



RETAIL IN THE RED:

BDO BI-ANNUAL BANKRUPTCY UPDATE

AN OVERVIEW OF U.S. RETAIL BANKRUPTCIES AND
STORE CLOSURES IN THE SECOND HALF OF 2020

The COVID-19 pandemic served as a catalyst for a slew of bankruptcy filings by struggling retailers. Along with existing consumer preference shifts and continuing e-commerce growth, the pressures of government-mandated store closures pushed retailers already in crisis to the precipice.

2020 resulted in the largest number of retail bankruptcies filed since the financial crisis in 2009. However, the pace of Chapter 11 filings curbed off at the end of 2020, making the numbers less bleak than originally expected. This underscores the efficacy of retailers' resilience throughout the pandemic, including their ability to make faster decisions, respond to unforeseen demand shifts, and adjust their supply chains for stronger omnichannel

execution. However, retailers should not rely entirely on the changes made mid-pandemic to sustain momentum. Shifts like buy-online-pickup-in-store (BOPIS) and e-commerce capabilities are now the baseline, and it's time for retailers to think through their businesses' post-pandemic vision to keep their revenues up and risk of bankruptcy low.

BANKRUPTCY UPDATE

Retailers that Filed for Bankruptcy in the Second Half of 2020

	Company	Filing Date	Type	Bankruptcy Strategy / Result	Stores as of Petition Date	Store Closures Announced
4th Quarter	In-Shape Holdings	12/16/20	Leisure	Asset sale	65	0
	Francesca's	12/03/20	Apparel	\$18M going-concern bid from stalking horse bidders Tiger Capital and Francesca's Acquisition LLC	558	237
	Guitar Center	11/21/20	Specialty	Debt-for-equity swap: Elimination of nearly \$800M of debt and \$165M in new equity funding	510	0
	YouFit Health Clubs	11/09/20	Leisure	Court approved a sale to prepetition lenders (owed \$88M)	85	0
	Furniture Factory Ultimate	11/05/20	Home Furnishing	Sell assets to stalking horse bidder American Freight (credit bid \$13.8M in prepetition and DIP financing debt), plus \$739,000 in cash to fund wind-down	31	0
	YogaWorks	10/14/20	Leisure	Sell assets to a joint venture of MEP Capital Management and affiliates of GoDigital Media Group Inc for \$9.6M	60	60

BANKRUPTCY UPDATE CONTINUED

	Company	Filing Date	Type	Bankruptcy Strategy / Result	Stores as of Petition Date	Store Closures Announced
3rd Quarter	Town Sports International	09/14/20	Leisure	Court confirmed liquidation plan via a sale transaction through which TSI's prepetition lenders credit bid \$80M for joint ownership of the reorganized TSI with Peak Credit and 507 Capital	186	13
	Flywheel Sports	09/14/20	Leisure	Chapter 7 liquidation after a proposed sale of its studio business to Town Sports International fell through	42	42
	Century 21 Department Stores	09/10/20	Department Store	Liquidated 13 stores, sold IP for \$9M and the right to recover on insurance claims to the Gindi family (its founders) for \$59M cash plus 10% of proceeds	13	13
	KB US Holdings	08/23/20	Food	Sold most assets to Acme for \$96.4M. \$1.2M sale to Estevez Markets as efforts continue to liquidate	35	9
	Stein Mart	08/12/20	Apparel	Full chain liquidation	281	All
	Tailored Brands	08/02/20	Apparel	RSA to reduce \$686M of debt and turn ownership over to lenders/creditors, with 500 store closings	1,399	500
	Le Tote / Lord & Taylor	08/02/20	Apparel	Closed brick-and-mortar stores and lined up a \$12M sale of intellectual property assets to Saadia Group.	38	All
	Ascena Retail Group	07/23/20	Apparel	RSA to reduce debt by \$1 billion and close many stores. Seeking buyer for Catherines	2,800	>1000
	The Paper Store	07/14/20	Specialty	Court approved sale to stalking horse bidder; exited bankruptcy 9/1/20	86	0
	RTW Retailwinds	07/13/20	Apparel	Liquidating all stores; Asset purchase agreement for e-commerce business and IP with winning bidder, Saadia Group for \$40 million	387	All
	Muji U.S.A.	07/10/20	General merchandise	Reorganization to focus on e-commerce, with store closings	18	7
	Brooks Brothers	07/08/20	Apparel	Sold assets to stalking horse SPARC Group LLC for \$325 million	244	119
	Sur La Table	07/08/20	Home Décor	Sold assets at auction to CSC Generation and Marquee Brands for \$89 million	121	71
Lucky Brand	07/03/20	Apparel & Accessories	Sold assets to stalking horse SPARC Group LLC for \$191.6 million	>200	0	

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

Retailer Type	# Filings	Announced Store Closings	Store Closings %
Apparel/Footwear	8	2,562	92%
Home Furnishings	2	71	3%
Department stores	1	13	0%
All Other*	9	131	5%
TOTAL	20	2,777	

*Includes 5 leisure facilities, 2 specialty, 1 food and 1 general merchandise retailers.

