

Retail in the Red

BDO BI-ANNUAL BANKRUPTCY UPDATE

An overview of the state of U.S. retail, including bankruptcies and store closings, through summer 2023 and a forecast for the remainder of the year.

Retail industry performance for 2023 has, so far, been a mixed bag defined by cautious consumers. Retail sales remained steady throughout the summer, but sales are not outpacing year-over-year inflation.

The sub-sectors that are performing well include discount retailers, groceries, gasoline, and pharmacies, which indicates that consumers are mainly spending on essentials. Inflation, high-interest rates, high consumer debt, depleted savings and the resumption of student loan repayments in the fall may soon cause consumers to further limit their spending.

BDO's *Fall 2023 Retail in the Red Report* examines retail bankruptcy filing data, retail store openings and closings, retail sales data, consumer spending and other micro and macro-economic data to tell the story of the retail industry thus far in 2023. Further, the report opines on what may lie ahead in Q4.



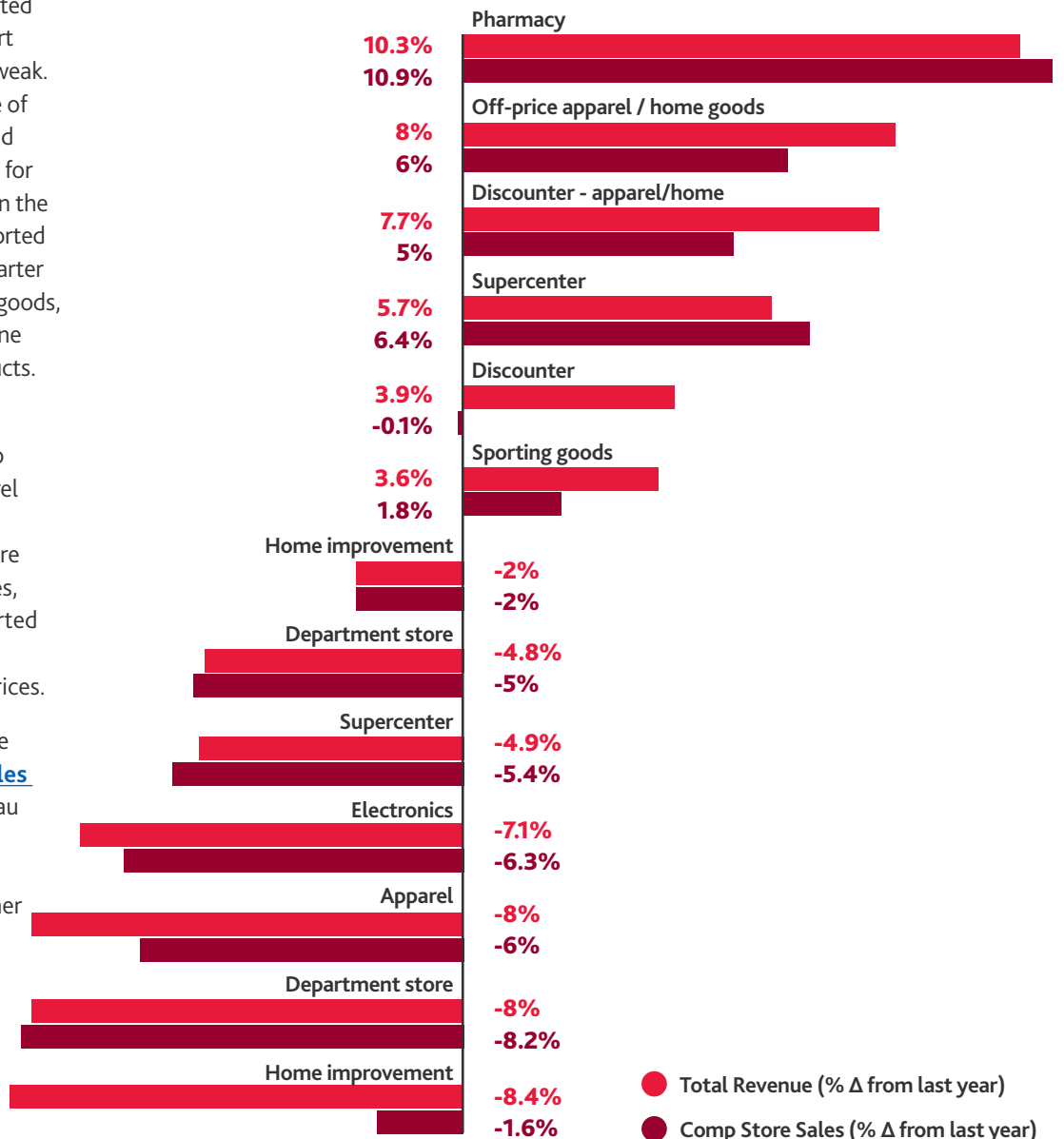
Consumer Spending and Retail Performance

While retail sales have risen for five consecutive months, when adjusted for inflation, sales for the first part of the year have been relatively weak. The chart to the right is a sample of the 2nd Quarter YOY revenue and comp store sales percent change for a sample of the top 40 retailers in the United States. Retailers that reported a sales increase in the second quarter mainly sell essential or discount goods, while those that reported a decline primarily sell discretionary products.

