

Date: May 2017

## MARKET REPORT

### RETAILER'S SAME-STORE SALES GROWTH RATE:

#### Recent Quarter and Prior Quarters

Company	3 Quarter Prior	2 Quarter Prior	1 Quarter Prior	Most Recent Quarter*
Abercrombie & Fitch*	-4.0%	-4.0%	-6.0%	-5.0%
American Eagle	3.0%	2.0%	0.4%	2.0%
Anthropologie	-3.0%	-2.7%	-2.9%	-4.4%
Banana Republic	-9.0%	-8.0%	-3.0%	-4.0%
Bebe*	-8.1%	-4.6%	-3.2%	-10.5%
Bon-ton	-2.0%	-4.9%	-4.7%	-8.8%
Buckle	-10.8%	-15.3%	-16.1%	-12.7%
Burlington Coat*	4.3%	5.4%	3.7%	4.6%
Catherines*	-8.0%	-5.0%	-10.0%	0.0%
Cato	-6.0%	-8.0%	-12.0%	-17.0%
Chico's FAS*	-4.2%	-3.1%	-4.9%	-2.5%
Children's Place	2.4%	4.6%	6.9%	6.1%
Citi Trends	-1.0%	-1.0%	3.4%	1.0%
Costco*	0.0%	-1.0%	1.0%	3.0%
Dillard's	-5.0%	-4.0%	-6.0%	-4.0%
Dollar General*	2.2%	0.7%	-0.1%	1.0%
Dressbarn*	-2.0%	-7.0%	-5.0%	-3.0%
Francesca's*	2.0%	0.0%	7.0%	0.0%
Free People	0.0%	-1.5%	1.2%	1.5%
Gap	-3.0%	-8.0%	0.0%	-4.0%
Gordmans*	-2.2%	-5.2%	-10.8%	-9.3%
HomeGoods	5.0%	6.0%	5.0%	3.0%
JC Penney	2.2%	-0.8%	-0.7%	-3.5%
Justice*	-11.0%	-4.0%	-1.0%	-1.0%
Kmart*	-5.0%	-3.3%	-4.4%	-8.0%
Kohl's	-1.8%	-1.7%	-2.2%	-2.7%
Lane Bryant*	-1.0%	1.0%	-4.0%	-5.0%
Macy's	-2.0%	-2.7%	-2.1%	-4.6%
Marmaxx	4.0%	5.0%	3.0%	0.0%
Maurices*	-6.0%	-9.0%	-6.0%	-8.0%
Nordstrom	-1.2%	2.4%	-0.9%	-0.8%
Old Navy	0.0%	3.0%	5.0%	8.0%
Ross Stores	4.0%	7.0%	4.0%	3.0%
Sears*	-7.1%	-7.0%	-10.0%	-12.3%
Stage Stores	-9.8%	-8.2%	-8.5%	-9.6%
Stein Mart	-1.4%	-4.6%	-5.5%	-7.6%
Target	-1.1%	-0.2%	-1.5%	-1.3%
Tilly's*	-4.1%	0.9%	3.9%	0.1%
TJX Canada	9.0%	8.0%	4.0%	3.0%
Urban Outfitters	5.0%	5.2%	2.0%	-3.1%
Walmart	1.6%	1.2%	1.8%	1.4%

\*Newer data for this retailer is unavailable at this time

The above data is sourced from each company's home page or U.S. Securities and Exchange Commission filings ([www.sec.gov](http://www.sec.gov))

#### Private Equity Firms

There has been a huge wave of retail bankruptcies so far in 2017. On pace to be the highest since 2009, the rise in retail bankruptcies comes as consumers make more purchases online and shift their spending towards travel and other experiences. More than half of this year's bankruptcy filings have come from retailers that were previously acquired by private equity firms. Private equity firms usually acquire companies through a leveraged buyout – a transaction where significant portion of the capital needed for the buyout is borrowed against the assets of the acquired company. This allows private equity firms to buyout companies without having to put up much of their own capital while saddling the acquired company with debt under unfavorable terms. Acquired retailers are burdened by this new debt (oftentimes with very high interest payments), and the private equity firm will often manipulate the retailers' assets to maximize its own return on investment.

One prime example of such case is Mervyn's - a retailer acquired by Sun Capital Partners, Cerberus Capital Management, and Lubert-Adler Management Inc. for \$1.2 billion in 2004. The private equity firms quickly decided to separate Mervyn's retail business from its real estate assets. After being stripped of its real estate, Mervyn's was barely solvent with working capital deficit of \$22 million. Mervyn's did not receive any compensation for its real estate, and the private equity firms forced the retailer to pay nearly double in rent (increase of \$90 million to \$172 million). By doing so, the private equity firms took out dividends from the real estate entity while Mervyn's struggled to remain competitive. In 2008, just four years after being acquired, Mervyn's filed for bankruptcy and liquidated all stores. After the bankruptcy, creditors of Mervyn's filed a suit against the private equity owners accusing them of pushing Mervyn's into bankruptcy. It is reported that Cerberus and Sun Capital agreed to pay \$166 million to settle the case.

