

Interview with **IAN FREDERICKS**

**PRESIDENT - HILCO MERCHANT
RESOURCES – THE RETAIL AND
CONSUMER OPERATING COMPANY
WITHIN HILCO GLOBAL**

BY MICHELE OCEJO



Ian Fredericks joined Hilco Global in 2011 after working successfully as a distressed merger and acquisition and corporate restructuring attorney. Over the course of his career, Fredericks has negotiated and closed hundreds of transactions involving tens of billions of dollars. In 2017, he was a recipient of M&A Advisor's Emerging Leaders award and in 2022 was named to the executive committee of the Secured Finance Network board of directors.

After several years of serving as assistant general counsel for the Hilco Global, in 2015 Fredericks was recruited internally to work within the firm's highly successful retail and consumer operating company called Hilco Merchant Resources (HMR). For the next six years, Fredericks helped negotiate a series of large retail inventory transactions while he honed his skills as one of the firms most impressive retail and consumer practice leaders.

As a member of HMR's leadership team, Fredericks was instrumental in outlining an expanded vision for the practice, which included building, or acquiring, strategic adjacencies within one of Hilco's oldest and most successful OPCO's. This included adding an e-commerce platform, retail digital software and related mobile app, expanding the store fixture/fixated asset solutions business, launching direct lending, and acquiring or investing in retail/consumer brands through equity and debt special situation transactions.

In 2021, Fredericks was elevated to president of HMR. In this role he continues to lead the business development efforts, while spearheading many operational and administrative changes designed to provide innovative solutions to help retail and consumer product clients face today's challenges.

Over the course of his career, Fredericks has provided retail disposition and advisory services throughout the United States, Canada, Mexico, Australia, and New Zealand. Some of the most notable clients include Express, Lowes, Circuit City, Target, Dick's Sporting Goods, Toys-R-Us, Saks Fifth Avenue, The Sports Authority, Radio Shack, The Limited, Syms and Filene's Basement, Zellers, and Hudson Bay Company. Additionally, he was one of the principal architects of the transaction to save Aeropostale in collaboration with Authentic Brands, Simon Property, and General Growth, which served as a framework for future transactions and is remains the model today.

Prior to joining Hilco Global, Fredericks practiced law at Skadden, Arps, Slate Meagher & Flom, LLP and, before that, Young Conway Stargatt & Taylor, LLP.

Here, Fredericks discusses his journey from corporate bankruptcy attorney to president of HMR, the current state of supply chain challenges and Hilco's short- and long-term goals.

Please tell us a bit about your career trajectory.

Like so many senior executives who joined Hilco over the years, I see myself as a "reformed" attorney (laughs). Many at Hilco today left traditional law practices to pursue careers in business, seeking to leverage our skills in negotiation and our understanding of bankruptcy and transactional law. For me, the move was driven by a desire to work on a wide range of deals across different industries. At Hilco, the work is always exciting and unique, which pushes you to think out of the box.

I joined Hilco Global in 2011 from Skadden and I haven't looked back since. After graduating from Temple University Law School in 2004, I continued my education, and completed my post graduate work at St. John's University where I received a master's degree in bankruptcy law. Post-graduation, I then began my legal career at Young Conway in Delaware.

At Young Conway, I represented debtors, secured and unsecured creditors, statutory committees, indenture trustees, purchasers, Chapter 11 trustees, and others in connection with complex bankruptcy proceedings, out-of-court restructurings, and other transactions. After four years I had an opportunity to join Skadden right in the middle of the 2008 financial crisis that resulted in the Great Recession. Having cut my teeth working for retail clients at Young Conway, I quickly became a "go to guy" at Skadden and was assigned to many retail clients, including Mrs. Fields Cookies, Mervyn's Department Stores, and Circuit City. While Mrs. Fields successfully reorganized, Circuit City and others were not as fortunate. Although it was certainly a tumultuous time for the world, I was thrilled to be one of three principal attorneys responsible for managing such a large retail case as Circuit City, including more than \$1.1 billion of inventory and approximately \$500 million of other assets. Circuit City was, when it filed in November of 2008, one of the largest retail bankruptcies ever.