Notably, the supercenter that reported a sales decline tends to focus on products such as apparel and home décor and targets consumers who value the in-store experience as much as low prices, while the supercenter that reported a sales increase typically targets consumers who prioritize low prices.

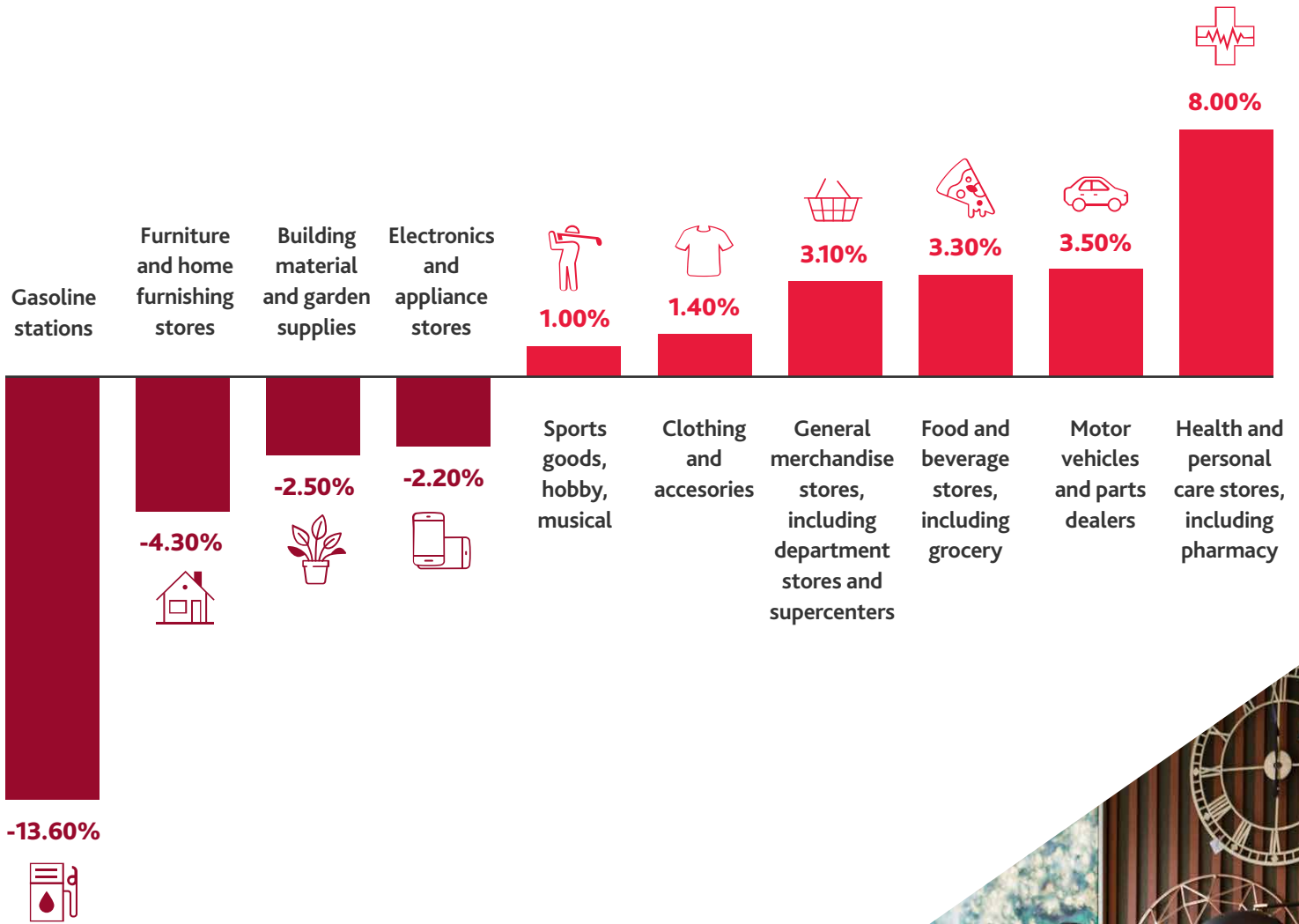
In addition to the earnings of the country's top retailers, [retail sales data](#) from the U.S. Census Bureau indicates sales were up 0.6% in August, which was better than expected. However, the consumer price index also rose 0.6% in August, so sales did not outpace inflation.

