



ROADS FROM

# CONFIGURE

PARTNERS

# CONSUMER & RETAIL

Industry Snapshot | 2H 2022

## Credit Solutions for the Middle Market

Configure Partners is a unique investment banking platform. Partnering with us allows our clients to remain focused on their strategic and operational objectives while entrusting us to develop the optimal credit solution.



### 3000+

annual interactions with capital partners

### 9

core industries of coverage

### \$3B+

of transaction volume with repeat clients since 2018

### Representative Retail Experience in a Variety of Capacities

#### Project Snack

Sole Lead Arranger for credit facilities related to a recapitalization of a grocery retailer.

Recapitalization

#### Project Star

Sole Lead Arranger for credit facilities related to a dividend recapitalization of an optical retailer.

Dividend Recap

#### Project Puma

Sole Lead Arranger for credit facilities related to a refinancing of existing debt of a footwear retailer.

Recapitalization

Sole Lead Arranger for credit facilities related to an acquisition through the CCAA.

Acquisition Financing

Advised the Company on a sale of substantially all of its e-commerce assets pursuant to Section 363 of the U.S. Bankruptcy Code.

Sell-side Advisory

Advised Stalking Horse on potential acquisition of the Company's assets pursuant to Section 363 of the U.S. Bankruptcy Code.

Buy-side Advisory

### Industry Coverage Contacts



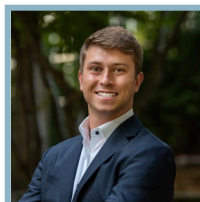
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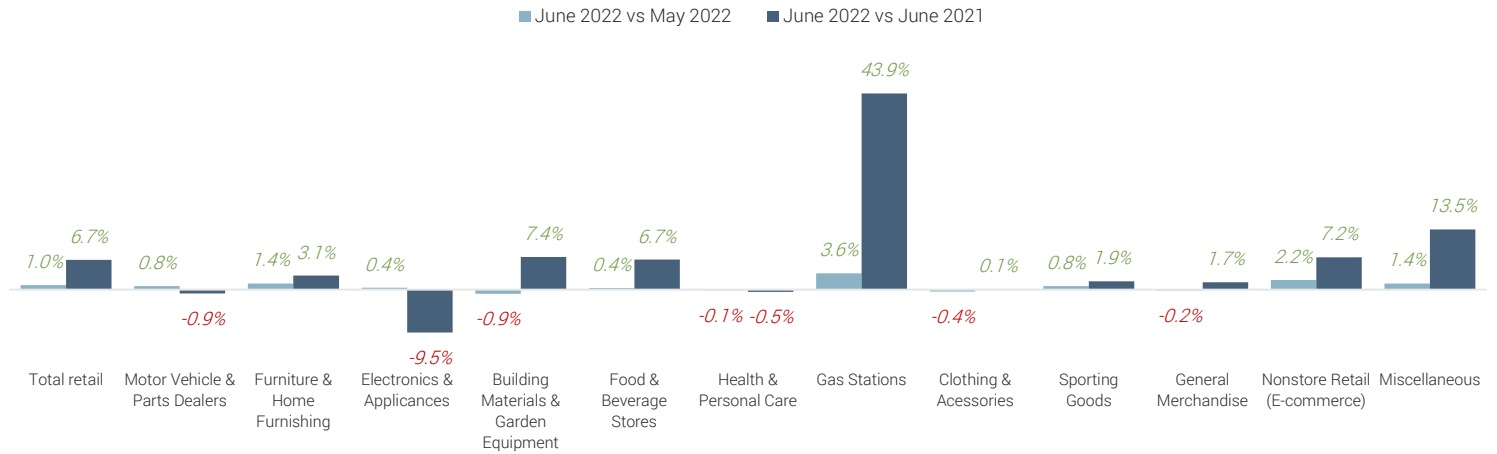


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## Sustained Growth in Consumer Trends – Monthly Retail Sales Comparison



