

# CONSUMER & RETAIL

Industry Snapshot | 1H 2023

## 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

#### FORMA

Actively advising the Company on a sale of substantially all of its assets pursuant to Section 363 of the U.S. Bankruptcy Code

Sell-side Advisory

#### Project Mohawk

Advised the Company on a sale of substantially all of its assets pursuant to Article 9 of the UCC

Sell-side Advisory

#### 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 recapitalization 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



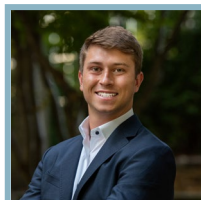
JAY JACQUIN  
Managing Director

[jjacquin@configurepartners.com](mailto:jjacquin@configurepartners.com)  
404.536.0690



UJ RAI  
Vice President

[urai@configurepartners.com](mailto:urai@configurepartners.com)  
732.213.1135



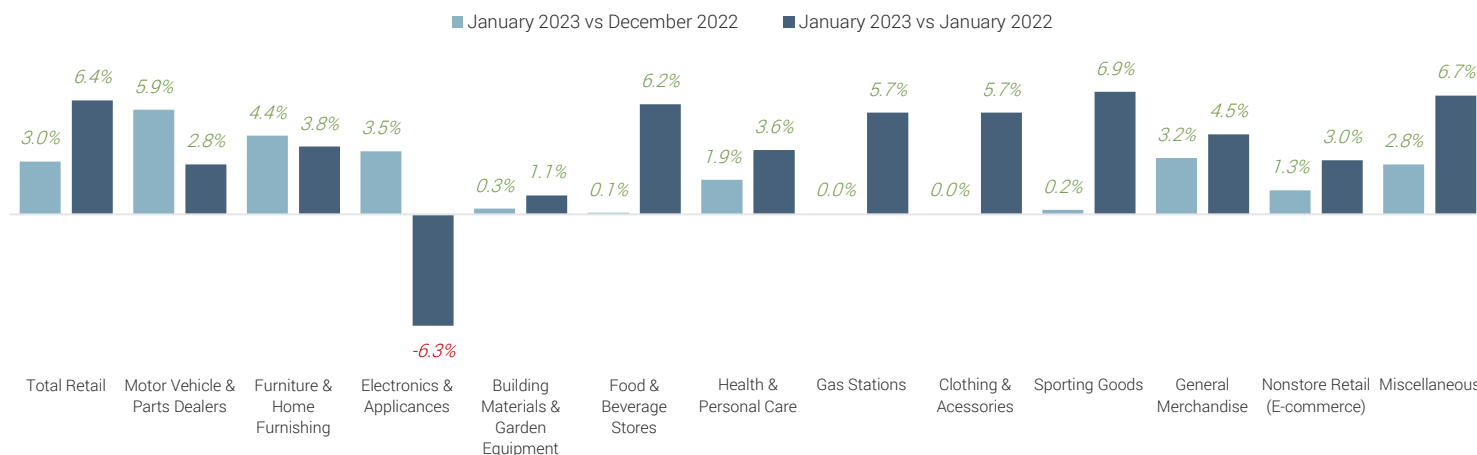
FITZ MARREN  
Analyst

[fmarren@configurepartners.com](mailto:fmarren@configurepartners.com)  
404.775.0734

