RETAIL IN THE RED:

BDO BI-ANNUAL BANKRUPTCY UPDATE

AN OVERVIEW OF U.S. RETAIL BANKRUPTCIES AND STORE CLOSURES IN THE FIRST HALF OF 2021

RETAIL IN THE ~~RED~~ BLACK?

The first half of 2021 revealed the retail sector is rebounding as the economy reopens. Sales for the first five months of the year rose 17.6% compared to the same period in 2020. While there were many retail bankruptcy filings in the first half of 2019 and 2020, there was a marked slowdown in retail bankruptcies in the first half of 2021, with only nine retail bankruptcies filed through June. At the same time, the retailers that filed for bankruptcy in 2021 had fewer stores compared to 2020 or 2019, minimizing the number of overall store closures. The decline in filings and store closings can be attributed to a combination of factors, including government stimulus money, easy access to credit, low interest rates and the reopening of the economy.

BANKRUPTCY UPDATE

Retailers that Filed for Bankruptcy in the First Half of 2021

	Company	Filing Date	Type	Bankruptcy Strategy / Result	Stores as of Petition Date	Store Closures Announced
2nd Quarter	Alex and Ani LLC	06/09/21	Apparel/ Accessories	Filed Plan and Disclosure Statement one day after filing to pursue a standalone restructuring and a sale process.	74	37
2nd Quarter	L & L Wings Inc.	04/24/21	Apparel	Restructure debt, seek new capital or other strategic transactions, and resolve $16 million litigation judgment.	26	0
2nd Quarter	The Collected Group, LLC	04/05/21	Apparel/ Accessories	Confirmed Plan 5/25/21 which reorganized business around its e-commerce operations and implemented a debt for equity swap.	33	33
1st Quarter	Paper Source, Inc.	03/02/21	Trading/ Distributor	Sold assets at auction to PE buyer for bid in excess of stalking horse bid from prepetion lenders.	158	11
1st Quarter	Belk Inc.	02/23/21	Department Store	Implemented prepackaged Chapter 11 plan one day after filing. Plan removed most existing debt, but added new debt totaling $1.23 billion.	291	0
1st Quarter	L'Occitane Inc.	01/26/21	Personal Products	Jointly proposed plan to pay creditors in full and preserve equity. Closed 40 stores.	166	40
1st Quarter	Christopher & Banks Corporation	01/13/21	Apparel	Liquidated all 449 stores and sold e-commerce business to prepetition lender. Converted to Chapter 7 after lacking funds to confirm Chapter 11 plan.	449	449
1st Quarter	Tea Olive LLC	01/10/21	Internet and Direct Mktg	Liquidated business and shut down all stores.	25	25
1st Quarter	Loves Furniture Inc.	01/06/21	Home Furnishings	Closing all but one of its locations and seeking a new owner for the remaining stores.	25	24
				Total	**1,247**	**619**

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

Retailers filing for bankruptcy this year are closing fewer stores and are increasingly able to reorganize, as opposed to selling or liquidating the business.

The chart below demonstrates store closings have been on a sharp decline for the past 3 years. While the first half of 2021 saw just 584 store closures from bankrupt retailers, 2020 saw 3,374 and 2019 saw 4,418. The number of liquidations also decreased to about half of what it was in 2019.

A LOOK BACK AT FIRST HALF BANKRUPTCIES

Bankrupt Retailers with the Highest Store Closings

1H 2021	
2021	**Store Closings**
Christopher & Banks	449
L'Occitane	40
Alex and Ani	37
The Collected Group	33
Tea Olive	25
Total	**584**
Number of Filings	10
Liquidation %*	20%

1H 2020	
2020	**Store Closings**
Ascena Retail Group	1,000
Pier 1	991
GNC	726
Tailored Brands	500
J.C. Penney	157
Total	**3,374**
Number of Filings	15
Liquidation %*	33%

1H 2019	
2019	**Store Closings**
Payless ShoeSource	2,534
Gymboree	749
Charlotte Russe	522
Shopko	363
Things Remembered	250
Total	**4,418**
Number of Filings	14
Liquidation %*	43%

**Statistics and Store Closing Data as of Report Publication Date*

As the economy recovers, the retail sector is making a comeback. For the first time in years, store openings are predicted to surpass store closings this year, according to [Coresight Research].

In terms of retail segment performance, dollar stores and off-price retail continue to expand rapidly as consumers seek value. The following chart shows three different dollar store chains (Dollar General, Dollar Tree and Family Dollar) accounted for 1,848—or about 50%—of all newly announced stores.

