RETAIL IN THE RED:
BDO BI-ANNUAL BANKRUPTCY UPDATE
AN OVERVIEW OF U.S. RETAIL BANKRUPTCIES AND STORE CLOSURES IN THE FIRST HALF OF 2020
In early 2020, the COVID-19 pandemic completely altered the U.S. retail landscape, exacerbating industry changes that were already underway.

Government-mandated store closures, social distancing measures, supply chain issues and upicks in e-commerce sales have only intensified existing pain points felt by brick-and-mortar retailers, accelerating the pace of bankruptcies going into the second half of the year.

While retailers can usually depend on cyclical spikes in consumer spending in the fall and winter months, the latter part of 2020 looks to be just as uncertain as the first half. As many schools shift to a virtual classroom model, retailers question whether traditionally stable back-to-school sales will result in disappointment. However, it’s not all bad news: According to the NRF’s annual back-to-class survey, 34% of consumers expect to spend more than they initially thought, and 54% attribute the increase to greater spend on electronics and computer equipment to support virtual learning. This could be a boon for retailers in the consumer electronics sector, but a bust for apparel retailers that depend on back-to-school fashion trends to drive fall sales.

With a slow recovery outlook for the coronavirus recession, retailers need to reflect on the challenges faced in the first part of the year, focus on new product categories, and double down on digital- and hygiene-centric trends in the lead-up to the holiday season.

### BANKRUPTCY UPDATE

Retailers That Filed for Bankruptcy Through Mid-August 2020

<table>
<thead>
<tr>
<th>Company</th>
<th>Filing Data</th>
<th>Type</th>
<th>Bankruptcy Strategy / Result</th>
<th>Stores as of Petition Date</th>
<th>Store Closures Announced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stein Mart</td>
<td>08/12/20</td>
<td>Apparel</td>
<td>Full chain liquidation</td>
<td>281</td>
<td>All</td>
</tr>
<tr>
<td>Tailored Brands</td>
<td>08/02/20</td>
<td>Apparel</td>
<td>RSA to reduce debt and close up to 500 stores</td>
<td>1,399</td>
<td>500</td>
</tr>
<tr>
<td>Le Tote / Lord &amp; Taylor</td>
<td>08/02/20</td>
<td>Apparel</td>
<td>Full liquidation unless buyer found</td>
<td>38</td>
<td>All</td>
</tr>
<tr>
<td>Ascena Retail Group</td>
<td>07/23/20</td>
<td>Apparel</td>
<td>RSA to reduce debt by $1 billion and close many stores. Seeking buyer for Catherines</td>
<td>2,800</td>
<td>1,000</td>
</tr>
<tr>
<td>The Paper Store</td>
<td>07/14/20</td>
<td>Specialty</td>
<td>Court approved sale to stalking horse bidder; exited bankruptcy 9/1/20</td>
<td>86</td>
<td>0</td>
</tr>
<tr>
<td>RTW Retailwinds</td>
<td>07/13/20</td>
<td>Apparel</td>
<td>Liquidating all stores; Asset purchase agreement for e-commerce business and IP with winning bidder, Saadia Group for $40 million</td>
<td>387</td>
<td>All</td>
</tr>
<tr>
<td>Muji U.S.A.</td>
<td>07/10/20</td>
<td>General Merchandise</td>
<td>Seeking reorganization to focus on e-commerce, with store closings</td>
<td>18</td>
<td>7</td>
</tr>
<tr>
<td>Brooks Brothers</td>
<td>07/08/20</td>
<td>Apparel</td>
<td>Sold assets to stalking horse SPARC Group LLC for $325 million</td>
<td>244</td>
<td>119</td>
</tr>
<tr>
<td>Sur La Table</td>
<td>07/08/20</td>
<td>Home Décor</td>
<td>Sold assets at auction to CSC Generation and Marquee Brands for $89 million</td>
<td>121</td>
<td>71</td>
</tr>
<tr>
<td>Lucky Brand</td>
<td>07/03/20</td>
<td>Apparel &amp; Accessories</td>
<td>Sold assets to stalking horse SPARC Group LLC for $191.6 million</td>
<td>&gt;200</td>
<td>0</td>
</tr>
</tbody>
</table>
## BANKRUPTCY UPDATE

