Industry Top Trends Update

Consumer Products

Channel and product mix driving performance

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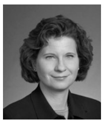


What's changed post-COVID?

Demand for branded consumer staples accelerated. Consumers shifted to in-home consumption and have navigated back to large brands because they trust their quality and availability. Ratings and outlooks have been relatively stable.

Durables, apparel, cosmetics, and food service were hit the hardest. These channels were highly disrupted because they were deemed nonessential. We took rating actions on most of these issuers. The outlook is negative.

Channel and product mix and innovation will drive growth. After the last recession, branded companies focused on reducing costs. Now we believe they will focus on the top line and accelerating growth in the e-commerce channel.

What is the likely path to recovery?

Consumer nondiscretionary is up against tough comparisons. This sector has benefitted from the current environment. Although sales trends should remain above historical levels, they will likely be slightly lower to up modestly in 2021 as they lap strong growth in 2020. Higher demand should have a modestly positive impact on credit quality.

Recovery for consumer discretionaries will be slow. This highly cyclical sector relies heavily on discretionary spending and consumers resuming social activity. Given the unprecedented revenue and profit declines forecasted for 2020, we do not expect meaningful recovery in credit metrics until 2022.

Credit quality will decline for many speculative-grade issuers. Many of them entered this difficult environment with high leverage, narrow product lines, and weak operating performance increasing the likelihood for lower ratings and defaults. We expect investment-grade issuers to be relatively stable because of their product portfolios, channel mix, and strong cash flow.

What are the key risks around the baseline?

Potential for prolonged muted sales for discretionary subsector. Health developments and related restrictions are key for recovery for discretionary issuers.

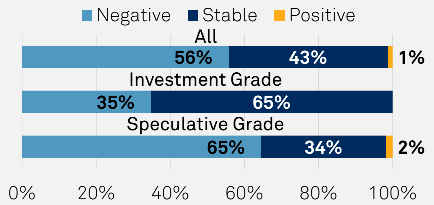
Retailers increase their own brands. Retailers push private-label offerings to improve margins when consumers become frugal and focus on value during a recession, resulting in lost market share for branded players.

Liquidity is paramount. Higher operating and labor costs because of heightened safety measures as well as working capital and investment needs could absorb the extra liquidity companies have obtained if sales remain weak or decline.

Latest Related Research

- U.S. Consumer Product Ratings Demonstrate Pandemic's Double Edge—Consumer Staples Benefit While Discretionaries Struggle, June 12, 2020
- Packaged Food, Household Products Manage Coronavirus Pressure; Not So Pretty For Cosmetics, May 4, 2020
- Food Service, Beverage, And Tobacco Prognosis Mixed From Coronavirus, May 1, 2020

Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	46	113	159
Downgrades	0	31	31
Upgrades	1	6	7

Ratings data as of end-June, 2020

COVID-19 Heat Map

Consumer Staples	
COVID-19, Recession, and O&G Impact	Low
Potential Negative Long-Term Industry Disruption	--

2020 Estimates v. 2019		
Revenue Decline	**EBITDA Decline**	**Incremental Borrowings**
No decline	No decline	No increase

2021 Estimates v. 2019	
Revenue Decline	**EBITDA Decline**
≥2019	≥2019

Consumer Discretionary	
COVID-19, Recession, and O&G Impact	High
Potential Negative Long-Term Industry Disruption	--

2020 Estimates v. 2019		
Revenue Decline	**EBITDA Decline**	**Incremental Borrowings**
15% to 25%	25% to 40%	5% to 10%

2021 Estimates v. 2019	
Revenue Decline	**EBITDA Decline**
10% to 20%	20% to 30%