STORE OPENINGS UPDATE

Retailers that Announced Opening 40 or More Stores in the First Half of 2021

Company	Type of Retailer	Store Openings Announced
Dollar General	General Merchandise	1,050
Dollar Tree	General Merchandise	600
Belong Gaming Arenas	Movies and Entertainment	500
Sephora	Specialty	260
Family Dollar	General Merchandise	198
Five Below	Specialty	180
Casey's General Stores	Food	132
TJX	Apparel	122
Burlington	Apparel	100
Aldi	Food	100
Signet Jewelers	Specialty	87
Tractor Supply	Specialty	80
Aerie	Apparel	76
Ross Stores	Apparel	60
Lidl	General Merchandise	50
Bath & Body Works	Specialty	49
Ulta Beauty	Specialty	40
Target	General Merchandise	40
Old Navy	Apparel	40
TOTAL		**3,764**

Information sourced from SEC Filings, Bankruptcy Court Filings, and Company Press Releases.
Numbers rounded in instances where ranges provided.

STORE CLOSURE UPDATE

Retailers Not in Bankruptcy that Announced Closing 25 or More Stores in the First Half of 2021

Company	Type of Retailer	Store Closures Announced
Family Video	Specialty	250
Footaction*	Apparel	231
Godiva	Packaged Foods	128
Fossil	Apparel/Accessories	70
Disney	Movies and Entertainment	60
Express	Apparel	60
Store Closings Announced by Retailers not in Bankruptcy		**799**
Store Closings Announced by Bankrupt Retailers		**619**
TOTAL		**1,418**

Information sourced from SEC Filings, Bankruptcy Court Filings, and Company Press Releases.
** Footaction converted one third of stores to existing concepts and will close the remainder as leases expire.*

MALL SALES HAVE RETURNED…FOR NOW

While mall sales have **bounced back** to pre-pandemic levels, the mall format continues to struggle. New stores are increasingly opening outside of malls as retailers reinvent themselves. Many brands opening off-mall locations are drawn by lower rent, convenience, visibility and the ability to provide curbside pickup. This is creating something of a feedback loop: As malls see declining foot traffic, stores that were traditionally mall staples—such as Sephora and Bath & Body Works—are reevaluating their footprints. Both beauty brands have announced recent off-mall expansion plans. Even Tesla, which has 170 showrooms in upscale malls, is planning to let many of their mall leases expire and move toward locations conducive to test driving and delivery centers.

In the first quarter of this year, the vacancy rate at enclosed malls reached an all-time high of 11.4%, according to **Moody's Analytics REIS**. **Coresight Research** forecasts about a quarter of U.S. malls could close over the next three to five years.

NEWER STORE CONCEPTS MAY BECOME THE "NEW MALL"

Two trending store strategies are the store-within-a store and pop-up concepts. The store-within-a-store allows the host store to expand its offering and the mini-store within to reach new customers, while both benefit from increased foot traffic. Target has announced adding Apple and Ulta Beauty shops, Kohl's is adding Sephora shops, and Nordstrom is adding the at-home fitness start-up, Tonal.

Pop-up stores are another way for brands to reach new customers through a brick-and-mortar location, but without a long-term rent commitment or large capital investment. These stores are temporary rented spaces used to showcase new and exclusive products and give customers an elevated experience. E-commerce and direct-to-consumer brands like to use the pop-up model because it can expose them to new customers and help them test a brick-and-mortar expansion.

According to research firm **Forrester**, stores will still account for three-fourths of retail sales in 2024, despite e-commerce growth. Therefore, it's important for retailers to update their store strategies to account for changing preferences and market dynamics. One common approach is to implement more store technology to improve the customer experience. According to **BDO's 2021 Retail Digital Transformation Survey**, 68% of retailers have implemented in-store analytics, 64% are using mobile point-of-sale, while 35% have wayfinding capabilities using in-store apps.

DEMAND AND CONSUMER CASH ARE FUELING THE CONTINUED RECOVERY OF 2021

As of June, retail sales grew for nine consecutive months and year-over-year each month since June 2020. Department store and apparel sales—subsectors hit hard by the pandemic—both rose year-over-year in June. The **NRF** expects retail sales this year to grow between 10.5% and 13.5% compared to 2020 and the GDP to increase approximately 7%. This would be the highest growth since 1984. In contrast, the market contracted 3.5% in 2020, the worst performance since World War II.

In addition to COVID-19 vaccinations and low interest rates, COVID stimulus payments and the expanded child tax credit contributed to increased retail sales. As part of the American Rescue Plan, the child tax credit is expected to bolster sales in the second half of 2021, as the IRS estimates 90% of U.S. children will qualify for the increased amounts paid monthly from July to September.