- The COVID-19 pandemic has had a permanent impact on consumer buying behaviors. In 2022, unique factors continue to impact the industry despite the normalization of e-commerce spending as well as continued improvements in overall foot traffic
  - The bounce-back of in-store retail illustrates the resiliency of brick-and-mortar locations, as well as consumer tendency to prefer in-store shopping for critical purchases. E-commerce percentage of total U.S. retail sales has declined from 14.9% in Q1 2021 to 14.3% in Q1 2022
- Technology innovations and solutions allow retailers to connect digital and physical shopping experiences, and there has been a push to implement more streamlined services and capabilities (e.g. augmented reality, self-checkout kiosks, enhanced logistics)
- As evidenced above, surges in gas prices resulted in significant year-over-year growth in the subsector, amplified by muted prices and demand in 2021

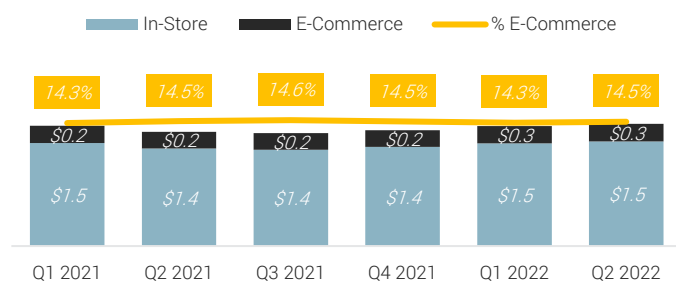
### Inventory Shortages and Supply Chain Disruption

- With inflation continuing to run rampant throughout the U.S., retailers have looked for ways to salvage value from over-stocked items within stores
- Up until the start of this year, consumers were spending more than anticipated, often due to stimulus, leading to retailers order excessively in order to have product on shelves
- This exacerbated already fragile supply chains struggling with high levels of importation, which has manufactured inventory waiting outside ports to be offloaded
- As inflation rose throughout the year, consumer spending, particularly on discretionary items, shifted downward, leaving retailers with too much inventory as consumer demand declined
- Further, Direct-to-Consumer (DTC) brands that were darlings before the pandemic and into 2021 have suffered as the slow shipping speeds, labor complications and softness in consumer confidence have resulted in a significant decline in demand within large portions of the category

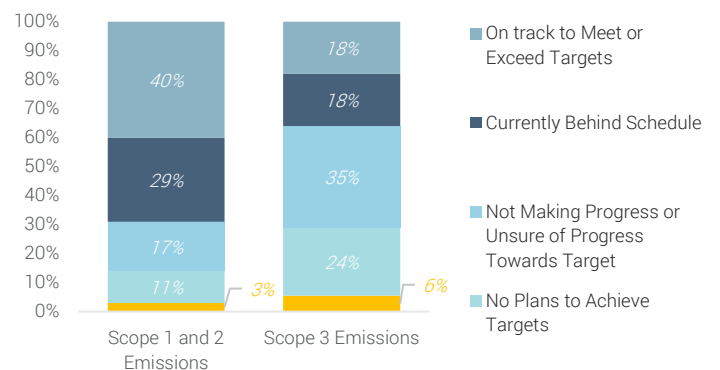
### Sustainability & the Impact to the Retail Sector

- For the retail industry, a complex issue yet to be solved is the process of de-carbonizing the way of doing business
  - Scope 3 emissions (emissions the organization indirectly impacts in its value chain) are front of mind, accounting for over 90% of all greenhouse gases emitted by retailers. This makes retailer businesses responsible for roughly 25% of global emissions
- These emissions by retailers are nearly impossible to track as brands outsource nearly all production to foreign geographies and economies
- U.S. legislation has been proposed on Scope 3 emissions, potentially requiring companies to report if material, creating a significant burden on retailers in an already difficult period, as implementing a de-carbonization strategy will require time, labor, and capital, all shouldered by retailers

