

# Credit Views: Topics to Ponder

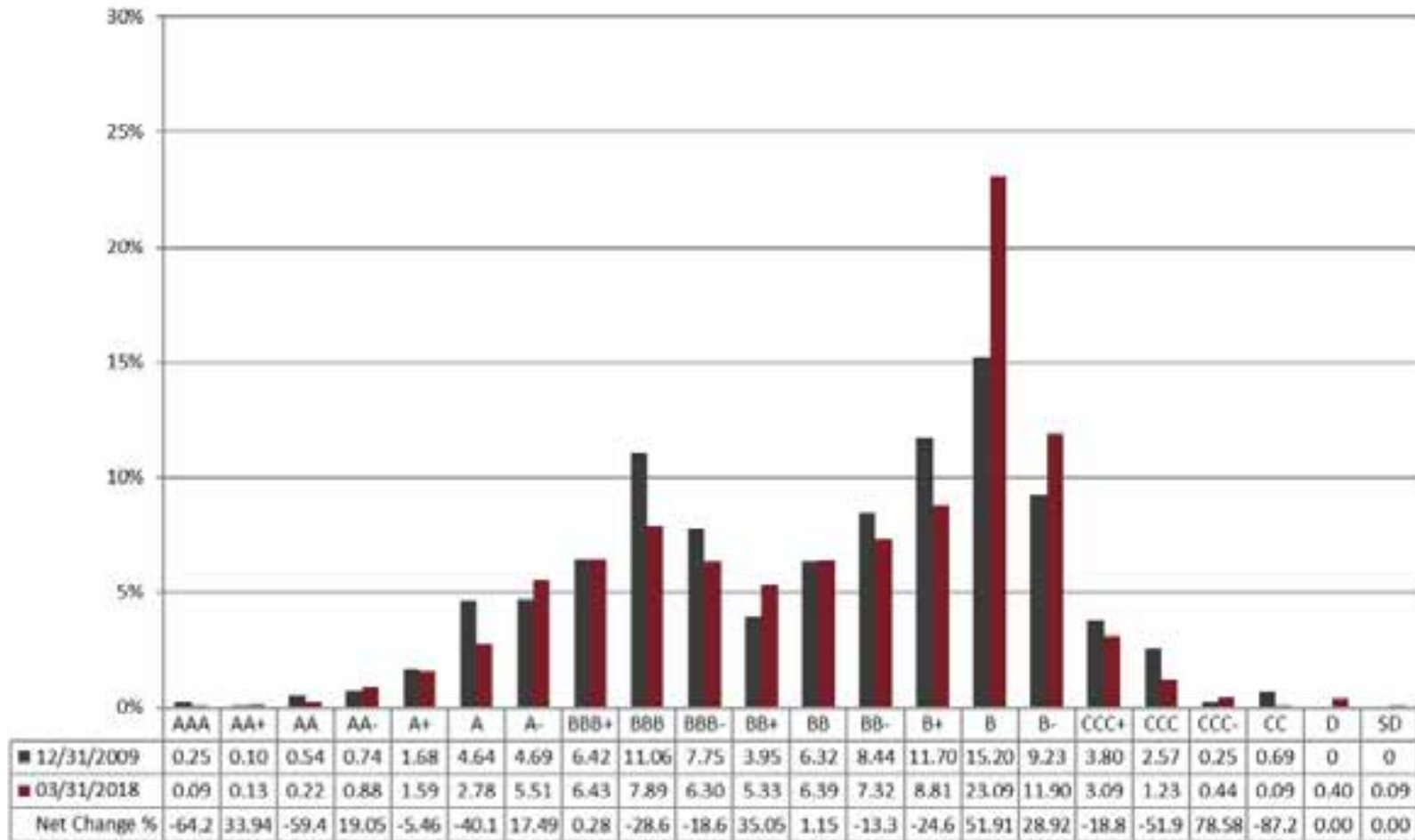
**Robert Schulz, CFA**  
**Managing Director**  
**Corporate Ratings - Retail**



# The Big Picture



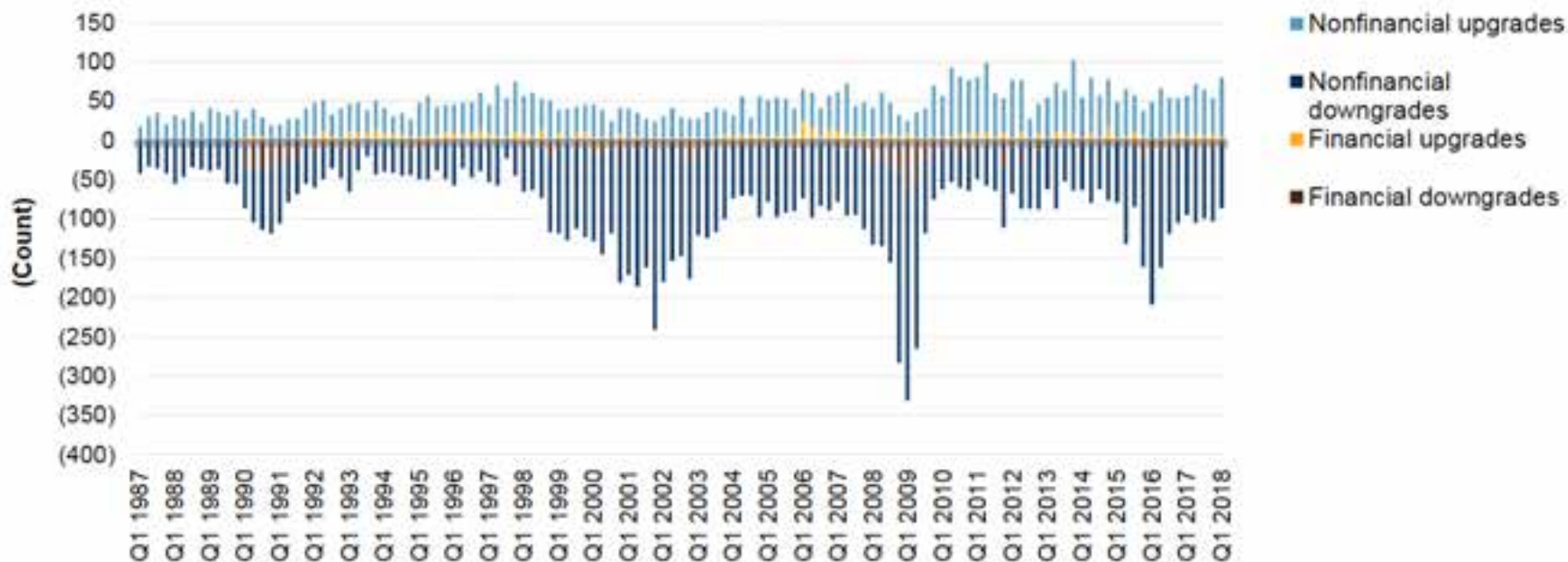
# U.S. – Ratings Distributions



Corporate Ratings (excludes Financial Institutions and Insurance Ratings)  
 Local Currency Long Term Issuer Credit Ratings, Most Senior Credit Ratings,  
 Data provided by S&P Integrated Analytical Platform as of 03/31/2018

# Downgrades Versus Upgrades

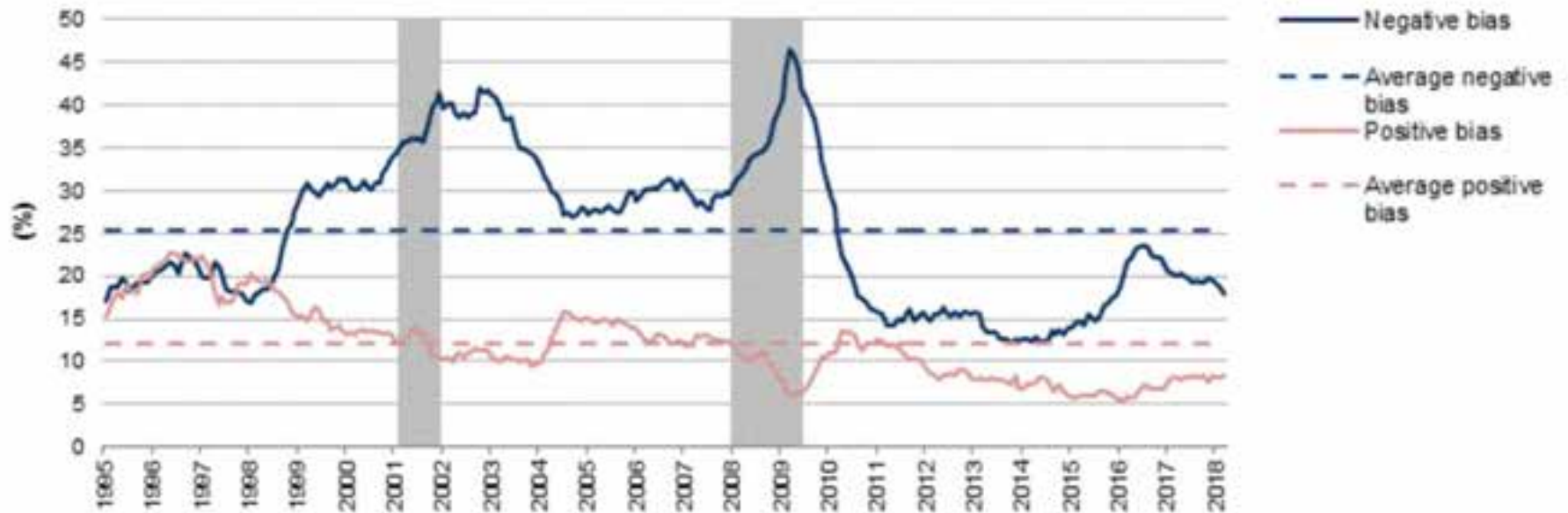
Quarterly Financial Versus Nonfinancial Rating Actions



Note: Includes investment- and speculative-grade-rated entities. Downgrades are shown as negative numbers. Data as of March 30, 2018. Source: S&P Global Fixed Income Research. Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

# Outlook Mix Trends

U.S. Speculative-Grade Corporate Ratings Bias

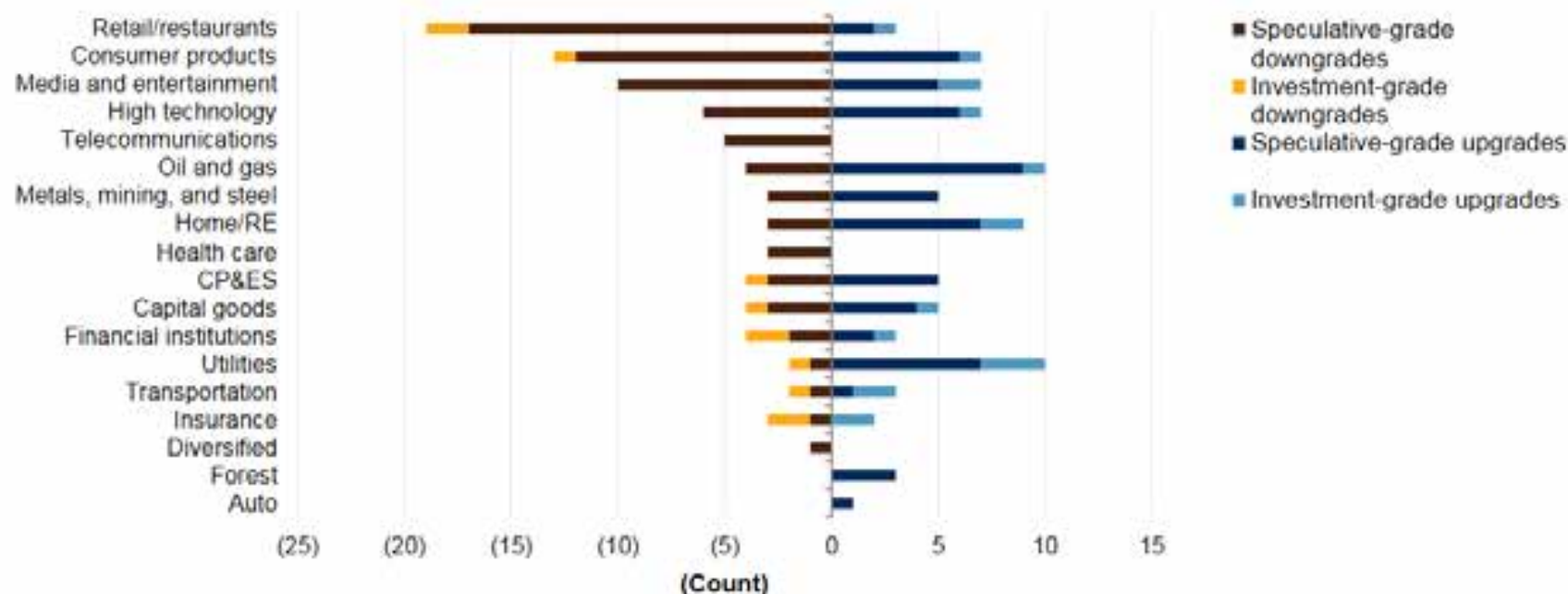


Note: Shaded areas are periods of recession as defined by the National Bureau of Economic Research. Data as of March 30, 2018. Source: S&P Global Fixed Income Research.

