

Guitar Center's Bankruptcy Adds to Toll on Retail

Musical instrument chain Guitar Center filed for chapter 11 bankruptcy protection over the weekend in Virginia as the pandemic continues to take a toll on the beleaguered retail sector.

However, there's some room for hope: The number of retailers at risk of defaulting and restructuring either in or out of court is declining.

Granted, part of the reason so many names were taken off the list is because they have already filed. But a few retailers have figured out how to avoid a trip to court. For example, apparel retailer Land's End and storage products retailer The Container Store both managed to refinance their debt over the last few months, removing them from danger, said David Silverman, a retail analyst at rating agency Fitch.

Several of the usual suspects remain endangered: department store chain Belk; apparel retailers JoAnn Stores, Boardriders, Iconix and J. Jill; and specialty retailers such as Party City, multi-level dietary supplement marketer Isagenix, mattress purveyor Serta Simmons Bedding, sock manufacturer Renfro Brands and online jewelry retailer Blue Nile.

Apparel, jewelry and accessories also continue to get beaten up, in part due to shoppers continuing to shelter in place, resulting in less of a need for replacement items in these categories, Silverman said. The most troubled retailers tend to fall into the apparel category, but several beauty brands are also on the default watchlist, including Revlon, Anastasia Beverly Hills and Rodan & Fields.

Clothing aside, the purchase of consumer products is broadly expected to improve at the expense of leisurely activities such as travel and dining, Silverman said.

In fact, as consumers shift dollars away from leisure and entertainment, which includes travel, the category has surpassed retail as the most worrying. Among Fitch's top loans of concern in the space include tourism-dependent ferry operator Hornblower, theater chains Cineworld Cinemas and AMC Entertainment and fitness chains Equinox and L.A. Fitness International. Cinemas did receive some good news, though, with Warner Media planning to release action movie Wonder Woman 1984 this December.

Restaurant chains on watch include Red Lobster, Miller's Alehouse, Burger Boss, Checkers Drive-In and Steak 'n Shake, according to the rating agencies.

The leveraged loan default rate for retail remains at a record level of 19.6%, meaning that nearly a fifth of all loans held by retailers were defaulted on during the past 12 months, according to Fitch.

"The holiday season will be very difficult to analyze this year, as it essentially began several weeks ago with retailers spreading out discounts over a longer time frame to encourage in-store social distancing," Silverman said.

Fitch is looking at a number of factors that could impact consumer sentiment and purchase decisions, including political news, implications for a future stimulus in 2021, recommended or forced shelter in place activity and vaccine rollout, he said.

"We think the holiday will contain many of the same trends we have seen this year, with a number of retail categories continuing to benefit from wallet shifts away from services like travel, entertainment, sporting events, dining out, and so on," Silverman explained. "The consumer is also benefitting

from strength in asset prices like homes and equities. While trends at these categories are expected to sequentially improve during the holiday period, revenue across most representative companies is expected to be down meaningfully compared with 2019.”

For its part, rating agency S&P expects consumer spending to increase only 0.3%, excluding the purchase of food and beverage, during November and December, well below the 4.6% average increase over the last 20 years.

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