

EVALUESERVE

Bankruptcy Filings in the US Retail Industry

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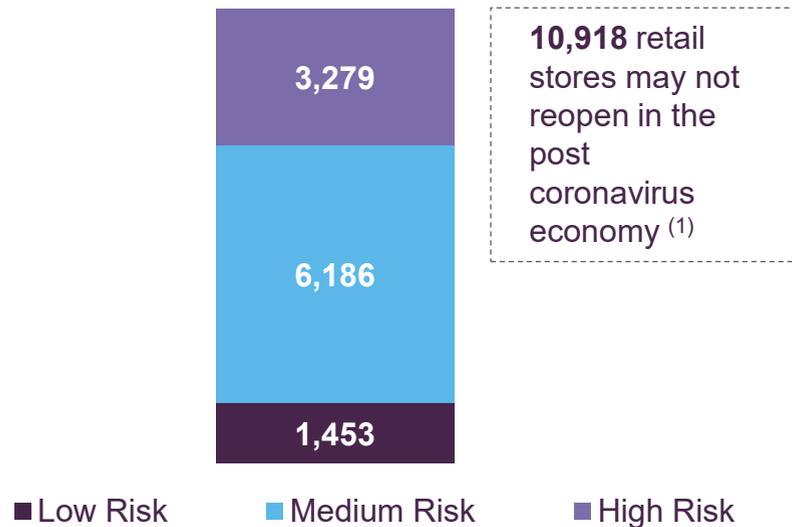


Impact of COVID-19 on Retail Sector

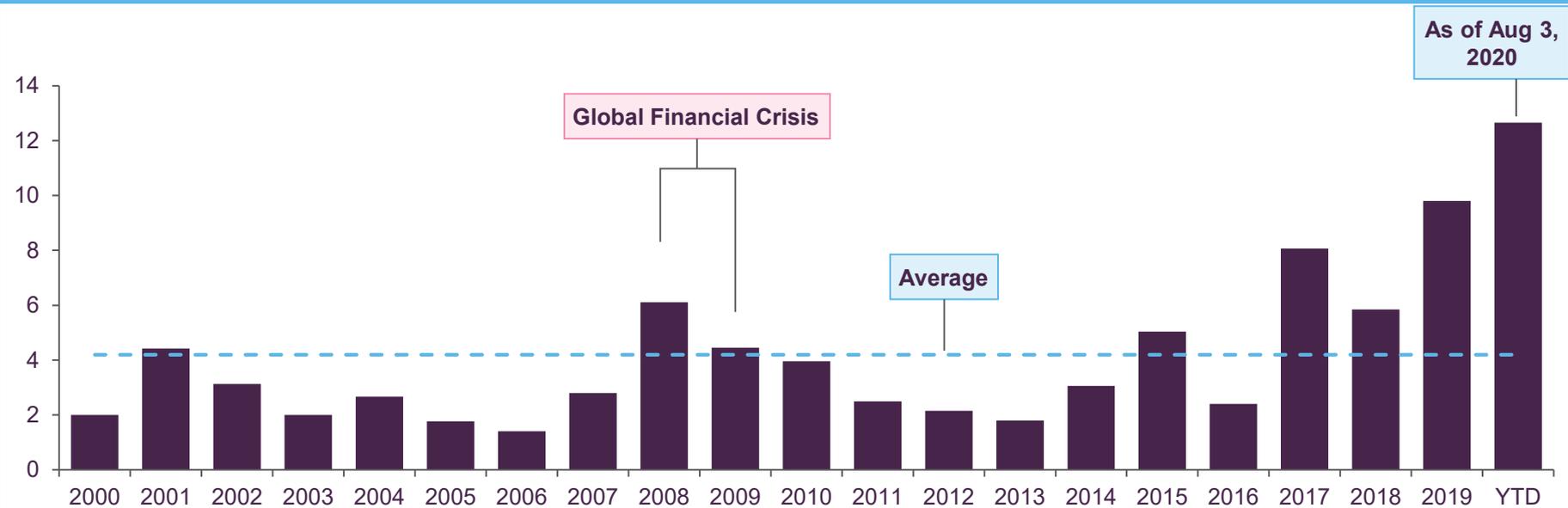
The disruption caused by the coronavirus (COVID-19) pandemic has severely impacted the retail sector. Although the outlook is positive for essential businesses (such as groceries) and businesses equipped with digital operations, brick and mortar retail stores are looking at huge losses and the risk of bankruptcy

- US retailers could announce between 20,000 and 25,000 store closures in 2020, with 55–60% of those situated in shopping malls. 12,663 store closures have already been announced by US retailers since January 2020.
- Retail stores are getting multiple default notices for payment of rent, which may further push them into bankruptcy or total collapse. US chain retailers had paid only 68% of their due rentals in June 2020.
- Retail sales worldwide are estimated at USD23.36 trillion in 2020, a 5.7% drop from last year, compared to an expected 5% rise prior to the pandemic.

Potential Permanent Closures Amid COVID-19 (2020 est.)



