

Industry Top Trends Update

Retail & Restaurants

Diverging fortunes of essential and non-essential retail

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What's changed post-COVID?

The rift between essential and discretionary retail has widened. The lockdowns have been quite favorable for grocers and supermarkets due to the essential nature of food retail. At the same time, increased operating costs associated with wages, distribution, cleaning, and sanitization procedures will limit the positive effects of topline growth on margins.

Ecommerce will accelerate and omnichannel will become more crucial. Almost all nonfood retailers, with the exception of some retail segments like home improvement had to close their stores during the lockdowns or at least restrict their offerings to focus on core and essential goods. For many nonfood retailers, ecommerce has emerged as a lifeline. But the pandemic will lead to enduring change in shopping habits and retailers' capabilities regarding omnichannel platforms will become an essential component of their competitive advantage.

What is the likely path to recovery?

Nonfood retailers face longer term disruption, which will impede recovery. We do not expect credit metrics for non-essential retailers to recover to 2019 levels until 2024 at least. Many retailers will be forced to invest more in technology and their supply chains, to improve ecommerce capabilities. This is a challenge given that the pandemic has damaged their financial health, but also because of the accelerated digital disruption and tough competitive landscape they have endured in recent years. It is paramount that retailers reevaluate their cost structures, which will need to become a lot more flexible.

Restaurants and pubs face far-reaching challenges. When they opened after the lockdowns eased, many of these businesses had to make extensive operating changes and adjustments as to how they are configured and serve customers. Growth in food delivery and takeaway will not cover lost sales on premises. Lower capacity utilization will exacerbate weaker margins and cash flow for these companies, diminishing already-tight headroom in their credit ratings.

What are the key risks around the baseline?

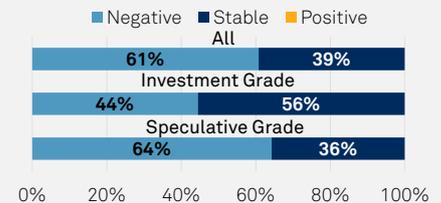
A second wave of COVID-19 would set back the recovery. This will damage macroeconomic conditions and consumer confidence even further and will continue to depress discretionary spending and out-of-home consumption.

Elevated leverage will lead to unsustainable capital structures. Weaker topline and increased operating costs, with additional financing to boost liquidity, will mean higher leverage. With more than one-third of all retailers and restaurants in EMEA rated 'B-' and below, rising leverage will result in many of their capital structures becoming unsustainable and, inevitably, some businesses will suffer financial distress.

Latest Related Research

- COVID-19 Will Shape The Future Of Consumer Goods, July 1, 2020
- COVID-19 Will Shape The Future Of Retail, May 27, 2020
- Impact Of The Coronavirus Likely To Drag U.S. Retail And Restaurants Ratings Down Further, April 24, 2020

Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	9	43	52
Downgrades	2	20	22
Upgrades	0	1	1

Ratings data as of end-June, 2020

COVID-19 Heat Map

COVID-19, Recession, and O&G Impact

Retail - Essential/Grocery	Neutral
Retail - Non-essential	High
Retail - Restaurants	High
Potential Neg. Long-Term Industry Disruption	
Retail - Essential/Grocery	--
Retail - Non-essential	Yes
Retail - Restaurants	Yes

2020 Estimates v. 2019

Revenue Decline	EBITDA Decline	Incremental Borrowings
Retail - Essential/Grocery		
No decline	No decline	No Increase
25% to 50%	40% to 60%	>10%
Retail - Non-essential		
25% to 50%	>60%	>10%
Retail - Restaurants		
25% to 50%	>60%	>10%

2021 Estimates v. 2019

Revenue Decline	EBITDA Decline
Retail - Essential/Grocery	
≥2019	≥2019
Retail - Non-essential	
20% to 30%	30% to 40%
Retail - Restaurants	
10% to 20%	20% to 30%