In many ways, the Great Recession helped accelerate my learning curve and my career. I was working for two outstanding partners, Greg Galardi and Chris Dickerson, and assigned to Circuit City, an assignment where they gave me a great deal of responsibility. I was still a young lawyer, and I was thrilled to be given such an incredible opportunity. It required me to truly understand how to maximize value for creditors. I dug into everything by working closely with company management and their financial advisors to learn where to find pockets of value within such a large retail chain. I recall being impressed by how the large retail liquidation firms like Hilco operated, and how they used data to understand and ultimately arrive at the precise values to maximize financial return the company.

For the next several years at Skadden, I gained a reputation for being the young lawyer who understood a lot about retail bankruptcy and liquidation of retail inventory and other retail assets. During the years that followed, several of my mentors departed Skadden and I was intrigued by an opportunity presented from Hilco Global. Hilco was seeking an assistant general counsel to work for the GC at the global holding company. The role was unique because it leveraged all my legal experience and skills to help all the deal teams document and close complex transactions and negotiate very large asset deals (both

retail and more). Unlike a traditional GC role, this required an intimate understanding of the deals going through the entire global company while at the same time working on more traditional legal matters that come up in operations for HR, marketing, international law, intellectual property, etc.

The role was a perfect fit for me. I joined Hilco Global in 2011 as VP and assistant general counsel, reporting to Eric Kaup, the global general counsel. For the next several years, I was determined to learn everything I could about how all Hilco Operating Companies worked.

What were the key drivers behind their growth? How did they value and the successfully monetize assets so successfully? And where could I add value to each OPCO? By 2015 it was clear that Hilco Merchant Resources (HMR), one of Hilco's original and most successful operating units, was expanding so rapidly that they needed more direct and dedicated help, and my retail expertise and unique understanding of the entire global operation made me an obvious candidate. The partners at HMR offered me the opportunity to join their OPCO as an SVP, with responsibility to provide dedicated legal work and a business development role that would enable them to continue to fuel growth and diversification in the retail and consumer sector. Less than two years later, I was promoted to EVP, focusing more on the business and less on legal matters. In January of 2021, I became the president of HMR, which is today, a dramatically more diversified retail and consumer solutions platform.

You've been at Hilco for more than 11 years now and you are clearly very energized by the work. Why is it such a good fit for you?

Hilco Global is a highly diversified financial services company that is privately held, highly entrepreneurial and solutions driven. The company has more than doubled in size during my tenure and I've grown with it. I believe that by joining and working first at the holding company, I gained a terrific foundation for understanding the diverse solutions Hilco Global can deliver to attack a client problem and develop a solution. It's a highly collaborative culture and I

am constantly brought in to provide thought leadership or to help negotiate, structure, document, and close deals. From the day I joined the company I was afforded the opportunity to work on a very diverse set of transactions with assets and deals in the commercial industrial, real estate, intellectual property, consumer brand, accounts receivable, and patent space. I'm always working on a range of transactions that Hilco touches and that makes everyday fun and interesting!

In my current role as president of Hilco's Retail and Consumer platform, we've been able to diversify and expand substantially, going

beyond our core retail and wholesale inventory transactions and have expanded and added new services and solutions. These include expanding our store fixtures business through acquisitions, expanding our wholesale business through organic growth, opening a retail lending business called Restore Capital, investing in brands like Christopher & Banks, and building a digital software platform to help retailers with in-store operational excellence, merchandizing and, importantly, revenue growth, just to name a few.

I am particularly excited about our new technology platform for retailers (check it out at www.restoreforretail.com), which was originally built during the pandemic as a tool for our field force to use to help execute retail liquidations. When several large retailers saw the tool at work in-store,

they approached us as a possible ongoing solution for operations and merchandising and asked if we would license the software to them. The tool was incubated in and is being used by our retail clients in Australia and New Zealand and we began rolling it out in the United States and Canada earlier this year.

I believe the most exciting thing about being part of management at Hilco is our desire to solve problems and think outside of the box first and foremost. As our company has grown, we're now capable of providing our clients with extensive valuation solutions, monetization solutions, advisory solutions, and capital solutions. One of our large retail clients recently said to me that he often tells his leadership team that if they can't solve a problem internally, they should "call Hilco and see if they can help us, and if not, they'll find somebody who will!"