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# Sectors Most at Risk for Downgrades

First-Quarter 2018 U.S. Corporate Rating Actions By Sector

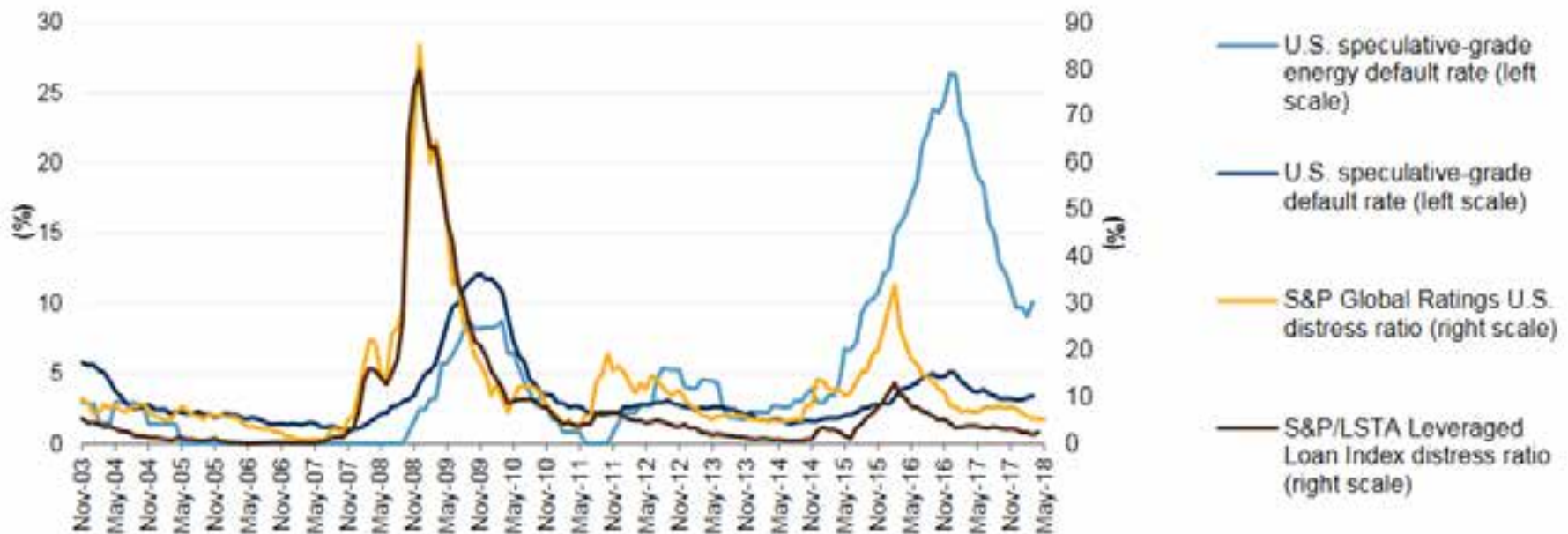


Note: Downgrades are shown as negative numbers. Rating changes exclude entities with no rated debt. Forest--Forest products and building materials. CP&ES--Chemicals, packaging, and environmental services. Home/RE--Homebuilders and real estate companies. Data as of March 30, 2018. Source: S&P Global Fixed Income Research.

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# Sectors Ranked by Distressed Trading Levels

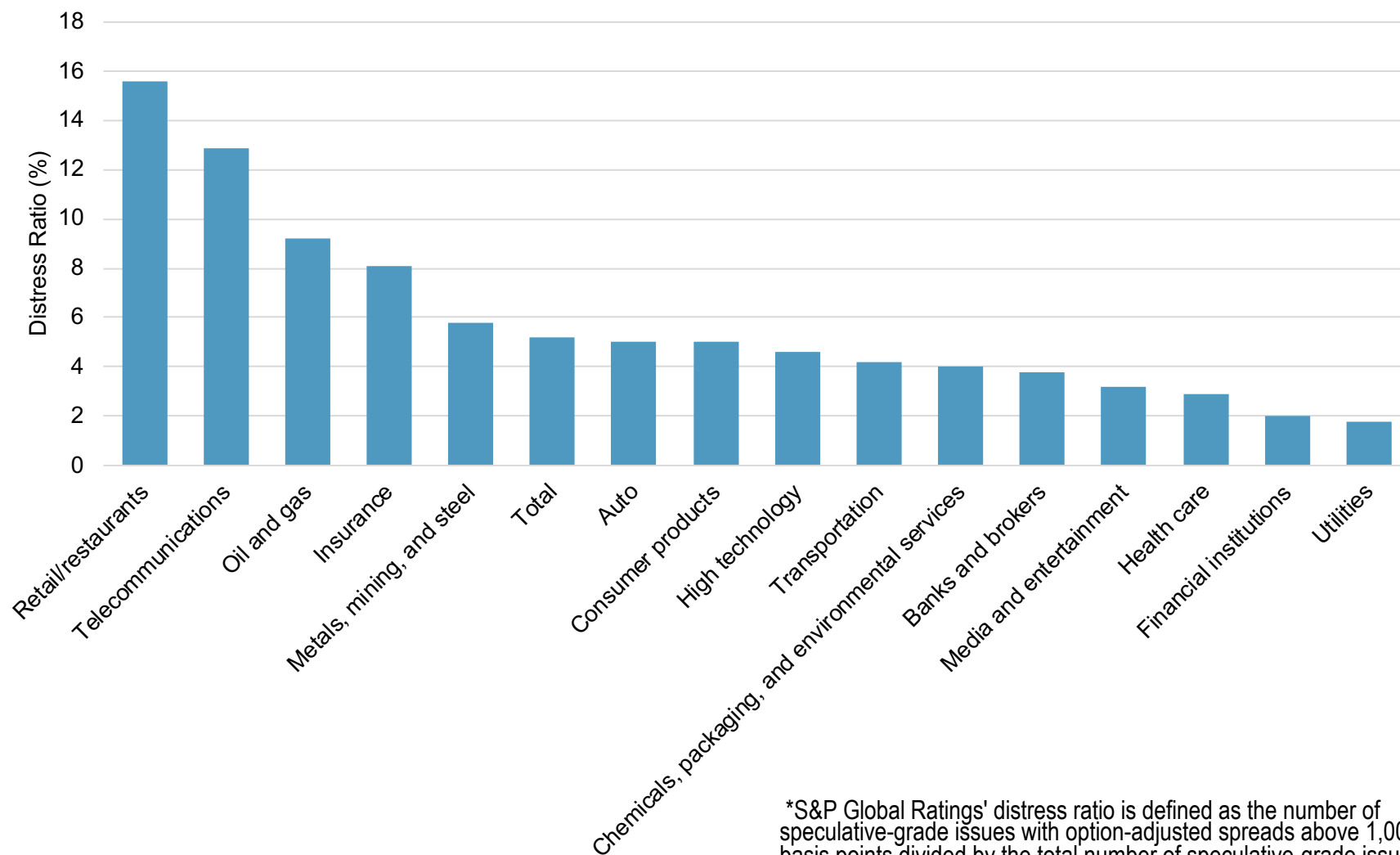
U.S. Speculative-Grade Default Rate Versus Distress Ratio



Note: The default rate and loan distress ratio are as of the end of the month. S&P Global Ratings' distress ratio is defined as the number of speculative-grade issues with option-adjusted spreads above 1,000 basis points divided by the total number of speculative-grade issues. The loan distress ratio is defined as the percentage of performing loans trading below 80 cents on the dollar. Data as of May 15, 2018. Sources: S&P Global Fixed Income Research, S&P Global Market Intelligence's CreditPro, and S&P LCD.

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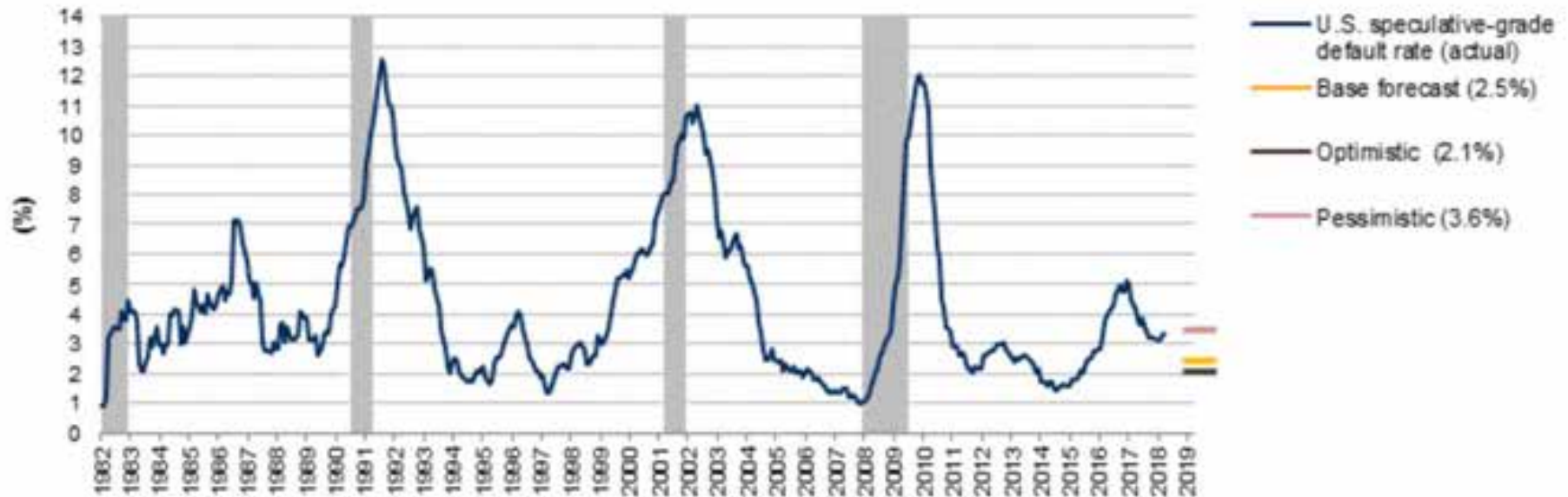
# Distress Ratio by Sector



\*S&P Global Ratings' distress ratio is defined as the number of speculative-grade issues with option-adjusted spreads above 1,000 basis points divided by the total number of speculative-grade issues. Data as of May 15, 2018. Source: S&P Global Fixed Income Research.

# Default Rate Since 1982

U.S. Trailing-12-Month Speculative-Grade Default Rate And March 2019 Forecast



Note: Shaded areas are periods of recession as defined by the National Bureau of Economic Research.

Sources: S&P Global Fixed Income Research and S&P Global Market Intelligence's CreditPro®.

