EMEA Retail And Restaurants
Industry Overview, Credit Trends, And Outlook

Oct. 16, 2020

S&P Global
Ratings

Key Takeaways

- COVID-19 has transformed the retail sector, with an accelerated transition to e-commerce and "omnichannel" platforms becoming increasingly indispensable to support the bricks and mortar stores.
- Apparel retailers and the travel retail channel have suffered the most, while grocers, DIY, and home improvement retailers have seen a significant increase in their top line.
- Retail sales have picked up pace in the third quarter, with online sales rising sharply. Higher logistics and transportation costs will dilute profitability, with retailers incentivizing click and collect to encourage footfall..
- The restaurants and pubs sector will remain under pressure for the foreseeable future, with government support and measures offering some short-term relief.
- With around two-thirds of the portfolio affected, the pace of negative actions slowed in the second half of the year. Over half of the issuers we rate in the sector have a negative outlook or are on CreditWatch with negative implications.
- Ratings have transitioned toward the lower end of the spectrum, with a higher number of defaults. Solvency remains a growing risk for 10% to 15% of speculative-grade retail and restaurants, with unsustainable capital structures, particularly once official support programs taper off.

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European Macroeconomic Overview

Top European Risks

Economic costs mount without a COVID-19 vaccine and continued fiscal support

Risk level Very low Moderate Elevated High **Very high** Risk trend **Improving** Unchanged Worsening

Insolvency remains a major concern for more vulnerable corporates

Risk level Very low Moderate Elevated **High** Very high Risk trend Improving Unchanged **Worsening**

Global trade tensions still cast a shadow over the global economy

Risk level Very low Moderate Elevated **High** Very high Risk trend Improving **Unchanged** Worsening

Extended uncertainty inhibits consumer spending

Risk level Very low Moderate **Elevated** High Very high Risk trend Improving **Unchanged** Worsening

U.K. and EU fail to negotiate a free trade agreement by year-end

Risk level Very low Moderate **Elevated** High Very high Risk trend Improving Unchanged **Worsening**

Risk levels may be classified as very low, moderate, elevated, high, or very high, and are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one-to-two years. Typically, we do not factor these risks into our base-case rating assumptions unless the risk level is very high. **Risk trend** reflects our current view on whether the risk level could increase or decrease over the next 12 months. Source: S&P Global Ratings.

- The resurgence of the virus across Europe support our expectation that the hardest-hit sectors will not recover to 2019 levels until 2023 or later.
- COVID-19 has led to the deepest recession since the Great Depression. The path to recovery remains very uncertain in its timing and trajectory until an effective treatment or vaccine is in place.
- A record level of companies rated 'B' and lower as we entered the pandemic will result in speculative-grade default rate to rise to 8.5% by June 2021 from our latest estimated default rate of 3.8%.

Real GDP Forecasts

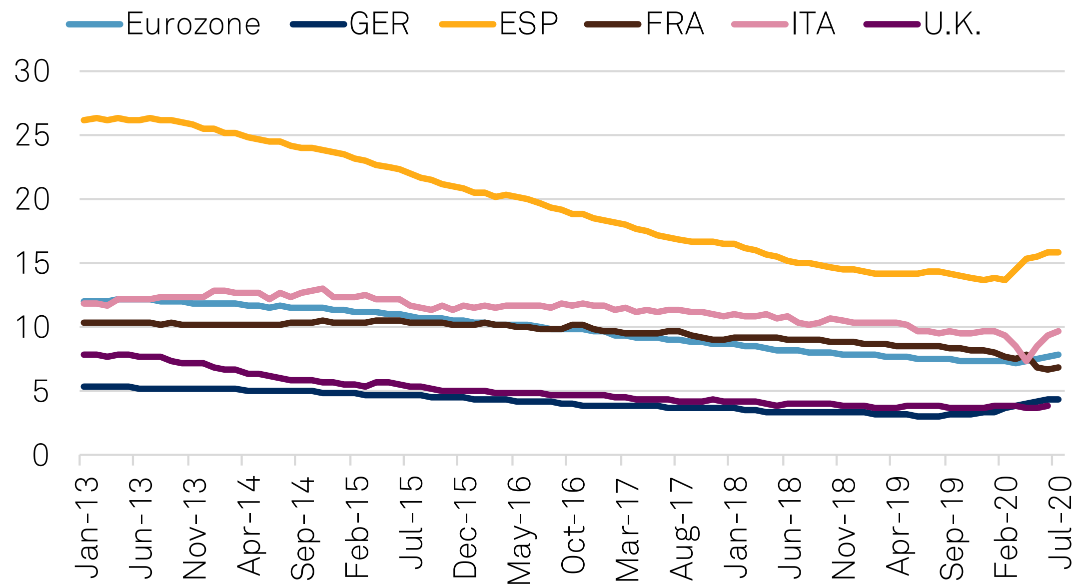
% year-on-year	2019	2020	2021	2022	2023
Germany	0.6	(5.4)	4.7	2.4	1.6
France	1.5	(9.0)	7.7	2.8	2.2
Italy	0.3	(8.9)	6.4	2.3	1.5
Spain	2.0	(11.3)	8.2	4.3	2.6
Netherlands	1.6	(5.2)	3.8	2.9	2.2
Belgium	1.4	(7.6)	5.5	3.4	1.8
U.K.	1.5	(9.7)	7.9	3.0	2.0
Switzerland	1.2	(4.3)	3.9	2.8	1.9
Eurozone	**1.3**	**(7.4)**	**6.1**	**3.0**	**2.0**

Source: "The Eurozone Is Healing From COVID-19," Sept. 24, 2020, S&P Global Ratings.

Consumer Confidence | Improving But On Shaky Ground

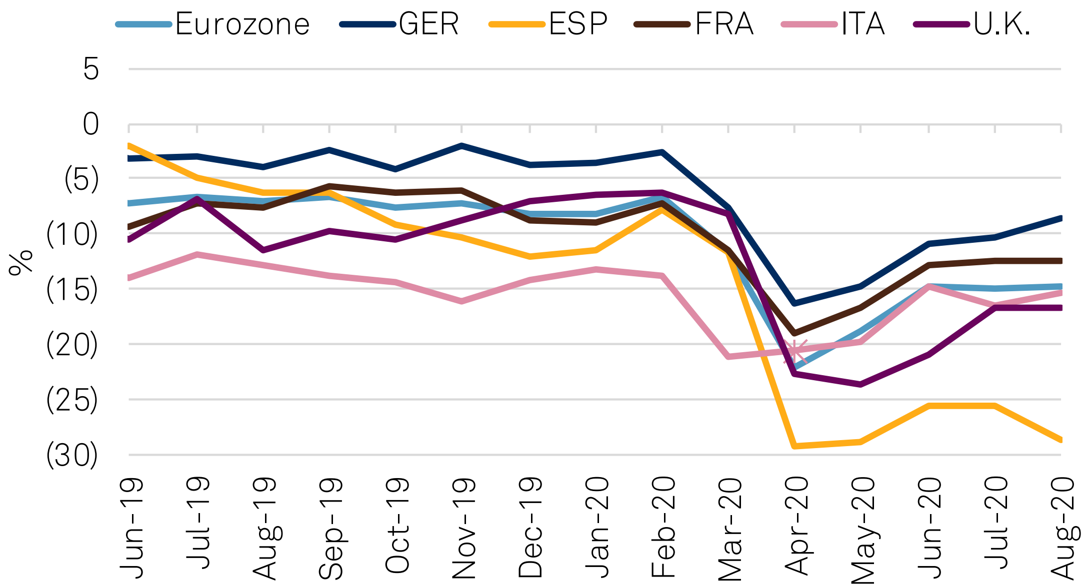
- Government support in the form of short-time work schemes should ensure the rise in unemployment remains contained in 2020 and early 2021, helping business and consumer confidence recover further.
- Consumers' expectations are improving, driving higher retail sales in Q3 2020.

Consumer Confidence Balance



*Seasonally adjusted data, not calendar-adjusted data. *Data for Italy in April 2020 were missing, therefore the line was smoothed on this data point. Source: Eurostat. The indicator represents the balance, i.e. the difference, between positive and negative answers (in percentage points of total answers).*

Unemployment, As A Percentage Of The Active Population



Seasonally adjusted data, not calendar -adjusted data. Source: Eurostat.

Retail & Restaurants
Industry Trends

S&P Global
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Sector Overview | Comparatively Resilient, But Long Road To Recovery

The pace of downgrades has slowed; one-notch impact for the majority.

Apparel & general retail: Omnichannel focus is paramount
- Longer-term disruption as shopping habits change.
- Need to mitigate cash costs at bricks and mortar stores.
- Competition remains intense despite weak top lines.

Ratings: 'B-' and lower; Some capital structures risk becoming unsustainable.

Restaurants & pubs: On-trade consumption remains weak
- Pubs and casual dining severely affected.
- Quick service restaurants could bounce back with changes.
- Highly leveraged capital structures.

