

CONSUMER & RETAIL

Industry Snapshot | 1H 2024

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



Distressed M&A Deal of the Year (over \$500M)

Advised 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

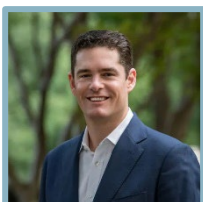
Sell-side Advisory



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



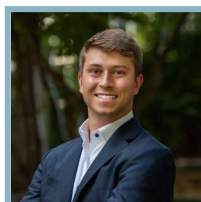
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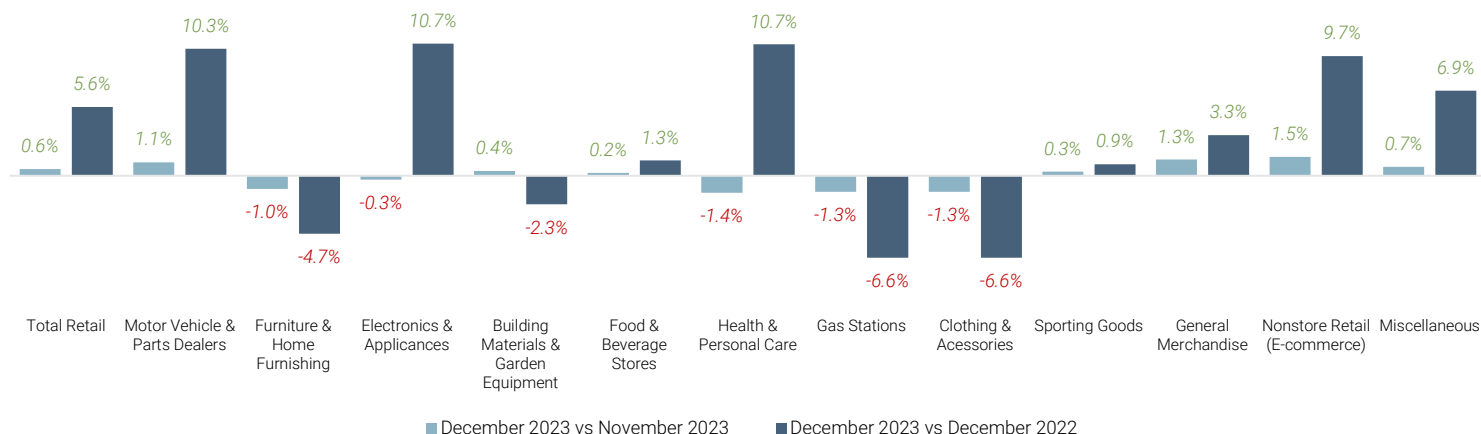
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Monthly Retail Sales Comparison

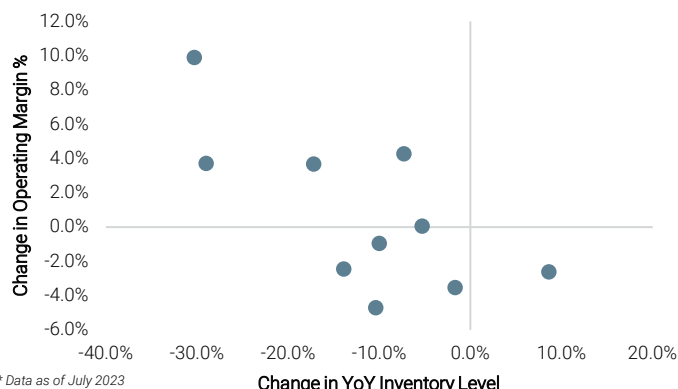


- While inflation largely declined throughout 2023, the price of many goods remain meaningfully higher than pre-COVID-19 levels, leaving consumers with continued caution around spending. Also, while interest rate hikes may have reduced the rate of inflation, higher borrowing costs have created added pressure for companies to shift those increases to consumers
- With the exception of furniture & home furnishings, gas stations, and clothing & accessories, most subsectors of the retail industry exhibited continued firmness in sales year-over-year in December 2023
- Anticipated slowdowns in inflation over the course of 2024 will provide retailers some relief, however continued conservatism in consumer spending trends will dampen the outlook. Expect an extension of 2023 trends in which struggling brands will slide closer to distress while companies with strong liquidity positions will have ample runway to continue operations