### CONTINUED

<table>
<thead>
<tr>
<th>Company</th>
<th>Filing Date</th>
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<th>Bankruptcy Strategy / Result</th>
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<th>Store Closures Announced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Time Pottery</td>
<td>06/28/20</td>
<td>Home Décor</td>
<td>Filed plan of reorganization</td>
<td>43</td>
<td>4</td>
</tr>
<tr>
<td>GNC</td>
<td>06/23/20</td>
<td>Specialty</td>
<td>RSA with $760 million asset sale to stalking horse bid from largest shareholder; option for a deleveraging plan transaction if sale not completed.</td>
<td>2,633</td>
<td>726</td>
</tr>
<tr>
<td>24 Hour Fitness</td>
<td>06/15/20</td>
<td>Leisure Facilities</td>
<td>Seeking reorganization, with store closings</td>
<td>445</td>
<td>135</td>
</tr>
<tr>
<td>Tuesday Morning</td>
<td>05/27/20</td>
<td>Home Décor</td>
<td>Closed 198 stores; pursuing either asset sale or plan of reorganization</td>
<td>687</td>
<td>198</td>
</tr>
<tr>
<td>J.C. Penney</td>
<td>05/15/20</td>
<td>Dept. Stores</td>
<td>Pursuing sale or will have to liquidate if milestones are not met</td>
<td>846</td>
<td>157</td>
</tr>
<tr>
<td>Stage Stores</td>
<td>05/10/20</td>
<td>Dept. Stores</td>
<td>Liquidation plan confirmed by court</td>
<td>726</td>
<td>All</td>
</tr>
<tr>
<td>Neiman Marcus</td>
<td>05/07/20</td>
<td>Dept. Stores</td>
<td>Debt for equity swap to eliminate $4 billion in debt</td>
<td>67</td>
<td>24</td>
</tr>
<tr>
<td>John Varvatos</td>
<td>05/06/20</td>
<td>Apparel &amp; Accessories</td>
<td>Sold to prepetition lender and owner at auction</td>
<td>27</td>
<td>8</td>
</tr>
<tr>
<td>Chinos (J. Crew)</td>
<td>05/04/20</td>
<td>Apparel</td>
<td>Court confirmation of plan to equitize $1.65 billion in debt</td>
<td>491</td>
<td>8</td>
</tr>
<tr>
<td>Gold’s Gym</td>
<td>05/04/20</td>
<td>Leisure Facilities</td>
<td>German fitness chain RSG won auction for $100 million</td>
<td>–95</td>
<td>34</td>
</tr>
<tr>
<td>True Religion</td>
<td>04/13/20</td>
<td>Apparel &amp; Accessories</td>
<td>Debt for equity swap to eliminate $65 million in debt</td>
<td>87</td>
<td>27</td>
</tr>
</tbody>
</table>

### 2nd Quarter

<table>
<thead>
<tr>
<th>Company</th>
<th>Filing Date</th>
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<th>Bankruptcy Strategy / Result</th>
<th>Stores as of Petition Date</th>
<th>Store Closures Announced</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Quarter</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modell’s</td>
<td>03/11/20</td>
<td>Sporting Goods</td>
<td>Liquidated all stores and sold IP for $3.64 million</td>
<td>134</td>
<td>All</td>
</tr>
<tr>
<td>Art Van Furniture</td>
<td>03/08/20</td>
<td>Home Décor</td>
<td>Unsuccessfully sought going-concern sale for some locations, liquidated all stores and converted case to Chapter 7</td>
<td>169</td>
<td>All</td>
</tr>
<tr>
<td>Pier 1</td>
<td>02/17/20</td>
<td>Home Décor</td>
<td>Unsuccessfully sought going-concern sale for some locations, liquidated all stores and sold IP for $31 million</td>
<td>991</td>
<td>All</td>
</tr>
<tr>
<td>SFP Franchise</td>
<td>01/23/20</td>
<td>Specialty</td>
<td>Full liquidation</td>
<td>254</td>
<td>254</td>
</tr>
</tbody>
</table>