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# Top Global Risks – Trade Features Prominently

## North America

- Trade tensions resulting from new U.S. tariffs pose risks to benign credit conditions even though direct impacts for the U.S. could be minimal
- The stronger near term outlook increases the likelihood that U.S. inflation will move up and the Fed moves its policy rate up four times this year
- Recent developments could break the impasse in NAFTA negotiations and bolster Canada's growth prospects, mitigating risks of high consumer debt disrupting the economic expansion

## Europe

- Credit conditions have continued to benefit from the broad based recovery in Europe, albeit with some Brexit related headwinds in the U.K.
- Global trade tension is rising rapidly and could reduce risk appetite and fuel financial market volatility, while geopolitical risks remain problematic
- A weak U.S. dollar and strong euro is pressuring European exporter's competitiveness and making the ECB's task of generating higher headline inflation more difficult

## Latin America

- Credit conditions in Latin America remain favorable, supported by domestic consumption and an advantageous global economy
- Although Mexico is exempt from U.S. steel and aluminum tariffs, the increased possibility for additional tariffs, trade skirmishes
- Elections may bring some volatility to debt markets and perhaps higher funding costs and disrupt otherwise favorable financing conditions

## Asia-Pacific

- Fears of a China-U.S. trade war cloud otherwise positive momentum in the Asia-Pacific's macroeconomic outlook, financial conditions, and sector trends
- Asia-Pacific growth is mixed -- India (strong, led by investment), Australia (mediocre, held back by soft investment, net exports), while exports, industrial production lift the Tiger economies
- Despite marginally tighter credit standards in emerging Asia, financing conditions remain favorable

# Tax Reform: Credit Impact Key Takeaways

- Lower tax rate most impactful
- NOLs can mute impact of interest deductibility
- Repatriation biggest impact on Tech & Healthcare
- Oil & Gas has significant NOLs
- Capex expensing an incremental benefit over bonus depreciation

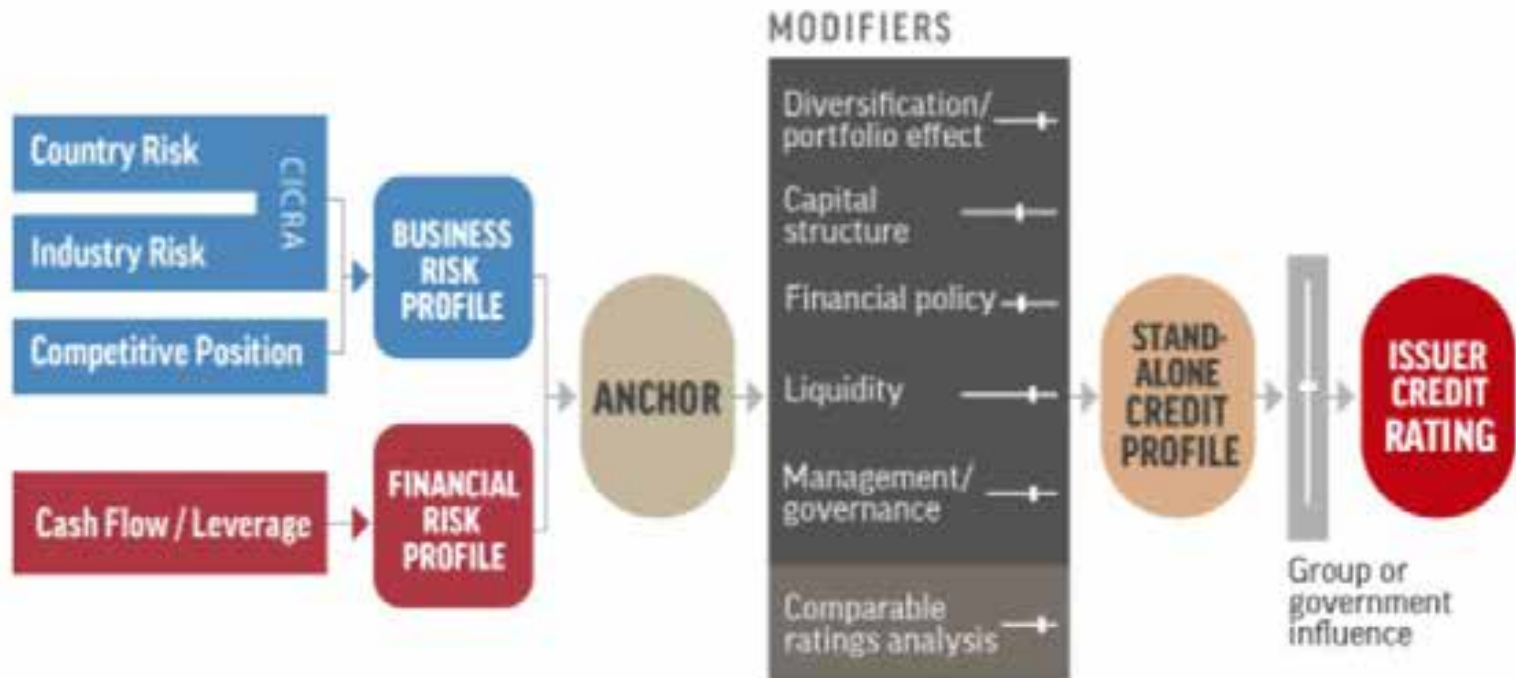
Sectors	Lower Tax Rate	Capex Expensing	Interest Deductibility	Repatriation/ Tax System
Aerospace & Defense	M	L	L	L
Autos	M	M	M	L
Building Materials	M	L	L	L
Business Services	H	L	M	L
Capital Goods	M	L	L	M
Chemicals	M	L	L	M
Consumer Products	M	M	L	M
Healthcare	H	M	L	H
Homebuilders & Developers	H	L	M	L
Leisure & Sports	M	L	L	M
Media & Entertainment	H	M	M	L
Metals & Mining	M	L	L	L
Midstream Energy	L	M	L	L
Oil & Gas (E&P)	L	L	L	L
Regulated Utilities	M	L	L	L
Retail & Restaurants	M	M	M	L
Technology	M	L	M	H
Telecommunications	M	H	M	L
Transportation Cyclical	M	M	L	L
Unregulated Power & Gas	L	H	L	L

H - High Impact   M - Medium Impact   L - Low Impact   
 ■ Credit Positive   
 ■ Credit Negative   
 ■ It Depends

# Ratings Framework



# Key Elements of Our Corporate Rating Criteria



# Financial Risk Profile Leverage Ratios

## Cash Flow/Leverage -- Standard Volatility

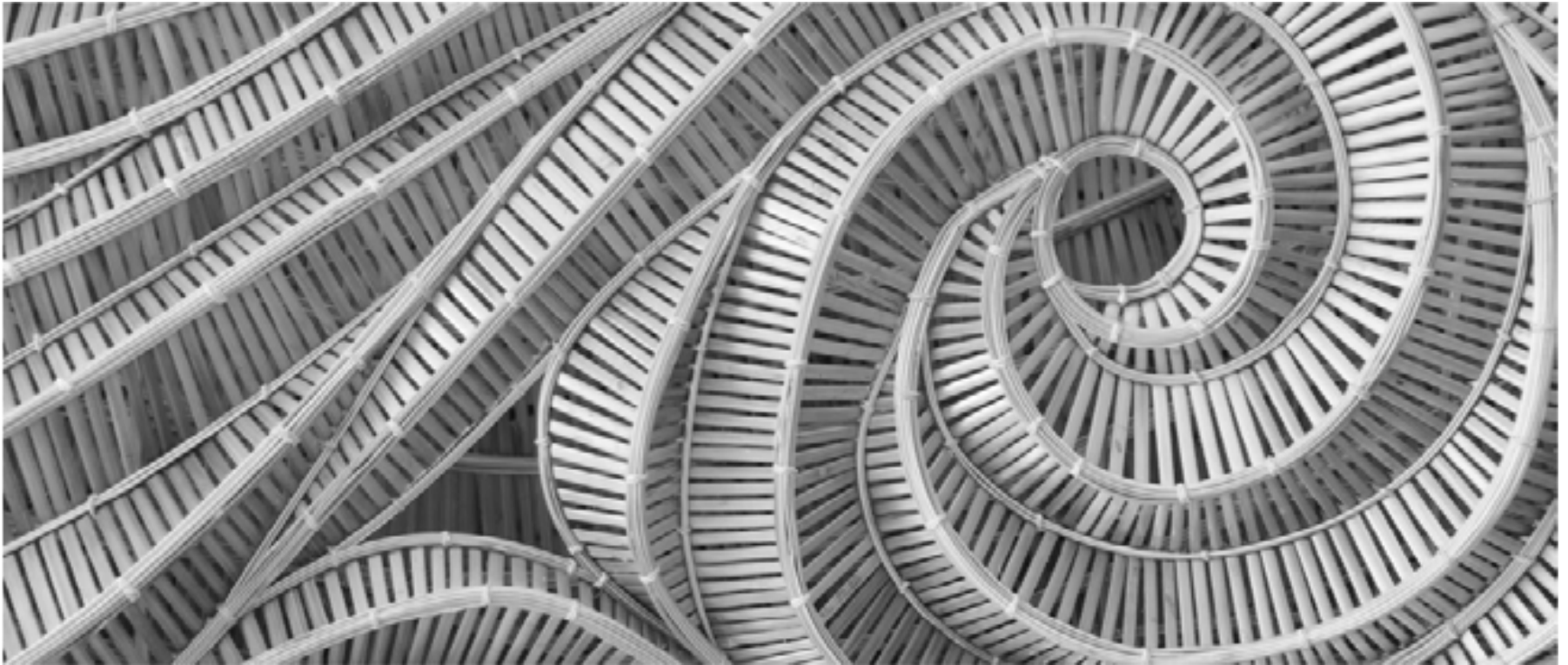
	--Core Ratios--		Supplementary Coverage Ratios--		--Supplementary Payback Ratios--		
	FFO/debt (%)	Debt/EBITDA (x)	FFO/cash interest (x)	EBITDA/interest (x)	CFO/debt (%)	FOCF/debt (%)	DCF/debt (%)
<b>Minimal</b>	60+	Less than 1.5	More than 13	More than 15	More than 50	40+	25+
<b>Modest</b>	45-60	1.5-2	9-13	10-15	35-50	25-40	15-25
<b>Intermediate</b>	30-45	2-3	6-9	6-10	25-35	15-25	10-15
<b>Significant</b>	20-30	3-4	4-6	3-6	15-25	10-15	5-10
<b>Aggressive</b>	12-20	4-5	2-4	2-3	10-15	5-10	2-5
<b>Highly Leveraged</b>	Less than 12	Greater than 5	Less than 2	Less than 2	Less than 10	Less than 5	Less than 2

# Ratings Matrix

Combining the Business and Financial Risk Profiles to Determine The Anchor

Business risk profile	--Financial risk profile--					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a-	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

# Retail Sector Analysis



# Retail Ratings Matrix

Business Risk Profile	---- Financial Risk Profile ----					
	Minimal (1)	Modest (2)	Intermediate (3)	Significant (4)	Aggressive (5)	Highly Leveraged (6)
Excellent (1)		1 Issuer				
Strong (2)	3 Issuers	3 Issuers	3 Issuers	5 Issuers	1 Issuer	1 Issuer
Satisfactory (3)	2 Issuers	4 Issuers	13 Issuers	2 Issuers		3 Issuers
Fair (4)			1 Issuer	6 Issuers	8 Issuers	13 Issuers
Weak (5)		2 Issuers		1 Issuer	8 Issuers	33 Issuers
Vulnerable (6)					3 Issuers	19 Issuers

# Apparel/Department Stores/Discounters

Business Risk Profile	---- Financial Risk Profile ----					
	Minimal (1)	Modest (2)	Intermediate (3)	Significant (4)	Aggressive (5)	Highly Leveraged (6)
Excellent (1)		<ul style="list-style-type: none"> <li>Wal-Mart Stores Inc. (AA/Negative)</li> </ul>				
Strong (2)	<ul style="list-style-type: none"> <li>Amazon.com Inc. (AA-/Stable)</li> <li>Costco Wholesale Corp. (A+/Stable)</li> <li>TJX Companies Inc. (A+/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>Target Corp. (A/Stable)</li> </ul>				
Satisfactory (3)	<ul style="list-style-type: none"> <li>Navy Exchange Service Command (AA-/Stable)</li> <li>Ross Stores Inc. (A-/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>Army &amp; Air Force Exchange Service (AA-/Stable)</li> <li>Marine Corps Community Services (AA-/Stable)</li> <li>Big Lots Inc. (BBB/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>Nordstrom Inc. (BBB+/Negative)</li> <li>Dollar General Corp. (BBB/Stable)</li> <li>Michael Kors, Inc. (BBB-/Positive)</li> <li>Kohl's Corp. (BBB-/Negative)</li> <li>Macy's Inc. (BBB-/Negative)</li> <li>Tapestry, Inc. (BBB-/Stable)</li> <li>Dollar Tree, Inc. (BBB-/Stable)</li> <li>Foot Locker Inc. (BB+/Stable)</li> <li>L Brands, Inc. (BB+/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>Qurate Retail, Inc. (BB/Stable)</li> </ul>		
Fair (4)			<ul style="list-style-type: none"> <li>Gap Inc. (The) (BB+/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>Burlington Stores Inc. (BB/Stable)</li> </ul>		<ul style="list-style-type: none"> <li>BJ's Wholesale Club Inc. (B-/Stable)</li> </ul>
Weak (5)		<ul style="list-style-type: none"> <li>Dillard's Inc. (BB+/Stable)</li> </ul>		<ul style="list-style-type: none"> <li>Caleres, Inc. (BB/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>Abercrombie &amp; Fitch Co. (BB-/Negative)</li> <li>Tailored Brands Inc. (B+/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>Ascena Retail Group Inc. (B-/Negative)</li> <li>J.C. Penney Co. Inc. (B-/Negative)</li> <li>Jill Acquisition LLC (B-/Negative)</li> <li>The Talbots Inc. (B-/Stable)</li> <li>Belk, Inc. (B-/Negative)</li> <li>J. Crew Group Inc. (CCC+/Negative)</li> <li>David's Bridal Inc. (CCC/Negative)</li> <li>Evergreen AcqCo1 LP d/b/a Savers (CCC/Negative)</li> <li>Neiman Marcus Group Inc. (CCC/Negative)</li> </ul>
Vulnerable (6)						<ul style="list-style-type: none"> <li>Lands' End, Inc. (B-/Negative)</li> <li>Everest Holdings LLC d/b/a Eddie Bauer (CCC+/Negative)</li> <li>99 Cents Only Stores (CCC+/Negative)</li> <li>Charlotte Russe Inc. (CCC/Negative)</li> <li>Payless Inc. (CCC/Negative)</li> <li>HT Intermediate Holdings Corp (CCC/Negative)</li> <li>Sears Holdings Corp. (CCC-/Negative)</li> </ul>