The Rise, and Fall, of Inventory at Retailers

- Many major, public retailers made strong efforts to clean up inventories in late 2023, following a surge in stock levels in 2022
- However, not all retailers were able to turn inventory at favorable cost margins and resorted to more-than-desired discounting in order to move product, negatively impacting profitability margins
- With interest rates having increased, the cost of carrying bloated inventory levels has drawn considerable attention in the C-Suite. For the last several months, many businesses have prioritized decreasing inventory-on-hand
- Further inventory rationalization among mid- and small-sized retailers is anticipated moving into 2024, however, they may have less success in doing so profitably as they lack the scale available to larger, public peers
- While the decline in inventory is will be a key trend to watch, it will be critical and still to be determined if middle market consumer/retail businesses are able to accomplish this without sacrificing margin

Change in Inventory Levels vs. Operating Margins for Ten Major Public Retailers



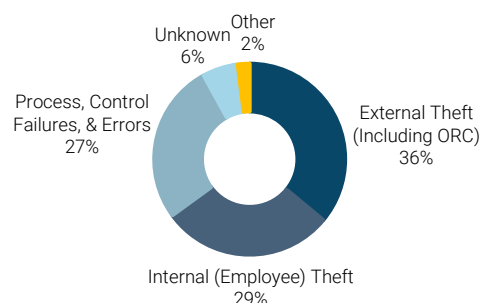
Select Trends Gaining Momentum in 2024

- Continued Increase in Retail Bankruptcy Activity**
 - o 2023 U.S. bankruptcy filings came in at the highest level since 2020, and it's no surprise retailers were in the spotlight due to a variety of macroeconomic pressures
 - o This trend is anticipated to continue into 2024, as consumer discretionary spending remains soft
- Labor Issues Remain at the C-Suite Level**
 - o C-suite level turnover, primarily at the CEO position, continues to affect companies across the retail sector
 - o CEO turnover in 2023 was up to ~17%, growing substantially compared to 2022 (~11%), according to third-party data sourced from an executive search firm
- Theft and Organized Retail Crime ("ORC") Continue to Impact Retailers**
 - o Theft and ORC, while nothing new, have grown steadily in recent years, but yet, addressing it remains a potentially thorny subject for industry participants
 - o In 2022 alone, retailers collectively lost \$112B in total inventory due to various forms of theft
 - o Law enforcement and politicians are under pressure to respond to crime

Theft or Deception?

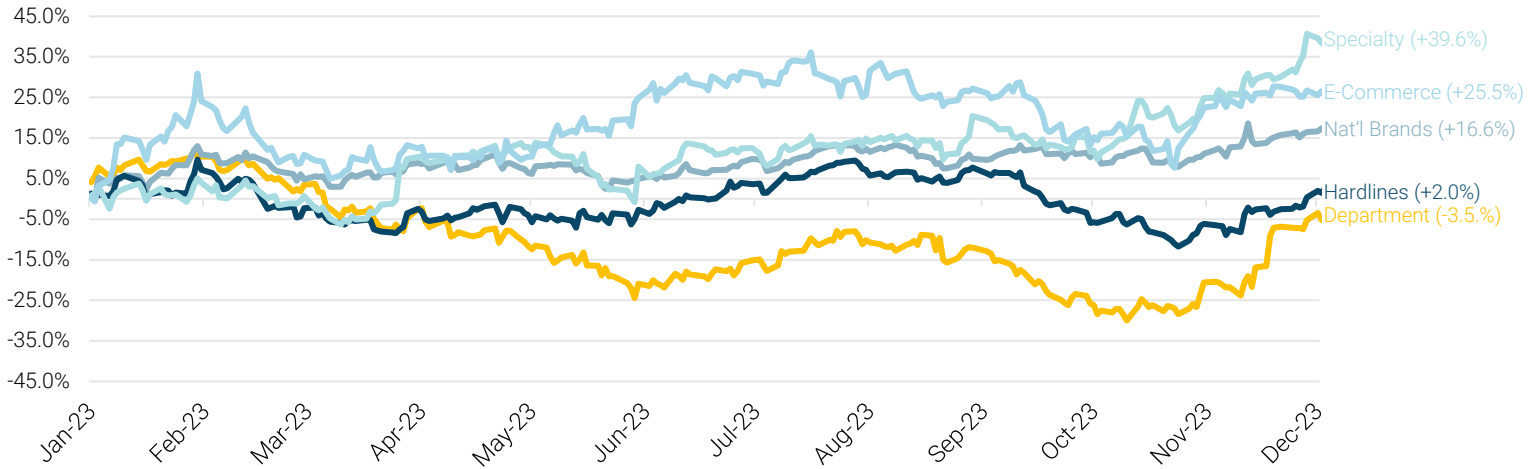
Theft levels have continued to increase YoY, but some seasoned industry veterans are speculative on retailers using this "buzz word" as a cover for more serious, underlying issues with a company, which is a theme to track in 2024