View Additional Configure Partners' Insights Here



## Sustained Growth in Retail Sub-Sectors – Monthly Retail Sales Comparison

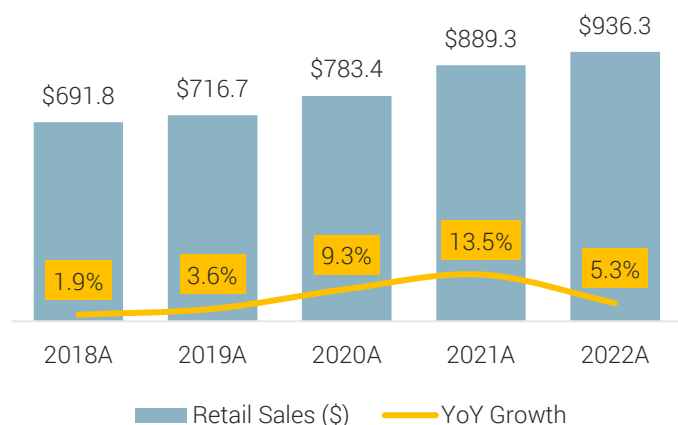


- Consumer behaviors are in flux, and we are in the midst of a transformation within the retail sector as a result. Prototypical brick-and-mortar retail footprints are becoming less prevalent as retailers transition towards virtual, online, and even “meta” store locations
  - Brick-and-mortar locations still significant benefit for brands to provide consumers with a physical experience and remain more directly connected with their consumer base. Generally, customers are seeking a more seamless shopping experience versus years past, while also becoming more price-sensitive and value oriented
- January 2023 retails sales grew moderately across each subsector versus December 2022, indicating a more “spread-out” holiday spending pattern, as consumers pulled purchases forward to Black Friday and Cyber Monday in November

### 2022 Holiday Season

- As mentioned, shoppers were out in full-force for Black Friday and Cyber Monday in 2022, resulting in 6.5% year-over-year growth in November sales versus the prior year
- Consumers remained focused on household staples and durable goods, in spite of the rising inflation and interest rate environment
- Retailers began displaying and marketing holiday sales as soon as October 31<sup>st</sup> this past year, leading to more spread-out holiday season versus prior years
- Overall, the 2022 holiday season recorded ~\$936.3B in total retail sales, a 5.3% increase versus the 2021 season (~\$889.3B)
  - o Retail sales recorded in November and December are considered holiday sales and exclude restaurant, gas, and auto sales