As of 6/25/18

# Non-Apparel

Business Risk Profile	---- Financial Risk Profile ----					
	Minimal (1)	Modest (2)	Intermediate (3)	Significant (4)	Aggressive (5)	Highly Leveraged (6)
Excellent (1)						
Strong (2)		<ul style="list-style-type: none"> <li>Home Depot Inc. (A/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>Lowe's Cos. Inc. (A-/Stable)</li> <li>Tiffany &amp; Co. (BBB+/Stable)</li> <li>O'Reilly Automotive Inc. (BBB/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>AutoZone Inc. (BBB/Stable)</li> </ul>		
Satisfactory (3)		<ul style="list-style-type: none"> <li>Best Buy Co. Inc. (BBB/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>Advance Auto Parts Inc. (BBB-/Stable)</li> <li>Bed Bath &amp; Beyond Inc. (BBB-/Negative)</li> </ul>	<ul style="list-style-type: none"> <li>Sally Beauty Holdings Inc. (BB-/Stable)</li> </ul>		<ul style="list-style-type: none"> <li>Bass Pro Group, LLC (B+/Stable)</li> </ul>
Fair (4)				<ul style="list-style-type: none"> <li>Signet Jewelers Ltd. (BB+/Negative)</li> <li>Gamestop Corp. (BB/Negative)</li> <li>Harbor Freight Tools USA Inc. (BB-/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>Sotheby's (BB-/Stable)</li> <li>Michaels Companies, Inc. (The) (BB-/Stable)</li> <li>Party City Holdings, Inc. (B+/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>Staples Inc. (B+/Stable)</li> <li>National Vision Inc. (B+/Stable)</li> <li>EOC Group Inc. (B/Stable)</li> <li>Leslie's Poolmart Inc. (B/Stable)</li> <li>CVS Holdings I, LP (B/Stable)</li> <li>Eyemart Express Holdings LLC (B/Negative)</li> <li>PetSmart Inc. (CCC+/Negative)</li> </ul>
Weak (5)					<ul style="list-style-type: none"> <li>FDO Holdings Inc. (B+/Positive)</li> <li>At Home Group Inc. (B+/Stable)</li> <li>Container Store Group, Inc. (B/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>A2Z Wireless Holdings Inc. (B/Stable)</li> <li>BDF Acquisition Corp. (B/Stable)</li> <li>Go Wireless Holdings, Inc (B/Stable)</li> <li>Jo-Ann Stores Holdings Inc (B/Stable)</li> <li>Mister Car Wash Holdings, Inc. (B-/Stable)</li> <li>CNT Holdings III Corp. (B-/Stable)</li> <li>Pier 1 Imports Inc. (B-/Negative)</li> <li>Petco Holdings Inc. (CCC+/Negative)</li> <li>SSH Holdings Inc. d/b/a Spencer Spirit (CCC+/Negative)</li> <li>Guitar Center Holdings Inc. (CCC+/Negative)</li> <li>GNC Holdings Inc. (CCC+/Watch Neg)</li> </ul>
Vulnerable (6)				<ul style="list-style-type: none"> <li>Conn's Inc. (B/Negative)</li> </ul>	<ul style="list-style-type: none"> <li>Office Depot, Inc. (B/Negative)</li> </ul>	<ul style="list-style-type: none"> <li>New Academy Holding Co. LLC (CCC+/Negative)</li> <li>Bluestem Brands, Inc. (CCC+/Negative)</li> <li>Rent-A-Center Inc. (CCC+/Negative)</li> <li>FULLBEAUTY Brands Holdings Corp. (CCC-/Negative)</li> </ul>

As of 6/25/18

# Restaurants

Business Risk Profile	---- Financial Risk Profile ----					
	Minimal (1)	Modest (2)	Intermediate (3)	Significant (4)	Aggressive (5)	Highly Leveraged (6)
Excellent (1)						
Strong (2)		<ul style="list-style-type: none"> <li>Starbucks Corp. (A-/Stable)</li> </ul>		<ul style="list-style-type: none"> <li>McDonald's Corp. (BBB+/Stable)</li> </ul>		<ul style="list-style-type: none"> <li>Yum! Brands Inc. (BB/Stable)</li> </ul>
Satisfactory (3)			<ul style="list-style-type: none"> <li>Darden Restaurants Inc. (BBB/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>Brinker International (BB+/Stable)</li> </ul>		<ul style="list-style-type: none"> <li>Restaurant Brands Inc. (B+/Stable)</li> </ul>
Fair (4)				<ul style="list-style-type: none"> <li>Bloomin' Brands, Inc. (BB/Negative)</li> </ul>		<ul style="list-style-type: none"> <li>Wendy's Co. (The) (B/Stable)</li> <li>Golden Nugget Inc. (B/Stable)</li> <li>IRB Holding Corp. (B/Stable)</li> </ul>
Weak (5)						<ul style="list-style-type: none"> <li>Fogo De Chao (B/Stable)</li> <li>Big Jack Holdings LP (B/Negative)</li> <li>Checkers Drive-In Restaurants (B-/Stable)</li> <li>California Pizza Kitchen, Inc. (B-/Negative)</li> <li>K-MAC Holdings Corp (B-/Stable)</li> <li>Nathan's Famous Inc. (B-/Stable)</li> <li>NPC International Inc. (B-/Stable)</li> <li>Tacala LLC (B-/Stable)</li> <li>CEC Entertainment Inc. (B-/Negative)</li> <li>PHD Group Holdings LLC (B-/Negative)</li> <li>Red Lobster Intermediate Holdings LLC (B-/Negative)</li> </ul>
Vulnerable (6)						<ul style="list-style-type: none"> <li>Carrols Restaurant Group, Inc. (B-/Stable)</li> <li>Millers Ale House, Inc. (B-/Stable)</li> <li>Quidditch Acquisition Co. (B-/Stable)</li> <li>P.F. Chang's China Bistro Inc. (CCC+/Negative)</li> <li>Steak n Shake Inc. (CCC+/Negative)</li> <li>BKH Acquisition (fka Caribbean Restaurants) (CCC-/Negative)</li> </ul>

As of 6/25/18

# Supermarkets/Drug/C-Stores

Business Risk Profile	---- Financial Risk Profile ----					
	Minimal (1)	Modest (2)	Intermediate (3)	Significant (4)	Aggressive (5)	Highly Leveraged (6)
Excellent (1)						
Strong (2)			<ul style="list-style-type: none"> <li>Wegmans Food Markets Inc. (BBB+/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>Kroger Co. (BBB/Stable)</li> <li>Walgreens Boots Alliance, Inc (BBB/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>CVS Health Corporation (BBB/Stable)</li> </ul>	
Satisfactory (3)			<ul style="list-style-type: none"> <li>Whole Foods Market Inc. (A+/Stable)</li> </ul>			<ul style="list-style-type: none"> <li>Albertsons Cos. LLC (B/Stable)</li> </ul>
Fair (4)				<ul style="list-style-type: none"> <li>Pilot Travel Centers LLC (BB+/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>C&amp;S Wholesale Grocers Inc. (BB/Stable)</li> <li>Ingles Markets Inc. (BB-/Stable)</li> <li>Raley's (B+/Stable)</li> </ul>	<ul style="list-style-type: none"> <li>Smart &amp; Final Stores Inc. (B/Stable)</li> <li>Rite Aid Corp. (B/Stable)</li> <li>GOBP Holdings Inc. (B-/Stable)</li> </ul>
Weak (5)		<ul style="list-style-type: none"> <li>Murphy USA Inc. (BB+/Stable)</li> </ul>			<ul style="list-style-type: none"> <li>Cumberland Farms Inc. (B+/Stable)</li> <li>SUPERVALU Inc. (B+/Negative)</li> </ul>	<ul style="list-style-type: none"> <li>SAL Acquisition Corp. (B-/Stable)</li> <li>CF United LLC. (B/Stable)</li> <li>Beverages &amp; More, Inc. (B-/Negative)</li> <li>KeHE Distributors Holdings LLC (B-/Stable)</li> <li>BI-LO LLC (B-/Stable)</li> </ul>
Vulnerable (6)						<ul style="list-style-type: none"> <li>The Fresh Market (CCC/Negative)</li> </ul>

As of 6/25/18

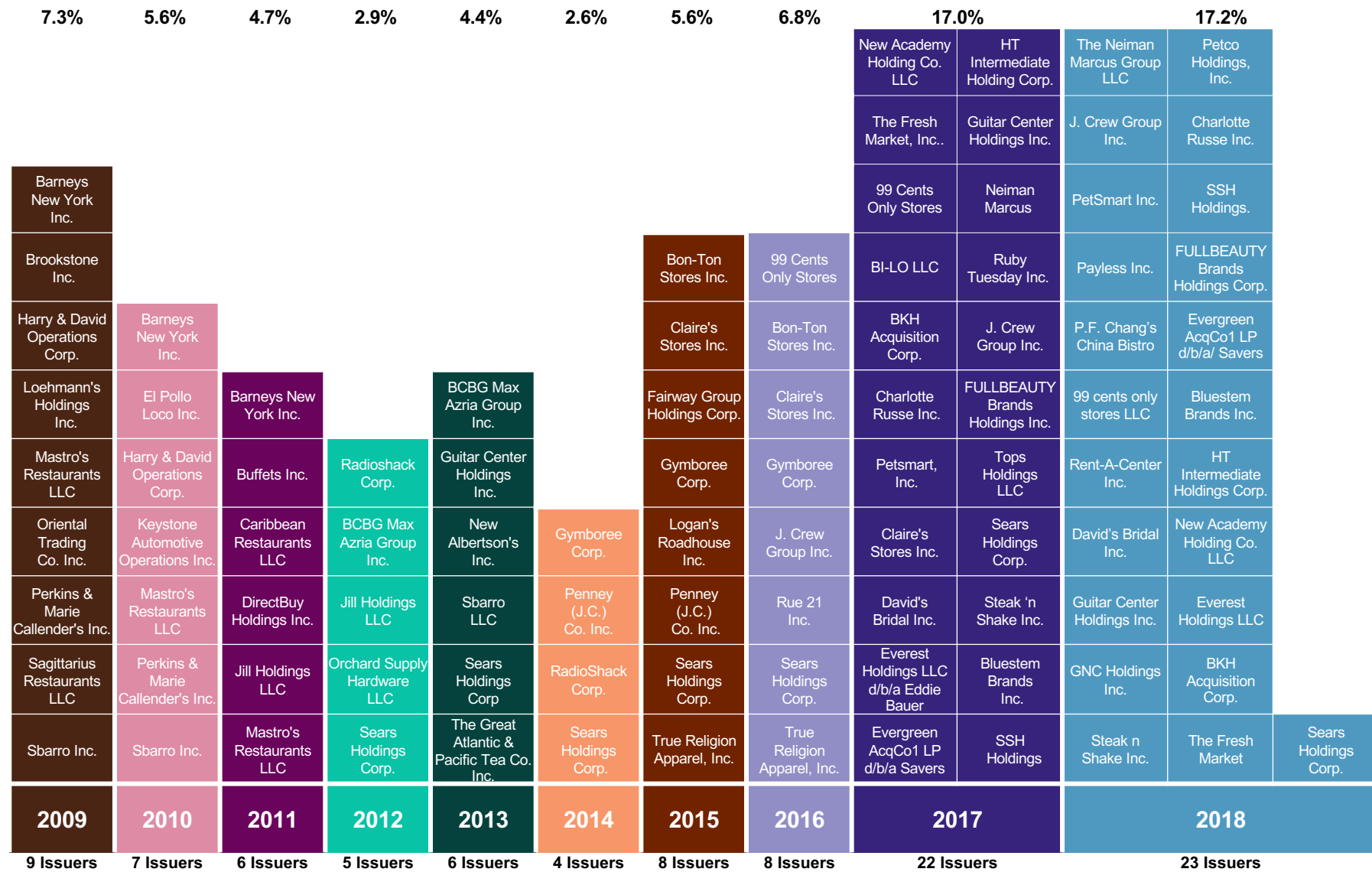
# Retail downgrades: Over 100 Downgrades Since Jan. 2017

