company voluntary arrangements, 2018 has been hailed as the year of the CVA.

[New Look](#) was among the first retailers at the start of this year to use this method to restructure their ailing businesses by streamlining store portfolios and slashing rents. [House of Fraser](#) and [Mothercare](#) followed.

Market reaction to CVAs has been scathing. Many large property companies and investors are extremely angry about the way in which rent reductions and store

closures are being imposed upon them, while other creditors seem to escape without any financial pain. Smaller landlords, which have even less of a say in the CVA vote, are suffering identical outcomes, causing financial hardship and sometimes bankruptcy.

Do CVAs even work or can we expect a raft of administrations in 2019? Respected commentators point out that, although CVAs give companies a second chance to return to profit, they tend to fail for the very same reasons that led retailers to enter insolvency in the first place. Think back to JJB and Blacks, both of which in 2012 negotiated CVAs that ultimately failed. More recent examples include [BHS](#) and, of course, House of Fraser.

Retailers and financial experts are now painting a bleak picture for next year, as evidenced by recent profit warnings from [John Lewis](#), [Marks & Spencer](#), [H&M](#) and [Primark](#), among many others. Footfall is also significantly down as shoppers continue to be pulled online.

[Mike Ashley](#), owner of House of Fraser and [Sports Direct](#), told the commons select committee on 3 December that the retail sector was on its knees, blaming online retail for the High Street's grim prospects. When asked whether he would be able to keep all 59 House of Fraser stores open, Ashley said that was impossible, but he would try to keep as many open as he could.

Two weeks on, he now admits it will be a significant challenge to turn the chain around on the back of a reported £31.5m loss four months after the chain was bought from administrators for £90m.

As House of Fraser is trading all stores under licence from the administrator, if Ashley cannot pull off a significant turnaround and landlords decide enough is enough, he will presumably walk away from these stores.

With [Debenhams'](#) increasing woes and the likelihood of some form of pre-pack and exit from at least 48 of its stores, the forecast for 2019 is looking decidedly stormy.

There is also anecdotal evidence that the big accountancy firms are beefing up their insolvency teams in readiness for further fallout, intensifying speculation that the year of the CVA will give way to the year of the administration.