*Information sourced from SEC Filings, Bankruptcy Court Filings, Company Press Releases, and Debtwire*
In the first six months of 2020, 18 retailers filed for Chapter 11 bankruptcy, with an additional 11 filing in July through mid-August. These defaults were concentrated in apparel and footwear, home furnishings, food and department stores, with many prominent retailers filing during this time period, including Pier 1, J. Crew, Neiman Marcus, Stage Stores, J.C. Penney, Tuesday Morning, GNC, Lucky Brand, RTW Retailwinds (New York & Co.), Brooks Brothers, Ascena (Ann Taylor, LOFT, Lane Bryant, Justice, Catherines), Le Tote (Lord & Taylor), Tailored Brands (Men’s Wearhouse, Jos. A. Bank, Moores Clothing, K&G) and Stein Mart.

<table>
<thead>
<tr>
<th>Retailer Type</th>
<th># Filings</th>
<th>Announced Store Closings</th>
<th>Store Closings %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel/Footwear</td>
<td>10</td>
<td>2,368</td>
<td>39%</td>
</tr>
<tr>
<td>Home Furnishings</td>
<td>5</td>
<td>1,433</td>
<td>24%</td>
</tr>
<tr>
<td>Department stores</td>
<td>3</td>
<td>907</td>
<td>15%</td>
</tr>
<tr>
<td>All Other*</td>
<td>11</td>
<td>1,290</td>
<td>22%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>29</strong></td>
<td><strong>5,998</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Includes 4 food (reflected in # of filings, but not in bankruptcy chart or announced store closings), 3 specialty, 2 leisure facilities, 1 general merchandise, and 1 sporting goods retailer.

With **29 filings in 2020 to date**, this year is on-pace to rival 2010, following the Great Recession, that resulted in 48 total filings.

**STORE CLOSURE UPDATE**

Retailers Not in Bankruptcy That Announced Closing 50 or More Stores in the First Half of 2020

<table>
<thead>
<tr>
<th>Company</th>
<th>Type of Retailer</th>
<th>Store Closures Announced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inditex</td>
<td>Apparel</td>
<td>1,000</td>
</tr>
<tr>
<td>Starbucks</td>
<td>Restaurants</td>
<td>400</td>
</tr>
<tr>
<td>GameStop</td>
<td>Computer and Electronics</td>
<td>320</td>
</tr>
<tr>
<td>Signet Jewelers</td>
<td>Specialty</td>
<td>300</td>
</tr>
<tr>
<td>The Children’s Place</td>
<td>Apparel</td>
<td>300</td>
</tr>
<tr>
<td>L Brands</td>
<td>Apparel</td>
<td>250</td>
</tr>
<tr>
<td>AT&amp;T</td>
<td>Telecommunications</td>
<td>250</td>
</tr>
<tr>
<td>Bed, Bath &amp; Beyond</td>
<td>Home Décor</td>
<td>200</td>
</tr>
<tr>
<td>G-III Apparel</td>
<td>Apparel</td>
<td>199</td>
</tr>
<tr>
<td>H&amp;M</td>
<td>Apparel</td>
<td>170</td>
</tr>
<tr>
<td>PVH Corp</td>
<td>Apparel &amp; Accessories</td>
<td>162</td>
</tr>
<tr>
<td>Macy’s</td>
<td>Department Stores</td>
<td>125</td>
</tr>
<tr>
<td>Bose</td>
<td>Consumer Electronics</td>
<td>119</td>
</tr>
<tr>
<td>Guess</td>
<td>Apparel</td>
<td>100</td>
</tr>
<tr>
<td>Express</td>
<td>Apparel</td>
<td>100</td>
</tr>
<tr>
<td>Office Depot</td>
<td>Specialty</td>
<td>90</td>
</tr>
<tr>
<td>Microsoft</td>
<td>Systems Software</td>
<td>83</td>
</tr>
<tr>
<td>Chico’s</td>
<td>Apparel</td>
<td>60</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>4,228</strong></td>
</tr>
</tbody>
</table>