Month	Company	Sub-Sector	Downgraded To
February	Payless Inc.	Apparel	CCC/Negative
February	Charlotte Russe Inc.	Apparel	CCC+/Negative
February	TGI Fridays Inc.	Restaurants	B/Stable
February	Neiman Marcus Group Inc.	Dept. Store	CCC+/Negative
February	Charming Charlie LLC	Apparel	CCC+/Negative
February	Evergreen AcqCo1 LP d/b/a Savers	Discounter	CCC+/Negative
February	Bluestem Brands Inc.	Non-Apparel	B/Negative
February	Rent-A-Center Inc.	Non-Apparel	B-/CW Negative
February	Macy's Inc.	Dept. Store	BBB-/Negative
March	GNC Holdings	Non-Apparel	BB-/Negative
March	Everest Holdings LLC	Apparel	CCC+/Negative
March	BI-LO LLC	Grocery	CCC+/Negative
March	David's Bridal Inc.	Apparel	CCC+/Negative
April	Payless Inc.	Apparel	D
April	Smart & Final Stores Inc.	Grocery	B/Stable
April	Rue 21 Inc.	Apparel	CC/Negative
April	Ruby Tuesday Inc.	Restaurants	CCC+/Negative
May	Guitar Center Holdings, Inc.	Non-Apparel	CCC+/Negative
May	Rue 21 Inc.	Apparel	D
May	Tops Holding LLC	Grocery	CCC+/Negative
May	FullBeauty Brands Holdings Corp	Non-Apparel	CCC+/Negative
May	Fresh Market Inc.	Grocery	B-/Negative
May	SSH Holdings d/b/a Spencer Spirit	Non-Apparel	B-/Negative
June	The Gymboree Corp.	Apparel	D
June	J. Crew Group	Apparel	CC/Negative
June	Neiman Marcus Group	Apparel	CCC/Negative
July	True Religion Apparel Inc.	Apparel	D
July	Bluestem Brands Inc.	Non-Apparel	CCC+/Negative
July	J. Crew Group	Apparel	SD
August	SSH Holdings d/b/a Spencer Spirit	Non-Apparel	CCC+/Negative
August	Tops Holding II Corp.	Grocery	CC/Negative
August	Staples Inc.	Non-Apparel	B+/Stable
August	CNT Holdings III Corp.	Non-Apparel	B-/Stable
August	Tops Holding LLC	Grocery	SD
September	Toys "R" Us Inc.	Non-Apparel	CCC+/CW Negative
September	New Academy Holding Co. Limited	Non-Apparel	CCC+/Negative
September	BI-LO LLC	Grocery	CCC-/Negative
September	Toys "R" Us Inc.	Non-Apparel	CCC-/CW Negative
September	PetSmart Inc.	Non-Apparel	B/Negative
September	Belk Inc.	Dept. Store	B-/Stable
September	Toys "R" Us Inc.	Non-Apparel	D
September	Charlotte Russe Inc.	Apparel	CCC-/Negative
September	GNC Holdings, Inc.	Non-Apparel	B+/Negative
September	HT Intermediate Holdings Corp	Apparel	B-/Negative
September	Ascena Retail Group, Inc.	Apparel	B+/Negative
September	Fresh Market Inc.	Grocery	CCC-/Negative
September	99 Cents Only Stores	Discounter	CC/Negative
October	Bed Bath & Beyond Inc.	Non-Apparel	BBB/Negative
October	Charming Charlie	Apparel	CCC/Negative

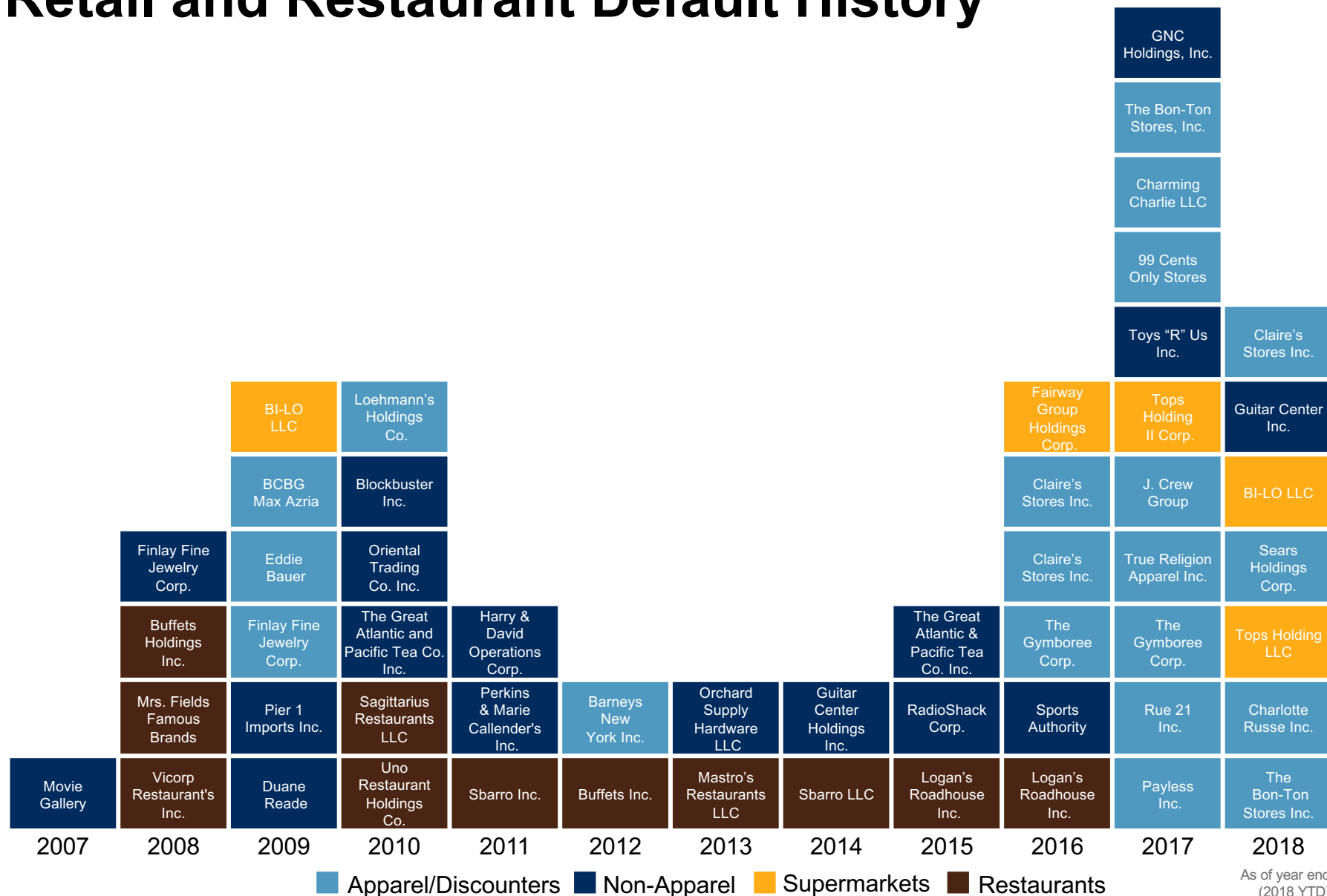
Month	Company	Sub-Sector	Downgraded To
October	CEC Entertainment	Non-Apparel	B-/Negative
October	Sears Holdings Corp.	Dept. Stores	CCC/Negative
November	Starbucks Corp.	Restaurants	A-/Stable
November	99 Cents Only Stores	Discounter	SD
November	GNC Holdings, Inc.	Non-Apparel	B/Negative
November	Carrols Restaurant Group, Inc.	Restaurants	B-/Stable
November	Evergreen AcqCo1 LP d/b/a Savers	Discounter	CCC/Negative
November	SAL Acquisition Corp.	Grocery	B-/Stable
November	Bon-Ton Stores Inc.	Dept. Store	CCC/Negative
November	Guitar Center Holdings Inc.	Non-Apparel	CCC-/Negative
December	Dillard's Inc.	Dept. Store	BB+/Stable
December	GNC Holdings, Inc.	Non-Apparel	CCC+/CW Negative
December	Charming Charlie	Apparel	D
December	HT Intermediate Holdings Corp.	Apparel	CCC/Negative
December	Charlotte Russe, Inc.	Apparel	CC/Negative
December	The Bon-Ton Stores, Inc.	Apparel	SD
December	PetSmart, Inc.	Non-Apparel	CCC+/Negative
December	BKH Acquisition Corp.	Restaurants	CCC-/Negative
December	GNC Holdings, Inc.	Non-Apparel	CC/CW Negative
December	GNC Holdings, Inc.	Non-Apparel	SD
January	Petco Holdings Inc.	Non-Apparel	B-/Negative
January	David's Bridal Inc.	Apparel	CCC/Negative
January	Sear's Holding Corp.	Dept. Store	CCC-/Negative
January	Tops Holding LLC	Grocery	CCC/Negative
January	Sear's Holding Corp.	Dept. Store	CC/Negative
January	Steak N Shake Inc.	Restaurant	CCC+/Negative
January	Albertson's Cos. LLC	Grocery	B/Stable
February	Charlotte Russe Inc.	Apparel	SD
February	The Bon-Ton Stores Inc.	Dept. Store	D
February	Payless Inc.	Apparel	CCC/Negative
February	Tops Holding LLC	Grocery	D
March	CVS Health Corp.	C-Store	BBB/Stable
March	Guitar Center Holdings	Non-Apparel	CC/Negative
March	Ascena Retail Group Inc.	Apparel	B/Negative
March	Claire's Stores Inc.	Apparel	D
March	Rent-A-Center Inc.	Non-Apparel	CCC+/Negative
March	PF Chang's China Bistro Inc.	Restaurant	CCC+/Negative
March	BI-LO Holding Finance LLC	Grocery	CC/Negative
March	Signet Jewelers Ltd.	Non-Apparel	BB+/Negative
March	Sears Holding Corp.	Dept. Store	SD
March	BI-LO Holding Finance LLC	Non-Apparel	D
April	Petco Holdings Inc.	Non-Apparel	CCC+/Negative
April	Guitar Center Inc.	Non-Apparel	SD
April	Bed Bath and Beyond	Non-Apparel	BBB-/Negative
May	FullBeauty Brands Holdings Corp.	Non-Apparel	CCC-/Negative
May	O'Reilly Automotive, Inc.	Non-Apparel	BBB/Stable
May	Sally Beauty Holdings, Inc.	Non-Apparel	BB-/Negative
May	Pier 1 Imports, Inc.	Non-Apparel	B-/Negative
May	J.C. Penney Co. Inc.	Dept. Store	B/Negative