#### Historical Holiday Retail Sales (\$B)

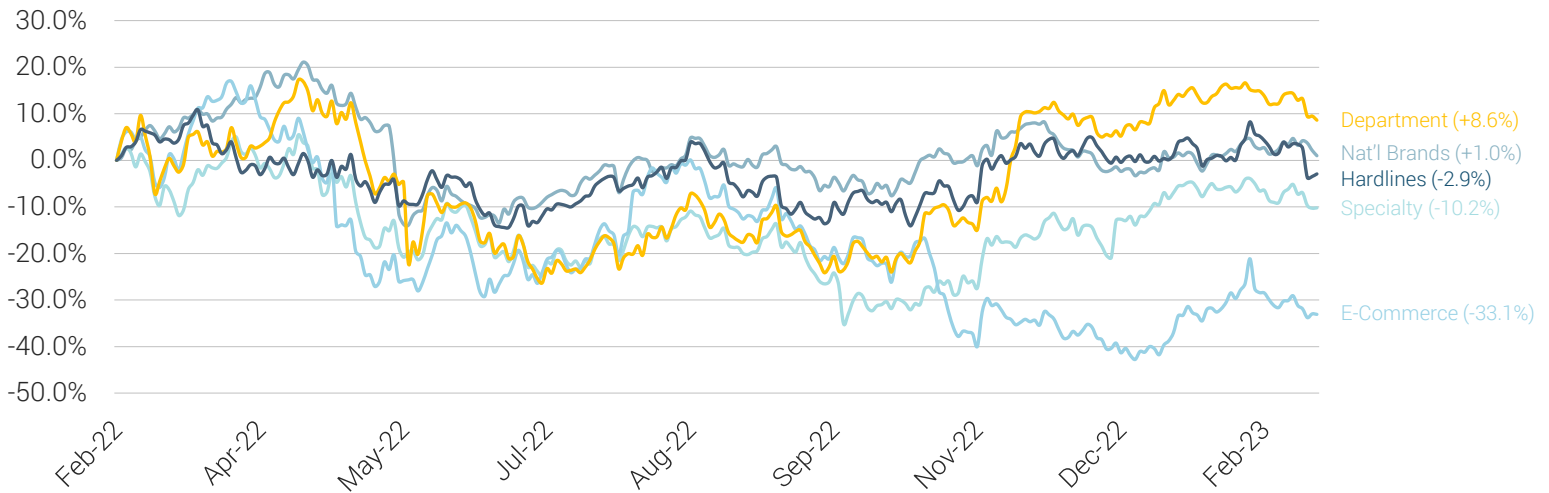


### Select Retail Trends to Look Out for in 2023

- Heightened Bankruptcy Activity**
  - o In 2019, there were 17 recorded retail bankruptcy filings. In 2020, this figure unsurprisingly increased to 30 as a result of the COVID-19 pandemic before easing in 2021 and 2022 with a modest ten filings this past year
  - o Just under two months into 2023, and there have already been two filings (Party City and FORMA Brands) in the retail sector, with plenty other companies potentially struggling
- Environmentally- and Ethically-Focused Brands**
  - o In 2022, many brands shifted focuses on ESG-related initiatives; using more recycled materials to manufacture products, utilizing diverse brand ambassadors, and curating an inclusive social media image
  - o As the U.S. population continues to grow more diverse and socially conscious, these trends are expected to persist through 2023 and beyond
- Secondhand Retailing / Re-saling**
  - o The rise of secondhand retailers such as ThredUp and The RealReal have had success and been noticed, as big players including Walmart, REI, and Ikea have adopted similar strategies
  - o The secondhand apparel market is expected to reach ~\$82B by 2026, as over 90% of consumers have shopped for, bought, or sold secondhand items at least once in the past year

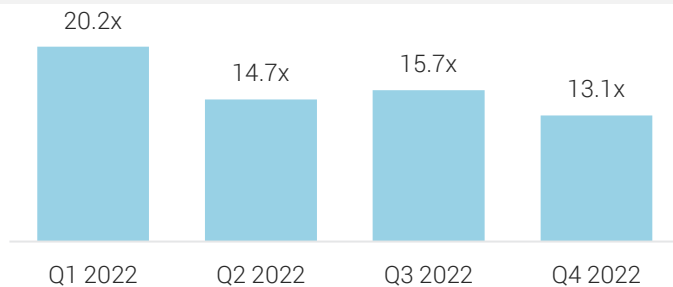
# Public Equity Markets: Subsector Performance