There were 15 major filings in the first half of 2020: 14 in the 3rd quarter—including Brooks Brothers and Le Tote/Lord & Taylor. However, there was a clear slowdown in retail bankruptcy filings after Labor Day, with only six in the 4th quarter, including Guitar

Center and Francesca's. In addition, there were four bankruptcy filings in January 2021, only two of which were by retailers with more than 25 stores (Christopher & Banks and L'Occitane).

BANKRUPTCY UPDATE

Retailers That Filed for Bankruptcy in January 2021

Company	Filing Date	Type	Bankruptcy Strategy / Result	Stores as of Petition Date	Store Closures Announced
L'Occitane	01/26/21	Specialty	Closing at least 23 stores in store footprint optimization plan	166	28
Christopher & Banks	01/13/21	Apparel	Going concern sale of e-commerce business and liquidating 449 brick-and-mortar stores through GOB sales	449	449
Tea Olive I, LLC (Stock+Field)	01/10/21	Internet / Direct Marketing	Liquidating business and shutting down all stores	25	25
Love's Furniture	01/06/21	Home Furnishing	Liquidating excess inventory, closing 13 stores and seeking to restructure up to 12 stores	25	13

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

Some retailers that hung on through the holiday season with expectations of capturing Q4 sales upticks may have been disappointed. The [National Retail Federation](#) (NRF) says holiday sales grew 8.3%—the highest growth rate on record—with year-over-year gains in six of nine categories, but declines most notably in electronics and appliance stores (-14.4%) and in clothing and clothing/accessory stores (-14.9%). Meanwhile, the latest [U.S. Department of Commerce](#) figures show total retail sales in 2020 increased 6.9%. This marks the highest growth since 1999 and the first time in history that e-commerce sales accounted for all of retail sales gains, indicating that sales through all other channels—including brick-and-mortar stores—declined.

Despite overall sales growth last year, the final 2020 retail sales figures will not be known until returns have been processed from the holiday season. According to a [recent survey](#) by the NRF and Appriss Retail, returns account for more than \$400 billion in lost sales for U.S. retailers, and online returns more than doubled from 2019. On average, retailers expect 13.3% of merchandise sold during the 2020 holiday season to be returned, which is expected to cost retailers \$101 billion, according to the survey. The level of returns experienced by distressed retailers may be their tipping point toward bankruptcy.

Navigating the impact of returns and unbalanced inventory on retailers' bottom lines is even more critical during pandemic recovery. Throughout 2020, retailers were subject to pandemic-

driven extremes such as an unanticipated oversupply in apparel and sustained heightened demand for household essential products. Too little inventory results in some lost sales, while too much typically results in heavy price discounting to clear out unsold goods.

Malls were, and continue to be particularly impacted by the decline in foot traffic and the rise of e-commerce. The mandated closures and capacity limits on experience-based tenants—including movie theaters and gyms—further depressed foot traffic. In the second half of 2020, several mall-based retailers filed for bankruptcy, including Tailored Brands (Men's Wearhouse and Jos. A. Bank), Le Tote (Lord & Taylor), Ascena Retail Group (Justice, Lane Bryant, Catherines and Ann Taylor + Loft), FTW Retail Winds (New York & Company), Brooks Brothers, Lucky Brand and Francesca's. This was in addition to the bankruptcy filings of major retailers in the first half of 2020, including Pier 1, Neiman Marcus, JC Penney and GNC. The numerous filings

and store closings of mall-based retailers also gave rise to mall vacancy rates, which grew to 10.5% by Q4—the highest in twenty years—up from 10.1% in Q3 and 9.7% in 2019, according to [Moody's Analytics REIS](#). Looking ahead, Coresight Research estimates 25% of America's roughly 1,000 malls will close over the next three to five years. Underperforming malls are less able to rely on anchor stores to drive foot traffic, requiring them to transform. Previously vacant space may need to be reimaged into healthcare facilities, office space and other non-retail uses.

