

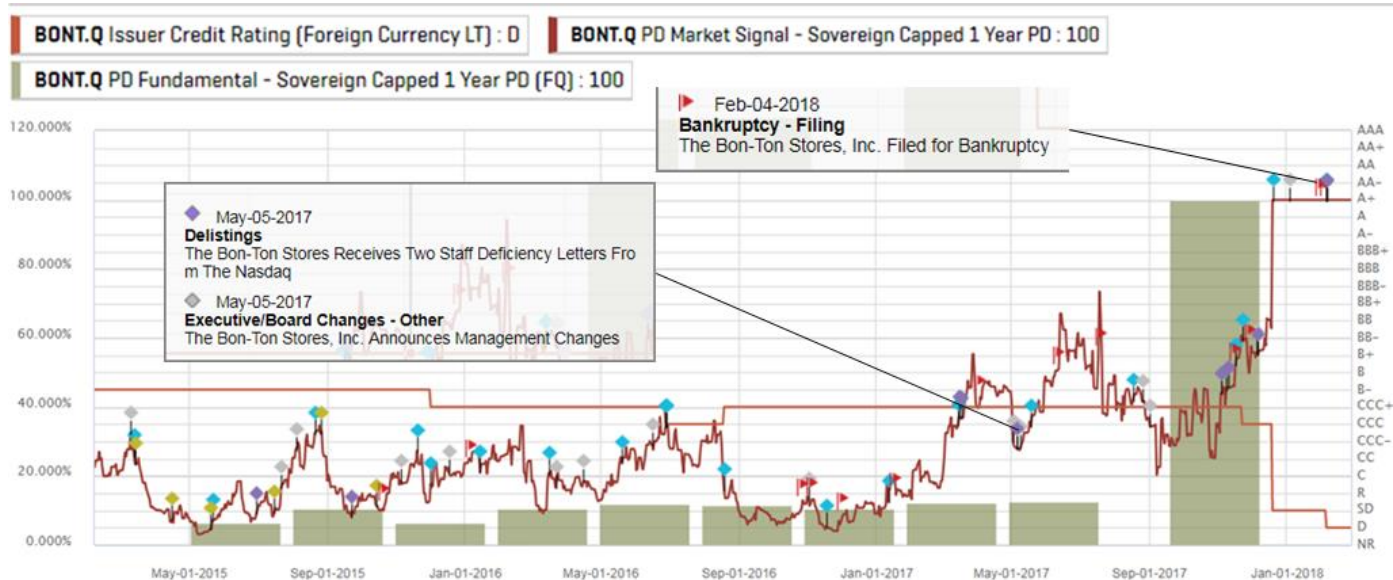
Essential tools for strategic decisions

Credit Analytics Case Study: The Bon-Ton Stores, Inc.

Bankruptcy Summary

The Bon-Ton Stores, Inc. (Bon-Ton) is a Pennsylvania based retail store operator that, as of November 30, 2017, operated 260 stores. On February 4, 2018, the company filed for Chapter 11 bankruptcy “becoming the first major brick and mortar retailer to file for bankruptcy in 2018”¹. In the November 22, 2017 research update (before the company’s ‘SD’ and ‘D’ ratings) from S&P Global Ratings, Bon-Ton was assessed as having “persistently negative free operating cash flow [and] continued pressure on operating performance”². S&P Global Market Intelligence’s one year Market Signal Probability of Default (Market Signal PD) increased nearly sevenfold from 9.1% (an implied credit score of ‘ccc+’³) to 59.9% (an implied credit score of ‘cc’) between January 1, 2017 and December 12, 2017, two months before the company filed for bankruptcy and one week before the subsequent S&P Global Ratings downgrade from ‘CCC’ to ‘SD’ on December 19, 2017. Said another way, the increased Market Signal PD is comparable to an implied credit score decline from ‘ccc+’ to ‘cc’. On February 2, 2017, one year before Bon-Ton’s bankruptcy filing, the implied credit score for the Market Signal PD fell to ‘ccc’, which was one notch below the S&P Rating of ‘CCC+’, and never recovered.