2nd Quarter YOY Revenue and Comp Store Sales Percent Change



● Total Revenue (% Δ from last year)
 ● Comp Store Sales (% Δ from last year)

8 Month Total Percent Change from 2022 for Sales of Retail and Food Services by Kind of Business



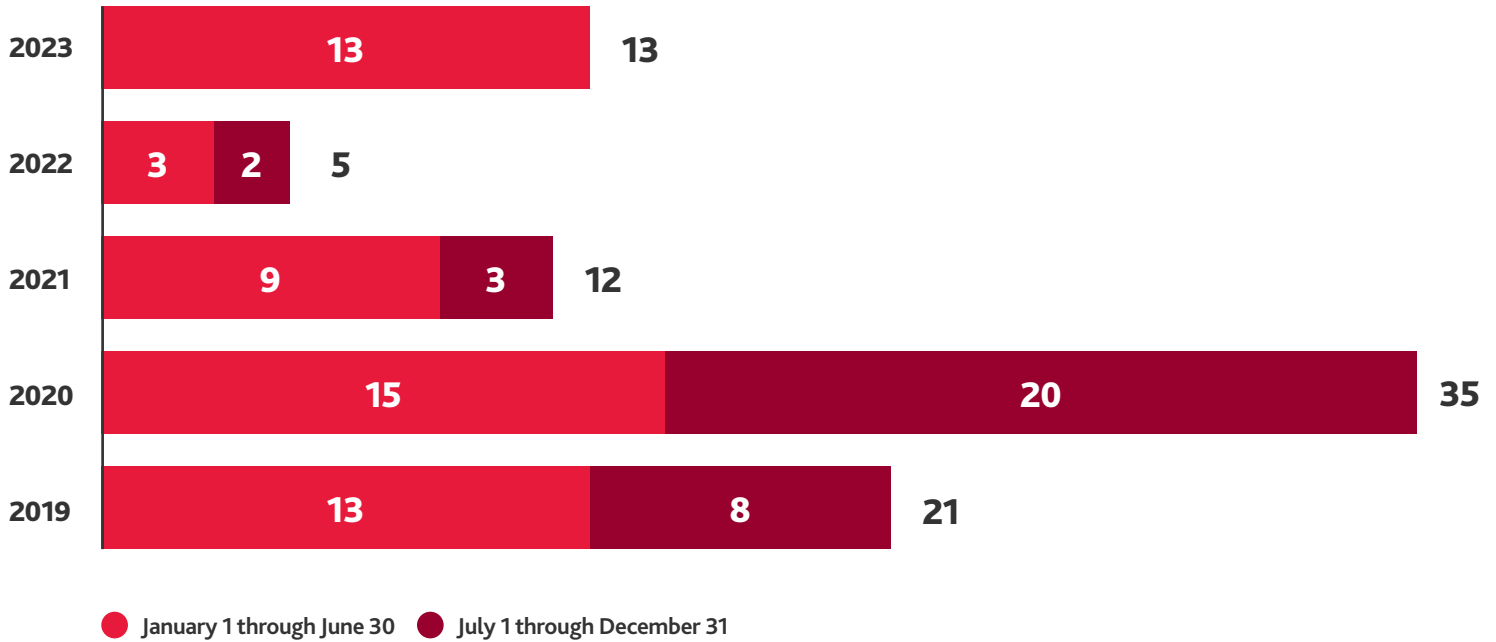
*According to data from the U.S. Census Bureau. Estimated monthly total sales for retail and food services eight month total ending August 2023, compared to the eight month total ending August 2022.



Retail Bankruptcy Update

With changes in consumer spending, some retailers are choosing to restructure or close stores. Retail bankruptcies have picked up in the first half of the year, following a lull in 2022. Pivoting from a 13-year low in retail bankruptcies, there have been 11 major filings through April, two in May, one in August and three through September 15, for a total of 17 bankruptcies.

Retail Bankruptcies According to BDO's Retail in the Red*



*Data for 2023 does not include the 4 bankruptcies that have happened between June 30th and September 15th to compare data across equivalent time periods.

All of the retailers that filed for bankruptcy in the first half of 2023 primarily sold discretionary products, with the possible exception of a chain of pet supply stores. These retailers have suffered as consumers focus their spending on essential goods due to limited budgets. In some cases, these retailers filed for bankruptcy because they could not sufficiently improve their ecommerce model enough to support operations and customer expectations.