Spike in demand highlights operational challenges in scaling up e-commerce and supply chain capacity.

Grocers: A bright spot; margin uplift subdued
- Robust demand for staples: Private labels versus brands.
- Capacity issues and higher costs limit earnings growth.
- Hypermarkets/supermarkets--sharp drop in nonfood sales.

Liquidity: Adequate; Solvency doubts for some

Top lines: Still down by about 10%-25%
- Lower footfall versus e-commerce growth.

Working capital
- Tough balancing act as demand picks up slowly.

Higher costs
- Keeping a lid on operating costs is a struggle.

Rents: Landlords push back on variable rents
- Deferrals or quarterly payments in many cases.
- Rates holidays offer some relief.

Financial policy: "Obvious" self-help
- Shareholder returns cut.
- Capex (especially e-commerce) hard to reduce.

– Rating actions on approximately **two-thirds of the portfolio**; discretionary, apparel, travel retail, and restaurants most affected.

– The rift between essential and discretionary retail has widened.

– For nonessential and discretionary retail, the timeframe of recovery of (run-rate) credit metrics to 2019 levels is beyond 2023.

COVID-19 Will Shape The Future Of Retail

- As countries look to ease the restrictions and open their economies, beleaguered retailers have to rapidly adapt to doing business in a pandemic.
- We foresee far-reaching and lasting effects on the business models of most retailers and restaurants.
- These will transcend the selling process; relationships with customers; and changes to product mix, supply chains, store bases, and store configuration.
- Credit quality will to a large extent depend on how these companies adapt, evolve, and reposition themselves in a dramatically changed environment.
- The biggest challenge will be to invest in and fund this transformation, while dealing not only with the pandemic, but also with an acceleration of the digital disruption that most of the sector has endured in recent years.

For more information, please refer to:
https://www.spglobal.com/ratings/en/research/articles/200527-covid-19-will-shape-the-future-of-retail-11500756

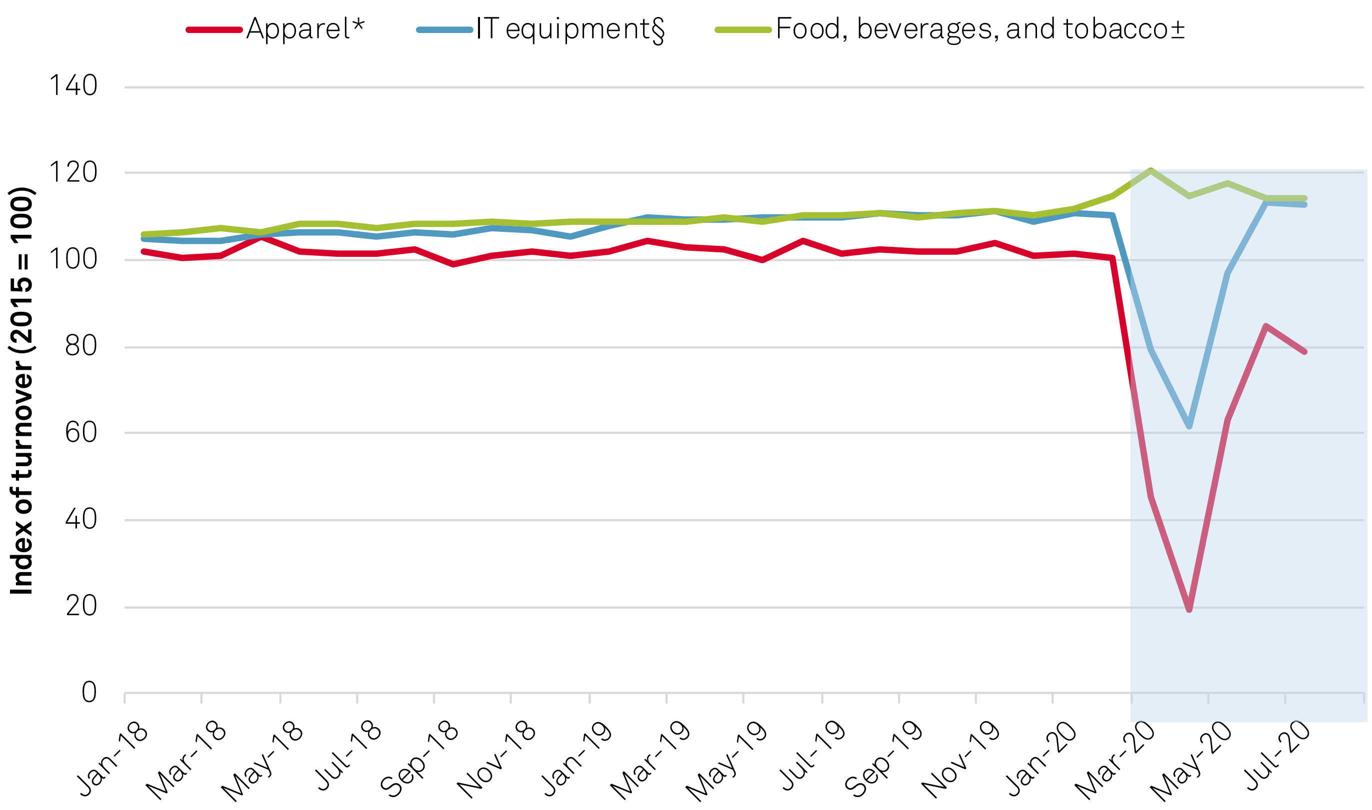
Retail Rebooted: Trends That Will Dominate

Sales Process	- Greater and more frequent customer interaction, across platforms - Clear customer proposition around convenience and value - Fewer SKUs for essentials; targeted offering for discretionary goods - Transactions facilitated by epayments, delivery options, and easy returns
Omnichannel	- Omnichannel capability will become indispensable - Move to “Phygital”: stores will only be a part of the wider marketplace - Right sizing of store portfolio - Investment in dark stores, picking facilities, and warehousing
Supply Chain	- Diversified and more visible supply chains - More risk-based and sustainable approach to sourcing - Balance between time, cost, and quality with customer expectations - Build credentials around quality, traceability, and provenance
Cost Structure	- Lower operating leverage, with more cost levers and flexibility - Link level of customer service with product margins - More turnover-based rents; flexible lease terms, easier exit clauses - Less onerous rates and commercial property taxes

SKUs—Stock-keeping units. Source: S&P Global Ratings.

Eurozone Retail Sales | Standout Sectors

Eurozone Retail Sales



*Retail sales of textiles, clothing, footwear, and leather goods in specialized stores. §Retail sales of computers, peripheral units, and software; telecommunications equipment etc. in specialized stores. ±Retail sales of food, beverages, and tobacco. Seasonally and calendar-adjusted data. Source: Eurostat±.

Food, beverages, and tobacco

- Most grocers were able to operate through the lockdowns because they were considered essential retailers.
- The closure/restrictions on restaurants and bars, and social-distancing measures, increased demand for in-house food consumption and grocers' footfall.

Apparel

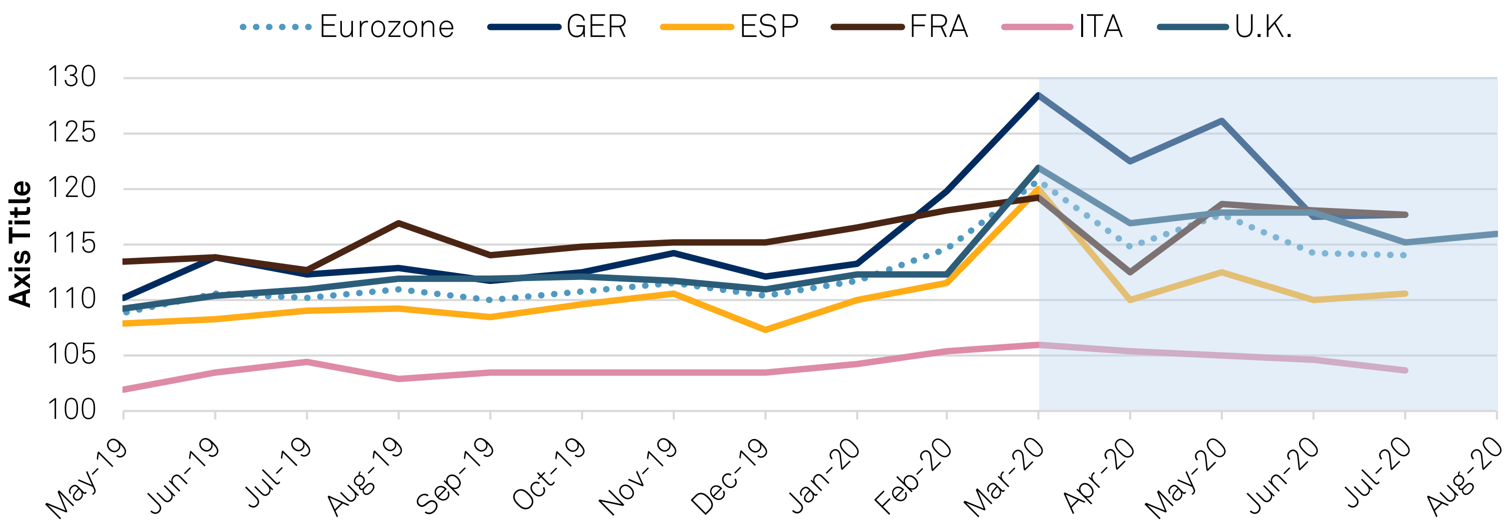
- With social gatherings being discouraged and people working from home, demand for apparel dropped substantially in Q2 2020.
- Child, lounge, and sportswear performed well, in contrast to occasion and formal wear.
- Trading during the summer recovered, with larger brands, such as Next, reporting a strong and increasing pickup in sales.

