

2020 Was a Watershed Year for Retail Bankruptcies

2020 will go down in history for many dubious distinctions, including retail bankruptcies. There have been more than three dozen bankruptcy filings by national and regional chains as stores were shuttered due to Covid-19, decimating sales for nonessential legacy brick-and-mortar businesses.

The number of consumer facing businesses that restructured in court is even larger when you include fitness centers, such as 24 Hour Fitness and restaurant chains like Chuck E. Cheese, both of which have been cleared to emerge from bankruptcy.

In all, retail filings resulted in a record default rate of nearly 20%, meaning that a fifth of all high-yield loans held by retailers amounting to \$10.6 billion were defaulted on during the past 12 months, according to credit rating agency Fitch.

In fact, the \$10.6 billion figure is nearly twice the previous high of \$5.7 billion notched in 2017, according to Eric Rosenthal, senior director of leveraged finance at the firm.

Among the cases were some of the largest retail bankruptcies in recent years, including those of luxury purveyor Neiman Marcus and department store banner JCPenney.

“Most of the defaults we expected to see over the next couple

of years, with or without a pandemic, happened,” said David Silverman, a retail analyst at Fitch, noting that there were no surprises.

Not all retailers that filed for bankruptcy protection did so due to near-term debt maturities.

Tailored Brands, the parent of Men’s Wearhouse, is an example of a merchant that “strategically” used Chapter 11.

“We believe that some retailers have used the bankruptcy process in 2020 to both ‘clean up’ their capital structures as well as improve their store portfolio by closing stores at a more accelerated pace than their lease terms would otherwise allow,” Silverman said.

The good news for nonessential retailers that struggled during 2020 is that 2021 looks relatively more promising with vaccines being distributed.

In addition, Some level of herd immunity could be reached by early fall, said Dr. Anthony Fauci during a Facebook interview with California Governor Gavin Newsom Wednesday. That would result in some return to normalcy, likely bolstering the sale of apparel, accessories and beauty, as well as restaurants, travel and entertainment in the second half of the year, Silverman said.

According to its 2021 outlook, rating agency Moody’s said that department stores, off-price and specialty stores will likely see the largest rebounds in operating profit in 2021, though it will take several years for apparel to return to pre-pandemic levels.

Rating agency S&P’s expectations are along the same lines, stating that it believes consumers will shift their dollars back to experiences in the second half after continuing their current spending patterns into the first six months of 2021.

More immediately, retail will get a bit of a boost from a \$900 billion stimulus package signed into law Sunday night.

On the other hand, and perhaps ironically, the new year could prove more challenging for essential retailers (of which Target and Home Depot are examples) that did well during the pandemic, according to Silverman. That's because their sales are likely to be below the heady levels of 2020 with consumers reallocating dollars back to travel, dining and entertainment in the second half of the year under a new normal, he said.

"We actually think retailers could in general have a more challenging year in 2021," Silverman said.

Moody's singled out grocery in particular as likely to see a decline in operating profit in 2021.

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