In the coming months, retail success—both in and out of malls—may depend on rethinking business models to adapt to changing consumer preferences and demand shifts. The pandemic drove many retailers to enhance their omnichannel strategies, including adding curbside pickup, a trend likely to continue post-pandemic. However, these solutions come with a potential reduction in impulse purchases, which have long been profit-drivers for brick-and-mortar retailers.

STORE CLOSURE UPDATE

Retailers Not in Bankruptcy that Announced Closing 50 or More Stores in the Second Half of 2020

Company	Type of Retailer	Store Closures Announced
GameStop ¹	Computer and Electronics	450
Pet Valu	Specialty	358
Gap	Apparel	350
Bed Bath & Beyond ²	Home Décor	263
American Eagle Outfitters	Apparel	225
Carter's	Apparel, Accessories, and Luxury Goods	200
Caleres	Apparel	133
Chico's ³	Apparel	110
Designer Brands	Apparel	80
TOTAL		2,169
Store Closings Announced by Bankrupt Retailers		2,777
GRAND TOTAL		4,946

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

¹ GameStop announced up to 130 additional closings this year from the initial 320

² Bed Bath & Beyond announced 63 additional closings this year from the initial 200

³ Chico's announced 50 additional closings this year from the initial 60

Some retailers that avoided bankruptcy in 2020 were able to do so by right sizing their assets. As the pandemic upended the in-store experience, retailers unable to sustain operations at existing levels began to reevaluate their store portfolios.

After bankrupt and non-bankrupt retailers announced around 10,000 store closings in the first half of 2020, the second half

of the year showed a marked decrease, with approximately 4,900 closings announced. A significant number of the store closing announcements were made by apparel retailers, which comprised the majority of the closings by retailers both in and out of bankruptcy.

According to [CoStar Group](#), 159 million square feet of retail space was closed in 2020. Vacancy rates across the retail sector overall averaged 20% in the second half of the year, according to [Statista](#). These vacancies leave significant retail space to be repurposed, especially in malls, which have a high concentration of apparel retailers.

In the year ahead, 36% of retailers are eliminating or consolidating floor space as a means of cost optimization and

31% are reducing their mall-based stores, according to the [2021 BDO Retail CFO Outlook Survey](#). For stores that are being preserved, retailers will need to focus their attention and investments toward a hygiene-centric, safe and convenient customer experience. For some, making the decision to shutter select locations may be difficult, but freeing up resources to focus on larger revenue generators can help boost the business's long-term health.

BDO'S TAKE:

OUTLOOK FOR THE FIRST HALF OF 2021 AND BEYOND

It is clear the pandemic will continue to have a far-reaching impact on retailers. The [2021 BDO Retail CFO Outlook Survey](#) also reported 42% of retailers expect to restructure as industry revenue declines persist. Additionally, 40% of CFOs surveyed are reevaluating their real estate footprint this year and the uncertain timing of COVID-19 vaccinations have brands preparing for reduced consumer traffic and spending extending into the summer.

Perhaps the most pertinent takeaway from the state of retail in 2020 is that retailers need to have the ability to pivot quickly and adapt their business models. While it's difficult to plan for all potential business disruptions, the retailers likely to thrive will be those that demonstrate agility in addressing and adapting to customer needs.

We expect the first half of 2021 will continue to see some retail bankruptcies and store closings, but at a slower rate than in 2020. The initial impact of the coronavirus pandemic hastened trends that were negatively affecting the industry for several years, leading to a large number of bankruptcies. As a result, the most distressed retailers have already gone through a restructuring. However, a recovering economy and evolving industry will certainly result in more retailers struggling, leading to a lower—but steady—pace of filings and store closures.

For more information, contact:

DAVID BERLINER

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

NATALIE KOTLYAR

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

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 65 offices and over 740 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 88,000 people working out of more than 1,600 offices across 167 countries and territories.

BDO USA, LLP, a Delaware limited liability partnership, 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. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

Restructuring and turnaround services within the United States are offered through BDO Consulting Group, LLC, a separate legal entity and affiliated company of BDO USA, LLP, a Delaware limited liability partnership and national professional services firm. Certain restructuring and turnaround services may not be available to attest clients of BDO USA under the rules and regulations of public accounting.

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

© 2021 BDO USA, LLP. All rights reserved.



People who know Retail, know BDO.

www.bdo.com/retail