Retailers That Filed for Bankruptcy Through June 2023

	Company	Filing Data	Description	Bankruptcy Strategy	Bankruptcy Result or Latest Intent	Stores as of Petition Date	Store Closures Announced
2ND QUARTER	Retailing Enterprises LLC (Invicta Stores)	05/30/23	Watch retailer	Restructure debt	In process	24	0
	Christmas Tree Shops	05/09/23	Specialty décor stores	Reorganization	Liquidation	82	82
	Bed, Bath & Beyond ¹	04/23/23	Homefurnishing	Market as going concern, including the buybuy Baby business.	Liquidation of all brick-and-mortar stores. Sold IP for BB&B and buybuyBaby brands.	480	896
	David's Bridal ²	04/16/23	Wedding and special occasion apparel	Going concern sale process and "soft" sales in their retail locations to monetize inventory.	Court approved going concern sale to CION Investment Corp. for no cash purchase price (just assumption of debt). Kept 195 stores open.	274	79
	Amerimark Interactive ³	04/11/23	Catalog based marketer of apparel, shoes, cosmetics, and accessories	Sale process	Received \$85 million credit bid for certain litigation assets. Two other winning bids totaling \$97 million for different packages of assets.	0	0
	Boxed	04/02/23	E-commerce wholesaler of pantry consumables	Sale of its Software-as-a-Service business, Spresso, as a going concern to the prepetition first lien secured lenders.	Sold Spresso software business and IP; winding down retail operations.	0	0
1ST QUARTER	ESCO Ltd. (Shoe City)	03/31/23	Apparel and footwear	Conduct store closing sales and liquidate all assets.	Full chain liquidation.	39	39
	Tuesday Morning	02/14/23	Off-priced home goods	Close unprofitable stores and shift resources to profitable locations.	Full chain liquidation after failing to find going concern buyer. Converted to Chapter 7 liquidation.	464	464
	Nielsen & Bainbridge	02/09/23	Wholesale home decor supplier	RSA to sell assets within 60 day timeline.	Sold equity to DIP lender; confirmed plan.	0	0
	Independent Pet Partners	02/05/23	Chain of pet stores	Going concern sale process for liquidation of underperforming stores.	Sold 66 stores to lenders in credit bid; confirmed liquidation plan.	159	93
	Party City	01/17/23	Party supply store	Restructuring	Cancelled about \$1 billion in company debt and turned all of its equity value over to the retailer's lenders.	823	64
	Performance Powersports	01/16/23	ATV, RV and motorcycle dealerships	Sale process	Sold virtually all assets to DIP lender for \$10 million credit bid; proposed liquidation plan.	0	0
	Forma Brands ⁴	01/11/23	Holding company of beauty brands	Sale process	Sold to lenders for \$723 million credit bid.	0	0
						2,345	1,717

Information sourced from SEC Filings, Bankruptcy Court Filings, Company Press Releases, and Debtwire
Stores numbers are closest approximations

1 360 Bed Bath & Beyond and 120 buybuy BABY stores. Includes 416 stores already set to close prior to bankruptcy filing.

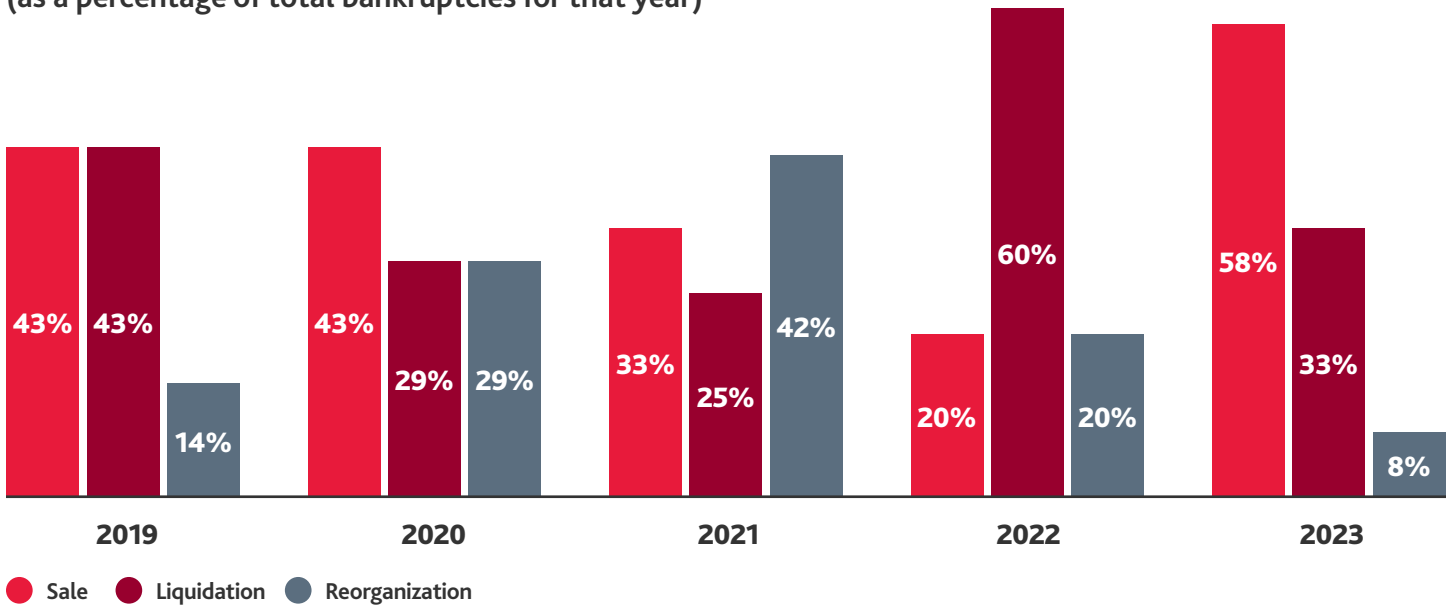
2 Across the United States, Canada, UK. They franchised an additional 8 stores in Mexico.

3 The company sells products through a multi-channel platform across nine catalog titles, e-commerce websites and third party marketplaces.

4 Operated 11 Morphe retail stores in Canada, Europe, and Australia as of petition date. All 32 retail locations in the U.S. were closed as of January 2023.

