

# Industry Update – Retail

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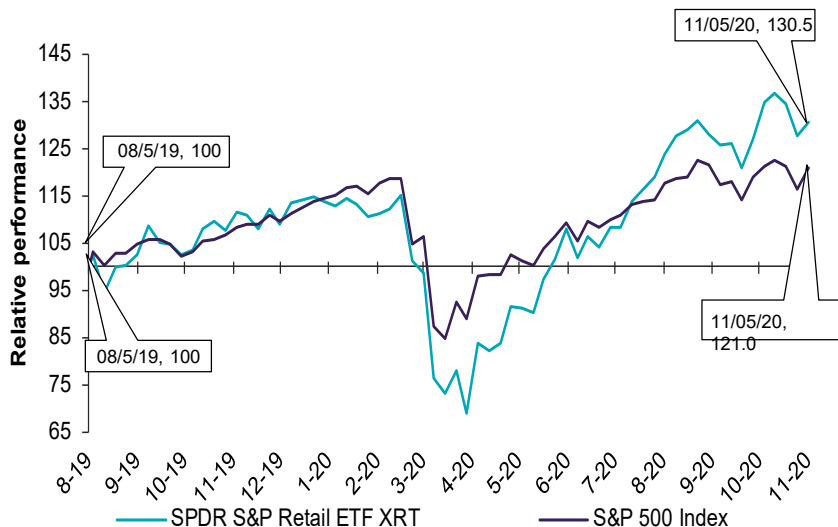
Third Quarter 2020



# Overview

## Retail Industry Insights

### Retail Rebounds in Q320 to outperform S&P 500



#### Key Takeaways:

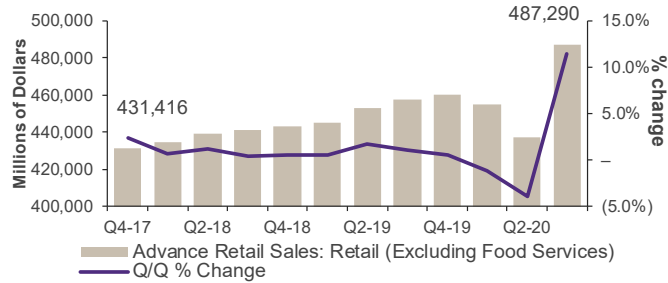
- March 2020 will be remembered as the month the news of the spread of COVID-19 initiated a sudden, dramatic drop in the U.S. economy. Uncertainty about the method of transmission of the virus, and its woeful sickness and death rate, shocked many in the nation to stay at home, triggering an economic crisis.
- Given the dependence of the retail industry on in-person consumer behavior, the outside effect of the downturn in that sector is not surprising.
- However, spurred by a month of savings and increased cash from the CARES Act stimulus, the retail sector started out performing the overall U.S. economy starting in late August. As graphs on subsequent pages show, a boom in online sales led this recovery.

Sources: Capital IQ

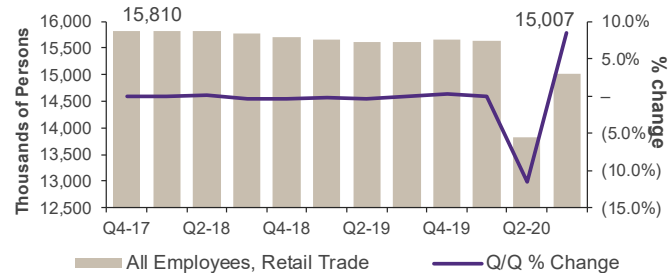
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## Retail Industry Insights

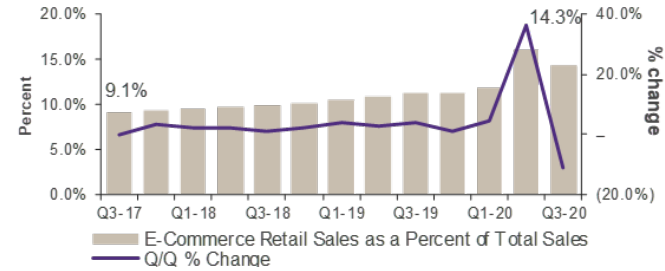
### Retail Sales



### Retail Industry Employment



### Ecommerce Sales as a % of Total Retail Sales



#### Key Takeaways:

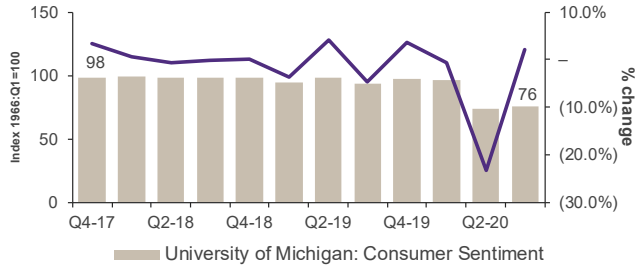
- Retail sales were in a steady but slowing state of increase before COVID-19 precipitated an end-of-quarter dip in Q1-20 and a plummet in Q2-20, when sales plunged to the lowest level since the end of 2017. The Q3-20 retail sales rebound was as sudden as the Q2 loss.
- COVID-19 led to a slash in retail unemployment, with more than 1.5 million jobs lost. Employment gains in Q3 were less dramatic, though still encouraging.
- The Q2 sales dip was disproportionately felt in the traditional brick and mortar space, as online sales as a percentage of total sales spiked to 14.3%, followed by a slight regression in Q3.

