

CONSUMER & RETAIL

2H 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

FORMA



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 Recapitalization

Project Puma

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

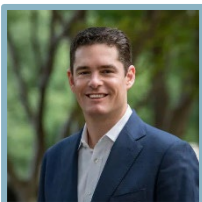
Recapitalization

MEC

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

Acquisition Financing

Industry Coverage Contacts



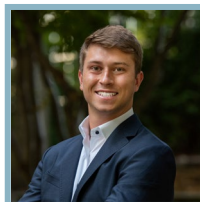
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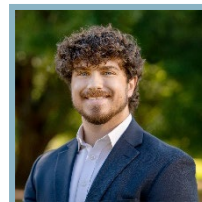
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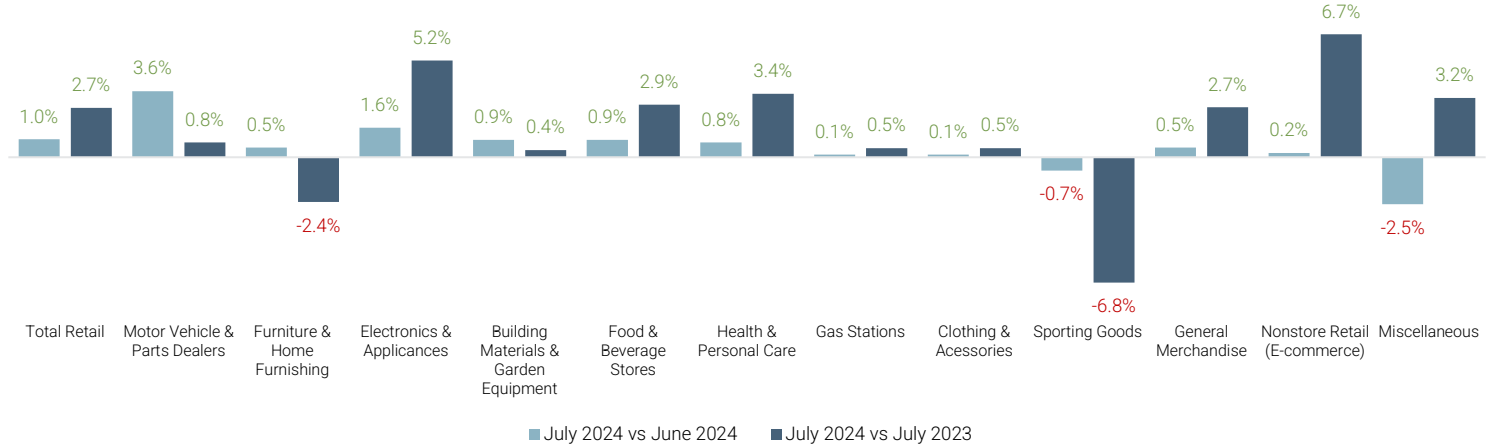
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Monthly Retail Sales Comparison



- Heading into the second half of 2024, interest rates remain elevated, reducing overall consumer spending as many individuals exhibit cost conscious behaviors. Further, uncertainty in the economy stemming from the upcoming Presidential election has both companies and consumers alike opting for a "wait-and-see" approach to the back half of the year
- Although consumer behaviors remain choppy, the retail industry saw multiple segments gain momentum, including e-commerce, electronics & appliances, as well as health and personal care. Both the furniture / home furnishings and sporting goods segments exhibited continued declines, continuing the slow-down in spend within these segments following COVID-19
- With the Presidential election quickly approaching, it's unlikely consumer trends will shift substantially until the economy has exhibited stability following election results and any ensuing policy impacts

Generational Approaches to Consumer Spending

Social Media Sends Retailers Scrambling for Reach to Users...

- The latest trend from the ever-expanding consumer influence of social media is social commerce, and its importance has become paramount to retailers maintaining or increasing their relevancy
- Social media platforms such as TikTok, Facebook, Instagram, and others have incorporated a "shop" feature to their user interfaces, allowing frictionless shopping experiences for consumers. The impact is already on display, with 55% of Gen Z having purchased items via the platforms in the last six months (that number is 38% for consumers of all ages)
- However, it's not just consumers that benefit from the technology. Retailers can leverage the platforms to reach an unprecedented number of consumers instantly. Throughout 2024, it's anticipated that five billion people will use social media, presenting significant opportunities for retailers to drive social commerce