Top Drivers of Retailer Inventory Loss



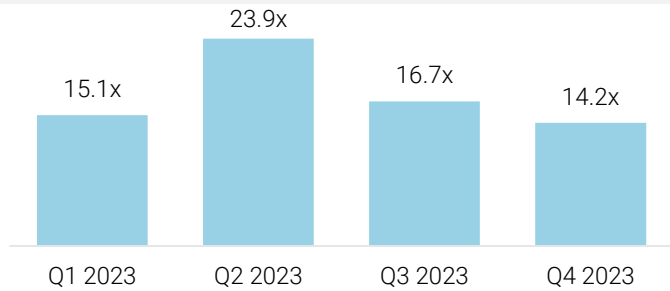
Public Equity Markets: Subsector Performance

Indexed Stock Performance – Last Twelve Months

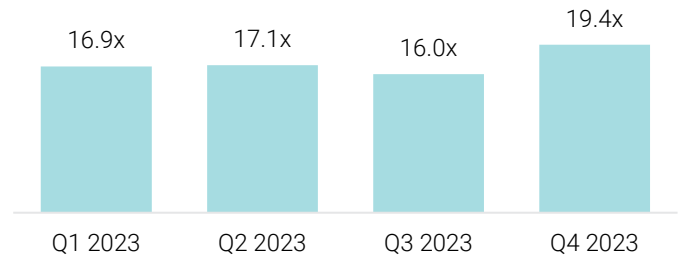


Subsector EV / LTM EBITDA Trends

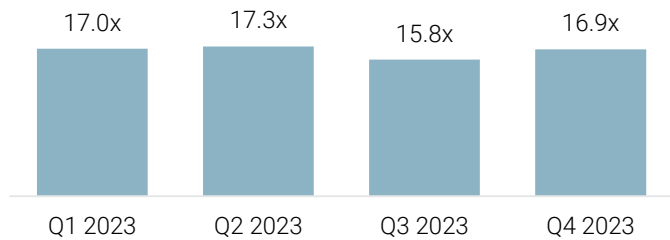
E-Commerce



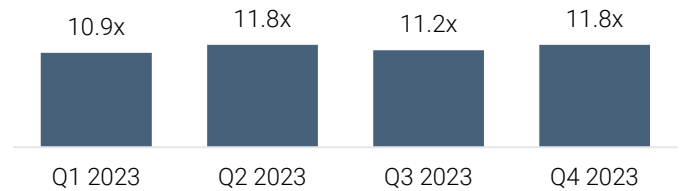
Specialty Retail



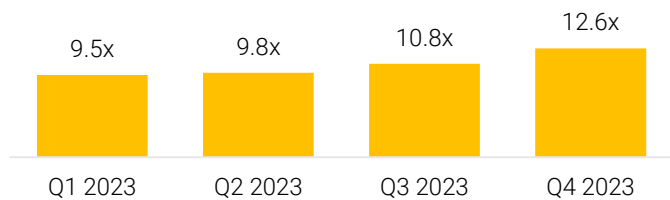
National Brands



Hardlines










Department Stores



Key Takeaways

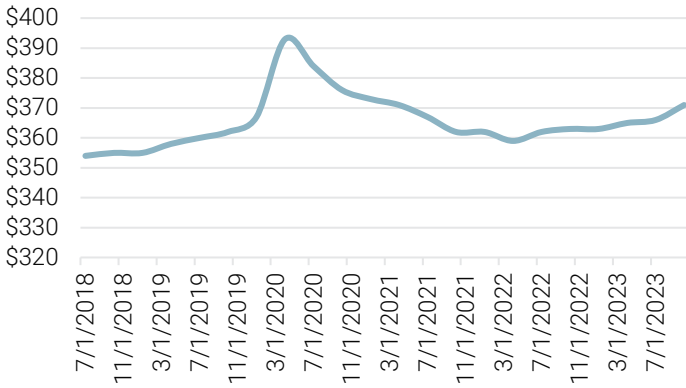
- Despite constant changes in consumer preferences and consistent macro pressure on the consumer, equity valuations have remained steady, and continue to track towards pre-COVID-19 levels
- E-Commerce saw a large uptick in Q2 2023 due to a short increase in consumer spending following a downturn in 2022, but normalized quickly in Q3 / Q4 of 2023

