Mega Company

Turnaround of the Year

Aéropostale, Inc

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Aéropostale had been facing declining sales due to the rise of fast fashion, internet retailers, and a shift away from logo-centric apparel. Prior to its Chapter 11 bankruptcy filing, Aéropostale operated over 800 stores, generating revenue of $1.5 billion and negative EBITDA of approximately $70 million during fiscal year 2015. Exacerbating the negative performance, the Company's second largest vendor changed its sourcing terms, which created significant liquidity constraints and, ultimately, led the Company to file for Chapter 11 protection on May 4, 2016.

During the case, Aéropostale and the Official Committee of Unsecured Creditors and their advisors faced numerous difficulties that ranged from uncooperative prepetition ABL lenders, ongoing litigation with the Term Loan Lenders, a weak retail and mall environment, and poor historical financial performance. In order to provide the Company an opportunity to find and execute a going concern sale, Aéropostale and its advisors ran a process to raise DIP financing that was approved by the bankruptcy court over the Term Loan Lenders' objection.

The ultimate sale of Aéropostale involved substantial litigation and a possible chain-wide liquidation being pushed by Aéropostale's private equity lender. When it appeared that there would be no going concern buyers (only liquidation), the Committee's professionals reached out to the landlord community and proposed the novel idea of having the landlords invest in the debtors. This creative concept is a typical out-of-the-box team effort that led to the landlords forming a joint venture that preserved the company as a going concern. This unique structure included a sale of the profitable licensed and franchised international businesses to Authentic Brands Group, which provided a source of capital for the ongoing retail operation.

The successful completion of the deal ended a dispute between the retailer and its lender. Aéropostale had accused the lender of plotting a "loan-to-own" scheme to push the chain into bankruptcy. Aéropostale was required to make merchandise purchases through an apparel sourcing company owned by its lender, as a condition of a loan it received from the private equity firm. Aéropostale had accused the lender of imposing "onerous" payment terms on the retailer in an attempt to hurt its cash position. The lender refuted these claims, and the bankruptcy judge sided with the buyout firm, denying a request by Aéropostale to bar the private equity firm from using the $150 million it was owed as a credit to bid in the auction, which paved the way for a chain-wide liquidation absent some other solution.

The Weil and Pachulski team came up with the creative and novel solution that ended the dispute between Aéropostale and its lender and preserved the company as a going concern and could be a model for future global leading branded mall-based retail bankruptcies.