In a somewhat distressing trend, the number of retailers restructuring in bankruptcy, as a percentage of total bankruptcies for that year decreased, while the percentage of liquidations and asset sales has increased. Three retailers reorganized in 2019, ten in 2020, five in 2021 and one each in 2022 (Revlon) and 2023 (Party City). As a percentage of total retail bankruptcy filings by year, retailers reorganizing have decreased from 42% in 2021, down to 20% in 2022 and only 8% for the first half of 2023.

**Outcome of Retail Bankruptcy Filings in BDO Retail in the Red Reports
(as a percentage of total bankruptcies for that year)**



Outcome of Retail Bankruptcy Filings in BDO Retail in the Red Reports

	2023 (through June)*	2022	2021	2020	2019	Total
Sale	7	1	4	15	9	36
Liquidation	4	3	3	10	9	29
Reorganization	1	1	5	10	3	20
TOTAL	12	5	12	35	21	85



*Outcome of one bankruptcy is in progress and thus not yet determined

In addition, the first half of 2023 saw a proportionally large number of retailers enter bankruptcy with the intent of consummating a going concern sale only to find themselves unable to find buyers willing to make a viable offer, thereby forcing these retailers to liquidate their assets. For example:

- ▶ **Bed Bath & Beyond** and **Buy Buy Baby** sold their intellectual property after closing all stores.
- ▶ **Tuesday Morning** hoped to close unprofitable stores and restructure but ultimately sold all assets to a liquidator.
- ▶ **Christmas Tree Shops** intended to stay in business after closing approximately 10 stores, but couldn't find a buyer, and liquidated all stores.

Changing consumer habits exacerbated by inflation, high interest rates, and increased competition from online retailers may be why these bankrupt companies struggled to find going concern buyers and ended up liquidating their businesses. Private equity or strategic buyers may not be interested in buying big-box, mainly brick-and-mortar businesses that lack a strong ecommerce model. The feeling is that these businesses cannot compete with the retail giants that have mastered ecommerce and omnichannel retail.

Store Openings and Closings Update

Declining revenues, coupled with the high costs of real estate may have been the impetus for some retailers to rethink their operating models. Almost half of the store closings through August 2023 occurred because of a shift towards off-mall based, or smaller format stores, to align with how and where consumers now prefer to shop.

Retailers With Significant Store Closings/Openings through August 2023

2023 ANNOUNCEMENTS				
Company	Type of Retailer	Closings	Openings	Net
RETAILERS WITH 50 OR MORE CLOSINGS/OPENINGS IN 2023				
CVS	Pharmacy	300	0	(300)
Walgreens	Pharmacy	150	0	(150)
Foot Locker	Footwear/Apparel/Accessories	120	300	180
The Children's Place	Apparel	110	0	(110)
Genesco (Journeys)	Footwear/Apparel/Accessories	95	25	(70)
Bath & Body Works	Specialty – Bath / Skin care	50	90	40
Ross Dress for Less	Discounter - Apparel/Home	20	100	80
Sephora at Kohl's	Specialty – Beauty / Cosmetics	0	250	250
Ralph Lauren	Specialty – Luxury Lifestyle	0	85	85
Tractor Supply	Specialty – Rural / Lifestyle	0	80	80
SUBTOTAL		845	930	85
Company	Type of Retailer	Closings	Openings	Net
STORE OPENINGS IN 2023 (ANNOUNCED PRIOR TO 2023)				
Dollar General	Discounter		1,010	1,010
Family Dollar	Discounter		330	330
Dollar Tree	Discounter		310	310
Five Below	Discounter		200	200
Casey's General Stores	Convenience		140	140
JD Sports	Footwear/Apparel/Accessories		135	135
Aldi	Discount Supermarkets		120	120
TJX Companies	Off-price apparel / Home Goods		105	105
TOTAL STORE OPENINGS IN 2023 (ANNOUNCED PRIOR TO 2023)		0	2,350	2,350
BANKRUPT RETAILER STORE CLOSINGS		1,717	0	(1,717)
TOTAL STORE CLOSINGS & OPENINGS		2,562	3,280	718

▶ Y-T-D actuals used as available.

▶ Equitable distribution assumed if not otherwise specified with multi-year announcements.