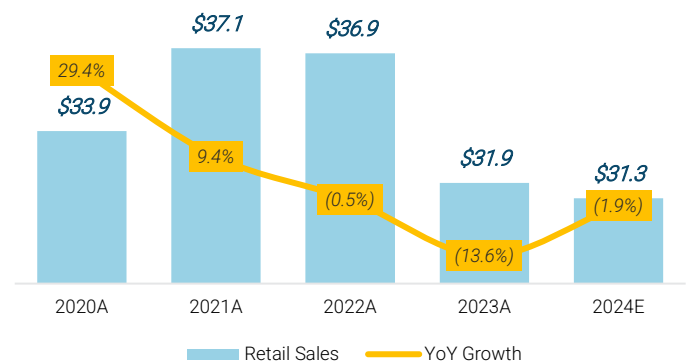
...But Retailers Can Still Leverage the In-Store Sales Experience

- Even with the expansion of social media and AI-powered shopping experiences, consumers still find value in brick-and-mortar purchases, especially for high-value items that require recommendations that cannot be provided by online customer support
- Consumers still desire the visual and sensory cues from a brick-and-mortar location, but numerous retailers have begun to incorporate key in-store experiences into virtual platforms, which proffers the question of how important the actual in-store experience is, and to what lengths are retailers willing to go to retain channel diversity

2024 Back-to-School Season Recap

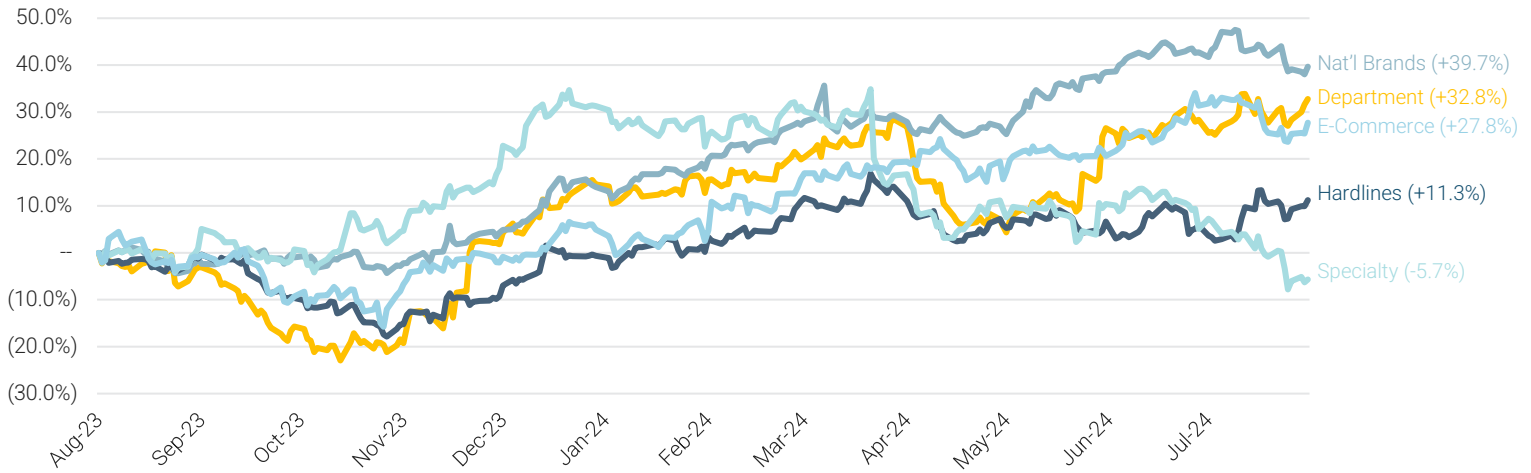
- The 2024 back-to-school season took place within yet another period of economic uncertainty, with interest rates remaining at heightened levels exhibited over the course of 2022, 2023, and throughout 2024
- This uncertainty has instilled a "value-first" mentality within parents when it comes to back-to-school shopping, thus lowering the anticipated back-to-school spend for the 2024 season to ~\$31B
- Retailers are seeing two distinct trends this year compared to prior years:
 - Value over brand loyalty: retailers are struggling to retain customers on a year-over-year basis without enticing them with discounts and promotions
 - Spurging despite value orientation: although value remains top-of-mind within consumers, 85% of parents mentioned that they would still overspend to enhance their child's self esteem heading into the first day of school

Historical Back-to-School Retail Sales (\$B)



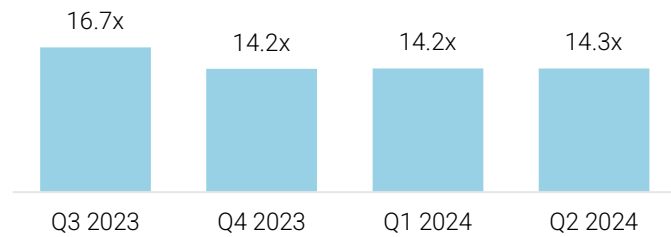
Public Equity Markets: Subsector Performance