IT equipment, DIY, and home improvement

- The shift toward home offices increased sales of IT equipment, which are now above prepandemic levels.
- DIY retailers, such as Kingfisher, Hornbach, and Maxeda, also reported sales surges, as consumers spent more on home improvements in the absence of travel and with more time spent at home.

Food Retailers | Building Capacity At A Cost

Food, Beverage, And Tobacco Sales In Europe



Index of turnover (2015 = 100); retail sales of food, beverages, and tobacco. Seasonally and calendar-adjusted data. Source: Eurostat.

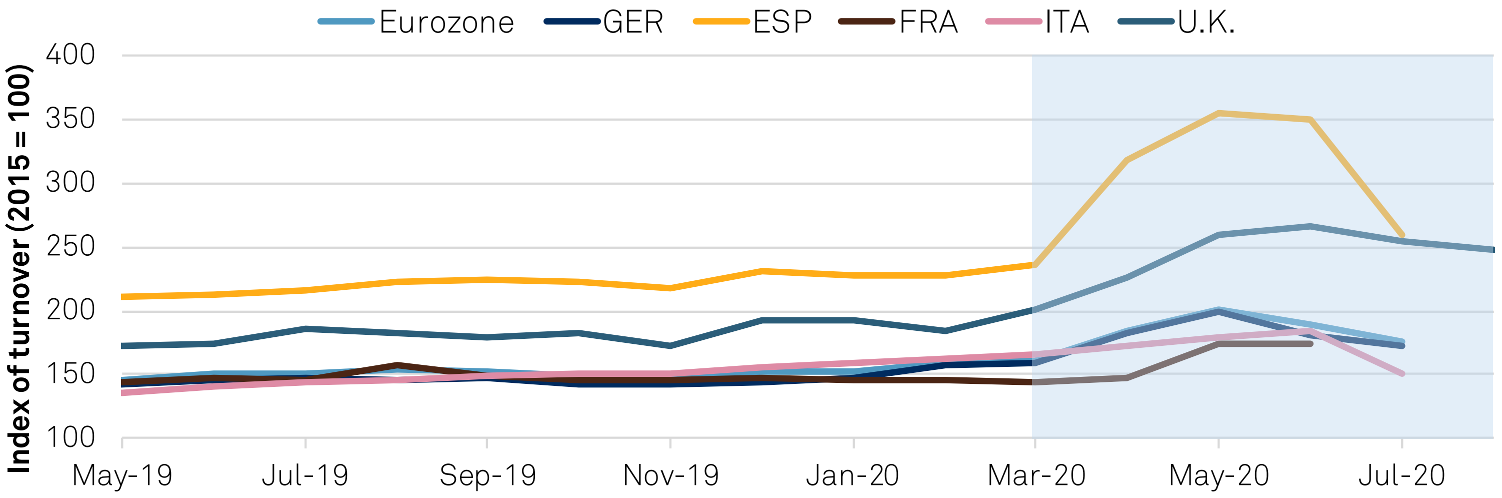
- **French** grocers show solid volume growth in the face of significant competition; hypermarkets fail to gain significant ground as customers favour convenience stores.
- **German/Austrian/Dutch** grocery chains enjoyed strong volume and price growth during the lockdown, with solid sales volumes well into summer. In light of traditionally low online penetration in Germany and Austria, profitability even increased--at least temporarily.
- **U.K.** grocers have benefited from a large and steady increase in volumes, with the exception of August, when out-of-home consumption was boosted by the government's "Eat Out To Help Out" scheme.

Higher costs and investments

- Self-isolation and social-distancing measures caused a surge in demand for online groceries, with many first-time buyers.
- The industry is trying to build capacity to catch up with demand, but bottlenecks and service disruptions will be unavoidable.
- Capacity issues will also affect physical stores and logistics.
- Generally, increased basket sizes will more than offset footfall declines, with convenience formats, wine and spirits, and frozen foods outperforming the rest of the market.
- In contrast, food service companies such as Metro suffered from lower demand from restaurants and hotels during the lockdown. Since June, Metro's sales have recovered quickly.
- Customers' preference for convenience will mean larger stores underperform proximity stores.
- Greater focus on sustainability driven by customers' preference for fresh and healthy products.

Online Retail Sales | Welcome To The New Normal

E-Commerce Proliferation Trend Boosted By Shop Closures Will Partly Reverse



Retail sales via mail-order houses or via the internet. Seasonally and calendar-adjusted data. Source: Eurostat.

Removing the middleman: How producers are targeting consumers directly

- Many consumer goods companies are trying to capitalize on the increase in online sales penetration by developing direct-to-consumer e-commerce offerings and investing in warehouses to serve the online operations.
- These operations, however, intrinsically bear logistics and transportation costs, which will weigh on profitability.
- The successful IPO of THG Holdings indicates strong investor interest in online disruptors.

Omnichannel investment gains momentum

- During the lockdown, the online channel represented the main source of sales for many nonessential retailers.
- Companies continue to implement social distancing and enhance cleaning routines at their warehouses, with extra costs and lower capacity.
- Apparel retailer Next, for example, closed its online operations for two weeks during lockdown to organize new logistics. This was followed by a strong pickup in sales.
- In Spain, department store operator El Corte Ingles kept its essential food and e-commerce divisions operational during the shutdown, with online sales increasing fivefold during that time.
- In Germany, online off-price retailer S&B showed strong demand in the online channel, overcompensating for the sales decline in stores. As a result, increased rebates in March only burdened margins temporarily.
- Further investment in omnichannel capabilities will continue to boost growth.

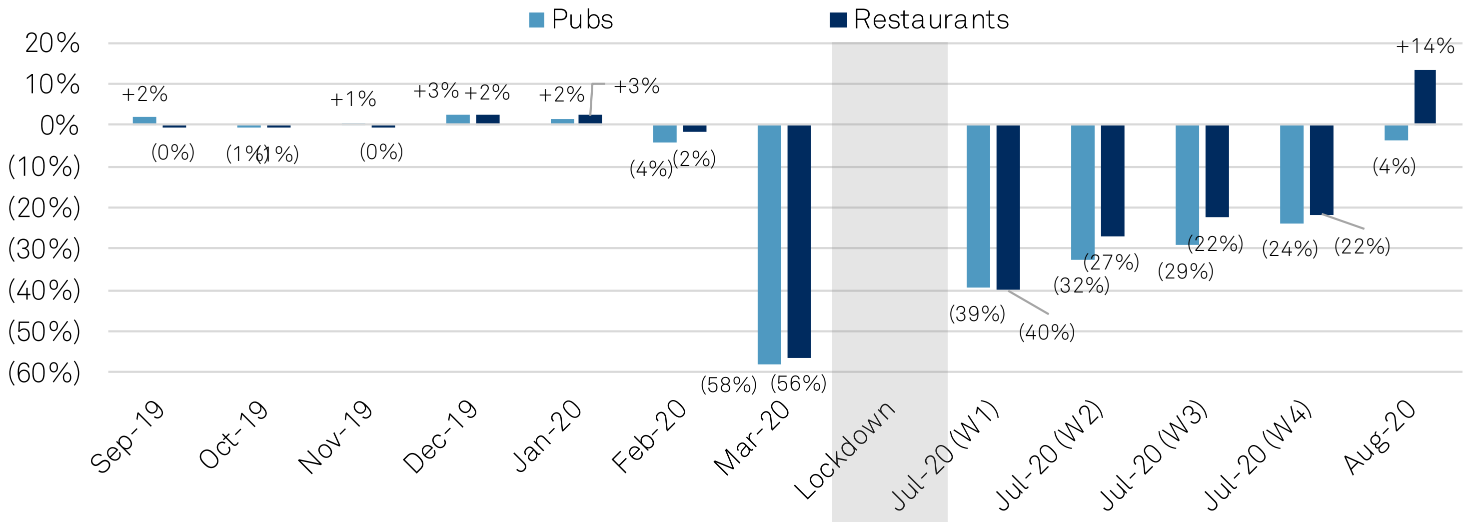
Retail | Acceleration Toward "Phygital" Stores

Respond	Re-evaluate	Reposition
– Exiting underperforming stores – Extending leases for profitable locations – Build/rebuild/renovate – Dedicated real estate management teams – Sale and leasebacks (set to reduce following International Financial Reporting Standards 16)	– Store portfolio analysis – Review store mix, type – Exit sites even at a cost – Enhance warehouse and distribution capacity – Redesign sorting, picking, and packaging – Warehouses and dedicated dark stores for click and collect and more focus on distribution centers	– Proactively tackling excess store capacity – Store-in-store/co-branding – Integrated store-online operations – Connected stores; warehouses; distribution centers; click and collect – Automation/AI to generate efficiencies – Cut delivery time and last-mile delivery and returns costs – Enrich customer experience
Responding to business needs	**Well advanced**	**"Phygital"--stores and digital functions in sync**

- Recognition of the need for an integrated and focused real estate, e-commerce, and logistics strategy that enhances omnichannel capability.
- Many retailers are at the early stage of a longer-term journey to strategically repurpose their physical store estate, in order to gain competitive strength and manage their store cost base.