For this reason, one critical goal is to drive expanded awareness and understanding of all that the Hilco Global platform has to offer. I believe it is important that we aggressively communicate and educate the market on how Hilco uniquely helps businesses identify and manage through the serious moments of inflection, which take place in the lifecycle of every company.

Most recently, they needed help with in-store labor shortages, called for help, and we put together a unique solution to deliver temporary in-store help, which allowed them get inventory to the floor.

We're finally hearing severe supply chain issues are easing up. What are you seeing and what do you think is coming in the next year or so?

Supply chain constraints have eased, no doubt. Container costs have retreated to levels much closer to historical norms and ports have resumed a more normal level of activity, alleviating the rows of highly stacked containers and congested harbors filled with container ships that we all saw on the evening news for quite a while.

There are still, however, some remaining headwinds. Let's start with last-mile delivery costs. These remain high. And, while some of that is due to inflation and input costs, some reflects carriers such as UPS and FedEx raising their rates and layering on various surcharges that many have argued are unwarranted now that the impacts of COVID have eased.

Additionally, while the government settled the labor dispute with the railroads, port-worker labor disputes remain largely unresolved. Without a resolution there and given that the Teamsters will be advocating on behalf of UPS workers, whose contract is up this coming summer, a broader supply chain recovery could remain hindered for some time.

Next, we need to consider the impact of the war in Ukraine and the potential challenges that a prolonged conflict there will have on the supply chain – in addition to the horrible atrocities and human cost. There is a possibility of naval blockades, as the EU and the U.S. seek to restrict the transport of Russian oil where possible. And we have already seen production and export of Ukrainian crops, including corn and wheat, to nations dependent on those staples, disrupted by the war. These will have a direct impact on food supply throughout regions of the world.

On a more positive note, we are seeing more manufacturing coming back to the United States, especially in the southeast and some other areas. Toyota and BMW, for example, have moved manufacturing for some key segments to the United States. This is indicative of a broader overall shift taking place toward more near-shoring and onshoring. In large part, this is fueled by the type of stifling manufacturing impacts felt by the automotive, trucking, electronics, and appliance industries during and following the pandemic because of their dependency on semiconductor production from, among others, China and Taiwan. While companies across these and other industries had previously been resistant to the Capex investment required to ramp up production in Mexico, Canada, and the U.S., they seem to have realized that maintaining production control is likely worth the cost.

How do you think lenders can assist their clients with these supply chain challenges?

Lenders that will likely be in the best position to pull the right levers and assist their retail borrowers in achieving greater liquidity during this period are those that 1) Thoroughly understand the innerworkings of their borrowers; 2) Discern between inventory in

transit on the water and inventory in transit within North America or domestically, 3) Surgically establish a borrowing base, 4) Leverage experts for advice, recognizing that not all “experts” are created equal, and 5) act early! Critically, the type of disruption we are seeing today is different from the past. We are seeing a confluence of issues – ranging from war, supply chain disruption, deglobalization, historic inflation, fast-rising interest rates, and bank failures, on the one hand, to record low unemployment, a resilient consumer, and economic growth, on the other. These competing variables and the impact on retailers and consumer product companies are neither consistent nor well-understood by many in the industry. Lenders should seek out firms – like Hilco – that study these variables to better predict outcomes and regularly provide advice.

What other challenges do you foresee for the year?

Labor is still a challenge for retailers in two respects. It's a challenge in the sense that there don't appear to be enough people who want to work in a frontline retail store environment. And, to try to attract and retain that talent, they're having to raise wages, but those wages still don't match up to a lot of the wages that are being offered to work in other retail areas, like a fulfillment center. It's a different type of work, but it's generally “unskilled” labor. It becomes very difficult to compete in these situations. Many frontline workers don't feel loyalty from their employers and so they don't feel loyal. Consequently, retail experiences very frequent turnover from the most important employees in the business because of their direct interaction with the customer. I believe retaining these frontline employees is one of the biggest challenges that retailers are going to continue to face. Moreover, this is happening at a time when the importance of stores is increasingly more evident.