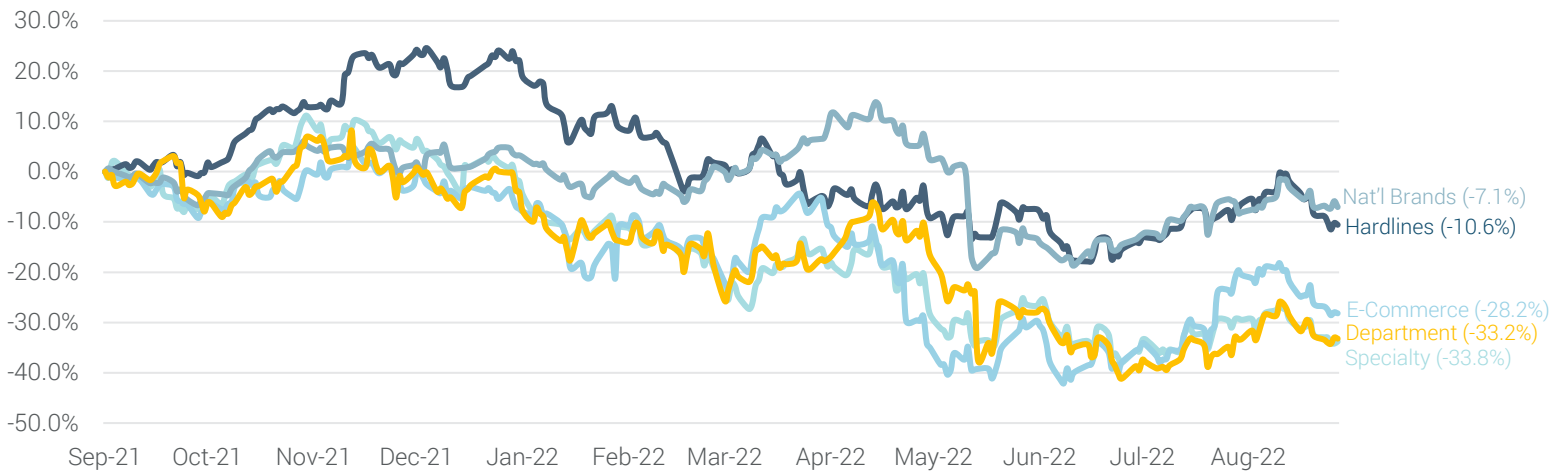
#### In-Store Retail vs. E-Commerce Sales (\$B)