Recent Bankruptcy Activity

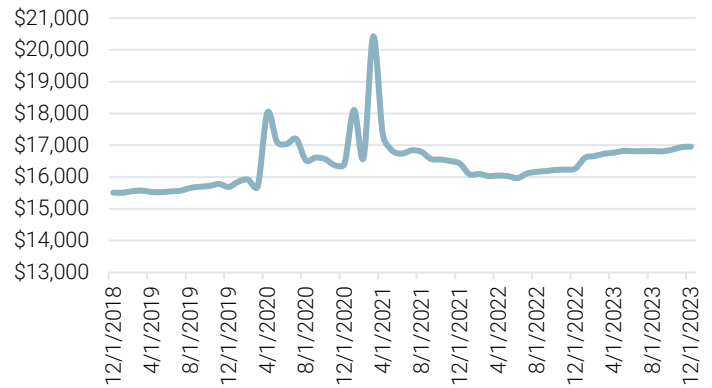
Company	Filing Date	Situation Overview	Status Update / Outcome
	10/23/2023	Unconditional Love Inc. d/b/a Hello Bello is a retailer of baby necessities, where the company sells products made with plant-based ingredients and organic botanicals across the baby, family, and wellness markets. Impacts of COVID-19 and increased third-party manufacturing rates significantly impacted the company's cash flow profile, leading to a Chapter 11 filing	Section 363 auction in process, with a \$65M stalking horse bid from Hildred Capital Management. Incumbent, secured lenders provided a \$47M DIP. Unless a bidder emerges at a value larger than the existing stalking horse, Hildred will take ownership of the Company
	10/16/2023	Bended Page (parent company of Tattered Cover), filed for Chapter 11 as a result of COVID-19 impacts, everchanging market conditions, and shifting consumer preferences. The company is in significant debt with multiple publishers of its books, leading to a credit-hold and inability to purchase inventory on a normal-pay basis (currently on cash-on-delivery terms)	As part of the reorganization, Tattered Cover planned to close three of its seven stores and also implement widespread layoffs as a means to optimize costs. A DIP facility of ~\$1M was also provided
	10/16/2023	DirectBuy Home Improvement, Inc. d/b/a Z Gallerie filed for its second bankruptcy in less than two years, and its third since 2009, in October 2023. Primary drivers of the company's inability to retain / generate cash flow revolve around continued impacts from COVID-19-related supply chain and importation costs, and the recent housing market slump due to Fed rate hikes	Z Gallerie is planning to liquidate all of its assets as a result of the filing, unless a willing buyer comes to the table. The company is currently burdened with \$50 – \$100M debt
	10/15/2023	Rite Aid Corporation ("Rite Aid") filed for Chapter 11 after recent store closings, sale leaseback transactions, and debt exchange / tender offers proved to be unsuccessful in decreasing the company's financial obligations to creditors. At the time of the filing, Rite Aid operated more than 2,100 drug stores across 17 states	Rite Aid and its advisors have extended the sale process of its retail assets for a third time, with bids due 2/6 and the auction occurring on 2/8. Other workstreams continue to be in process as Rite Aid furthers its reorganization
	10/6/2023	Showfields is a developer of a direct-to-consumer retail platform designed to host innovative brands. The company was impacted by lower-than-expected revenues leading up to and following the COVID-19 pandemic as a result from low sales by its hosted vendors and artists	The company secured new financing to support the restructuring of the business, primarily focusing on the existing Washington D.C. and New York stores. Showfields closed two other stores, but plans to continue negotiating a potential expansion into Europe to drive scale
	9/11/2023	Soft Surroundings is a retailer of apparel, accessories, and home furnishings intended to serve women. Primary products include clothing, accessories, shoes, bedding, and beauty & fragrance products. Cited reasons for the Chapter 11 filing include shifts in the competitive landscape, a move towards online / e-commerce channels, COVID-19, and continued raw material price increases	Soft Surroundings is closing all 44 stores as it converts to a fully e-commerce channel retailer, and Coldwater Creek (primary competitor to Soft Surroundings) is purchasing the company's remaining assets. An \$18M DIP facility has been secured from Gordon Brothers to ensure business continuity