Restaurants & Pubs | "Eat Out To Help Out" Did Help Out, Briefly

Coffer Peach Business Tracker: Like-for-Like Sales Evolution



Source: CGA.

Recovery has been boosted by government support, but is unlikely to keep up

- The "Eat Out To Help Out" scheme in the U.K. temporarily boosted the sector's recovery.
- Managed pub operators were able to reopen swiftly, with more than 90% of the estate open by the end of July. Restaurant reopenings were progressive, only over a one-third of restaurants reopened in July and 65% in August. Wet-led establishments underperformed, with bars' August like-for-like sales down more than 25% year on year.
- Government-imposed trading restrictions and worsening weather conditions will put pressure on the industry's recovery prospects, and we do not expect summer trading levels to be sustained during the rest of 2020.

Related rating actions

U.K. Corporate Securitizations

Ratings on the most senior notes have been generally unaffected, as these benefit from additional liquidity sources, as well as protection from lower-ranking notes in the waterfall.

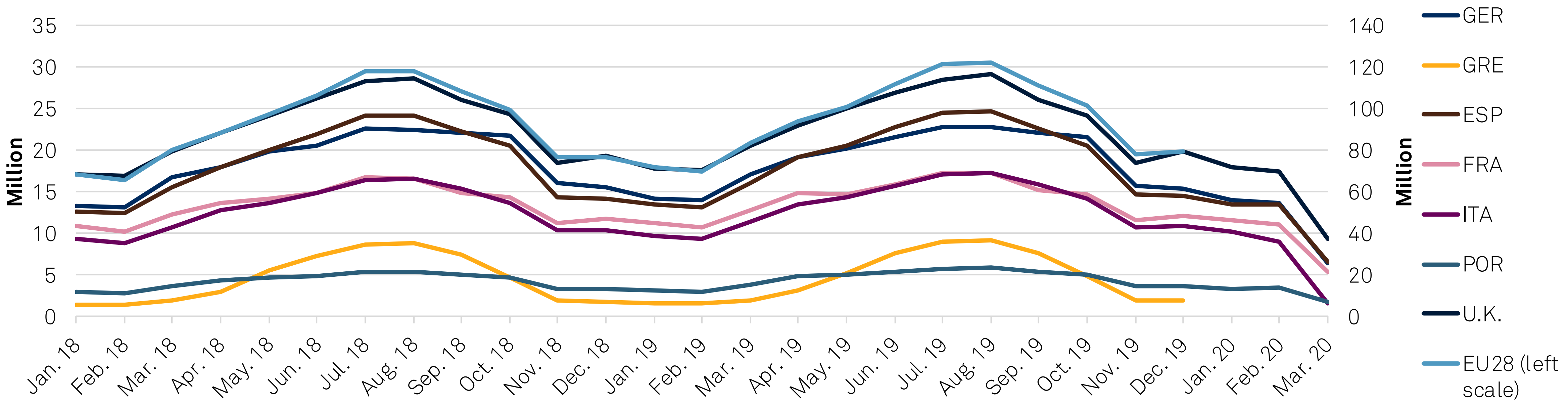
Specifically, we have taken the following rating actions:

Greene King Finance	
- Class A & AB:	Affirmed at 'BBB(sf)' and 'BBB-(sf)' respectively
- Class B:	'BB+(sf)' rating placed on Watch Neg
Mitchells & Butlers	
- Class A	Affirmed at 'BBB+(sf)'
- Class AB	Affirmed at 'BBB(sf)'
- Class B	Lowered one notch to BB(sf)/Watch Neg
- Class C, D	Lowered two notches to B+(sf)/Watch Neg
Marston's Issuer	
- Class A	'BB+(sf)' ratings placed on Watch Neg
- Class B	Lowered one notch to B+(sf)/Watch Neg
Unique Pub Prop.	
- Class A4	'BB+ (sf)' ratings placed on Watch Neg
- Class M	Lowered one notch to B(sf)/Watch Neg
- Class N	Lowered one notch to B-(sf)/Watch Neg

Travel Retailers | Mayday

- According to the International Air Transport Association, global passenger traffic will not return to prepandemic levels until 2024, with short-haul traffic recovering faster.
- The impact on travel retailers, such as **Dufry**, could be significant, as their fortunes are strictly linked to airport footfall.
- Other retailers with a presence in transit hubs, such as **M&S** and **Areas**, will also see revenue decline.

European Total Air Passengers Carried

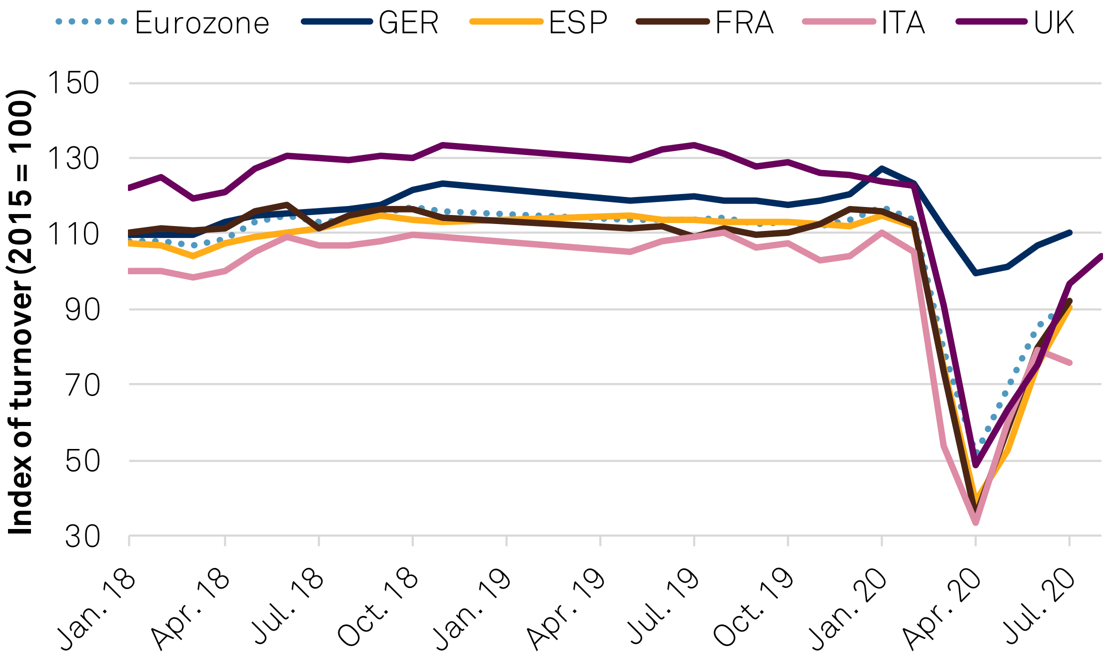


Source: Eurostat.