#### Emission Targets and Schedule

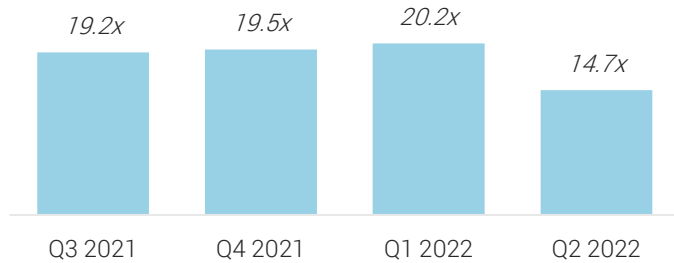


## Indexed Stock Performance – Last Twelve Months

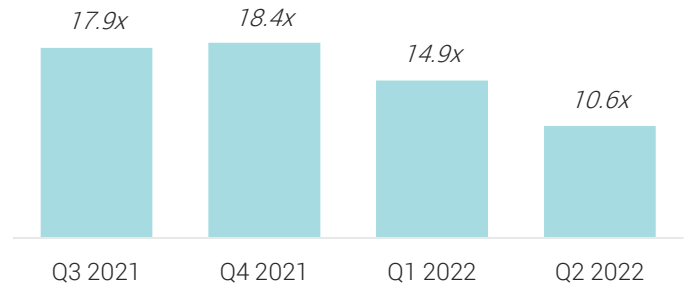


## Subsector EV / LTM EBITDA Trends

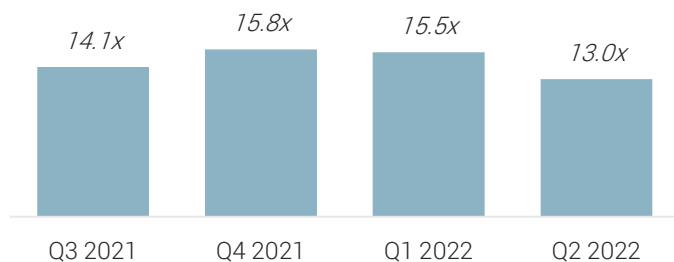
### E-Commerce



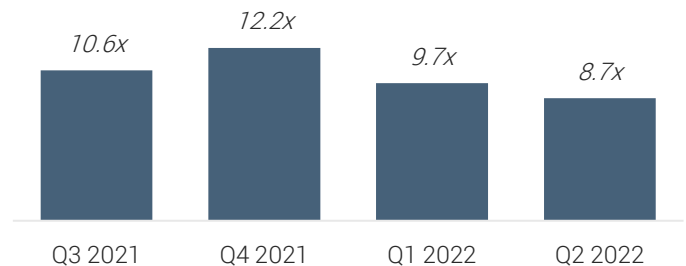
### Specialty Retail



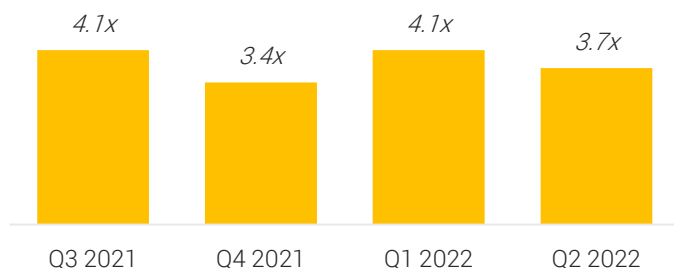
### National Brands



### Hardlines



### Department Stores






### Key Takeaways

- The multiple expansion seen in early 2021 has largely reverted to pre-pandemic levels across each of the major retail subsectors, as EBITDA and profitability metrics normalized
- Given the recent shifts to digital strategies, third-party marketplaces, and expansion of online sales channels, the E-Commerce sector has sustained valuation multiples in excess of 2019 levels, with recent declines in Q2 primarily due to recent events and broader market contraction

