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Kristene Quan/MEDILL
CIT Group Inc. will no longer finance Sears Holding Corp.'s vendors.

Sears' shares roiled as CIT stops financing suppliers

by **KRISTENE A. QUAN**
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Shares of struggling retailer Sears Holdings Corp. tumbled Thursday before recovering as investors reacted to news that a key lender will stop financing the company's vendors.

The Hoffman Estates-based parent of Sears and Kmart stores declined to officially confirm that CIT Group Inc., the U.S. financial firm that acts as a "factor" for the retailer's suppliers, would no longer approve credit for orders. But a spokeswoman said, "We disagree with their action."

Kimberly Freely stated in an email: "[Sears] has more than adequate liquidity and ample resources at our disposal, which gives us significant financial flexibility. And it is equally important to separate disappointing operating performance from liquidity."

Sears said CIT Group is involved in financing less than 5 percent of its inventories and that it continued to have access to a $2.5 billion domestic line of credit at the end of December.

Factoring is a common practice in retailing in which a financial firm takes on the risk of a supplier getting paid late or not at all by a retailer, noted Paul Swinand, an analyst for Morningstar Inc., in a research note. In exchange, factors charge double-digit interest rates for their services.

CIT's action suggests further financial troubles for the retailer, which announced it was closing as many as 120 stores after a disappointing holiday season. Sears' balance sheet has been depleted of cash by almost $6 billion in stock buybacks since 2005.

Wall Street initially reacted badly to the news as Sears Holdings' shares lost more than 3 percent. But the stock rebounded to close up $1.10 to $34 share, up more than 3 percent.

Sears has faced declining sales under the leadership of hedge fund operator Edward Lampert who engineered the takeover of Sears by Kmart in 2005. Lampert has postponed renovating aging stores while slashing marketing and advertising expenses. Many consumers consider the retailer to be outdated.

The pullout of CIT Group could cause the other lenders to reexamine their confidence in the company.

“Other vendors and factors are scratching their heads and wondering when they might need to tighten the strings on Sears,” Swinand said amid the CIT Group news.

Retail industry consultant and investment banker Howard Davidowitz of Davidowitz & Associates Inc. views CIT’s move as a “temporary blip” for Sears. But he does believe there will be longer-term consequences as lenders scrutinize Sears’ performance.

“There’s going to be a lot of questions raised in the financial community and that’s going to put a lot of pressure on them,” Davidowitz said.

Illinois legislators recently approved tax cuts totaling $150 million to keep Sears Holdings’ headquarters in the state.