Fuel Station Operators | Gradually Recovering

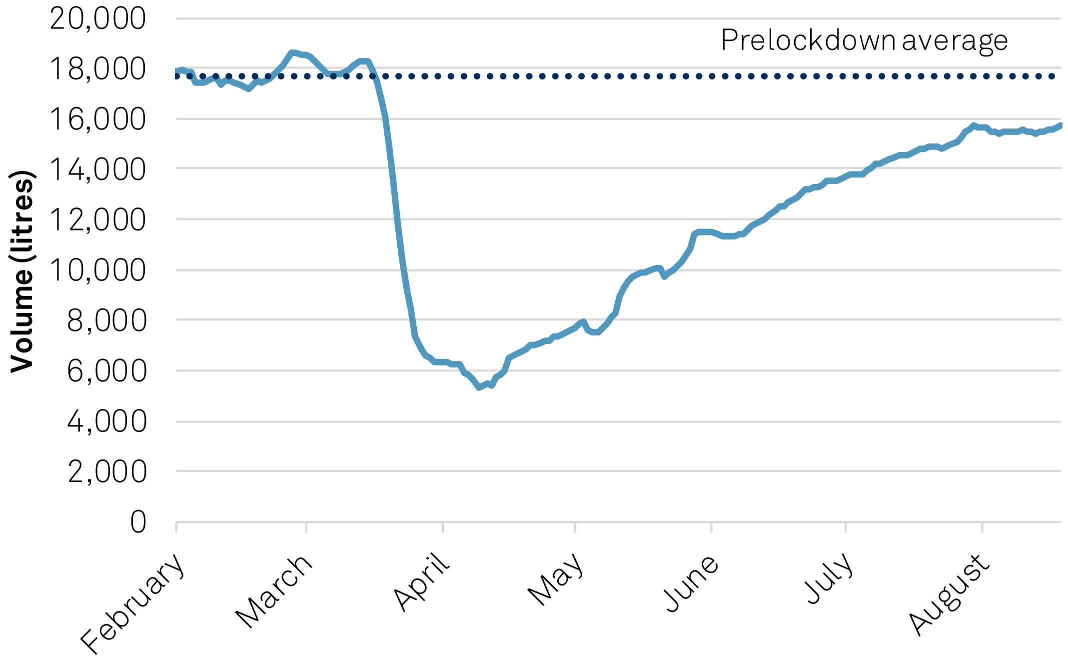
– Lockdowns introduced in Q2 2020 in Europe caused a substantial decline in fuel sales, with only Germany showing a more resilient performance. Despite the easing of measures, volumes have not returned to prepandemic levels.
– However, this decline was offset by the low oil prices that prevailed in the spring, resulting in a substantial increase in margins per liter.

2020 U.K. Average Road Fuel Sales At Sampled Filling Stations



Daily volume (liters), seven-day moving average. This release shows average road fuel sales from a sample of around 4,500 road fuel filling stations in Great Britain. Source: Office for National Statistics (ONS).

2020 European Fuel Retail Sales



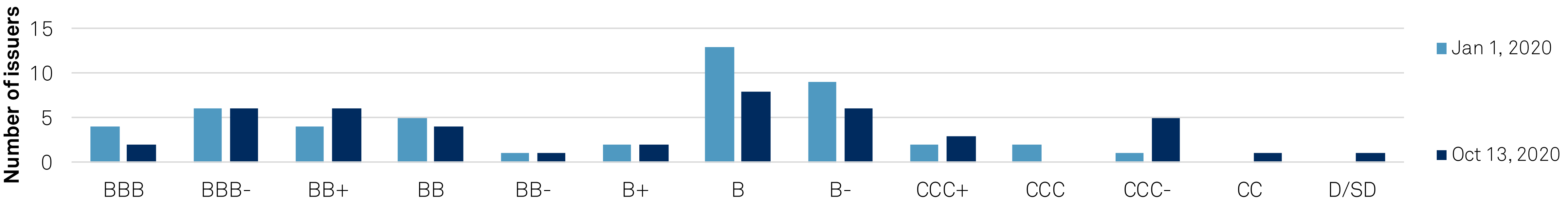
Index of turnover (2015 = 100). Retail sales of automotive fuel in specialized stores. Seasonally and calendar-adjusted data. Source: Eurostat.

Rating Actions And Distribution

S&P Global Ratings

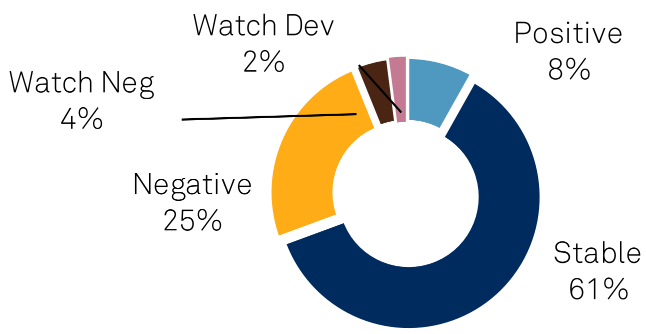
Retail & Restaurants | Negative Outlooks + Watch Negs > 50%

Ratings Have Transitioned Toward The Lower End Of The Spectrum

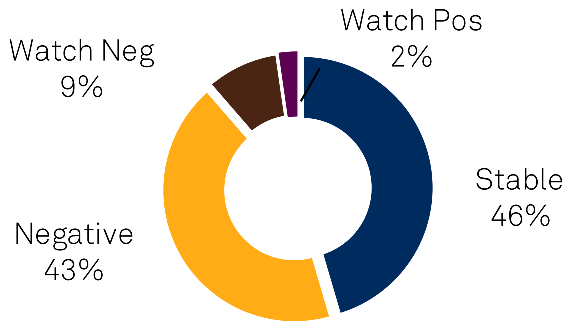


Even before the pandemic, the sector had a significant negative rating bias (29% of companies on negative outlook and Watch Neg), with the majority of ratings in the 'B' category.