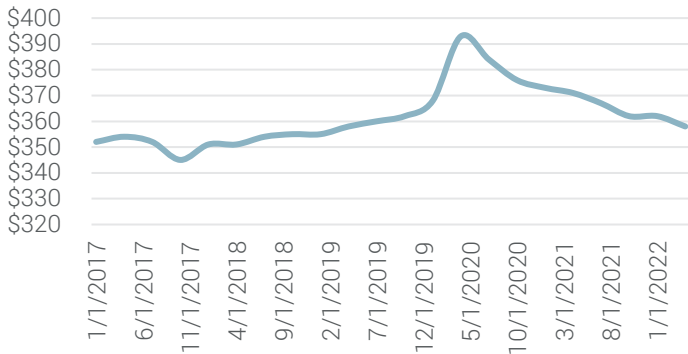


# Recent Bankruptcy Activity

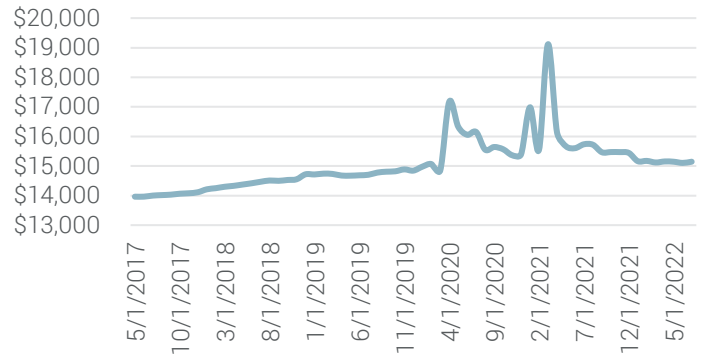
| Company  | Filing Date | Situation Overview  | Status Update / Outcome  |
|--|-------------|---|--|
| <b>REVLON</b>  | 6/15/2022   | Cosmetics and skin care retailer, Revlon filed for Chapter 11 protections in order to reorganize, address supply chain issues, and better position for macroeconomic threats. The company had \$3.3B of pre-petition debt, resulting in significant debt service payments, resulting in liquidity issues  | Revlon received \$375MM DIP financing from its existing lender base to give the company the necessary liquidity to navigate through the Chapter 11 filing  |
| <b>ESCADA</b><br>             | 1/18/2022   | Women's fashion retailer Escada America filed for Chapter 11 bankruptcy, citing the lingering effects of COVID-19 and failed lease negotiations as the primary causes.  | Escada America agreed to close 5 of its 10 stores during the reorganizing process while also repaying creditors  |
| <b>ALEX AND ANI</b>  | 6/9/2021    | Jewelry retailer Alex and Ani filed for bankruptcy and put itself up for sale after a tumultuous year, which included the closing of numerous stores due to the pandemic. The company has inked a restructuring support agreement with its debt holders and equity sponsors for a financial and operational restructuring   | The final bid deadline was extended to 8/31/2021 from 8/8/2021, with an auction tentatively scheduled for 9/7/2021, in the event necessary. A potential acquirer will be identified at that time   |
| <b>THE COLLECTED GROUP</b><br> | 4/5/2021    | The parent of the Joie, Equipment and Current/Elliot fashion brands, The Collected Group, filed for Chapter 11 protections following protracted sales declines, liquidity issues, and a disrupted sale process. The company is also looking to fully wind down its brick-and-mortar footprint to focus on e-commerce and wholesale  | In June 2021, the Collected Group is out of bankruptcy and has emerged with a cleaner balance sheet under the control of a lender group and new funding from private equity firm KKR   |
| <b>PAPER SOURCE</b><br>       | 3/2/2021    | Paper Source, a card and gift retailer, filed for Chapter 11 protections due to the impact of COVID to their finances and operations, with a plan to sell itself and close at least 11 stores   | In May 2021, the owner of Barnes & Noble bought the stationary retailer out of bankruptcy  |
| <b>SOLSTICE SUNGLASSES</b>   | 2/17/2021   | Solstice is a luxury sunglasses boutique that is the second-largest retailer of sunglasses in the U.S. The company filed for a Chapter 11 petition for relief following a 50% decrease in sales due to COVID-19 with limited relief to compensate for stores being closed   | In August 2021, Solstice Sunglasses emerged from Chapter 11 with the support of a \$6.5 million exit financing package provided by Second Avenue Capital Partners. In the bankruptcy process, the company rationalized its physical store footprint and created a more efficient operating platform to be better positioned for go-forward success |
| <b>belk</b>  | 1/26/2021   | Department store owned by Sycamore Partners. Following sales declines and challenges during COVID-19, Belk filed for bankruptcy with a lender-supported reorganization plan that would seek to eliminate \$450 million in debt and keep its 291-store footprint intact  | Belk emerged from Chapter 11 just one day after filing with the approval of a restructuring agreement. The department store retailer now has \$225 million in new capital, extended debt maturities to 2025, and a meaningfully lower debt level   |
| <b>GROUPE L'OCCITANE</b>   | 1/26/2021   | L'Occitane is an international retailer of body, face, fragrances, and home products. The Company filed Chapter 11 in order to further accelerate a store footprint optimization plan and create a sustainable, long-term US store platform   | In July 2021, the Court provided interim approval of the company's disclosure statement in which creditors received a 100% distribution on their claims. The Confirmation Hearing is set for late August   |
| <b>C&amp;B</b><br><small>CHRISTOPHER AND BANKS</small>   | 1/14/2021   | Christopher & Banks, a national specialty retailer featuring privately-branded women's apparel and accessories, filed for Chapter 11 in order to preserve value for the benefit of all stakeholders following liquidity constraints and performance declines in the wake of COVID-19  | In February 2021, the sale of all assets, including the debtor's stores and e-commerce business, to ALCC, LLC for \$24.6 million was approved by the Judge   |
| <b>LOVES</b><br><small>FURNITURE &amp; MATTRESSES</small>  | 1/7/2021    | Regional retailer Loves Furniture, which took over the stores vacated by Art Van following its liquidation in the spring of 2020, filed for Chapter 11 protection following multiple shipping issues and disputes with logistics providers. Loves filed to liquidate excess inventory and restructure around a smaller footprint after deciding to liquidate 13 stores in December 2020 | In July 2021, the Confirmation Hearing for the company's plan of reorganization was postponed until late August as numerous creditor objections were filed in response to the company's disclosure statement   |