	9/6/2023	Mitchell Gold + Bob Williams ("MGBW") operates as a manufacturer and distributor of upholstered furniture intended to provide heirloom-quality modern furnishings. As a result of COVID-19 and continued cash flow degradation, MGBW filed for Chapter 11 in September of this past year	MGBW's assets (including intellectual property, inventory, and manufacturing facilities) were acquired by Surya, a Georgia-based home furnishings firm. This purchase saved the MGBW brand, as the company was slated for a Chapter 7 liquidation until Surya purchased the assets. MGBW will continue operating as a trade-only partner to interior designers and retailers
	8/9/2023	Amyris is an industrial biotechnology company that engineers, manufactures, and sells cosmetics, flavors & fragrances, solvents & cleaners, etc. to a variety of consumer and industrial end markets. The Chapter 11 filing is intended to improve the company's cost structure, capital structure, and liquidity position in the near term, and going forward following emergence from protection	The company was approved for a \$190M DIP facility. A sale process was run for its lab-to-market assets but received no qualifying bids. As a result, an amended plan of reorganization has been filed, primarily discussing the equityization of the company's senior secured debt and DIP claims, or a sale of the company's assets
	6/16/2023	Lunya is a retailer of men's and women's sleepwear. Unlike many other retailers, Lunya found itself flourishing during COVID-19 as a result of increased consumer demand for its product type, but those trends have since reversed entirely. Excess inventory, lack of technological advancements, and other impacts resulted in Lunya losing its market share, and then leading to a Chapter 11 filing	Lunya has since closed several retail stores, thus saving ~\$135K / month in lease costs. The company continues to operate under Chapter 11 protections with a plan to exit shortly
	6/14/2023	After filing for bankruptcy initially in 2018, Rockport, a manufacturer of rubber-soled casual shoes, never fully recovered following their previous bankruptcy proceedings. Coupled with the lingering effects of COVID-19 and inflationary pressures, Rockport found themselves with significant excess inventory. Rockport defaulted on multiple borrowings, forcing the company into Chapter 11	The sale of Rockport has been approved by the bankruptcy court overseeing the Chapter 11 proceedings to Authentic Brands, in a deal valued at ~\$53M. The purchase price includes ~\$40.4M for the company's intellectual property, \$5M for Rockport's Korean subsidiary, and an undisclosed cash amount for Rockport's inventory
	5/5/2023	Christmas Tree Shops ("CTS") operated a chain of brick-and-mortar home goods retail stores that specialize in year-round seasonal goods at value pricing. Because of COVID-19 and rising interest rates, store traffic for CTS decreased by approximately 35% since May 2022. The decrease in store traffic led to a diminished EBITDA and liquidity profile, which led the company to file Chapter 11	CTS closed all retail locations in August 2023 and subsequently liquidated remaining assets of the company