Outlook Distribution – Jan. 1, 2020

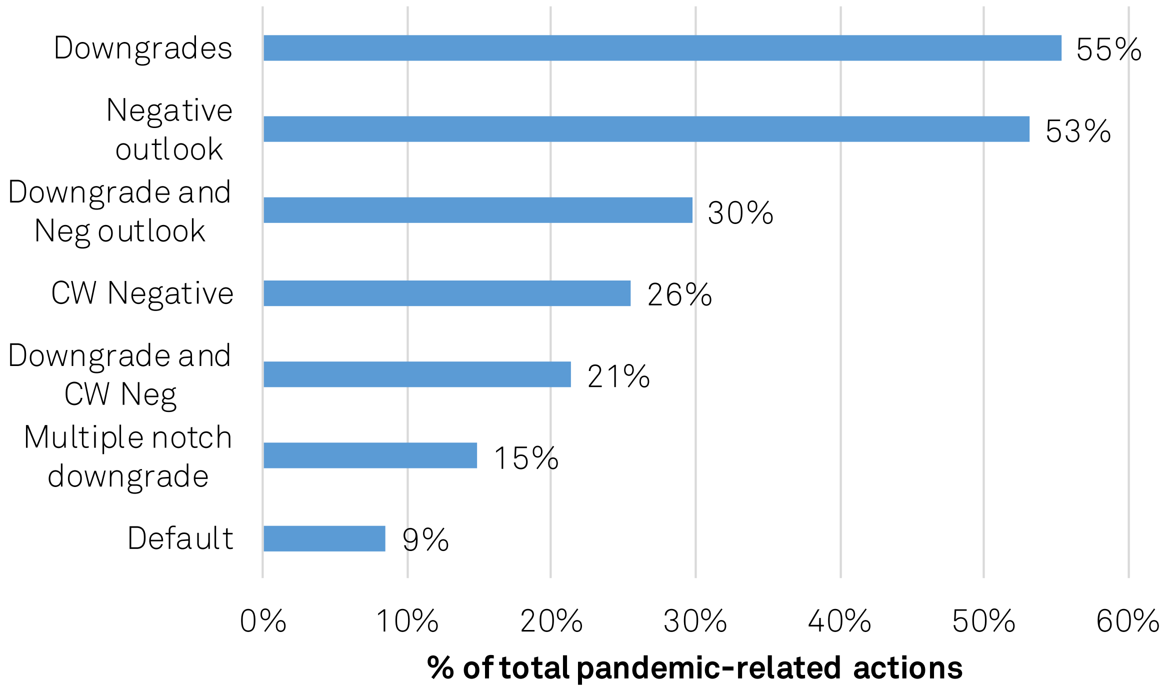


Outlook Distribution – Oct. 13, 2020

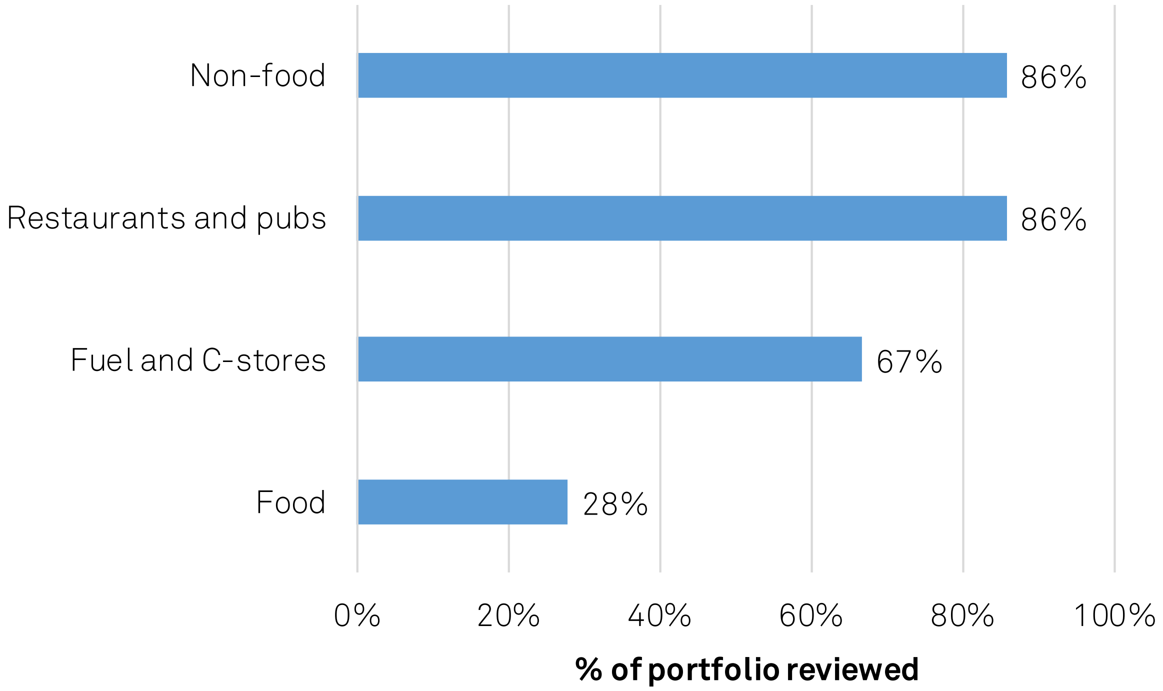


Retail & Restaurants | Pandemic-Related Rating Actions

Pandemic-Related Rating Actions By Type (EMEA)



Pandemic-Related Rating Actions By Subsector (EMEA)



Note: Some issuers were subject to multiple rating actions. Rating actions as of Oct. 13, 2020.

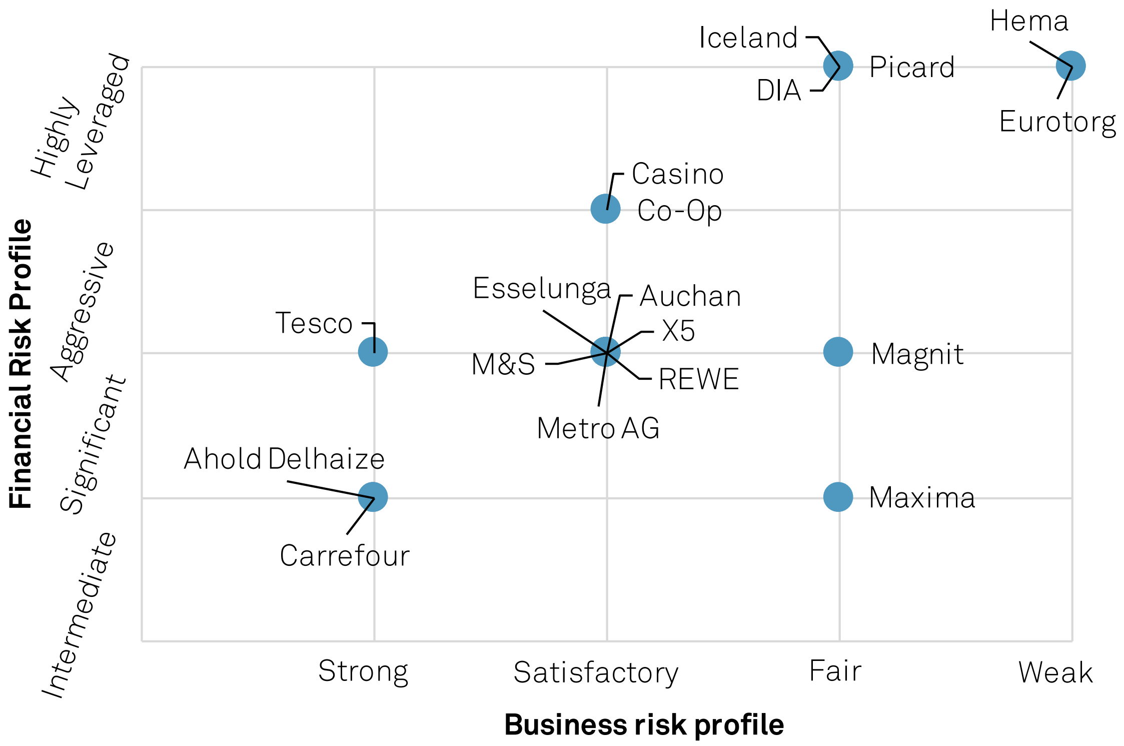
- Restaurants and nonfood retail were the most affected, with 24 issuers reviewed (about 86% of the respective portfolio).
- Cumulatively, we took 49 rating actions related to the pandemic on 31 retail and restaurant issuers in EMEA.

S&P Global Ratings

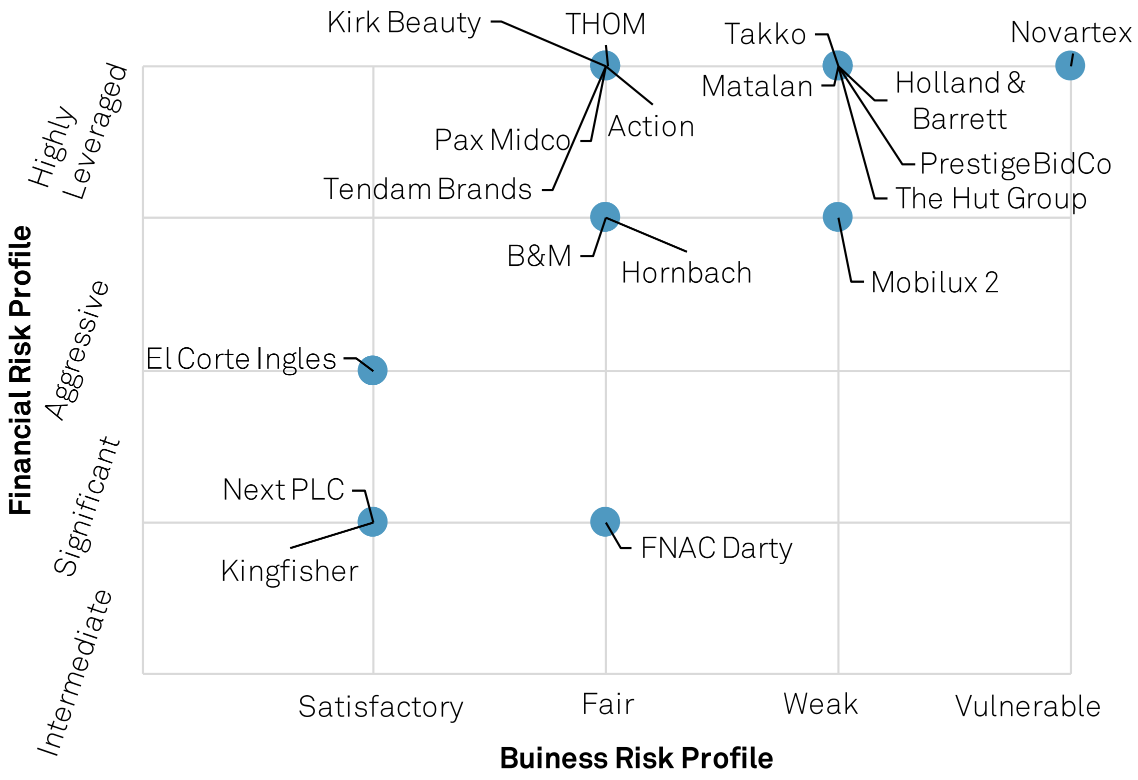
Retail | Rating Matrix

- More than 60% of nonfood retailers in our portfolio have highly leveraged capital structures, which make them vulnerable to declines in profitability and cash flows.
- Food retailers, on the other hand, generally have stronger business and financial risk profiles, with several being investment grade.

Food Retailers



Nonfood Retailers



Retail & Restaurants | Most Vulnerable Companies

Company name	Issuer credit rating	Business risk profile	Financial risk profile
Pax Midco	B-/Negative	Fair	Highly Leveraged
Burger King France	B-/Negative	Weak	Highly Leveraged
Wagamama	B-/Watch Neg	Weak	Highly Leveraged
Holland & Barrett	CCC+/Stable	Weak	Highly Leveraged
Punch Taverns	CCC+/Stable	Weak	Highly Leveraged
Kirk Beauty	CCC+/Negative	Fair	Highly Leveraged
DIA	CCC-/Negative	Fair	Highly Leveraged
Matalan	CCC-/Negative	Weak	Highly Leveraged
Novartex	CCC-/Negative	Vulnerable	Highly Leveraged
Takko	CCC-/Negative	Weak	Highly Leveraged
TelePizza	CCC-/Negative	Weak	Highly Leveraged
Hema	CC/Negative	Weak	Highly Leveraged
Pizza Express	D/--	Weak	Highly Leveraged

Note: Rating as of Oct. 13, 2020, 'B-' with a negative bias and below.

