Company Voluntary Arrangements ("CVAs")

As retailers and casual dining operators face increasing cost pressures, consumers with squeezed disposal incomes and, perhaps most importantly, changing consumer habits (whether it be switching to multi channel for retailers or fundamentally changing tastes in the dining industry), they are increasingly looking for ways to weather the storm. Many are now considering the CVA process as a key component of their strategic plan.

1. What is a CVA?
A CVA is a formal process which enables a restructuring of a business’ operations by way of a formal compromise arrangement with its creditors and, once approved, is legally binding on all creditors.
The liabilities most commonly compromised in a CVA are those relating to property leases, but a CVA can be applied to any required liability compromise.
In order for a CVA to be approved (1) at least 75% of creditors by value (of those who vote) must vote in favour and (2) at least 50% of unconnected creditors by value (of those who vote) must vote in favour.
A CVA provides a route to exit non-core or unprofitable sites, and to reduce the rents of those that are retained – “marking them to market”, thus restoring financial viability. We are seeing up to 30% blended rent reductions through CVAs in the current market.

2. Critical success factors
1. Creating the correct property portfolio for the future
The CVA should leave the business with the appropriate footprint, right sized not just for now but also for future performance.
2. Used as part of a wider holistic restructuring of the business
The more successful historical CVAs have formed part of a wider strategy to ensure the business is appropriately positioned within its target market. Rarely do issues relate solely to footprint.
3. Support of key financial and other stakeholders
Support of key stakeholders is required so as to ensure they understand the strategy and actively support the process. Their support will also likely be indicative of the wider creditor population. This is key both for the approval of the CVA and to set the tone for the future strategy.
4. Comprehensive communications plan
Both to ensure stakeholders understand the benefits and the requisite support is obtained, and to ensure broader ongoing stakeholder support and minimisation of any increased working capital requirement.

3. Long term success: getting it right first time
To ensure a successful and viable business post the CVA, it is crucial to identify the right “go forward” portfolio.
Our unique footprint analytics tool “L3” can assist with this by combining data from a wide range of different sources to quickly identify the right (future proof) portfolio:
• Granular details on all physical retail store locations, brands and trading space information for 2bn square foot of UK retail space and their catchment areas
• Sector, brand and trading space information for 800,000 store locations incorporating points of interest and worker hubs that drive footfall
• Consumer demographics information across 400 variables including life stage, affluence and the lifestyle choices of the UK population
• Visa and Telefonica information depict consumer buying behaviour across all retail destinations in the UK, so that we are able to map who is spending what and where, and through what channel – which is critical to any operator in the current market

L3 Creates an automated, analytics driven solution, prebuilt for every single industry and brand in the UK with a physical footprint

4. Our expertise and how we can help
We have led on a number of high-profile, successful CVAs, including Mamas & Papas, LA Fitness and New Look (the largest retail CVA yet and the only one with a large bond structure).
We have also worked with a variety of publically listed and private clients to assist with analysing their options, considering whether a CVA would be feasible and whether it would be the most appropriate course of action to secure the long-term success of the business (sometimes it is not).
Our CVA expertise, combined with our unique real estate analytics capabilities and our real-time property market knowledge (through our 600-strong Deloitte Real Estate team), means that we can act quickly to both design and ultimately implement the right solution.

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