▶ Information sourced from SEC Filings and Press Releases

▶ Numbers Rounded

▶ Data as of August 2023

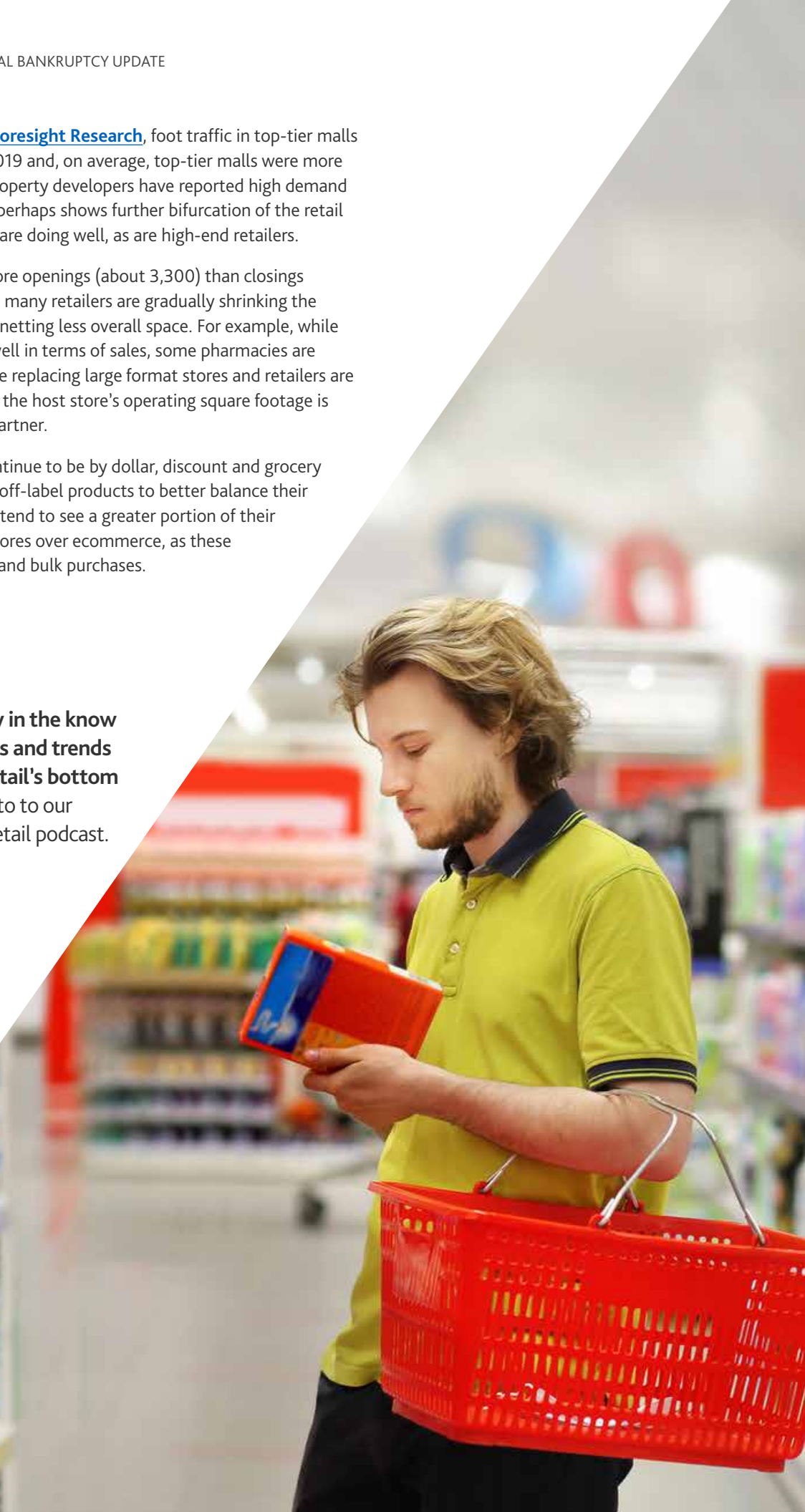
Nevertheless, in a recent report from [Coresight Research](#), foot traffic in top-tier malls was up by 12% in 2022 compared to 2019 and, on average, top-tier malls were more than 95% leased last year. High-end property developers have reported high demand for retail space in recent quarters. This perhaps shows further bifurcation of the retail industry. Discounters and dollar stores are doing well, as are high-end retailers.

Although we continued to see more store openings (about 3,300) than closings (about 2,600) through August of 2023, many retailers are gradually shrinking the square footage of their store footprint, netting less overall space. For example, while the pharmacy category is performing well in terms of sales, some pharmacies are closing stores. Smaller format stores are replacing large format stores and retailers are leveraging in-store partnerships, where the host store's operating square footage is reduced to make way for the in-store partner.

The vast majority of store openings continue to be by dollar, discount and grocery stores as Americans hunt for deals and off-label products to better balance their budgets. Additionally, these categories tend to see a greater portion of their sales coming from brick-and-mortar stores over ecommerce, as these categories lend themselves to impulse and bulk purchases.



Want to stay in the know on the events and trends impacting retail's bottom line? Tune into to our 60-second Retail podcast.



Macroeconomic Update: The Good and The Bad

Contradictory data points indicate a lack of economic clarity.

There continues to be conflicting macroeconomic indicators as to the overall health of the economy.