Sources: U.S. Bureau of the Census; U.S. Bureau of Labor Statistics

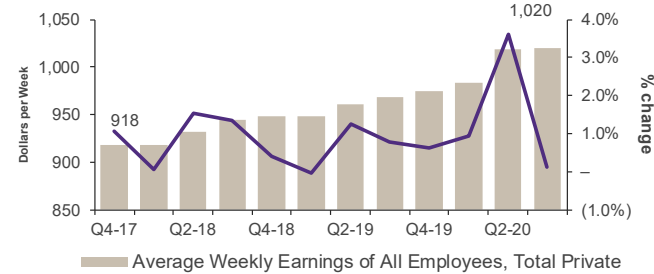
# Market Insights

## Macroeconomic Environment

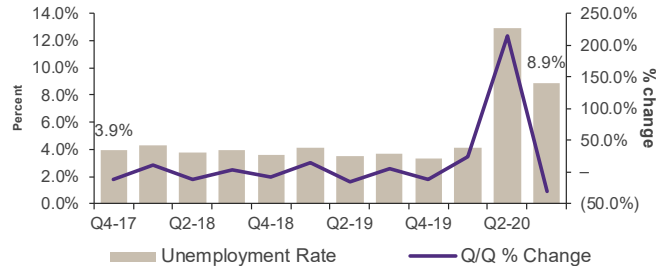
### Consumer Sentiment Index



### Average Weekly Earnings



### Unemployment Rate



#### Key Takeaways:

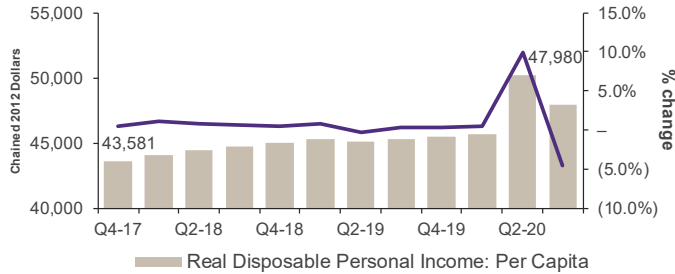
- Consumer sentiment Index figures took a predictable hit in the crisis of Q2-20. However, more worrying may be the similarly depressed CSI in Q3, meaning that the expectations of a quick recovery are not yet present.
- The good news of the long period of low unemployment came to a crashing end in Q2-20, when record-setting levels of layoffs and unemployment claims were among the most painful effects of COVID-19. The economic gains of Q3-20 did not translate as quickly to unemployment reductions, as the rate fell to just below 9%, still more than double pre-downturn levels.
- While average weekly earning jumped in the second quarter of 2020, this is likely the reflection of low-wage job layoffs skewing the totals for those still employed. More indicative of the economic downturn is in Q3, where the flat numbers likely tell a story of frozen salaries and wage cuts.

Sources: University of Michigan; U.S. Bureau of Labor Statistics

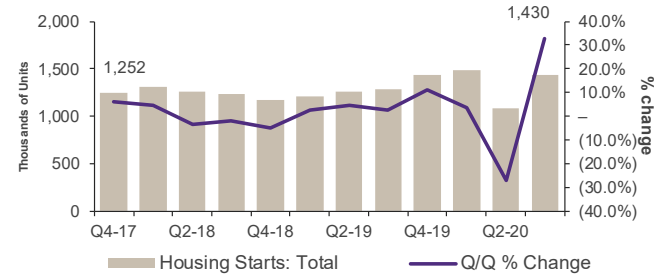
# Market Insights

## Macroeconomic Environment

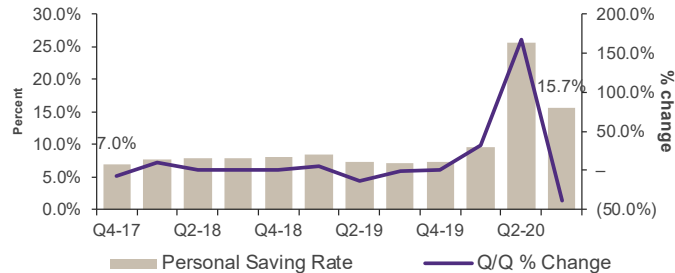
### Disposable Personal Income: Per Capita



