



Inside Story – UK – April 2014

UK's Albermarle & Bond bought from administration

In a recent new bulletin we reported on the case of Albermarle & Bond, the UK's second largest pawnbroker, which has been rescued from administration in a deal that will save 628 jobs. PwC lead administrator Mike Jervis commented: *"The deal announced today was the best offer received, preserving the most jobs and keeping the most stores open. All 120,000 pledged items remain safe and available for the customers to redeem."*

We gave Mike Jervis the opportunity to expand on the news for this month's Inside Story, highlighting some of the key lessons from the case.

"There has been a lot of press comment on this case, the second largest pawnbroker in the UK. I have been working with the group, its management and its lenders for several months and became one of its joint administrators with Peter Dickens in late March 2014. We sold the business three weeks after appointment, having traded it as administrators for that time. The purpose of this short article is to highlight some of the key issues from this work, with the limitation that I am bound by client confidentiality for a large part of the work.

A&B is a classic case study for a number of reasons - if I could characterise it as three key phases before the insolvency - in the first phase, from a solid base, it over expanded as the price of gold increased and consequently the group's opportunity to generate profits by buying and selling that gold. The group invested these cash reserves in more physical locations and actively increased its financial leverage. The second phase saw increased competition in this area, largely from parties offering less sophisticated and unsecured lending in the sub prime market, a lot of it online. Simultaneously the price of gold started falling but the group's strategy stayed largely unchanged, there was for example very little change in its product offering. The third phase was an aborted rights issue, significant sectoral changes as the regulatory regime changed; the public perception of sub-prime lending became negative, especially so called "pay day lending" and the competitive landscape became even more intense.

In this third phase it became what I would term distressed, it made a number of necessary announcements which had a negative impact on its share price and the most obvious route to save some or all of the business was through an M&A process.

Lesson 1: In a distressed environment the listing requirements for a public company have to be constantly checked to assess the need for announcements. Announcements will impact - normally adversely - on businesses like this, which rely on a continuation of good confidence. While there is active trading in shares, however, regulators, directors and company side advisers need go to great lengths to test the hypothesis that there may be value in the equity even if any conventional creditor led assessment would suggest not. That is part of the burden of being publicly listed.

Lesson 2: Despite being currently less common and even out of vogue, Insolvency processes remain key restructuring tools in situations like this. An insolvency process can drive a transaction while it protects a business. Insolvency can do very quickly what other processes such as new money or rights issues can never do - cut costs and restructure. Properly applied insolvency can present great opportunities provided its down sides are mitigated.

Lesson 3: Mitigate the down sides of insolvency through obsessive planning before appointment. The need for detail cannot be over-estimated.

Lesson 4: Do not accept all the conventional wisdom as to what can and can't be done in an Insolvency - trading lasted for three weeks pre sale. It was largely incident free. The administration enabled employees and customers to be protected from any creditor action. We were able to trade, we had the support of the regulator, we only went to court once - to get the order in the first place. Basically if you have a good core business, you can protect it via admin - all 120,000 individual pledged items were counted, checked and protected. This was not a liquidation.

Lesson 5: The population of buyers has changed and the IP need to know the new breed of buyers. There are more and more distressed private equity funds who are filling what has in the past been a relatively sparsely populated part of the market. We sold to one such fund who worked hard and made clear decisions, and applied them consistently. Without funds like this a lot more businesses would go into liquidation with job losses and further financial losses for creditors."

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