## Indexed Stock Performance – Last Twelve Months

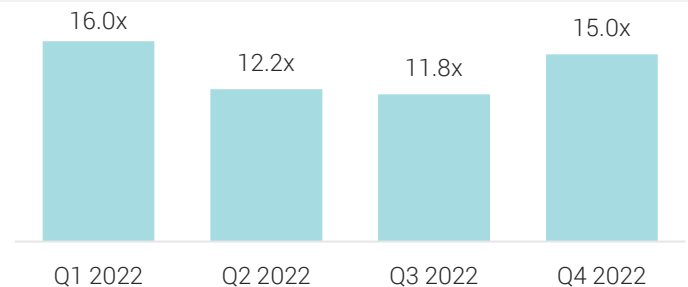


## Subsector EV / LTM EBITDA Trends

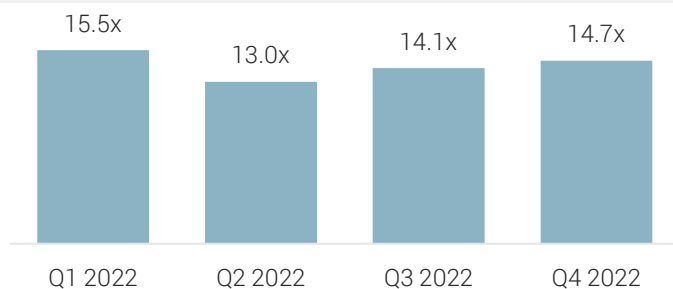
### E-Commerce



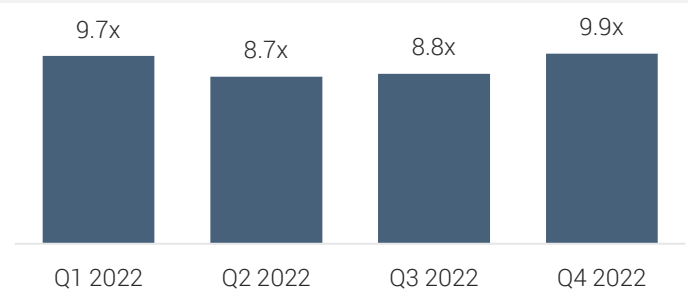
### Specialty Retail



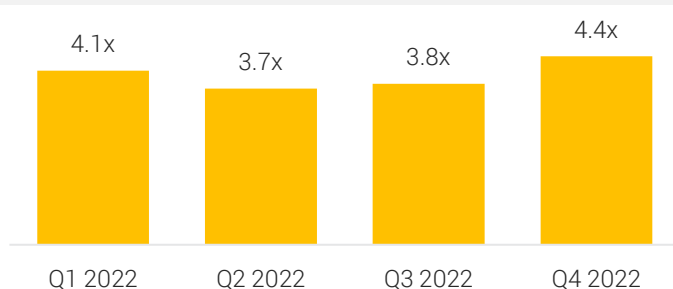
### National Brands



### Hardlines



### Department Stores











## Key Takeaways

- As the Fed initiated a series of rate hikes in Q1 and Q3 2022, and moved to accelerate quantitative tightening, equity valuations across retail sectors generally declined
- Given the inflationary and rising interest rate environment, there exists uncertainty in future retail performance, however, given continued levels of consumer spending, valuation multiples rebounded through Q4 2022

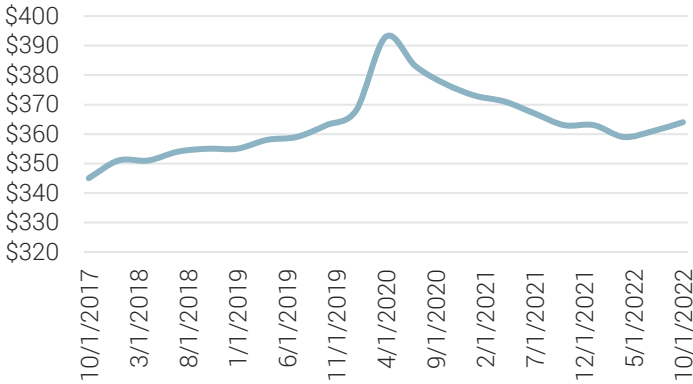


# Recent Bankruptcy Activity

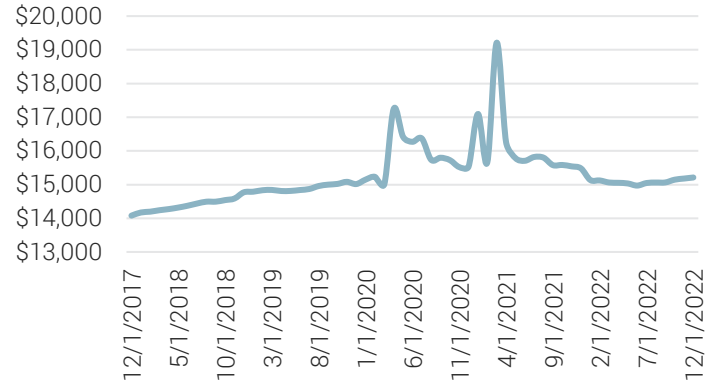
Company	Filing Date	Situation Overview	Status Update / Outcome
 Party City	1/17/2023	Party City, the largest vertically integrated designer, manufacturer, distributor, and retailer of party goods in North America filed for voluntary Chapter 11 bankruptcy protection. The global supply chain crisis stemming from the COVID-19 pandemic was cited as the driving force in the filing	Party City has received a commitment of approximately \$150M in DIP financing in order to support the Company's restructuring process and reduce debt / improve capital structure
<b>FORMA</b>	1/12/2023	Cosmetics and skin care retailer Forma Brands d/b/a Morphe filed for Chapter 11 bankruptcy in January. The company experienced lingering effects of COVID-19 primarily in its brick-and-mortar footprint, and looks to focus on e-commerce and wholesale going forward	Morphe has received a commitment of approximately \$33M in DIP financing from the existing lender base to supply liquidity for business operations through the court-supervised sale process
 sears HOMETOWN STORE	12/12/2022	Home goods retailer offshoot Sears Hometown Stores filed for Chapter 11 bankruptcy due to declining financial performance stemming from lower revenues, inflated costs, and lingering effects of COVID-19	Sears Hometown Stores requested to convert the process from Chapter 11 to a Chapter 7, after a secured creditor (PNC Bank) terminated the Company's ability to use cash collateral that would fund the ongoing reorganization
 OLYMPIA Sports	9/11/2022	Sporting goods retailer Olympia Sports filed for Chapter 11 bankruptcy, citing revenue seasonality of the business, online competition, and lingering effects of COVID-19 as the primary causes for the filing	Olympia Sports liquidated its entire retail footprint and filed a proposed plan of liquidation in order to attempt to maximize returns to creditors
<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 \$375M DIP financing from its existing lender base to give the company the necessary liquidity to navigate through the Chapter 11 filing
 ESCADA 	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 acquiror will be identified at that time
 THE COLLECTED GROUP	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
 PAPER  SOURCE	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</b> SUNGLASSES	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