RETAILERS FACE INFLATION, SHIPPING AND LABOR OBSTACLES

While sales are rebounding, there are factors pointing to a potentially slower recovery, if they become uncontrolled. Concerns for retailers include labor shortages, the uptick in COVID-19 cases and emerging variants and increased inflation—due primarily to supply shortages and the pent-up demand from consumers.

A dramatic increase in consumer purchasing from the early months of the pandemic to now has put excessive pressure on shipping routes and backlogged ports trying to keep up. The Suez Canal closure in March put an already overwhelmed system into further turmoil.

Another challenge for retailers is finding employees to service this explosion in consumer activity. As stores quickly open back up to full capacity, many retailers are struggling to find employees. Short-term issues such as finding childcare during the pandemic and longer-term issues related to skills gaps have made the labor market particularly tight.

Now retailers are incentivizing workers with pay raises and benefits, but if they're unable to find enough workers by the holiday season, they could be looking at reduced store hours, overworked employees and a deteriorated customer experience. For holiday sales to reach their full potential, it is crucial for retailers to secure a sufficient workforce before the holiday season.

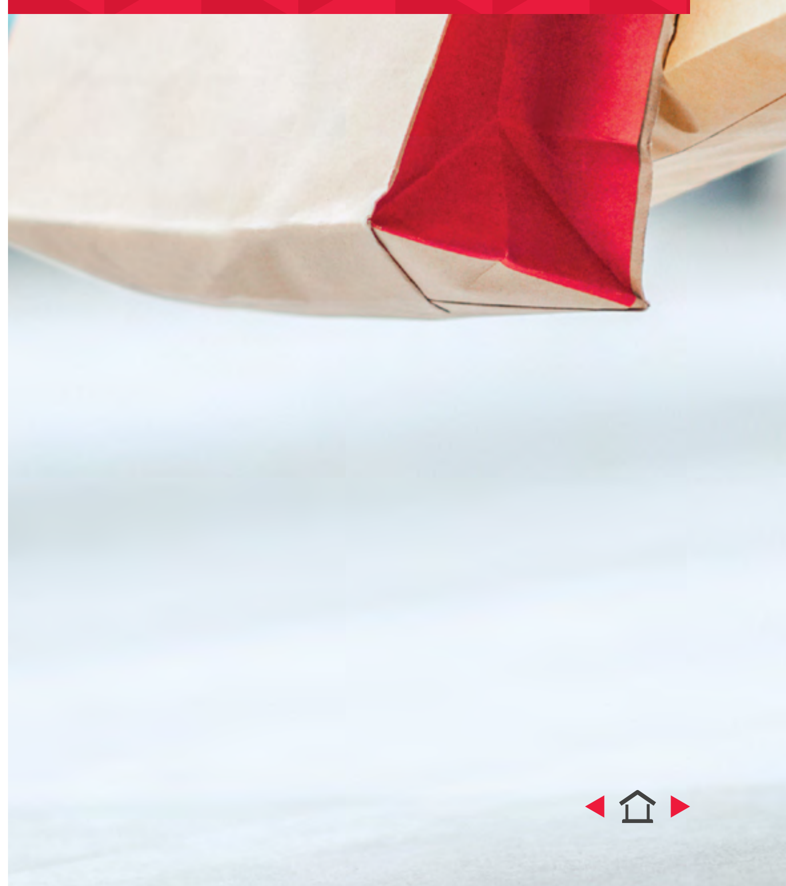
Consumers are eager for a shopping spree and retailers are banking on this to drive sales, but if inflation remains high, it might curb consumer spending. In July, the Consumer Price index rose to an annual rate of 5.4% from a year earlier. This was the same increase as the period ending in June, which rose at the fastest pace in 13 years. The Federal Reserve Bank believes prices will moderate as supply shortages are resolved, but it is unclear when the shortages will dissipate and whether the inflation is transient. A **Salesforce forecast** projects retailers in the U.S. will spend more in the second half of 2021 than in the same period in 2020 for logistics-related costs ($163 billion), wages ($48 billion) and suppliers ($12 billion). These cost increases will likely force retailers to raise prices, which may curtail consumer spending and the expected increased sales.

BDO'S TAKE:

OVERALL FORECAST FOR THE SECOND HALF OF 2021

While the unprecedented economic growth in the first half of the year will likely not be outdone in the second half, it is expected to continue. Expanded child tax payments and the back-to-school season—as children and college students are expected to return to in-person learning—should serve to buoy the economy. However, supply chain issues and the Delta variant might limit the expected benefit.

The favorable retail environment, coupled with low borrowing costs and lender flexibility, should keep retail bankruptcies and store closings low, absent unforeseen or variant-fueled disruptions.



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