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Sears Seeks to Calm Nerves

Vendors, Their Lenders Ask for Quicker Payments, Transparency After CIT Balks

By ANN ZIMMERMAN And STEVE EDER

Several lenders who finance small suppliers to Sears and Kmart say they are pushing for more timely financial information and faster payment terms as they grow worried about the struggling retailer's future. But unlike [CIT Group](#), they aren't pulling the plug.

CIT's decision to stop financing companies that sell to Sears became public Wednesday night, sending the shares of [Sears Holdings](#) Corp. down almost 6% at the opening Thursday morning. But as it became clear that other such lenders—known as "factors" in the retailing industry—did not intend to follow suit, Sears shares rebounded and ended the day up more than 3%, at \$34, well above Wednesday's closing price of \$32.90.



Getty Images

Reassuring vendors and their financial backers will be key to Sears's future, analysts say. Above, a Sears in Milford, Conn., last month.

Investors may also have been reassured by news that Sears Holdings' chairman, [Edward S. Lampert](#), who with his hedge fund and related entities owns almost 60% of Sears, bought about \$159 million of Sears shares in recent days. The purchases, disclosed in federal filings late Wednesday, were made from the hedge fund ESL Investors and on the open market.

Though Mr. Lampert's stock purchases could be construed as a vote of confidence, they angered executives at several factoring firms. They said they would have preferred to see him invest that money directly in the company, providing it with capital to improve the business— or speed payments to them.

Sears has tried to reassure suppliers it has adequate liquidity to operate its business, but that hasn't done much to allay

financiers' fears, they said. (Factors help finance the short-term needs of suppliers for a fee.)

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"We are worried about our financial exposure and that can't be satisfied by conversations about liquidity," said an executive at one New York-based factor. "We want shortened payment terms, more transparency into their finances, to know the value of their assets."

Another executive of a factoring firm said he also has asked Sears for better payment terms and access to more information, but the company wouldn't agree.

Reassuring vendors and their financial backers will be key to Sears's future, analysts said.

"The recent news could exacerbate deteriorating fundamentals if key vendors start to lose faith and follow suit, demanding cash on delivery, letters of credit, or shipping in smaller quantities," Adrienne Shapira, retail analyst at Goldman Sachs, said in a research note Thursday.

Sears is in an untenable situation, said Gary Balter, a retail analyst at Credit Suisse. If the retailer were to shorten payment terms from 90 days to 45, it would cost the company \$1 billion this year.

CIT has declined to comment on its relationship with Sears.

Sears says CIT's vendor loans involve less than 5% of its outstanding inventory (or roughly \$400 million-\$450 million, according to Fitch Ratings).

Some rival factor firms speculated that CIT was being extra cautious given its past history; the company sought bankruptcy protection in 2009 amid the height of retailing's struggles during the downturn and emerged from restructuring later that same year.

Two weeks ago, Sears announced it was closing as many as 120 stores and recording up to \$2.4 billion in quarterly charges after holiday sales decreased dramatically. In addition the company said it expected to notch less than \$400 million in earnings before interest, taxes, depreciation and amortization this year, down from \$3.6 billion four years ago and \$1.25 billion last year.

"Sears has adequate liquidity to fund its operations in 2012, if there are no material changes in vendor terms," said Monica Aggarwal, senior director at Fitch Ratings, which reduced Sears's credit ratings in recent weeks and rates its overall default risk as CCC. But if the company's earnings deteriorate further, she said, "it will be at additional heightened risk of restructuring over the next 24 months."

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