Since many acquisitions are done through a leveraged buyout, it is often the case that acquired retailers fall under huge financial stress. This was the case with Rue 21 when



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Apax Partners bought out the retailer by paying \$42.00 per share in 2013 (23% premium to Rue 21's closing share price the day before the deal was announced). In a deal valued at \$1.1 billion, Apax Partners used \$283 million of its own capital and borrowed \$780 million to finance the buyout. Rue 21 was placed under a huge debt load with high interest payments which it ultimately could not afford to pay – Rue 21 filed for Chapter 11 bankruptcy on May 15, 2017.

Similar cases can be seen in other acquisitions. Claire's Stores was bought out by Apollo Management for \$3.1 billion in 2007. Claire's had very little debt before the buyout, but now, the retailer is struggling to keep up with nearly \$2.5 billion of debt. J. Crew was placed in a similar situation when it was bought out by TPG Capital and Leonard Green in 2011. The retailer's attempts at improving its performance is being hindered by the heavy debt load (more than \$1 billion) taken on during the leveraged buyout. Gordmans suffered a similar fate when it fell under the ownership of Sun Capital. Sun Capital raised millions by taking Gordmans public and also paid out \$70 million in dividends soon after (significant portion of this dividend was funded by taking out a loan). Gordmans continued to experience decline in performance and filed for bankruptcy in March of this year.

Priority of many private equity firms is to maximize their own return on investment even at the expense of their acquired companies. With recent spikes in number of bankruptcy filings by retailers previously acquired by private equity firms, there is much more scrutiny on private equity owned retailers in the credit market. Sun Capital recently added Windsor Fashion, Inc. into their portfolio. Consult with a factor for additional information on private equity firms.

#### Retailers backed by private equity firm

Company	Private Equity firm	Acquired Date
Toys R Us	Bain Cap, Vornado Trust, KKR	Jul, 2005
Shopko	Sun Capital Partners	Dec, 2005
Michaels*	Bain Capital & Blackstone Grp.	Jun, 2006
Burlington Coat Factory*	Bain Capital	Apr, 2006
Claire's	Apollo Global	Mar, 2007
Charlotte Russe	Advent International	Oct, 2009
Gymboree	Bain Capital	Oct, 2010
J. Crew	TPG Cap & LGP	Nov, 2010
Avenue Stores**	Versa Capital Management	Apr, 2012
Tablots	Sycamore Partners	Aug, 2012
Cole Haan	Apax Partners	Feb, 2013
True Religion	Tower Brook Capital	May, 2013
Hot Topic	Sycamore Partners	Jun, 2013
Torrid	Sycamore Partners	Jun, 2013
Canada Goose*	Bain Capital	Dec, 2013
Lucky Brand	Leonard Green & Partners	Dec, 2013
Nine West Holdings	Sycamore Partners	Dec, 2013
Coldwater Creek**	Sycamore Partners	Jun, 2014
Toms	Bain Capital	Aug, 2014
The Marshall Retail Group	Brentwood Associates	Aug, 2014
Belk, Inc.	Sycamore Partners	Dec, 2015
Ashley Stewart	The Invs Group	Jun, 2016
PacSun**	Golden Gate Capital	Sep, 2016
Gabriel Brothers	Warburg Pincus	Dec, 2016
Windsor Fashions	Sun Capital Partners	1Q, 2017

\* Filed for an initial public offering (IPO)

\*\* Previously filed for bankruptcy; PacSun filed in Apr 2016, Coldwater Creek filed in Apr 2014, and United Retail Group (Avenue Stores' parent) filed in Apr 2012

#### Company that have gone bankrupt since the start of 2016

Company	Private Equity firm	Bankruptcy Date
Bob's Stores	Versa Capital Management	Apr, 2016
East Mountain Sports	Versa Capital Management	Apr, 2016
Sport Chalet	Versa Capital Management	Apr, 2016
Sports Authority	Leonard Green & Partners	May, 2016
The limited	Sycamore Partners	Jan, 2017
Eastern Outfitters	Versa Capital Management	Feb, 2017
Wet Seal	Versa Capital Management	Feb, 2017
Gordmans Stores	Sun Capital Partners	Mar, 2017
Payless Shoes	Golden Gate Capital & Blum Capital	Apr, 2017
Rue21	Apax Partners	May, 2017

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