## Major Economic Trends

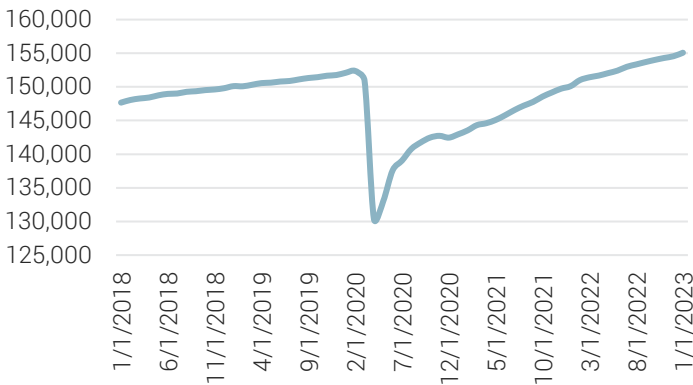
Weekly Real Median Wages (Adj. CPI Dollars)



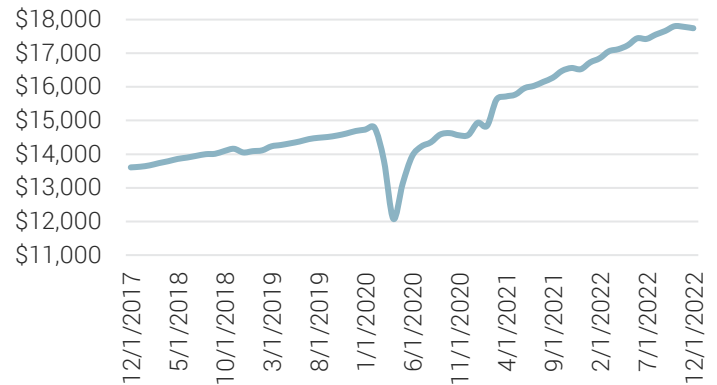
Real Disposable Income (\$B)



United States Jobs Count (000's)



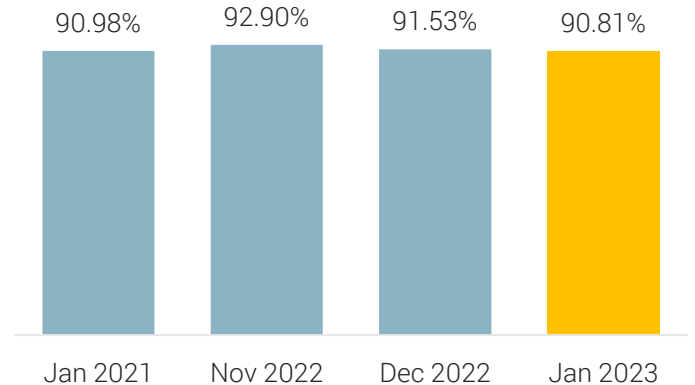
Personal Consumption Expenditures (\$B)



Monthly Retail Sales Trends (\$B)



Rent Collection Trends



### Key Takeaways

- Total U.S. jobs have eclipsed pre-COVID-19 levels with similar recoveries / normalizations in real disposable income and personal consumption metrics. The onset of the pandemic three years ago resulted in a significant shock to the global economy, with a particular impact on the retail sector
- As of April 2020, the unemployment rate was as high as 14.7%. Since then, the unemployment rate has steadily recovered to 3.4% as of January 2023