

## What impact did Toys “R” Us debt have on its bankruptcy?

When privately-held Toys “R” Us filed for bankruptcy in fall 2017, it disclosed that it had \$5 billion in debt and was spending about \$400 million per year for interest on that debt. Toys “R” Us net debt was \$109.0 million in 2005, just before being taken over by private equity buyers in 2005. In that takeover, the company incurred \$5.3 billion in debt. Sales revenue in the twelve months before the buyout in 2005 were \$11.2 billion. Sales in the twelve months ending October 2017 were \$11.1 billion.

During the bankruptcy and store closing announcement in March 2018, the Toys “R” Us CEO stated that the company had fallen behind on the general upkeep and condition of its stores, which contributed to the decline in sales. It has also faced intense competition from other retailers, such as Amazon.com and Walmart. Toys “R” Us had had plans during 2017 to invest in technology, upgrade its stores to have toy testing areas, and create other features that would draw customers into the stores, but it did not have the cash available to make the improvements. The CEO said that the company was spending about \$100 million per month to keep its stores open and did not have the cash to continue. Toys “R” Us would be shutting down all U.S. stores within a few months.

Toys “R” Us reported a loss of \$953 million in the first nine months of 2017. It had been projecting a strong holiday season. However, Toys “R” Us revealed that it had earned just \$81 million in pre-tax profit in the fourth quarter of 2017, making the net loss for 2017 approximately \$872 million. The last year that Toys “R” Us showed a profit was in 2012.

### Questions

1. Did Toys “R” Us have declining sales revenues over the past 13 years since it was taken private?
2. Why might the private equity buyers have chosen to issue bonds (debt) in 2005 to purchase Toys “R” Us rather than issue stock?
3. People often claim that Toys “R” Us was a victim of online retailers such as Amazon.com. Do you agree? What do you think is the major reason that Toys “R” Us had to file for bankruptcy?