As of 6/25/18 CW = Credit Watch

# Issuers CCC+ to CC



# Retail and Restaurant Default History

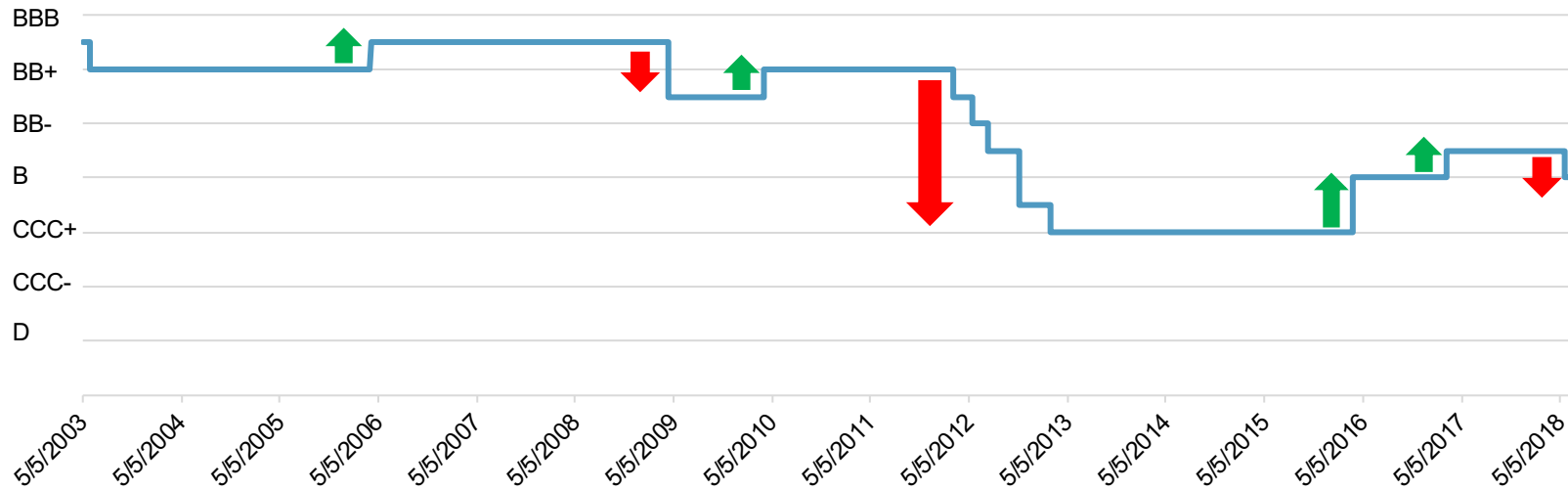


# Retail Ratings Case Study



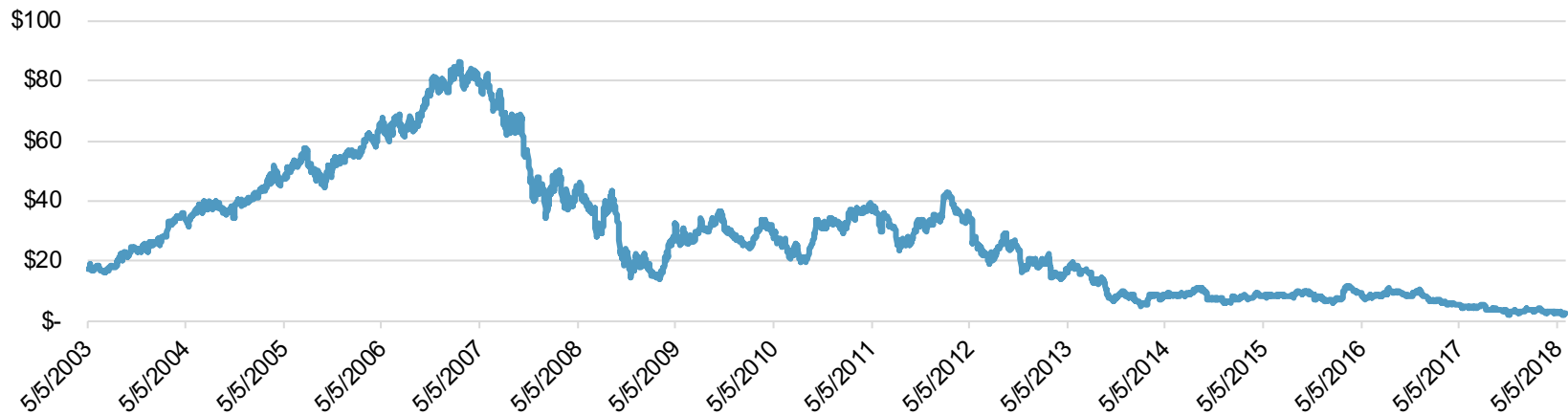
# J.C. Penney Retail Ratings Case Study

Ratings Transition



Source: S&P Capital IQ

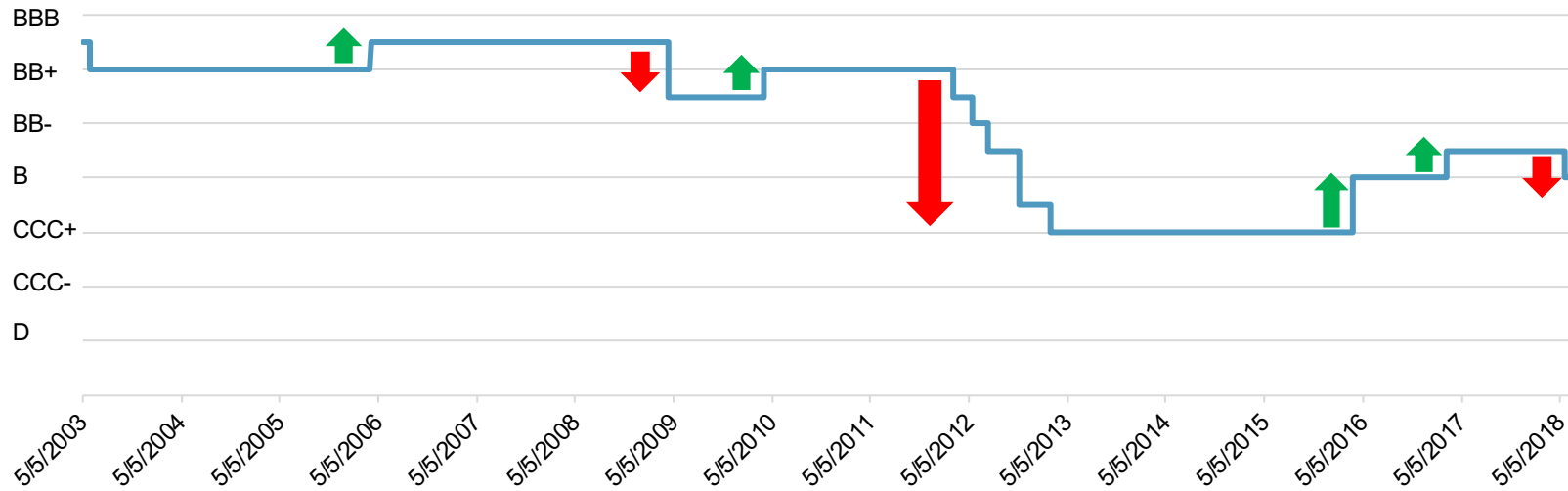
Stock Price Performance



Source: S&P Capital IQ

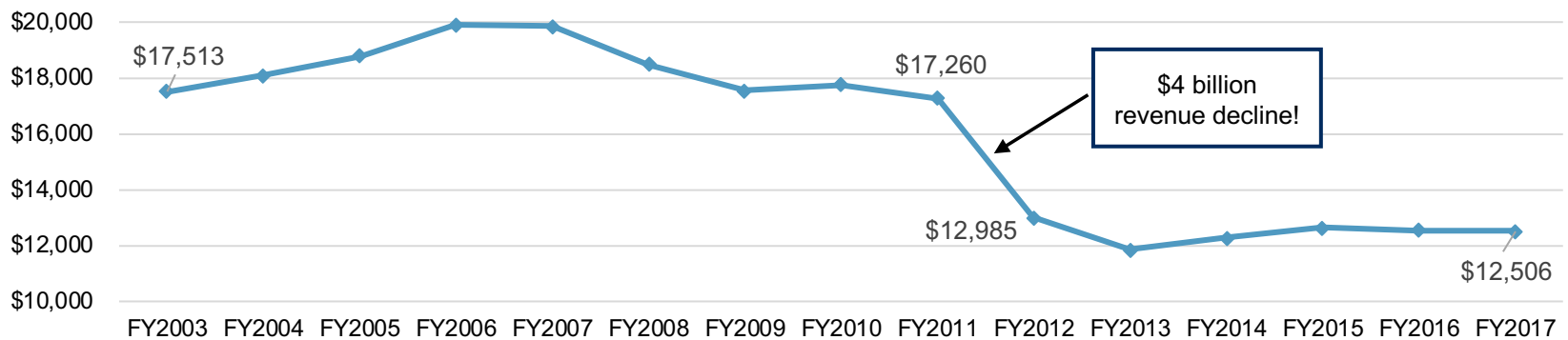
# J.C. Penney Case Study

Ratings Transition



Source: S&P Capital IQ

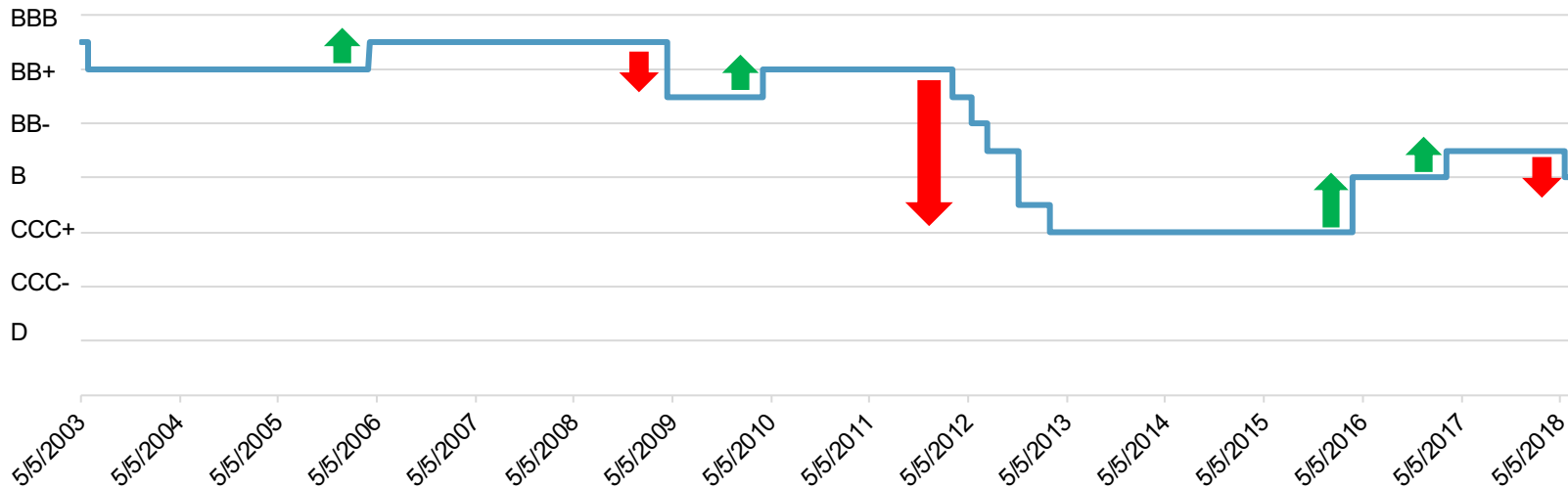
Revenue (USD Millions)



