Week in Review Eddie Lampert

Unwelcome chapter looms for Eddie Lampert as Sears hits the skids

Hedge fund supremo stumbles with bet on US department store chain



Eddie Lampert believed he could make Sears a nimble retailer with a 21st-century focus on technology and customers

Andrew Edgecliffe-Johnson in New York OCTOBER 19, 2018

Eddie Lampert was days away from the investment of his career when four abductors seized the hedge fund manager in his office car park and hustled him away to a cheap hotel, threatening to kill him if he did not pay a multimillion-dollar ransom.

It was not until the second night of his captivity that Mr Lampert saw his chance. After the kidnappers used his credit card to order pizza, he persuaded them that this would have alerted the police and they should free him.

Within days of his release in January 2003, Mr Lampert had recovered to make the investment that made his name. Buying $110m of Kmart's beaten-up bonds, he ensured he would become the retailer's controlling shareholder when it emerged from bankruptcy.

His early moves — cutting inventory, selling stores and favouring margins over sales — sent his Kmart investment rocketing from $800m to more than $5bn. But a chapter that started with one bankruptcy ended this week with another: the Chapter 11 filing of Sears.

In 2005, with magazines tipping him as a new Warren Buffett, Mr Lampert merged Kmart with Sears, whose pioneering catalogues and department stores had shaped American consumerism.

Even up against Walmart and Amazon, Mr Lampert believed he could make Sears a nimble, efficient retailer with a 21st-century focus on technology and customers.

Shares in the new Sears Holdings initially rose as he cut spending, converted or sold stores and axed less profitable products. He rarely set foot in stores, working by phone, email and video conference from his office in Bay Harbor, Florida.

But by early 2008 his annual letter to shareholders had a less confident tone, warning that reversing 2007's profit decline would not be easy, "especially if the economy stays soft".

Within months, a recession was making Mr Lampert's task considerably harder. Despite more cuts, further asset sales and initiatives including a membership programme, sales fell relentlessly and

Feedback

Sears racked up $10bn of losses from the start of this decade.

Mr Lampert's teenage years had been scarred by his father's death, which forced his mother to take a job with Saks Fifth Avenue, but until Sears his career had experienced few setbacks.

A graduate of Yale, where he shared a room and membership of the secretive Skull and Bones society with Treasury Secretary Steven Mnuchin, he landed a prized job with Robert Rubin's risk arbitrage desk at Goldman Sachs.

Striking out at 25 to found his own hedge fund, ESL Investments, he attracted high-profile investors including Michael Dell, David Geffen, Richard Rainwater and the Tisch family (Mr Mnuchin and Thomas Tisch both became Sears directors).

Recommended

ESL's early investments had been conventional, but Mr Lampert's activist strategy paid off handsomely at AutoZone, the car parts retailer, and AutoNation, the car dealer. By 2006, the fund's assets under management were above $15bn.

ESL now manages just $1.3bn of assets for only three clients. Mr Lampert is one of them, and Sears' collapse has hit his fortune hard, rendering his equity effectively worthless and leaving his $2.6bn of loans to the company exposed.

As Sears struggled, Mr Lampert bid for some of its businesses, prompting accusations that he was picking off its best assets. A spin-off left him with a $230m stake in Lands' End clothing and he gets dividends from Seritage, a Buffett-backed real estate investment trust that has bought several Sears stores.

Mr Lampert is in talks to inject another $300m in financing and may bid for some Sears assets, but he has only months to avoid a liquidation.

This week he made a rare and emotional appearance at Sears' headquarters. He still hoped for "a new beginning", he told staff, but "I cannot pretend that this will be easy."

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