Indexed Stock Performance – Last Twelve Months

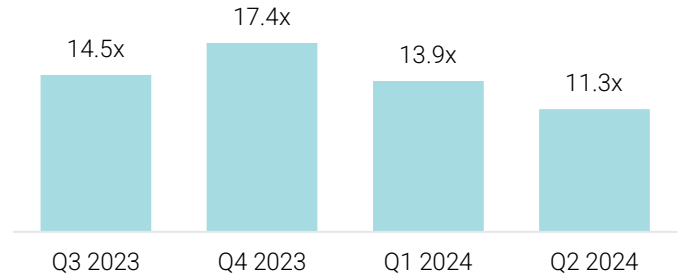


Subsector EV / LTM EBITDA Trends

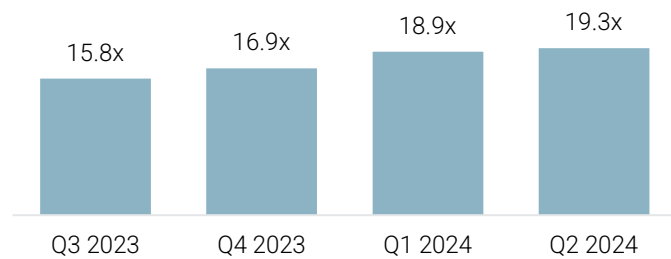
E-Commerce



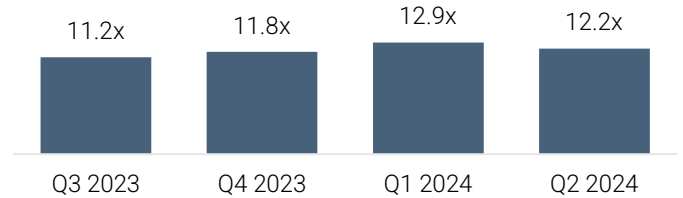
Specialty Retail



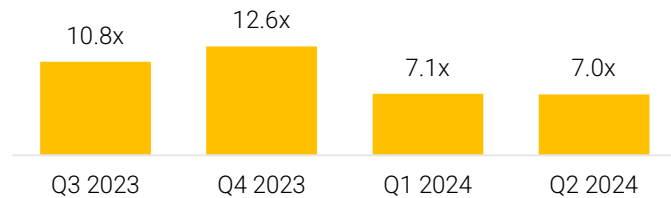
National Brands



Hardlines



Department Stores



Key Takeaways

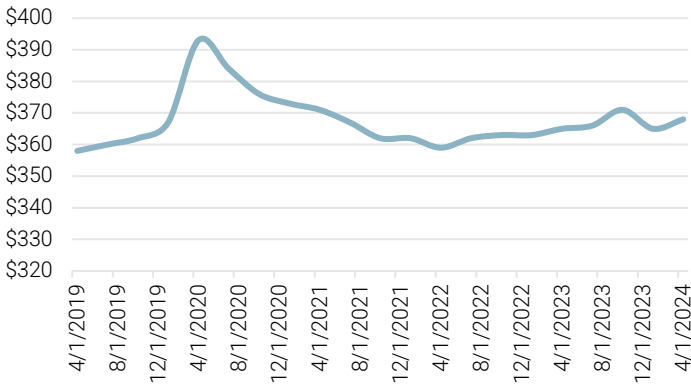
- Consumer behaviors continue to be in flux, but national retailers have successfully retained long-term customers as exhibited by the growth across the segment year-over-year
- E-Commerce valuations have stabilized following the elevated COVID-19 period, but remain attractive going forward