20+ Years of US Retail Store Closures (000s)



² Alliance Bernstein (AB), Coresight Research, Washington Post, CNBC News, Forbes, Business Insider, Bloomberg News
⁽¹⁾ Based on AB analysis of 74 largest US retailers with combined 2019 revenues of USD885.3 billion and 107,946 locations

Major Retail Bankruptcy Filings Since May 2020

Company Name	Filing Date	Pre-petition Debt (USD million)	Advisor	Plan of Emergence / Reorganization
Neiman Marcus <i>(United States)</i>	7 May 2020	5,100	Lazard	<ul style="list-style-type: none"> Received debtor-in-possession (DIP) financing of USD675 million, along with exit financing of USD750 million, from its term loan lenders and noteholders Holder of 1st lien term loans, 2nd lien notes, 3rd lien notes, and debentures to reduce debt of USD4 billion, in exchange for ownership of the company
J.C. Penny <i>(United States)</i>	15 May 2020	4,900	Lazard	<ul style="list-style-type: none"> To close 242 stores (30% of total) To reduce debt worth several billion dollars and strengthen its financial position Consenting 1st lien lenders to provide USD900 million as DIP financing To emerge into an operating company – New JCP – and create a real estate investment trust. New JCP to transfer some properties to the REIT, which is to operate as a lease holder A sale “toggle” for a potential 363 auction of the company’s assets, if certain plan related milestones remain unmet
J. Crew Group <i>(United States)</i>	4 May 2020	1,996	Lazard	<ul style="list-style-type: none"> Received DIP financing of USD400 million from consenting term loan and IPCo note holders, including Anchorage Capital Group, GSO Capital Partners, and Davidson Kempner Capital Management Term loan and IPCo note holders of USD1.68 billion to get pro rata share of new common stock, and USD310 million of ABL credit facility to be paid in full
Centric Brands Inc <i>(United States)</i>	18 May 2020	1,783	PJT Partners	<ul style="list-style-type: none"> Received DIP financing of USD435 million from funds managed by Blackstone, Ares, and HPS Investment Partners Existing 1st lien term loan holders, Ares and HPS, will retain their senior loan positions and also receive equity (30%) 2nd lien term loan holders to exchange USD700 million of debt for equity (70%)

Major Retail Bankruptcy Filings Since May 2020

Company Name	Filing Date	Pre-petition Debt (USD million)	Advisor	Plan of Emergence / Reorganization
GNC Holdings <i>(United States)</i>	23 June 2020	907	FTI Consulting, Evercore	<ul style="list-style-type: none"> To pursue a dual-path restructuring process: <ol style="list-style-type: none"> Confirm a standalone plan of reorganization by restructuring its balance sheet and accelerating its business strategy, or Consume a sale where the agreement sets an initial bidding price of USD760 million If the sale transaction is consummated in a timely manner, it will be implemented instead of the standalone plan Secured DIP financing of USD100 million and USD30 million through ABL credit agreement Expects to close at least 800 to 1,200 stores
Stage Stores <i>(United States)</i>	10 May 2020	399	PJ Solomon	<ul style="list-style-type: none"> Filed for Chapter 11 bankruptcy with a dual plan: <ol style="list-style-type: none"> Solicit bids for sale of all / part of its business, or Wind down operations Secured debt holders (USD226 million) and unsecured debt holders (USD173 million) will get a pro rata share of their claims, as per the plan Initiated going-out-of-business sale of merchandise across 720 stores in July Gordon Brothers and Hilco Merchant Resources to assist with store closing
Brooks Brothers <i>(United States)</i>	8 July 2020	392	PJ Solomon	<ul style="list-style-type: none"> Plans to auction assets and complete the sale in the coming months To permanently close 51 of its 200 US stores (500 stores worldwide) Secured USD75 million in DIP financing from WHP Global, backed by Oaktree Capital and BlackRock

What to Expect in Retail Sector Amid COVID-19

Driving Factors	Emerging Trends in Retail Industry
Business transformation: Focus on e-commerce	<ul style="list-style-type: none">• COVID-19 has slowed down physical retailing around the world. Legacy stores with no existing online or delivery channels need to transform by incorporating online fulfillment and home delivery services.• E-commerce sales is showing a rising trend. As per Prologis Research, US e-commerce penetration is estimated to reach 20% in 2020 vs its pre-pandemic forecast of 16.9%.
Change in shopping preferences	<ul style="list-style-type: none">• For physical retailing, consumers are likely to shift away from large stores and shopping malls to smaller independent shops; such shops are generally quieter and it is easier to maintain social distancing in these, than inside a busy mall.
Volatile cash flows for retail REITs	<ul style="list-style-type: none">• Retail-focused real estate investment trusts (REITs) are likely to face cash flow volatility in the coming months, as companies go bankrupt, tenants seek rent deferrals, and bad debt exposures increase.
Consolidation in retail	<ul style="list-style-type: none">• The retail market, which has been fragmented for a long time, is heading towards a consolidated model. The impact of COVID-19 could accelerate retail consolidation, where a small set of well-positioned players emerge stronger at the expense of smaller or independent players.
More bankruptcies to come	<ul style="list-style-type: none">• In the coming months, the global retail sector is likely to experience more bankruptcies due to falling revenues, increasing burden of operating leases and maintenance costs, and failure to meet debt obligations, along with a negative outlook on profits.

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