October 11, 2017

Who Can Answer the Retail Industry's Distress Call?

RETAIL
BY SCHNEIDER DOWNS PROFESSIONAL

For anyone who has been following the retail industry closely during 2017, it's common knowledge that retail, in conjunction with the restaurant industry, is considered among the industries suffering most in the U.S. In fact, according to the S&P, approximately 21% of companies in these industries are considered distressed. Therefore, it's no surprise that the industry has been rocked with various big name bankruptcy filings throughout the year. Big name retailers filing for bankruptcy this year include RadioShack, Payless ShoeSource, Gymboree, and most recently, Toys R Us, among others.

The bankruptcy apocalypse isn't just hitting home. Our pals to the north are seeing similar trends across the industry. In June 2017, Sears Canada filed for bankruptcy, stating that it was dangerously close to running out of cash and it needed to seek out financing in order to fund operations. Additionally, Sears Holdings (U.S.) has issued similar statements in the past, questioning its ability to stay in business.

As if these bankruptcy filings weren't already a big enough blow to the industry, various U.S. retailers are taking the unfortunate plunge into junk terrain. According to CNBC, "the percentage of U.S. retailers with high-risk CCC ratings has doubled since the beginning of the year." As the industry continues to face changing consumer demands and increased competition, especially surrounding e-commerce, approximately 18% of U.S. retailer ratings fall in the CCC range. Big names on the CCC rating list include The Neiman Marcus Group and Bi-Lo Finance, the owner of supermarket chain Winn-Dixie Stores.

So, who can answer the industry's resonating distress call? The answer may lie with private equity investors. As banks have become increasingly wary of the retail industry's landscape, some big names like Nordstrom and Hudson's Bay (owns Saks, Lord & Taylor, and Gilt Group) have elected to try to take the businesses private. However, even these private equity firms are showing caution when electing to make deals with these retailers. Some failed when they weren't able to stand strong under the weight of significant debt that comes with their investees. As mentioned, Payless ShoeSource and Gymboree filed for bankruptcy during 2017; both were privately backed.

Another answer to the industry's call might be upcoming holiday sales. As of October 3, 2017, the National Retail Federation forecasted retail sales for November and December "to increase between 3.6 and 4 percent for a total of $678.75 billion to $682 billion, up from $655.8 billion last year." While this short-term boost in sales will not completely save the stressed industry, it can certainly assist in possibly ridding the skittish banks and private investors of their caution when making deals with retailers. Right now, it seems there is no definite answer as to what can pull the industry out of its slump. However, the industry's distress call continues to sound.

For more information, contact Schneider Downs or visit the Our Thoughts On blog.

You've heard our thoughts… We'd like to hear yours

The Schneider Downs Our Thoughts On blog exists to create a dialogue on issues that are important to organizations and individuals. While we enjoy sharing our ideas and insights, we're especially interested in what you may have to say. If you have a question or a comment about this article – or any article from the Our Thoughts On blog – we hope you'll share it with us. After all, a dialogue is an exchange of ideas, and we'd like to hear from you. Email us at contactSD@schneiderdowns.com.

Material discussed is meant for informational purposes only, and it is not to be construed as investment, tax, or legal advice. Please note that individual situations can vary. Therefore, this information should be relied upon when coordinated with individual professional advice.

© 2024 Schneider Downs. All rights-reserved. All content on this site is property of Schneider Downs unless otherwise noted and should not be used without written permission.