### Housing Starts



### Personal Savings



#### Key Takeaways:

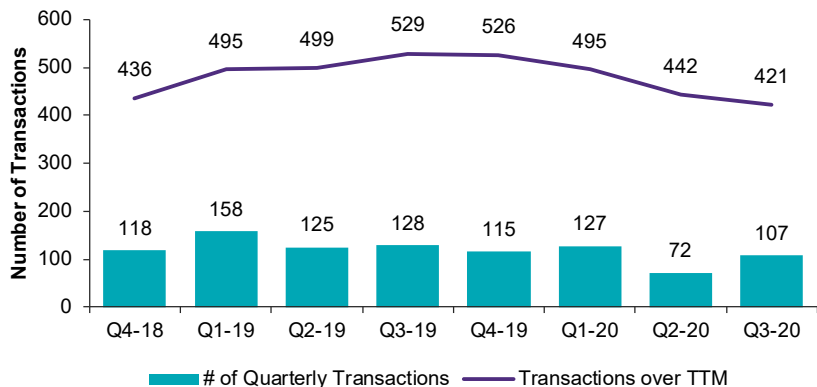
- The sharp rise in Q2-20 DPI seems deceptively positive, but the obvious source of this increase lies in the direct payments to households that were a major part of the CARES Act stimulus legislation passed in March.
- Not surprisingly, the second quarter economic jolt led to a massive increase in personal savings, rising 160% in that three-month period. The drop in Q3-20 may represent a new normal, as overall personal savings still rose well above pre-COVID-19 levels.
- Housing starts had been rising for five consecutive quarters before the shock of COVID-19 caused them to take a significant hit, dropping by almost 30% in Q2-20. Nonetheless, Q3-20 showed a quick return to normal, an indicator that the lingering economic stresses on other economic sectors may not be present for real estate market.

Sources: U.S. Bureau of Economic Analysis; U.S. Department of Housing and Urban Development, U.S. Bureau of the Census

# M&A Activity

## Deal Activity Trends

### Retail M&A transactions in U.S.



#### Key Takeaways:

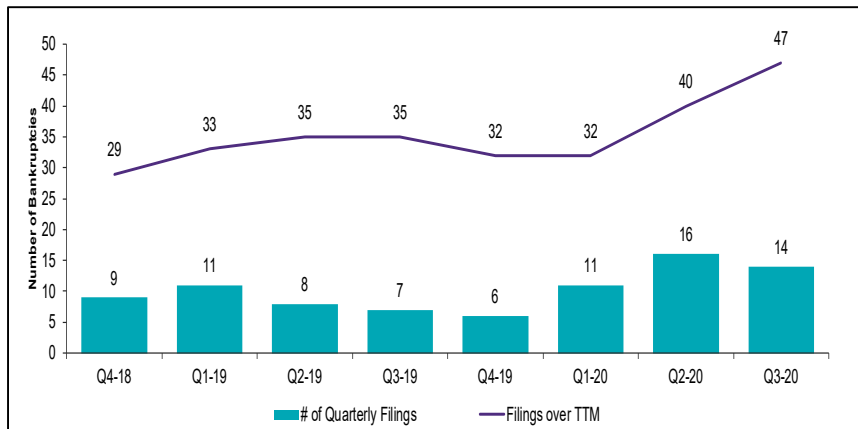
- Retail M&A deal volume dropped off to 72 transactions in Q2-20 vs 125 in Q2-19 during the height of the COVID-19 pandemic. Q3-20 deal volume increased to 107 transactions but was still down from prior year of 128 transactions.
- Overall M&A in Q4-20 appears to be very active so far as Private Equity and Corporate buyers look to make acquisitions prior to the end of the year. This appears to be for several reasons including a catch up on deals that were delayed from earlier in 2020 and optimism following good news on vaccines.
- Buyers and sellers have adapted well to the new virtual environment with due diligence being performed remotely and minimal in-person meetings.

Source: Capital IQ (reflects only transactions reported on S&P's Capital IQ)

# Bankruptcy Activity

## Filings and trends

### Retail Bankruptcies in U.S.



### Last 20 Bankruptcy Filings – Q3 2020

Filing Date	Company Name	Filing Date	Company Name
16-Sep-20	Morse Operations, Inc.	13-Jul-20	RTW Retailwinds, Inc.
10-Sep-20	Century 21 Department Stores LLC	10-Jul-20	Muji U.S.A. Limited
26-Aug-20	Interstate Commodities, Inc.	8-Jul-20	Brooks Brothers Group, Inc.
12-Aug-20	Stein Mart, Inc.	8-Jul-20	Sur La Table, Inc.
2-Aug-20	Tailored Brands, Inc.	29-Jun-20	K&L Trailer Sales & Leasing Inc.
2-Aug-20	Le Tote, Inc.	28-Jun-20	Old Time Pottery, Inc.
24-Jul-20	Comfort Auto Group NY LLC	26-Jun-20	BHS Foodservice Solutions
23-Jul-20	Ascena Retail Group, Inc.	23-Jun-20	GNC Holdings, Inc.
22-Jul-20	Occasion Brands, LLC	8-Jun-20	MKJC Auto Group, LLC
14-Jul-20	The Paper Store, Inc.	2-Jun-20	Liftopia, Inc.

#### Key Takeaways:

- Retail bankruptcies rose in Q1-20, rose again in Q2-20 and fell slightly in Q3, leading to a trailing 12 month figure in Q3 that better captured the sustained impact of COVID-19.

**Source:** Capital IQ

**Notes:** Data set reflects only transactions reported on S&P's Capital IQ for companies in the industry that filed for bankruptcy in the United States.

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