Recent Bankruptcy Activity

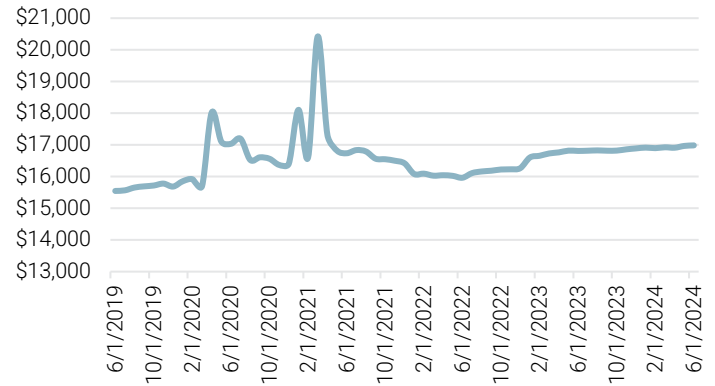
Company	Filing Date	Situation Overview	Status Update / Outcome
	7/23/2024	Conn's Inc. filed for Chapter 11 in late July and has already started going-out-of-business sales at 105 stores between its two banners, Conn's HomePlus and Badcock Home Furniture. Increasing interest rates have more than tripled Conn's interest expense since the start of 2022, and with no visibility of turnaround, management decided bankruptcy and winding down operations was the optimal decision	Conn's Inc. is seeking court approval to complete going-out-of-business sales by October 31, 2024, as well as permission to reject store leases. Over 100 locations have already begun winding down operations, with plans to shutter all 550+ locations
	6/30/2024	Delta Apparel and its domestic subsidiary brands filed voluntary petitions under Chapter 11 in late June. Days later, its stock was delisted from the NYSE as its shares were trading at \$0.39, down from highs in the \$30s. Their retail customers have reduced inventory spend and Delta has felt the impact of that decision, struggling to maintain liquidity as business volume declines	Prior to filing, Delta Apparel entered into an asset purchase agreement with FCM Saltwater Holdings, Inc. to acquire the Salt Life brand for a total of ~\$28M in cash. Upon approval, this is expected to be the stalking horse bidder in this process under section 363
	6/28/2024	Basic Fun is a toy company with multiple notable brands such as K'nex and Lincoln Logs, and they sell to retailers such as Walmart, Target, and Amazon. Toys R Us was formerly the largest customer, and Basic Fun has struggled to recoup much of the lost sales volume since. In late June, the company defaulted on various credit agreements, with additional maturities in July	Basic Fun is seeking court approval of \$50M DIP financing from Great Rock Capital, as well as additional financing from Royal Bank of Canada
	5/1/2024	Apparel retailer Rue21 filed for its third bankruptcy dating back to 2002 (d/b/a Pennsylvania Fashions at the time). They had most recently filed seven years ago and closed more than 400 stores; this time the company plans to close all 540+ remaining locations. Management cited continued growth of online shopping as well as macroeconomic headwinds as primary drivers of the decision	Rue21 is pursuing a sale of assets via a stalking horse purchase agreement separate from its store closing process. YM Inc. has agreed to purchase Rue21's IP for \$4M
	4/22/2024	Business casual clothing retailer Express Inc. filed for Chapter 11 in April, with plans to close 95 Express locations and all its UpWest locations. Express reported an operating loss in Q3 2023 of nearly \$29M, along with a net loss of nearly \$37M in November alone. The company plans to sell itself to a WHP Global-led consortium in a court-supervised sale process	Express Inc. and Bonobos brands were bought for \$174M in a stalking horse bid by Phoenix Retail, a new joint venture comprised by multiple mall owners such as Simon Property Group, Brookfield Properties, and Centennial, along with WHP Global
	4/7/2024	Number Holdings' portfolio company 99 Cents Only announced that it planned to liquidate before they filed for Chapter 11. Hilco Global was hired to handle the merchandise liquidation and Hilco Real Estate was hired to liquidate the owned and leased real estate. Management cited COVID-19, rising inflationary pressures, and shifting customer demand as primary reasons for the decision	99 Cents Only liquidated all merchandise and real estate after pursuing other options but ultimately not finding another way to maximize asset value. Dollar Tree was one competitor among others to purchase assets from 99 Cents Only
	3/18/2024	Joann filed for Chapter 11 in March with ~\$1.14B of debt outstanding. They entered with a plan that would reduce their debt by ~\$505M and take the company private. The arts and crafts retail supplier has recently lost market share due to lower-priced competitors winning consumers over on value	Joann completed their proposed plan, canceling nearly half of its debt and becoming a private company owned by its creditors. The company was able to keep all 800+ stores open and maintained over 18,000 employees throughout the bankruptcy process
	1/22/2024	Careismatic Brands is a medical apparel supplier that sells to over 2,000 wholesale customers. Between new direct-to-consumer competition and supply chain issues, Careismatic experienced significant financial struggles, including a ~20% decrease in annual revenue. This presented liquidity problems, and with \$833M debt outstanding, led the company to filing for bankruptcy	Careismatic completed a successful financial restructuring process that eliminated all its third-party debt and turned control over to its former top tier of lenders, with a separate group of lenders receiving warrants to purchase up to 8.5% of the reorganized stock
	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	Hildred Capital Management bought Hello Bello out of bankruptcy, closing on the transaction in December of 2023. Hello Bello was transitioned into Hildred's portfolio under the stewardship of Hyland's Naturals, another portfolio company of Hildred's
	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. In April 2024, Bended Page asked for a delay until mid-2024 for the reorganization hearing
	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 liquidated all of its assets as a result of the filing after no willing buyer came to the table