As far as e-commerce is concerned, I think of it as just another store. It's another place where your customer can shop. It's a different experience and you have to offer different kinds of incentives to attract your customer to buy there. When you factor in all the costs associated with running an e-commerce business, it cannot be run profitably if you are going to offer things like free shipping and returns. If you are going to offer those and if you are going to try to undercut pricing, and you have the marketing costs that can vary widely, I don't think you can operate e-commerce profitably. Of course, a lot of investment has been put into that and it's not something that public companies, especially, can abandon.

But, from my perspective, refocusing on stores, the in-store experience and putting the right tools in your frontline employees' hands is the only way to survive.

What are some of the near and long-term goals at Hilco Global?

Our company continues to grow and expand, and we will always stay focused on being client-centric problem solvers. The range of solutions that Hilco offers today is so unique and different... people often pigeonhole us as the liquidator and avoid us until it's too late. The depth and breadth of our expertise after almost 40 years is far

beyond simply “getting rid” of distressed assets.

For this reason, one critical goal is to drive expanded awareness and understanding of all that the Hilco Global platform has to offer. I believe it is important that we aggressively communicate and educate the market on how Hilco uniquely helps businesses identify and manage through the serious moments of inflection, which take place in the lifecycle of every company. In many respects Hilco operates like a modern-day merchant bank. By leveraging our unparalleled understanding of tangible and intangible assets, delivering access to the world’s leading advisors/experts, and providing significant capital (both equity and debt), Hilco Global is a problem solver. Today we are regularly developing and implementing customized solutions to deliver results for corporate clients, lenders, equity owners/investors and their professional advisors during their critical inflection points. We serve as a business ally and partner when a company reaches one of these pivotable moments... helping clients respond to situations where a new direction or change of course may be required to maximize opportunistic value or to resolve a financial need or crisis before it’s too late.

Maintaining our amazing company culture is also a long-term goal. We are now 800+ people in 11 offices and, as we add more people and services, I believe it’s vital to stay true to the values that helped us build the company in the first place. This includes the entrepreneurial spirit that attracted me here in 2011 and that needs to be maintained. The agility, the integrity, the fun, and family-oriented culture is what makes us so unique, and we’re committed to keeping that in place.

From my perspective we must stay focused on providing our clients with the deepest and most accurate understanding of the value of their retail and wholesale inventory and their store fixtures. Hilco built its reputation on being the best and most accurate valuers in the business and that means we must always maintain the deepest understanding of retail trends and the retail customer experience. If we can leverage this expertise to expand into other areas, then our clients will be successful and so will we. Longer term we will continue to make an investment in retail companies and the retail experience. We see a lot of distress on the horizon. Distress doesn’t always mean broken. So, where we can find businesses that fit strategically in our vision, which includes the off-price and treasure hunt segment, and where we can leverage our expertise, we will continue to look for opportunities to invest in these businesses.

We plan to continue to invest in our retail and consumer technology platforms and find new and innovative ways to support the retail shopping experience. Clearly retail is and will continue to change in dramatic ways. We want to be on the forefront of the new retail experience by understanding how we can support our clients as they seek to improve the consumer shopping experience from end to end. As the market evolves, we plan to be working on all aspects of the retail experience from brick and mortar to online...from supply chain to reverse logistics...from sustainability to customer satisfaction. Hilco is well positioned and plans to be a true market leader.

We talked a lot about the labor shortage in retail, but it seems to be affecting everyone, including our industry. How is Hilco addressing this issue? Is retention and attracting talent a challenge for you?

The labor market is tight and demand for talent is very competitive. That said, we’ve been fortunate to recruit and retain some of the best in the business. One thing that’s very important to us is to compensate our people well and to build an environment where employees can have fun while working hard. We have people that are passionate about retail, and we’ve diversified our labor force dramatically over the past several years to include true subject matter experts. We’ve also focused on empowering our young leaders, giving them opportunities to come up with new ideas and embrace their entrepreneurial spirit. If we truly want to be on the pulse of what’s happening in retail today, we must have a diverse and multifaceted work force. It’s particularly important in retail because the sector is so target-audience specific and shopping needs and experiences across different age groups and socio-economic groups can vary so greatly. Our team needs to reflect the retail customer diversity, and we strive to improve our diversity every day by recruiting the best and the brightest. 📌

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