

# Retail and Restaurants

## Soft-landing key to containing the pressure on retail

This report does not constitute a rating action.

### What's changed?

#### A steady stream of small to medium-sized refinancings ahead of the U.S. election.

Speculative-grade issuers have come to market to push out maturities, reprice, and add on debt at a higher clip than last year in retail. This is amid more comfort with “new normal” interest rates, private vs. public credit market offerings, and concerns about potential market volatility towards the end of this year around the U.S. presidential election. This year we’ve assigned ratings to SSH Holdings Inc.’s (d/b/a Spencer Spirit) \$350 million proposed term loan and United Natural Food’s proposed \$500 million first-lien term loan. We also commented on Whatabrands LLC’s (Whataburger) proposed term loan repricing and \$140 million fungible add-on to its 2028 repriced first-lien term loan. We expect more transactions of this size in coming months.

#### Discretionary retail categories including apparel are under pressure in 2024.

Department stores Kohl’s Corp. and Nordstrom Inc. have negative outlooks and Macy’s Inc. has grappled with a proxy fight and buyout bid turmoil this year. Amazon.com Inc. and other online and fast-fashion players are taking material market share amid consumers’ value focus. Now it is a matter of individual management teams executing to win discerning shoppers. For instance, we revised the outlook on Victoria’s Secret & Co. to negative this year, and upgraded Abercrombie & Fitch Co. one notch. Saks’ owner is buying Neiman Marcus as even high-end customers have pulled back.

### What to look out for?

**Store closing announcements to continue or accelerate.** Family Dollar Stores Inc. will close 600 stores this year and 370 over the next few years as leases expire. 99 Cents Only Stores LLC filed for bankruptcy in April. CVS Health Corp. has closed about 600 stores since 2022 and could close another 300 this year. Walgreens Boots Alliance Inc. recently said as much as 25% of its 8,600 stores are underperforming and could be closed. We note that after years of mall-based closures, the newest closures are off mall.

**The Federal Trade Commission (FTC) is taking a hard line on retail M&A.** We note how difficult it is for big-name deals to get through the regulatory process this year. The FTC is pushing back on The Kroger Co.’s acquisition of Albertsons Cos. Inc. and Tapestry Inc.’s acquisition of Capri Holdings Ltd. It recently blocked Tempur Sealy International Inc.’s acquisition of Mattress Firm Inc. Consolidation is an important go-forward strategy for the sector, and companies are watching closely to see how these transactions play out.

### What are the key risks around the baseline?

**Slow progress in lowering inflation continuing to weigh on U.S. shoppers.** Supply chain snafus abated in the U.S. in 2024. However, slower monetary easing and lower economic growth could result in higher unemployment and even less demand for both retail and restaurant purchases in the coming year. A soft landing will be crucial in keeping more players from distress and default. Already we have downgraded names like The Container Store Group Inc. and Fossil Group Inc. one notch to 'CCC+' and 'CCC', respectively.

Diya Iyer

New York  
diya.iyer@spglobal.com  
+1 332 220 7324



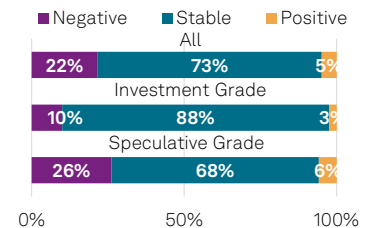
Sarah Wyeth

New York  
sarah.wyeth@spglobal.com  
+1 212 438 5658



## Rating Trends

### Outlook Distribution



### Ratings Statistics (YTD)\*

|            | IG | SG  | All |
|------------|----|-----|-----|
| Ratings    | 40 | 103 | 143 |
| Downgrades | 0  | 5   | 5   |
| Upgrades   | 2  | 5   | 7   |

### Ratings Outlook Net Bias



### Sector Forecasts (Median)

| 2024                  | IG   | SG   |
|-----------------------|------|------|
| Revenue growth (Y/Y%) | 3.0  | 2.3  |
| EBITDA growth (Y/Y%)  | 3.3  | 5.6  |
| EBITDA margin (%)     | 11.2 | 14.7 |
| Capex growth (Y/Y%)   | 5.4  | 4.7  |
| Debt/EBITDA (x)       | 2.4  | 4.3  |
| FFO/Debt (%)          | 30.4 | 13.6 |
| FOCF/Debt (%)         | 18.6 | 8.5  |

All data as of end-June 2024.  
\* Year-to-date. Current ratings only.

## Related Research

[Whatabrands LLC's Proposed Term Loan Repricing And \\$140 Million Fungible Add-On Are Leverage Neutral](#), May 6, 2024  
[Industry Credit Outlook 2024: Retail and Restaurants](#), Jan. 9, 2024