THE GOOD NEWS



As we saw in 2022, the U.S. economy in 2023 has so far continued to grow and avoid a recession. Treasury secretary Janet Yellen said she is increasingly confident the U.S. economy will be able to achieve a "soft landing." Here are some metrics that indicate the U.S. economy is performing well:

- ▶ The **U.S. GDP grew** at a seasonally and inflation-adjusted annual rate of **2.1%**, according to the [Bureau of Economic Analysis](#).
- ▶ Consumer **spending grew** at an annual rate of **1.6%** in the second quarter, **down from 4.2%** growth in the first quarter, according to the [National Retail Federation](#).
- ▶ U.S. **retail and food services sales** were up **0.6%** for the month of August, according to the [U.S. Census Bureau](#). This was **better than economists anticipated**, however the sales spike was largely due to an increase in gasoline prices and did not outpace inflation.
- ▶ The **Consumer Price Index increased** by **3.7%** year-over-year in August 2023 before seasonal adjustment. This is higher than the Fed's 2% target, but is due in part to a spike in gas prices which is predicted to be temporary, according to data from the [Labor Department](#).
- ▶ The U.S. employment picture remains strong, with **187,000 jobs added** in August and a relatively low unemployment rate of 3.8%, according to data from the [Labor Department](#).
- ▶ The **demand for retail space** at the end of the second quarter **rose** for the tenth straight quarter, with **move-ins exceeding** move-outs by about **21 million square feet**, according to [CoStar's](#) August Real Estate Update.

THE BAD NEWS



While the economy has seen continued growth, there are indications that consumer spending could slow:

- ▶ In late September, **interest rates** were **7.4%** for new 30-year mortgages, the **highest in 20 years**, according to the [Mortgage Bankers Association](#).
- ▶ Consumer **savings is down** to just **3.9%**, significantly **lower** than the **pre-pandemic** period when savings levels hovered around 7-9%, [below](#) a decades long average of around 9%
- ▶ As savings levels decreased, consumers are turning to credit cards to cover expenses. **U.S. Credit card debt** has reached an **all-time high** of **\$1.031 trillion**, according to [Lending Tree](#).
- ▶ Americans were also **falling behind** on **car loan** and **credit card payments** in August at the **fastest pace** in a **decade**, as reported in the [Washington Post](#).
- ▶ The **student loan** payment pause will **end in October**, and millions of Americans will need to start devoting a portion of their budget to **repaying their loans**, right when **retailers want consumers to be spending** on holiday gifts and decor.

In short, consumers are increasingly reluctant to spend unless they find a good deal, and many retailers, especially those selling discretionary products, are bracing for a holiday season where they may have to turn to discounts and promotions to get consumers to make purchases. Ultimately, this could result in smaller margins for retailers, marked by increased delineation between winners and losers.

The Transformation of Physical Retail Stores Across America

As noted above, most of the recent major store openings are happening outside of malls, in free-standing locations, or in shopping centers. National retailers who previously exclusively operated in malls are now closing some mall-based stores and opening smaller, off-mall stores.

In 2020, Coresight estimated that 25% of America's roughly 1,000 malls would close over the next three to five years. More recently, the total number of U.S. malls has declined to approximately 700, as reported in the [Wall Street Journal](#). Store closures are expected to continue in malls, with department stores and specialty retailers anticipated to close the most stores. To combat these trends, malls are seeking to attract customers by improving the customer experience and curb appeal. This is taking the form of new tenants and experiential additions to the mall, such as pickleball courts, bowling alleys, grocery stores, doctors' offices and entertainment venues. Successful malls will be those that adapt and evolve, and have a variety of retail offerings, high-end options, and entertainment activities, to drive foot traffic.



Retail Industry Outlook for 2023

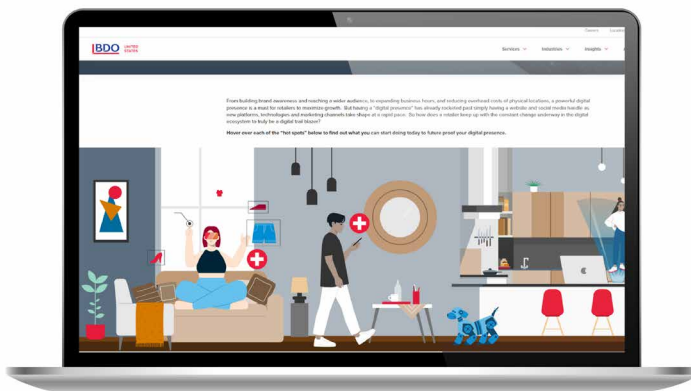
The current macroeconomic situation appears uncertain. Since jobs are plentiful and unemployment is low, consumers have so far been able to continue spending, albeit much more selectively. With savings dwindling, high credit card borrowings, and the resumption of student debt payments, we expect retailers will have to fight for sales this holiday season. There will likely be some retailers that lose this battle, leading to some more retail bankruptcy filings in the second half of 2023, but similarly to 2022, we expect there to be fewer filings compared to the first half of the year. We also expect to see some retailers continue to close stores in the face of high operating costs and waning consumer demand. We predict store openings will still trump closings, but by a narrower margin throughout the remainder of the year.