Source: S&P Capital IQ

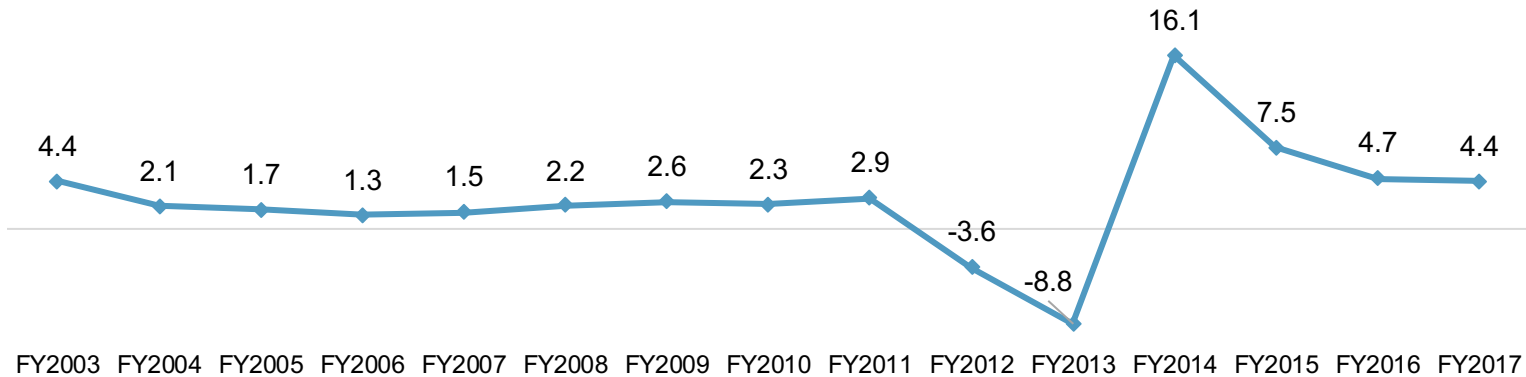
# J.C. Penney Case Study

Ratings Transition



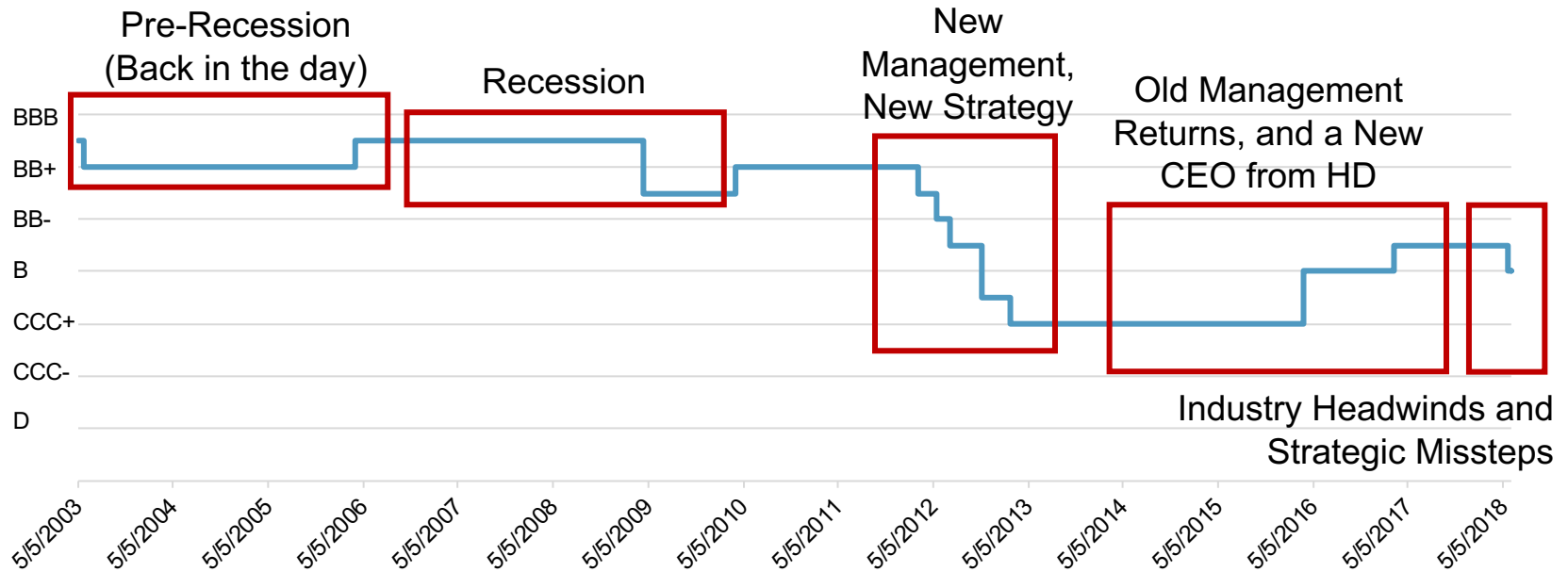
GAAP Debt/EBITDA

Source: S&P Capital IQ



Source: S&P Capital IQ

# J.C. Penney Ratings Transition Story

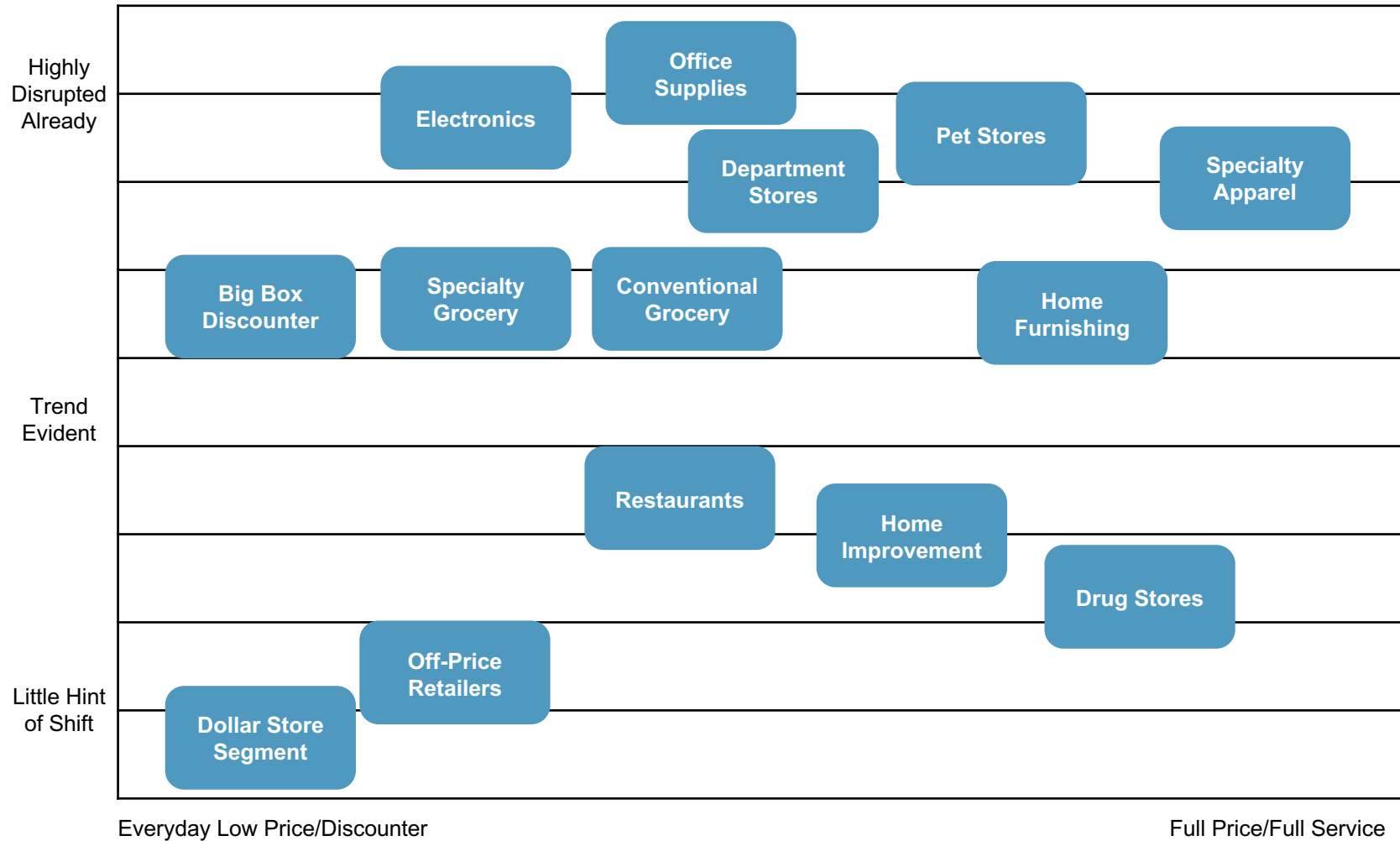


Source: S&P Capital IQ

# Disruption and Credit Analysis



# Ecommerce – Most and Least Disrupted



# Disruption – A Key Theme in 2018

**Tech Disruption:** U.S. Healthcare is “Prime” for Change by Amazon (and Others)

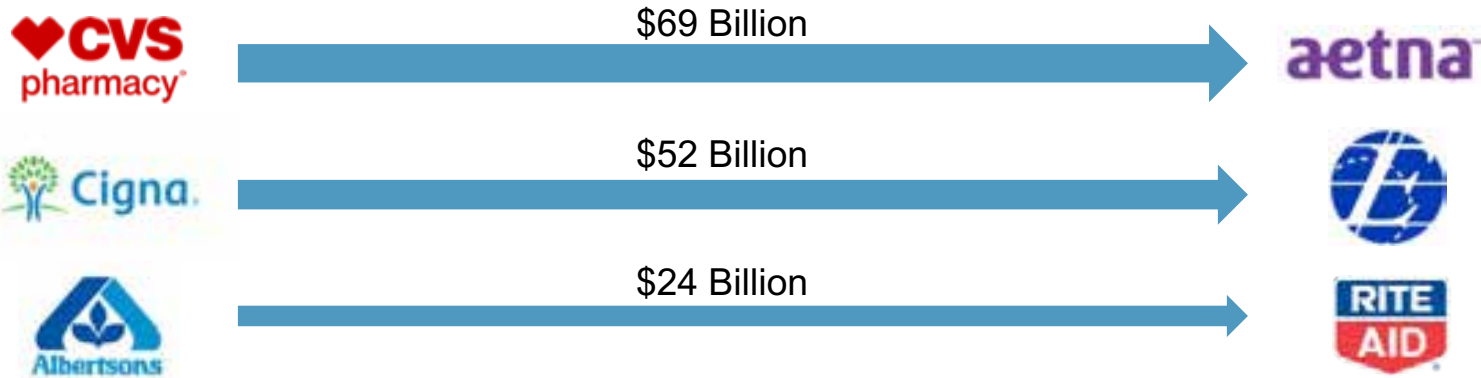
**Healthcare Disruption Update:** Thinking About the Current Retail – Insurance – Healthcare Mega Deals

**Tech Disruption:** Amazon Drive (And Flies) into the Delivery Business – Not So Fast

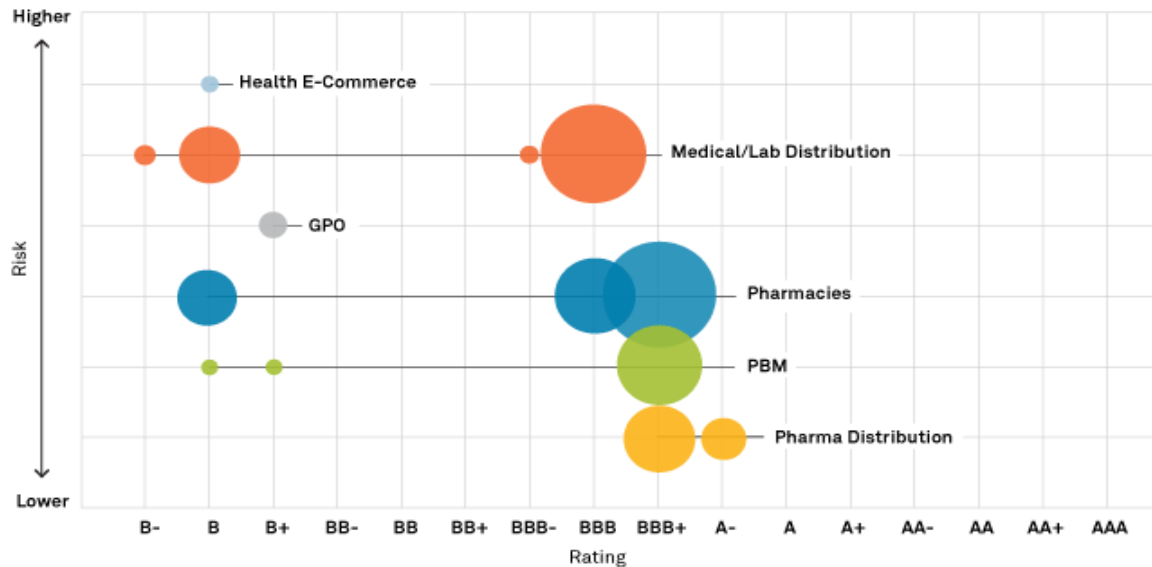
**Disruption:** U.S. Grocers Must Stay Fresh to Meet Customer Demands

# Key Takeaways: Healthcare

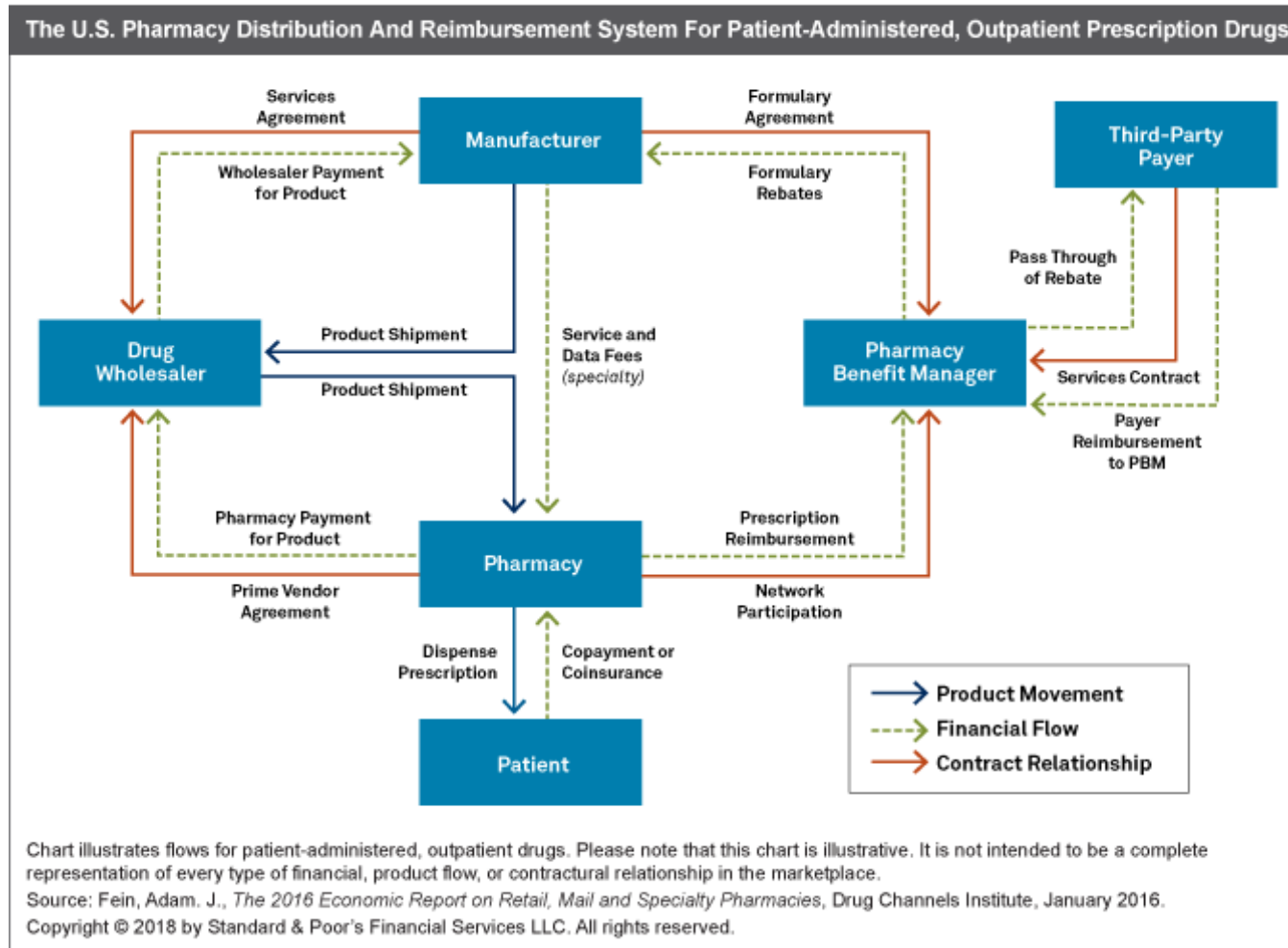
Three Mega-deals Have Been Proposed So Far, With More To Come?