Store Closures Announced by Bankrupt Retailers (see Bankruptcy Chart) 5,998

**GRAND TOTAL** 10,226

*Information sourced from SEC Filings, Company Press Releases, and Debtwire*
Alongside the uptick of bankruptcy filings and liquidations so far in 2020, the industry has also seen a substantial rise in the number of store closings announced, with bankrupt retailers alone announcing almost 6,000 store closings. From January through mid-August, there have been more store closure announcements in 2020 than the record 9,500 stores that closed throughout 2019. The majority of store closures have taken place in malls, which have seen far less foot traffic due to sustained COVID-19 disruption.

However, retailers on the brink of bankruptcy are not the only ones looking to shed their brick-and-mortar locations. In fact, there are more than 15 retailers that have not filed for bankruptcy—including Macy’s, Bed Bath & Beyond and Gap—that have announced the closing of 50 or more stores, totaling a combined 4,200+ stores.

Shifting consumer spending habits driven by the pandemic have added pressure for retailers to minimize their physical footprints and move toward more digital and omnichannel customer experiences. With discretionary spending down, research firm eMarketer projects a 10.5% decline in total U.S. retail sales this year—with brick-and-mortar sales decreasing 14%. That said, these losses are expected to be partially offset by an 18% increase in e-commerce sales, following a 14.9% gain in 2019.

Other consumer shopping trends already underway were only hastened by COVID-19. Even before the pandemic, many workplaces were shifting to more casual dress, decreasing demand for business formal attire. This trend, coupled with diminished need for new clothing for social occasions, has been devastating to apparel retailers and department stores, which have accounted for approximately 54% of bankruptcy store closings and 58% of non-bankruptcy store closings so far this year.

Economic trends will play a major role in the retail industry’s ability to bounce back from the pandemic. With many Americans currently furloughed, unemployed, or fearing for their future state of financial stability, retailers must be prepared for a prolonged period of limited discretionary spending, even heading into the holiday season. With significant uncertainty around when a vaccine will be ready for widespread distribution and what a post-pandemic reality looks like, many retailers have a long road to recovery ahead.

As the holiday season approaches and the dust settles to reveal trends from this year’s back-to-school season, properly predicting and understanding rapidly changing consumer preferences will be key to retailers’ success. To accurately forecast supply and demand and effectively manage inventory, retailers’ holiday plans should already be well underway. This entails readying e-commerce operations for record levels of online shopping traffic, ensuring the reliability of fulfillment channels and last-mile delivery, and increasing contactless shopping options to safeguard the health and safety of consumers and employees.

Post-holiday season, and even after a vaccine is developed and accessible to the public, retailers should expect to encounter customers who remain concerned about the safety of in-person shopping. To stay competitive, brick-and-mortar stores should assume touchless shopping options such as curbside pick-up and self-checkouts are here to stay, and apparel retailers should be reimagining what the fitting room experience will look like post pandemic.

Retailers must also consider the web of impacts COVID-19 has had on the industry at large, including its influence on competitors, peers and partners. For example, the closings of anchor and other stores in shopping malls will likely make visits to them less appealing and depress mall traffic overall, unless landlords are able to quickly fill these vacancies with attractive alternatives.

In short, 2020 is on track to set the record for the highest number of retail bankruptcies and store closings in a single year. Based on the trends set through mid-August, our expectation is that more retailers will struggle to navigate the effects of the pandemic—particularly those that are highly levered and mall-based. However, the number of filings in the fourth quarter may be tempered by retailers holding off on filing for bankruptcy in hopes of a profitable holiday season. While there’s no precedent to predict how the end of 2020 will shake out, we expect that retailers that remain agile, leverage data to understand their customers and plan carefully will be better prepared to weather this year and beyond.
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