As retailers navigate the rest of the year amid the current economic conditions, creating a strong omnichannel strategy and understanding how to price their products will be critical:

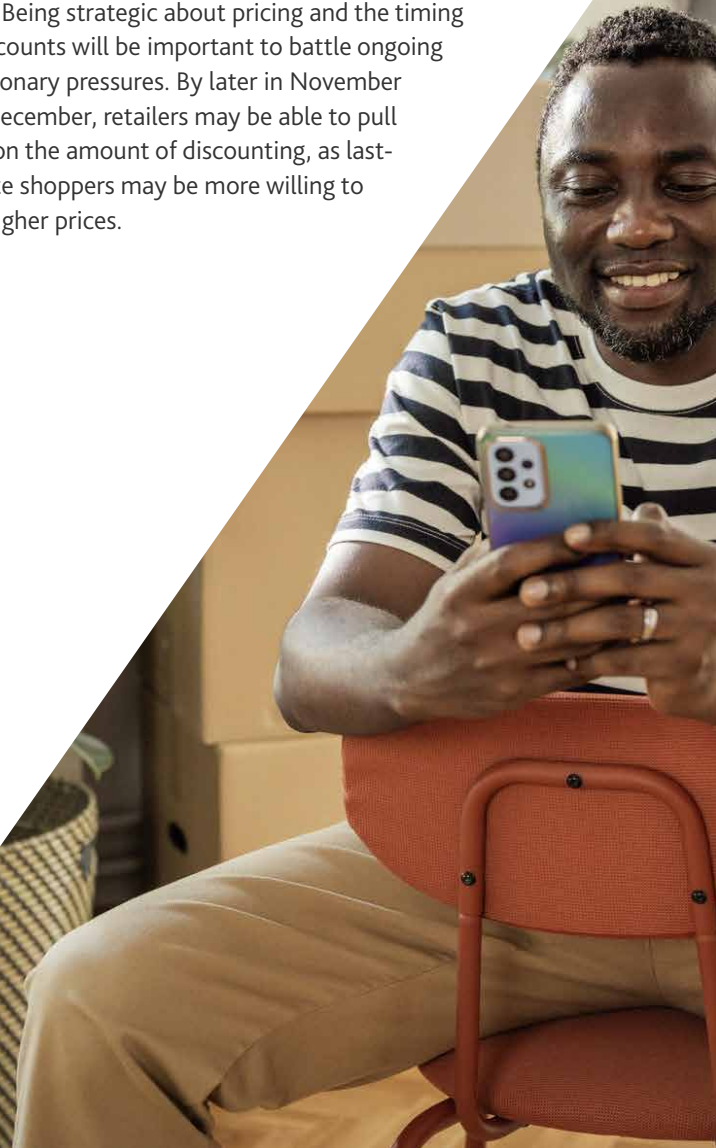
Digital and Omnichannel: We expect the most successful retailers will master their digital and omnichannel strategies. According to data from [Yes Lifecycle Marketing](#), all generations are influenced to shop based on what they see on social media. And yet, [according to MarketingDive](#), 82% of purchasing decisions are made while in a store and 62% of shoppers make an impulse buy while shopping. Retailers that understand how to target consumers via their digital channels can expect the greatest sales, as they will not only increase ecommerce sales, but they will be able to drive consumers to their store. The digitization of physical stores—think smart mirrors or touchless checkouts—allows for a dynamic and interactive shopping experience once consumers are in stores. Additionally, the growing trend of partnering with social media influencers captures shoppers' attention, potentially leading to better sell-through.



Strategic Discounting: We also predict that the most successful retailers this holiday season will be strategic about their discounts. With pressures on their personal budgets, consumers are expecting hefty discounts. If retailers want consumers shopping early, consider offering steeper discounts in the early fall. Amazon is holding its Prime Big Deal Days in October and this will create an opportunity for other retailers to compete on price. Being strategic about pricing and the timing of discounts will be important to battle ongoing inflationary pressures. By later in November and December, retailers may be able to pull back on the amount of discounting, as last-minute shoppers may be more willing to pay higher prices.



Want to maximize your digital presence and prepare your business for what tomorrow might bring?





People who know Retail, know BDO.

www.bdo.com/retail

DAVID BERLINER

Principal, Business Restructuring and Turnaround Services
dberliner@bdo.com

NATALIE KOTLYAR

Assurance Principal and Retail & Consumer Products National Leader
nkotlyar@bdo.com

ABOUT BDO'S RETAIL & CONSUMER PRODUCTS PRACTICE

BDO has been a valued business advisor to retail and consumer products companies for more than 100 years. The firm works with a wide variety of clients across the traditional retail, consumer product and ecommerce sectors, ranging from multinational Fortune 500 corporations to emerging businesses, on myriad accounting, tax and advisory issues.

ABOUT BDO USA

At BDO, our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes — for our people, our clients and our communities. Across the U.S., and in over 160 countries through our global organization, BDO professionals provide assurance, tax and advisory services for a diverse range of clients.

BDO is the brand name for the BDO network and for each of the BDO Member Firms. BDO USA, P.C., a Virginia professional corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms: www.bdo.com

Material discussed in this publication is meant to provide general information and should not be acted on without professional advice tailored to your needs.

© 2023 BDO USA, P.C. All rights reserved.

LEGAL DISCLAIMER

Turnaround and restructuring services as well as operational value creation services within the United States are offered through BDO Consulting Group, LLC, a separate legal entity and affiliated company of BDO USA, P.C., a Virginia professional corporation. Certain restructuring and turnaround services may not be available to attest clients of BDO USA under the rules and regulations of public accounting.