Shandong Ruyi, embattled owner of SMCP, might leave fashion group in creditors’ hands

By Olivier Guyot  -  September 17, 2021

A baptism of fire for Isabelle Guichot: the French senior executive has only recently taken charge of the SMCP group, and must now deal with a major upheaval for the French affordable luxury giant, owner of Sandro, Maje, Claudie Pierlot and Fursac. Intense negotiations are undoubtedly under way between the group's creditors and its majority shareholders, but the latter seem to have their backs to the wall.

As reported by French business daily Les Echos, the investment holding company named European Topsoho, which is the owner of just over half of SMCP's capital and a Luxembourg-based subsidiary of Chinese conglomerate Shandong Ruyi, does not appear to be able to meet the repayment deadline for €250 million worth of bonds issued in September 2018, due on Tuesday September 21. SMCP has indicated that the matter is being
of bonds issued in September 2018, due on Tuesday September 21. SMCP has indicated that the matter is being handled directly by its parent company.

Shandong Ruyi, which made multiple acquisitions between 2015 and 2018, and is as a result heavily indebted, has been in severe financial trouble for many months, having defaulted several payments. A situation that has impacted many of the group’s projects. At the end of last year, the acquisition of Bally was derailed because of this.

Since then, Hong Kong group Trinity, which was acquired by Shandong Ruyi in 2018 and owns Cerruti 1881, Gieves & Hawkes and Kent & Curwen, has filed for bankruptcy protection and is in the midst of a restructuring effort. Les Echos also noted that Renown, a Japanese company acquired by the group in 2010, went bankrupt in 2020.

There are grave concerns about the Chinese conglomerate’s ability and willingness to fulfil its financial obligations. In the event of a default, the group’s creditors would then become shareholders in SMCP. Currently, European Topsoho holds a 53% stake in SMCP, the floating stock amounts to 40% (SMCP has been listed on Euronext since October 2017), and the founders and managers own a stake of almost 7%.

In practical terms, European Topsoho and its creditors have initially agreed that the latter can assert their rights to acquire 37% of the share capital held by the Luxembourg-based corporation (28 million shares out of 75.6 million shares). But if that amount was to fall short of the €250 million bond repayment, creditors will also be able to claim the difference through the remaining 16% stake in SMCP held by European Topsoho. Meanwhile, after SMCP’s share price fell below €4 during 2021, the group’s market capitalisation has also collapsed. Despite a slight rebound on September 16, it is currently €420 million, at a €5.58 share price, up 6% from the previous day. A 53% stake in SMCP is therefore equivalent to approximately €223 million.

Day-to-day operations “not affected”

There remain many questions as to how this situation will unfold. What deal can be reached for the missing €27 million? How will the situation affect SMCP’s assets? The management, having reported a marked rebound in the group’s H1 results, pointed out that its performance is unlike that of its owner, and that SMCP’s results are improving, with profitability on the rise. “Under no circumstances is the group operationally affected by a possible default of its main shareholder,” SMCP’s management told FashionNetwork.com. “Indeed, the group has its own strategy, and its own financial resources. SMCP is a very healthy corporation, with a leeway calculated at over €240 million at the end of June 2021, and its capacity and investment targets remain unchanged.”

Also worth considering are the intentions of the pool of creditors including Anchorage, Carlyle, Boussard & Gavaudan and Blackrock who, according to Les Echos, have contacted GLAS, a firm specialised in debt administration services. How will shares be split up between these different entities? Will they all get involved in SMCP? On these points, SMCP’s management said they are not in touch with the creditors, since the issue concerns European Topsoho’s share price. Indeed, the situation does not seem to have an impact on SMCP’s plans. “No review of the 2025 strategy presented last October is envisaged, nor is any ‘dismantling’ on the cards, neither in the short nor medium term,” SMCP told FashionNetwork.com. “The strategic roadmap is clear and more relevant than ever, with the group performing at pre-crisis levels,” added SMCP.

According to Les Echos however, the creditors fear that the current majority shareholder, through Yafu Qiu, chairman of SMCP’s board of directors, might try to keep hold of the French group by means of administrative arrangements, even if it will no longer hold a voting rights majority.

The creditors have turned to Gouvernance en Action (GeA), a business ethics specialist, to defend their interests with the group’s senior management. “First of all, we need transparency and trust from Ruyi,” said Fabrice Rémon of GeA. “SMCP is struggling because of a Chinese majority shareholder that effectively controls its board of directors. The goal of the Ruyi group is to survive. This is reflected in the constant decline of SMCP’s share price, which in a way prevents the group from pursuing various strategic opportunities,” added Rémon.

Observers consulted by FashionNetwork.com consider this a “highly complex” matter. In recent years, many cases of companies defaulting and being subsequently taken over by a pool of creditors have rocked the fashion industry.
of companies defaulting and being subsequently taken over by a pool of creditors have rocked the fashion industry in France. In the cases of Vivarte, New Look, IKKS and Camaïeu, the outcomes have been varied. At any rate, French group SMCP could find itself at the heart of a legal-financial battle that might prove to be lengthy. At a time when the challenge is to seize any recovery opportunity as firmly as possible, this situation is unlikely to put the group's labels in a favourable position.

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