Spike in ratings at 'CCC' and below

Defaults

– Pizza Express and Takko defaulted earlier this year on an interest payment.

Distressed exchanges

– Matalan and DIA have pursued a distressed debt exchange.
– Since the beginning of the pandemic, the average loan bid price dropped substantially below par, to a minimum of €75 for retail issuers, and subsequently rebounded.

Refinancings

– Some companies are actively working on obtaining additional state-supported liquidity lines (Burger King, Pax Midco).
– Maxeda has just refinanced its maturing bond on the back of stronger-than-expected sales during the lockdown.

Outlook

– Negative bias in the form of negative outlooks and CreditWatch negatives highlights further downside risks.
– Working capital swings can lead to rapid liquidity deterioration (Takko, Novartex).

Retail & Restaurants | Selected Recent Positive Rating Actions

Company name	Date	From	To	Rating drivers
Next	Sept. 23, 2020	BBB-/Watch Neg	BBB-/Stable	Despite weak industry conditions, Next's strategic initiatives, sound execution, and debt reduction will enable it to sustain its market position and reduce downside risks.
Kingfisher	Oct. 1, 2020	BBB-/Watch Neg	BBB-/Stable	Reported resilient operating performance, despite disruption caused by the COVID-19 pandemic, on the back of strong demand for home improvement products.
X5	June 10, 2020	BB/Positive	BB+/Stable	Reduced capex and lower interest rates, coupled with a strong operating performance amid the pandemic-related surge in demand, will help strengthen its credit metrics.
FNAC Darty	Sept. 28, 2020	BB/Watch Neg	BB/Negative	Despite COVID-19-related disruptions, FNAC Darty has maintained strong liquidity and managed its financial position and cost structure such that credit metrics should recover to be in line with the rating by year-end.
B&M	July 21, 2020	B+/Watch Neg	BB-/Stable	B&M showed resilient trading during lockdown, driven by the strong performance of its DIY and outdoor segments. In addition, the company refinanced its capital structure, moving its next bullet maturity to 2025.
THG Holdings	Sept. 9, 2020	B-/Stable	B-/Watch Pos	THG has announced an imminent IPO, whose proceeds we expect to reduce its debt burden, at least partially.

Selected Rated Companies
Comments

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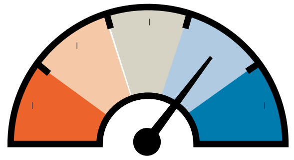
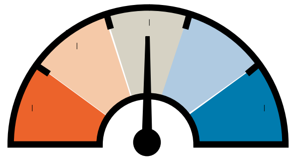
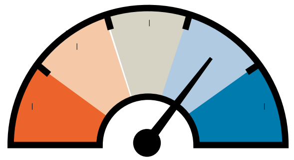
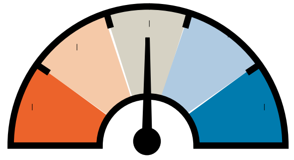
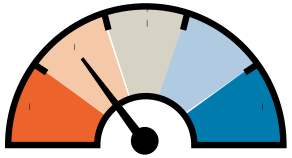
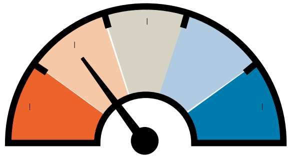
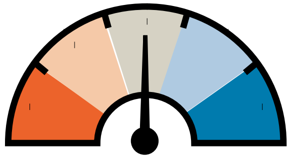
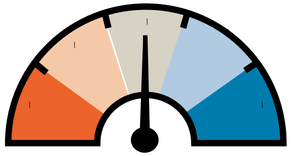
Retail | Investment-Grade Companies (1)

Company name	Rating	Comments	Rating headroom
Ahold Delhaize	BBB/ Stable	We expect that a further reduction of integration costs and the generation of remaining expected synergies will support better margins in 2019 and 2020, despite stiff competition, especially in the U.S. market and the recent temporary labor strikes in certain U.S. regions where Ahold Delhaize's Stop & Shop banner is present. In this context, we believe Ahold Delhaize will continue to display modest revenue growth at constant foreign-exchange rates, while defending its margins. We anticipate the group will post robust cash flows that it will use to fund its high capex and shareholder remuneration rather than for debt reduction.	
Carrefour	BBB/ Stable	We expect that Carrefour's sound execution of its transformation program will support its competitive position and like-for-like sales growth momentum. Carrefour is progressing well with its five-year transformation plan, and has encountered limited disruption so far. Investments in prices, growth store formats (like convenience stores and cash and carry), and digital helped accelerate the group's like-for-like sales performance in the first nine months of 2019 to 3.1%, the highest level since 2016. As a result, we expect that the adjusted EBITDA margin will improve toward 5% in the medium term, while adjusted debt to EBITDA stays below 3x.	
Tesco	BBB-/ Stable	Healthy trading trends and debt reduction have helped Tesco reach credit metrics commensurate with an investment-grade rating ahead of our forecast and will support the group's creditworthiness in the medium term. We expect Tesco's management will continue to successfully mitigate the competitive pressure on its revenue growth and margins, and progress with its operational and strategic initiatives. As a result, growth in its earnings and cash flows will offset the effects of higher dividends and provide sufficient headroom to cushion any volatility in pension liabilities and operating setbacks.	
REWE	BBB-/ Stable	An entrenched market position in Germany, with a strong store presence and formats, developed online offering, and diversification in Eastern Europe all supporting growth prospects. We expect the group will continue to defend or strengthen its sound position in the German and Austrian food retail markets, resulting in robust sales growth of 4%-5% in 2019 and 2020 and almost stable underlying margins. In light of the significant planned capex, we expect reported free operating cash flow will remain negative over the next two years. This, combined with the planned Lekkerland acquisition, will increase debt and moderately constrain credit metrics, which should lead to adjusted debt to EBITDA of slightly above 3.0x-3.2x.	

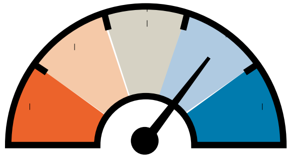
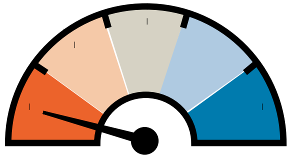
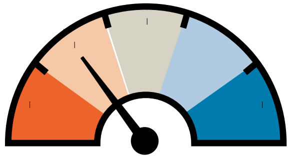
Note: Rating as of Oct. 13, 2020

Retail | Investment-Grade Companies (2)

Company name	Rating	Comments	Rating headroom
Auchan	BBB-/ Negative	The execution risk associated with the group's transformation remains high in a market that we expect to be competitive and price-focused. Auchan's transformation plan still relies on turning around its hypermarkets, which account for the majority of sales. At the same time, the pandemic has had a mixed impact on the group's operating performance in the first half of 2020, but should be somewhat less disruptive in the second half. We could downgrade Auchan in the next 12 months if it fails to execute its deleveraging plan in a timely manner, such that adjusted debt to EBITDA returns well below 4.0x for 2020 and below 3.5x by year-end 2021, in line with our rating expectations.	
Metro AG	BBB-/ Negative	We believe the pandemic will cause an about 5% decline in German food wholesaler Metro's annual revenue--€27.1 billion last year--given that 48% of sales stem from the hotel and restaurant sector, disrupted by measures to contain the virus. We expect this decline will weigh on earnings and cash generation, and will likely push Metro's adjusted debt to EBITDA to at least 3.5x at year-end fiscal 2020, half a turn more than we anticipated previously. We could downgrade Metro if the pandemic leads to adjusted debt to EBITDA of over 3.5x on a prolonged basis and funds from operations to debt below 20%, or a structurally weaker hospitality industry, which would lead us re-evaluate our assessment of Metro's business strength.	
Kingfisher	BBB-/ Stable	Kingfisher had an extremely strong Q2, with increased participation from online channels (up more than 200%) and all geographies except for Iberia growing at double digits on a like-for-like basis. Margins also benefited from government support measures for U.K. business rates, and the group's own tight spending controls, especially related to marketing and advertising. Strong operating execution and healthy demand for home improvement products will enable Kingfisher to sustain its market position and maintain adjusted leverage below 2.5x. The stable outlook also reflects our expectation that the group will pursue a prudent financial policy.	
Next PLC	BBB-/ Stable	We expect Next's operating environment to remain difficult, but its focus on costs, debt reduction, and cash preservation, combined with a supportive financial policy and some benefit from government support measures, has limited the downside risks and will enable it to sustain its market position and maintain adjusted leverage below 3x. Captive consumer credit operations could be affected by worsening macroeconomic conditions, but asset quality has remained resilient, supported by the government's fiscal stimulus.	