## Major Economic Trends

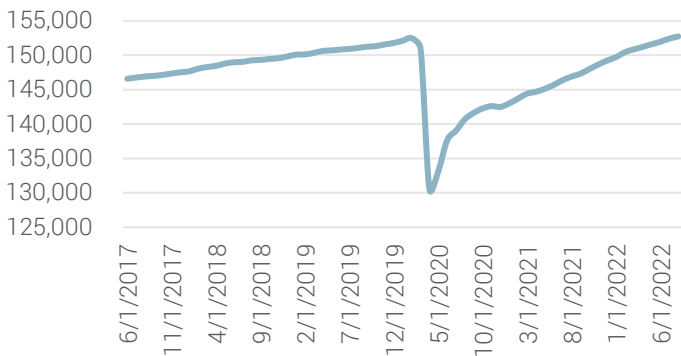
### Real Median Wages (Adj. CPI Dollars)



### Real Disposable Income (\$B)



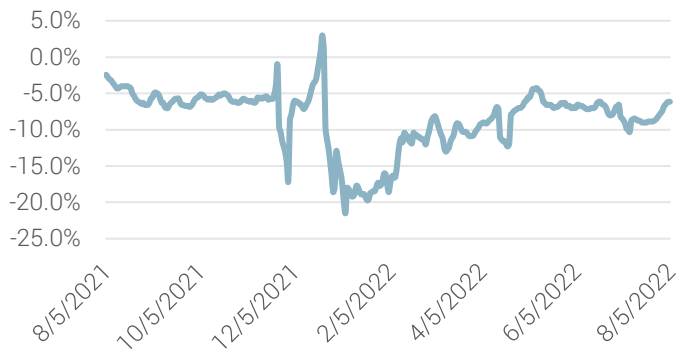
### United States Jobs Growth (000's)



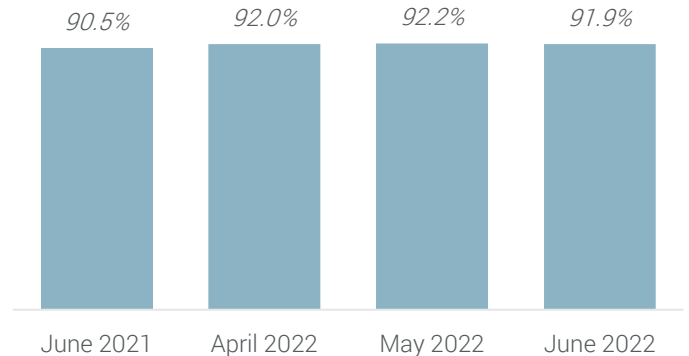
### Personal Consumption Expenditures (\$B)



### Customer Foot Traffic YoY % Change



### Rent Collection Trends



## Key Takeaways

- Weekly wages and real income have experienced sharp declines in the wake of the COVID-19 pandemic, driven by the loss of jobs in the retail and restaurant sectors, partially offset by general increases in minimum wage across many states
- Wage and income declines reflect the decline in employment. As of April 2020, the unemployment rate was as high as 14.7%, severely crippling consumer confidence and adversely impacting personal consumption. Since then, the unemployment rate has recovered to 3.6% as of June 2022
- In the long-term, these trends are expected to continue to trend back to normal (flattening of real wages and an uptick in U.S. jobs and personal consumption)