



**RETAIL IN THE RED:**

# **BDO BI-ANNUAL BANKRUPTCY UPDATE**

AN OVERVIEW OF U.S. RETAIL BANKRUPTCIES AND  
STORE CLOSURES IN THE FIRST HALF OF 2019

**|BDO**

The pace of retail bankruptcies in 2019 to date is accelerated compared to what we observed in late 2018. The 2018 holiday season failed to meet expectations, with December retail sales dropping 1.6% from the month prior—the weakest sales performance since December 2009. Last year's lackluster holiday season contributed to 10 retailers filing for bankruptcy in 2019's first quarter alone, including Payless, Gymboree and Charlotte Russe. The bankruptcies of just these three retailers led to the closure of roughly 3,700 stores. Several retailers also filed in July and August, including Charming Charlie, Barney's, A'gaci and Avenue Stores.

## BANKRUPTCY UPDATE

Retailers That Filed for Bankruptcy in the First Six Months of 2019

Company	Filing Data	Debt (\$M)	Type	Result	Stores as of Petition Date
Beauty Brands	Jan-19	\$ 13	Beauty	Asset Sale, converted to Chapter 7	58
Innovative Mattress Solutions	Jan-19	4	Furniture	Asset Sale	142
Shopko	Jan-19	403	General Merchandise	Liquidation	367
Gymboree	Jan-19	212	Children's Clothing	Liquidation	945
Charlotte Russe	Feb-19	129	Women's Fashion	Liquidation	512
Fullbeauty Brands	Feb-19	1,271	Plus-Size Apparel	Reorganizatin (D/E swap)	N/A
Things Remembered	Feb-19	144	Apparel and Accessory	Asset Sale	419
Payless ShoeSource	Feb-19	470	Footwear	Liquidation	2,500
Diesel USA	Mar-19	10	Casual Wear	Reorganization, with Store Closings	28
Z Gallerie	Mar-19	138	Home Décor	Asset Sale	76
Art Fashions (Roberto Cavalli)	Apr-19	6	Designer Clothing	Chapter 7 Liquidation	13
Kona Grill	Apr-19	33	Casual Dining	Asset Sale	27
Hollander Sleep Products	May-19	228	Furniture	Reorganizatin (D/E swap)	N/A
FTD Companies	Jun-19	150	Floral	Asset Sale	N/A

Table sourced from SEC Filings, Bankruptcy Court Filings, and Company Press Releases

Beyond the 2018 holiday season, other factors including tax reform's after-effects, trade tariffs, January's historic government shutdown and inclement weather challenged some brick-and-mortar retailers in the first half of 2019.

Specifically, the average taxpayer saw a 2.7% decrease in their tax refund in 2019. With smaller tax refund checks, many consumers did not have as much money available to spend during the spring, leading some retailers to offer deep discounts to move merchandise.

At the same time, the U.S. tariffs on goods from China have forced some retailers to hike prices to maintain profit margins, which had an impact on retail sales. The National

Bureau of Economic Research estimates that higher tariffs will impose an annual cost of \$831 a year on the typical U.S. household. Reduced household income will likely lead to lower retail spending.

One notable trend that signals the strain on retailers in the first half of the year is that U.S. companies have announced over 42,000 job cuts, with most of these job losses in the retail sector. The 2019 job cuts are already 20% higher than all bankruptcy-related job losses in 2018 and larger than the annual totals in any year since 2009, according to a report by outplacement firm Challenger, Gray & Christmas.

In the first half of the year, most retail bankruptcy filings resulted in an asset sale and/or liquidation. For example, Shopko filed contemplating either a reorganization supported by a plan sponsor or the sale of its assets to a third party. The company ended up winding down since it was unable to find either a plan sponsor or a going concern buyer. Gymboree sold its Gymboree and Crazy 8 assets to The Children Place's, and Gap acquired its Janie and Jack brand. Payless shuttered its North America brick-and-mortar operations to reorganize around its Latin America and franchise businesses.