Major Economic Trends

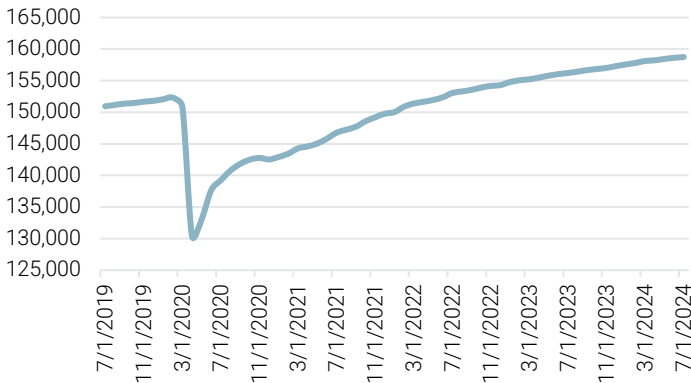
Weekly Real Median Wages (Adj. CPI Dollars)



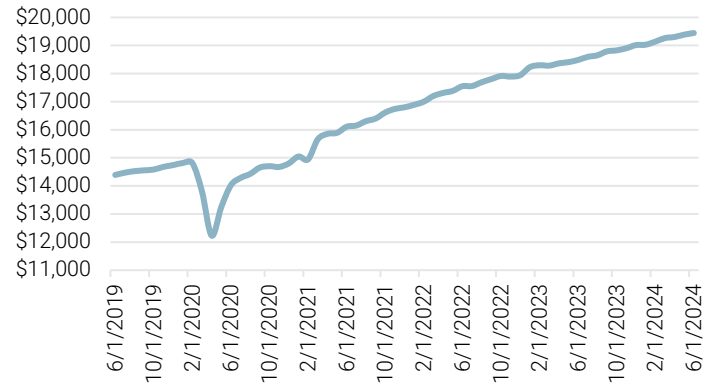
Real Disposable Income (\$B)



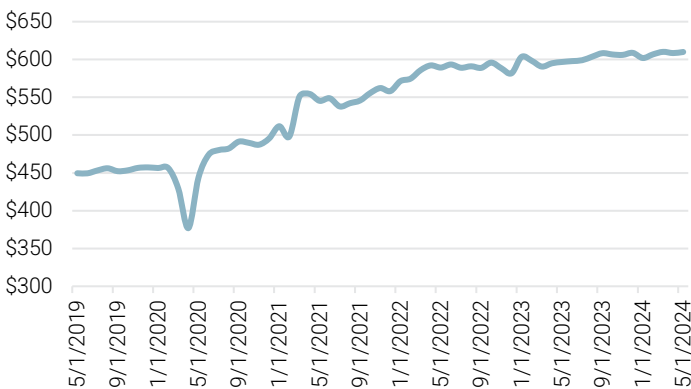
United States Jobs Count (000's)



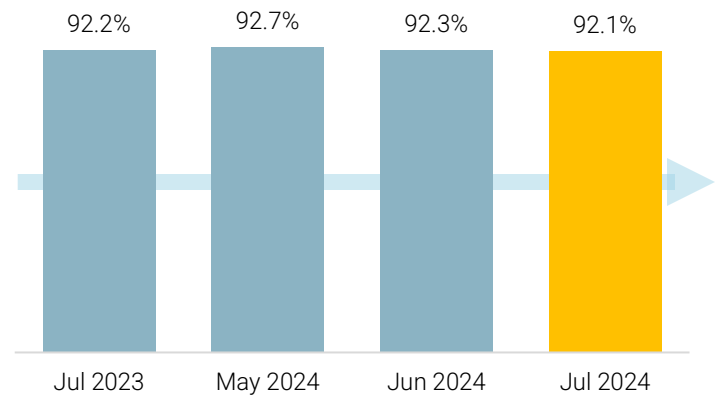
Personal Consumption Expenditures (\$B)



Monthly Retail Sales Trends (\$B)



Rent Collection Trends



Key Takeaways

- Trends across macroeconomic indicators have exhibited positive momentum since the COVID-19 period, but the recent stabilization of real disposable income has resulted in monthly retail sales leveling off, likely tying back to the “value-first” and “wait-and-see” mentalities of consumers discussed previously
- With interest rates being held steady by the Fed for over a year now, inflation has continued to decline from a high ~9.1% level in June 2022, to ~2.9% in July 2024