Note: Rating as of Oct. 13, 2020

Retail | Other Credits

Company name	Rating	Comments	Rating headroom
Esselunga	BB+/ Stable	The recently completed squeeze-out of Supermarkets Italiani's (Esselunga's parent) 30% minority shareholders for a total consideration of €1.8 billion will consolidate the group's ownership, at the cost of a more leveraged capital structure. At the same time, Esselunga's defensive offering could support its top line in the case of a downturn of the Italian economy, although upside could be limited by social-distancing measures and lower profitability from online sales. We believe Esselunga will be able to maintain its established market position in its core food retail business, increasing its gross revenues by around 2%-3% through new store openings, as well as new product launches and price supremacy.	
Marks & Spencer	BB+/ Watch Neg	We expect that M&S's earnings and cash generation will decline sharply, at least over the remaining part of this calendar year. We believe the outbreak of coronavirus will cause a substantial decline in nonfood sales in the U.K. and also internationally. We expect a material decline in clothing and nonfood sales, only partially mitigated by online sales and the resilience of the food segment. At the same time, cash-preserving measures and available facilities will support M&S's adequate liquidity, but prolonged distressed trading will reduce internal cash generation.	
Casino	B/Negative	Additional costs from pandemic led to lower EBITDA in France in the first half of 2020. Reported net debt in France remains broadly stable at €2.8 billion. The asset disposal program continues to be a key driver for the evolution of the credit profile : €2.1 billion cashed-in versus the total plan of €4.5 billion. The Leader Price disposal in Q4 2020 and the dividend cancellation should enable compliance with the financial covenant on the back of debt reduction. There is ongoing uncertainty arising from Casino's parent Rallye's debt levels, which can still indirectly hurt its credit standing.	

Note: Rating as of Oct. 13, 2020

Retail | Focus On Pandemic-Related Rating Actions

Company name	Rating on Jan. 1, 2020	Rating on Oct. 13, 2020	Rating drivers
El Corte Ingles	BB+/Positive	BB+/Negative	Store closures will result in revenue and earnings contraction. We expect leverage to increase, as opposed to previous debt reduction.
Vivo Energy	BB+/Stable	BB+/Negative	Risks to our base case primarily relate to weaker consumer sentiment and purchasing power, as well as higher country risk in many of the group's 23 jurisdictions of operation.
FNAC Darty	BB+/Stable	BB/Negative	Managed liquidity, financial position, and cost structure should result in credit metrics recovering in line with the rating by year-end.
Dufry	BB/Stable	B+/Watch Neg	Longer-than-anticipated disruption to global travel, with revenue forecast to fall short of the 2019 level by about 60% in 2020.
Action	B+/Stable	B+/Negative	Weaker earnings and cash generation, but liquidity buffer, long maturities, and covenant headroom should withstand the current level of disruption.
Tendam Brands	B+/Stable	B/Watch Neg	Store closures will result in revenue and earnings contraction, translating into weaker credit metrics. Liquidity could weaken from the robust position we expect in fiscal 2019.
Mobilux	B/Positive	B/Negative	Store closures and weak discretionary demand will result in a significant drop in sales and profitability. However, liquidity is adequate.
THOM	B/Stable	B/Negative	Deterioration in credit metrics in 2020. Additional pressure on the group's performance, liquidity, and ability to reduce leverage in 2021.
Areas (Pax Midco)	B/Stable	B-/Negative	Earnings to decline durably due to travel disruption that we anticipate will last for a prolonged period of time, translating into weaker liquidity and higher debt levels.
EG Group	B/Negative	B-/Stable	Declines in fuel sales and nonfuel margins will result in slower EBITDA expansion in the medium term, which will hamper the deleveraging path.

Retail | Focus On Pandemic-Related Rating Actions

Company name	Rating on Jan. 1, 2020	Rating on Oct. 13, 2020	Rating drivers
Eurotorg	B-/Positive	B-/Stable	The resilient performance of the food business is offset by the depreciation of the local currency, which increases the debt burden.
Douglas (Kirk Beauty)	B/Negative	CCC+/Negative	Earnings decline could result in an unsustainable capital structure and increases refinancing risk for the 2022 maturities.
Takko	B-/Stable	CCC-/Negative	Decline in cash generation over the next few months could weaken the company's liquidity position. Rapidly tightening covenant headroom.
Holland & Barrett	B-/Stable	CCC+/Stable	Material declines in footfall to negatively affect top line, profitability, and cash flow generation over the second half of the year. In addition, we believe a debt buyback could still happen over the next 12 months.
Maxeda DIY	B-/Stable	Withdrawn at issuer's request (B-/Positive)	Recent refinancing--alongside robust operating performance during the COVID-19 pandemic--has improved the group's credit measures and liquidity position, and the group comfortably extended its debt maturities.
Matalan	B-/Stable	CCC-/Negative	After a debt restructuring that caused a default, by our definition, the current rating reflects the ongoing pressures on the business, its weak trading results, and liquidity pressures.
Novartex	B-/Negative	CCC-/Negative	The company has announced it will file for a safeguard procedure for its largest subsidiary because of the losses and liquidity pressures following the pandemic-related mandatory store closures.
Hema	CCC/Negative	CC/Negative	Hema B.V. announced the nonredemption of payment-in-kind notes at the parent company, and it pursued a debt restructuring, including a debt-for-equity swap and new debt issuance.
DIA	CCC/Negative	CCC-/Negative	Following the completion of the distressed debt repurchase, we think further restructuring is likely in the short term because of DIA's imminent maturities and weak liquidity.

Restaurants & Pubs | Focus On Pandemic-Related Rating Actions

- The pubs and casual dining sector will be most affected by social-distancing measures.
- Earnings losses and the resulting cash burn will be meaningful and could deplete issuers' liquidity and potentially render already highly leveraged capital structures unsustainable.
- We also expect headroom under maintenance covenants for some issuers to diminish.
- The main downside driver is the shape and consistency of the recovery in footfall and the ability to manage profitability and cash flows at lower volumes.

Company name	Rating on Jan. 1, 2020	Rating on Oct. 13, 2020	Rating drivers
Wagamama (Mabel Topco)	B/Positive	B-/Watch Neg	EBITDA loss and the decline in cash flow will lead to a material deterioration in credit metrics and liquidity, eroding covenant headroom. High uncertainty on the timing and shape of the recovery in the sector.
Stonegate Pub Company	B-/Watch Dev	Withdrawn (from CCC+/Negative) at the issuer's request	The capital structure put in place to finance the Ei Group acquisition was considered unsustainable in a pandemic. The large debt burden and expected gradual recovery were not supportive of a quick and meaningful improvement in credit metrics.
PizzaExpress	CCC-/Negative	D	PizzaExpress missed its latest interest payments on the senior secured and senior unsecured notes. The group is restructuring its capital structure, including the sale of the Mainland China business, a debt-for-equity swap for the senior secured bondholders, and a potential sale of the U.K. business.
Burger King France	B-/Stable	B-/Negative	Highly leveraged capital structure. The lockdown had a negative impact on performance, but trading results rebounded markedly following reopening.
Telepizza	B/Stable	CCC-/Negative	Operations have been significantly affected by COVID-19. In May, the company announced it was evaluating several options for its debt position. We consider that the capital structure has become unsustainable and the company could pursue a debt restructuring.

ESG In Retail & Restaurants

S&P Global Ratings

Retail | Environmental And Social Risks Become More Prominent

Environmental

- The environmental risks for the retail sector are weighted toward the inherent exposure to both the direct and indirect impact from climate change and emissions and use of plastics.
- Weather is already a significant swing factor in a company's results, yet more serious long-term shifts in seasonal weather would require retailers to have adaptable selling seasons.
- Emissions regulations are a long-term environmental risk as the complexity of logistics has increased for most retailers.
- Future regulations pose a risk, such as reducing the use of plastic packaging for consumer products. Retailers and restaurants across Europe and North America have been working with national governments and local municipalities to reduce single-use plastic bags and utensils.

Social

- Social risks and opportunities intersect when retailers address consumers' preference for rapid delivery, price transparency, product traceability, and increased focus on clear labelling in diverse markets.
- Retail's exposure to social risk arises from customer brand perception, preferences, and demographics.
- Price transparency and fairness to suppliers and customers influence retailers' public image, yielding potentially immediate adverse political or customer actions.
- Human capital management is critical in this labor-intensive sector as technology changes the retail landscape.
- Retailers have to manage the quality of the customer-facing workforce and their ability to execute change. The compensation, health, and safety of a retailer's direct and indirect workforce is another social risk.

– Ratings in the global retail industry have average exposure to environmental and social risk factors.
– Consumer behavior is a key consideration in our assessment of environmental and social factors (whether favorable or not).
– Customers' preferences, brand perception, and demographics are risk factors in the discretionary retail segments.
– Governance factors are specific to each company, rather than the industry as whole.

Source: S&P Global Ratings.

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