Major Economic Trends

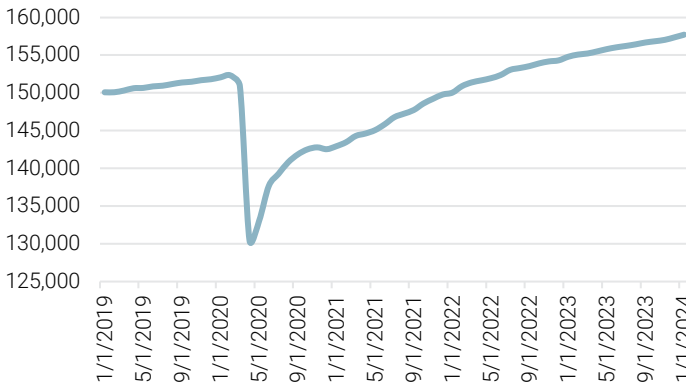
Weekly Real Median Wages (Adj. CPI Dollars)



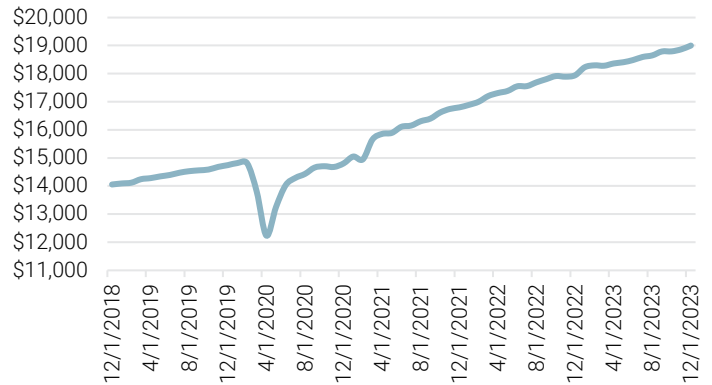
Real Disposable Income (\$B)



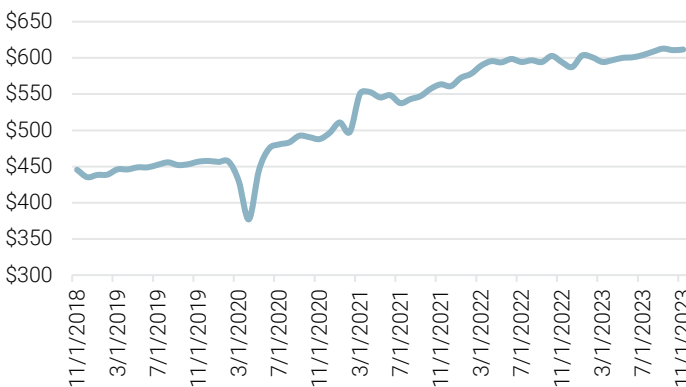
United States Jobs Count (000's)



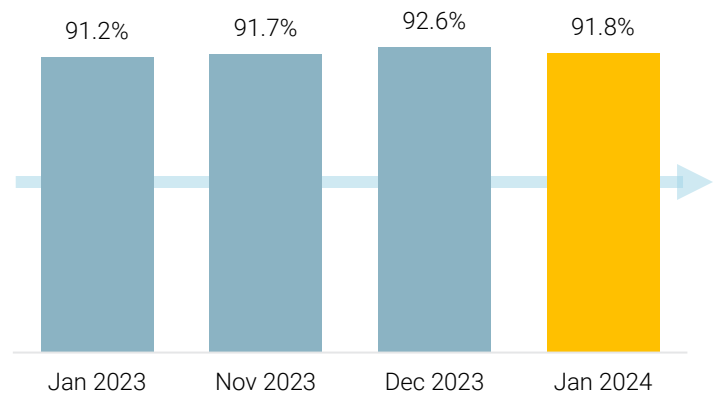
Personal Consumption Expenditures (\$B)



Monthly Retail Sales Trends (\$B)



Rent Collection Trends



Key Takeaways

- Trends across the various macroeconomic indicators continue to display positive recovery momentum following the COVID-19 pandemic, with some indicators even surpassing pre-COVID levels and reaching new all-time highs
- As of April 2020, the unemployment rate was as high as ~14.7%. Since then, the unemployment rate has steadily recovered to ~3.7% as of January 2024