Within Healthcare, Who's Most At Risk Of Disruption?



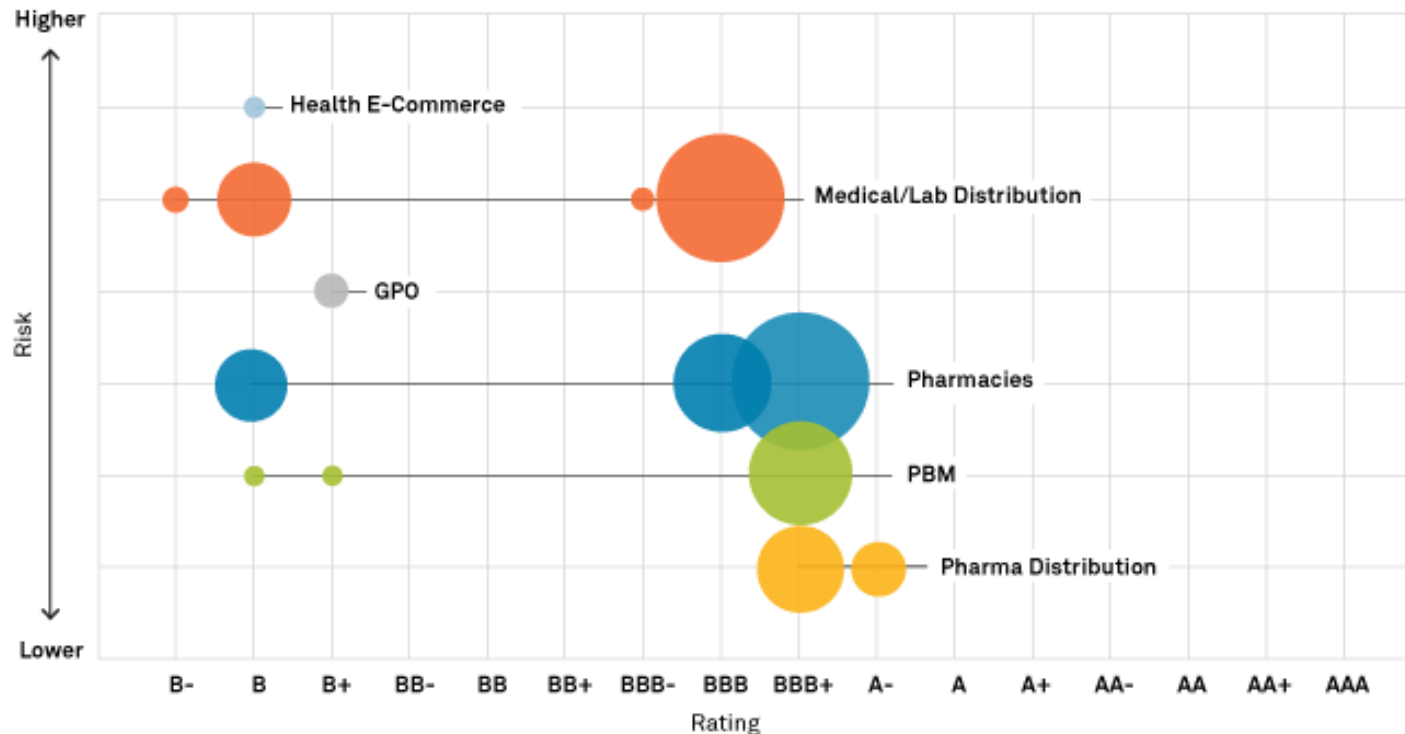
# Recent Deals Will Attempt to Address an Extraordinarily Complex Industry Structure



# Within Healthcare, Who's Most at Risk of Disruption?

Chart 3

## Amazon Disruption: Scaling the Risk



Size of circle represent total debt outstanding as of Sept. 30, 2017. Exceptions are Avantor, which is pro forma for the acquisition of VWR; MedImpact Healthcare Systems Inc. and WD Wolverine Holdings LLC, which are as of June 30, 2017; and Wal-Mart Stores Inc., which is as of Oct 31, 2017.

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# Key Takeaways: **Delivery**

## FedEx and UPS Face Limited Risk Near-Term

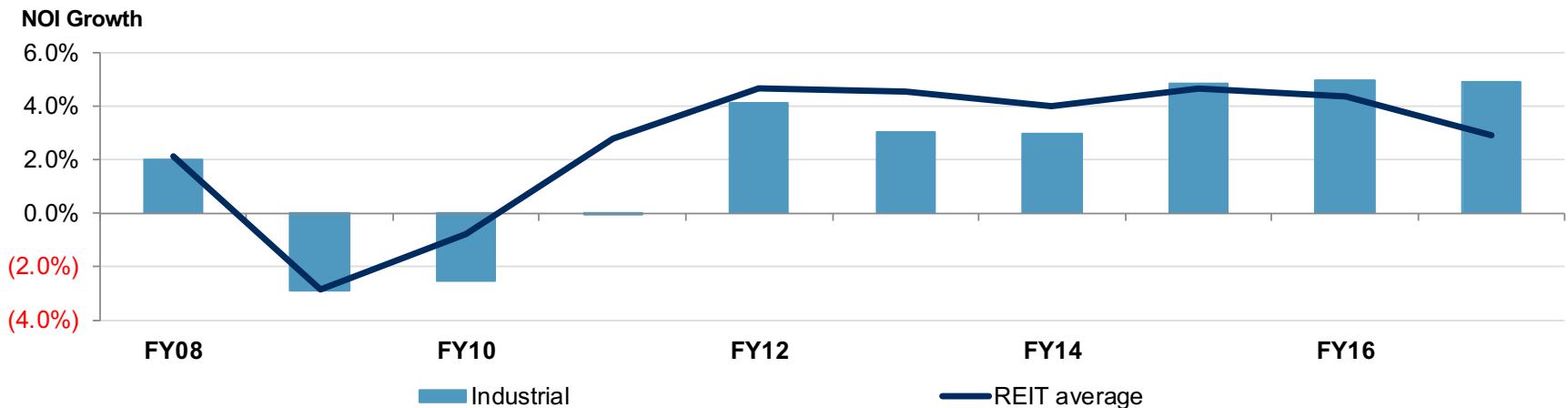
AMZN is a large customer, but not a large part of overall revenues

- UPS, FDX chose not to invest to scale that AMZN wanted
- They also have large B-to-B and international businesses
- Not uncommon for customers to also operate own truck fleet
- USPS is at greater risk

Package express is capital intensive with high operating leverage

- Scale of FDX, UPS operations far beyond what AMZN can offer 3<sup>rd</sup> parties
- FDX, UPS have global networks
- AMZN would have to make huge investments to match
- Would other retailers choose AMZN to carry their packages?

## Industrial REITs Benefit Either Way: Strong Demand Driving Rent Growth



# The Longer-Term Picture Is Less Clear

## **“Disruption” or in-sourcing?**

- AMZN has volume, data analytics, fulfillment centers
- But this is not a new technology or business model

## **Labor costs a potential weakness?**

- FDX, UPS have relatively high labor costs
- RPS entered package express with lower costs in 1990s
- Driver shortage currently helps incumbents

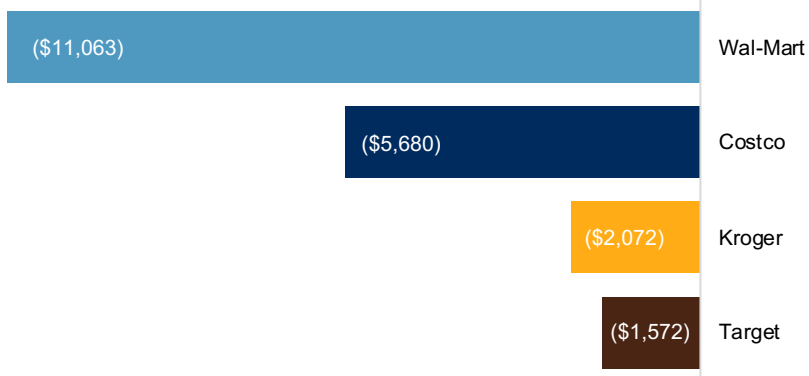
## **Driverless trucks could change the game**

- FDX, UPS labor relations could limit adoption of driverless
- Driverless shifts labor cost to capital cost...
- And AMZN has even lower capital costs than FDX, UPS
- But is this the best use of AMZN capital?

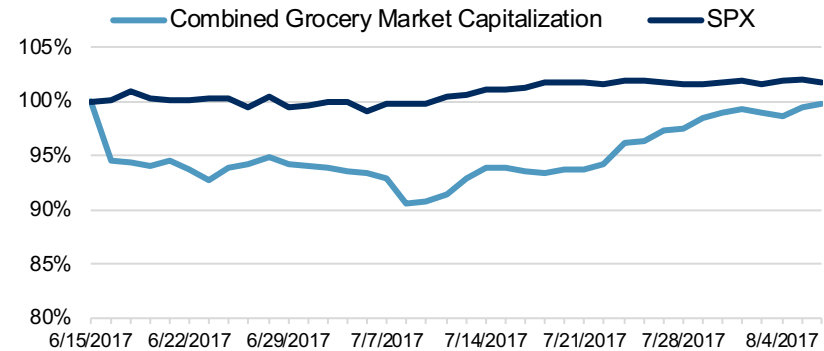
# Key Takeaways: Grocery

## AMZN's Impact on Grocery – WFM Announcement

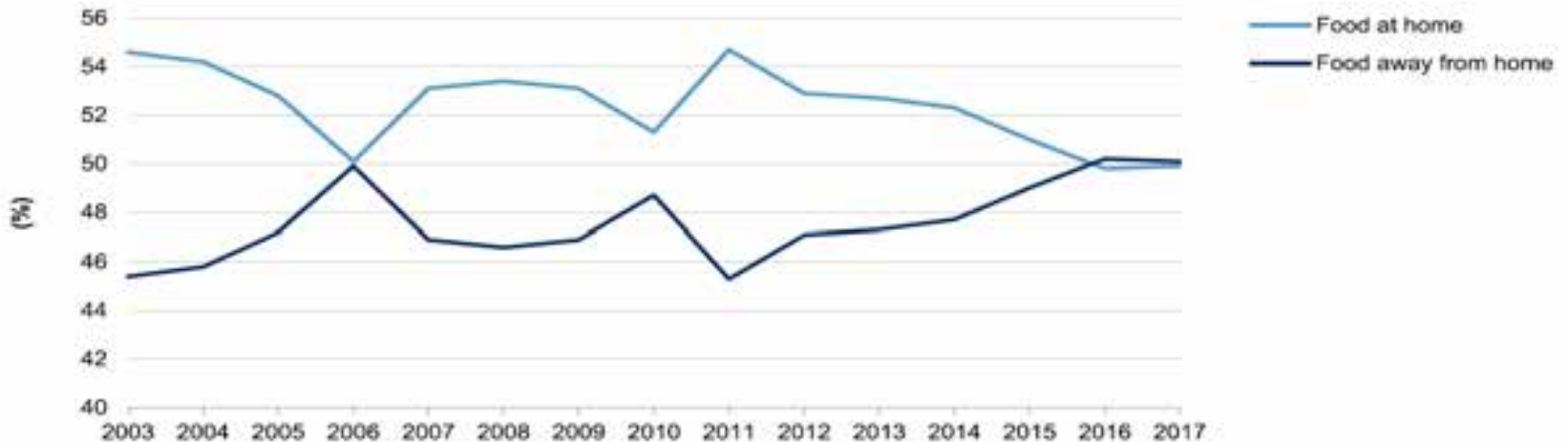
Select Grocers Market Capitalization Loss On Announcement



Combined Grocery Market Capitalization - Time to Recovery  
Includes Wal-Mart, Costco, Kroger, and Target



## Spending on Food At Home vs. Away From Home



# Challenges And Opportunities for US Grocers

- Where people are eating is shifting
- Increasingly fragmented market
- Are scale and financial resources sufficient for success?
- Do grocers need to offer online and in store to prosper?

# Q&A

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