## STORE CLOSURE UPDATE

Retailers That Announced Closing 25 or More Stores in the First Half of 2019

Company	Type of Retailer	Store Closures Announced
Payless ShoeSource <sup>*1</sup>	Footwear	2,354
Gymboree <sup>*1</sup>	Children's Clothing	749
Dressbarn <sup>2</sup>	Women's Apparel	661
Charlotte Russe <sup>*1</sup>	Women's Apparel	522
Family Dollar	Discounter	390
Shopko <sup>*1</sup>	General Merchandise	363
Charming Charlie <sup>*1</sup>	Women's Apparel	261
Things Remembered <sup>*</sup>	Personalized Products	250
GNC	Health Nutrition	233
Gap	Apparel	230
Walgreens	Pharmacy	195
LifeWay <sup>1</sup>	Christian Products	170
H&M	Apparel	160
Signet Jewelers	Jewelry	150
Fred's	Discounter	129
Rent-a-Center	Rent to Own	125
Ascena Retail Group	Women's Apparel	120
Samuels Jewelers <sup>*1</sup>	Jewelry	120
Newell Brands	General Merchandise	100
	<b>Total</b>	<b>7,282</b>

Information sourced from SEC Filings, Bankruptcy Court Filings, and Company Press Releases

\* Filed for Bankruptcy

<sup>1</sup> Full chain liquidation

<sup>2</sup> Announced closing of all stores

Retailers of all scale and size have closed a combined 7,000 stores so far this year, already exceeding all prior full years. For 2018 overall, total store closures were just under 6,000, while Coresight Research predicts over 12,000 stores will be closed this year. These closures result from a combination of retailers going out of business and others reducing their physical footprint.

The retailers with the most store closings were apparel specialty stores, which accounted for about 36% of total store closures in the first half of 2019, up from 14% in 2018 overall, according to Coresight Research. Footwear retailers accounted for about 28% of closures, compared to 8% last year, and general merchandise stores comprised approximately 14% of closures, an increase from 2% in all of 2018.

Most of the store closure announcements were a result of bankruptcy filings, including Payless, Gymboree, Charlotte Russe, Shopko, Charming Charlie, Things Remembered and Samuels Jewelers. These retailers and others continue to grapple with excessive debt, over-expansion, private equity pressures and the fast clip of industry innovation.

In response to these pressures, many retailers are dropping the traditional flagship store and instead opting for smaller size store models situated in prime urban areas. Flagship stores no longer generate the volume of sales needed to justify the cost. Through their closures, retailers hope to offer an omnichannel brand experience while reducing the effect of onerous leases. Spearheading this trend are Lord & Taylor, Abercrombie, GAP, Diesel, Calvin Klein, and Ralph Lauren.

## BDO'S TAKE: OUTLOOK FOR THE SECOND HALF OF 2019 AND BEYOND

Despite the large number of bankruptcy filings and store closures, overall retail sales remained solid through the first half of 2019 and continue to show positive signs, thanks to a strong economy, record low unemployment (currently 3.7%), and rising wages. While positive economic factors lead us to believe that the risk of a significant downturn in the retail sector is slim for the remainder of 2019, retailers should remain cautious heading into 2020.

Ongoing trade disputes with China may continue to bear down the U.S. economy, especially if tariffs are placed on consumer goods such as electronics and apparel. As it stands, the U.S. has chosen to delay tariffs on a substantial portion of consumer goods until December, providing retailers ample time to stockpile products for the holiday shopping seasons. However, all additional trade tariffs are likely to have an adverse impact on the U.S. economy and retail sales.

Separately, consumer debt is now at record levels, recently exceeding \$4 trillion for the first time, according to the Federal Reserve. Mortgages, specifically, are the largest component of household debt. Since hitting a peak in the 3rd quarter of

2008, U.S. mortgage debt dropped about 15% through the middle of 2013 and has been climbing ever since. In the 2nd quarter of 2019, mortgage debt reached a record of \$9.406 trillion, exceeding the \$9.294 trillion peak in 2008. Consumers are now spending about 10% of their disposable income on nonmortgage debts, including credit cards, automobile, personal and student loans. For example, outstanding student loan debt—totaling approximately \$1.5 trillion—has tripled over the past 10 years. Meanwhile, credit card debt is also at its highest point ever, exceeding \$1 trillion, and credit card interest rates are at a record high, with the average interest rate about 17.4%.

The rising debt burden could start to put pressure on consumers and lead to reduced spending, which would weigh heavily on distressed retailers in the 2nd half of the year or into 2020.

Looking ahead through the end of 2019, we expect to see additional bankruptcy filings—but at a slower pace than the first half of the year—and for the heightened rate of store closures to continue.

### People who know Retail, know BDO.

For more information, contact

**DAVID BERLINER**

New York  
212-885-8347 / dberliner@bdo.com

**NATALIE KOTLYAR**

New York  
212-885-8035 / nkotlyar@bdo.com

**JENNIFER VALDIVIA**

Los Angeles  
310-557-8274 / jvaldivia@bdo.com

**TED VAUGHAN**

Dallas  
214-665-0752 / tvaughan@bdo.com

**SCOTT ZIEMER**

Phoenix  
602-293-2530 / sziemer@bdo.com

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