Exhibit 1: Market Signal and Fundamental PD Escalation



Source: S&P Global Market Intelligence as of June 28, 2018. For illustrative purposes only.

Business Description

Bon-Ton operates a chain of department stores in the United States. The company’s stores offer various brand-name fashion apparel and accessories for women, men, and children, as well as cosmetics, home furnishings, and other goods. The company was founded in 1898 and is headquartered in York, Pennsylvania.

Fundamental Probability of Default Analysis

S&P Global Market Intelligence’s one-year Fundamental Probability of Default (Fundamental PD) sat higher than 10% since the second quarter of 2016. Further analysis of the Fundamental PD as of the last twelve months (LTM) ended October 28, 2017, which was 13.56%

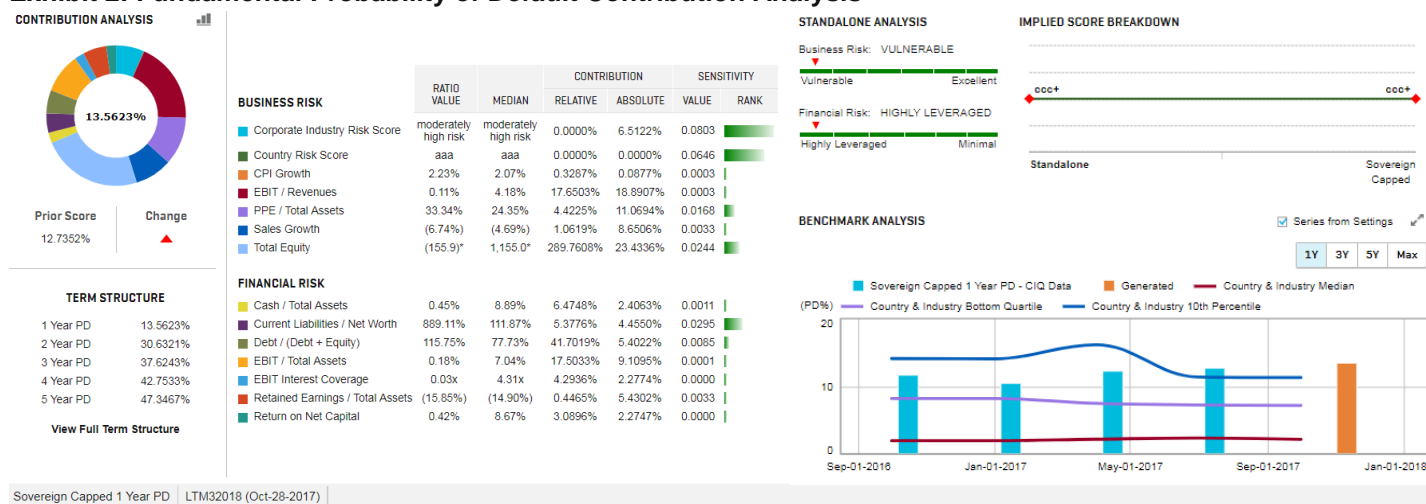
¹ Source: Market Intelligence Platform, *Bon-Ton files for bankruptcy protection*, as published on February 5, 2018
<https://platform.mi.spglobal.com/web/client?auth=inherit#news/article?Id=43426238&KeyProductLinkType=2>

² Source: S&P Global Ratings, *The Bon-Ton Stores Inc. downgraded To ‘CCC’ From ‘CCC+’ On Constrained Liquidity; Outlook Negative* as published on November 22, 2017
https://www.capitaliq.com/CIQDotNet/CreditResearch/SPResearch.aspx?DocumentId=37725843&From=SNP_CRS

³ Lowercase nomenclature is used to differentiate S&P Global Market Intelligence PD scores from the credit ratings used by S&P Global Ratings. S&P Global Ratings does not contribute to or participate in the creation of credit scores generated by S&P Global Market Intelligence

(an implied credit score of 'ccc+'), reveals business and financial risk were significant problems for the company with vulnerable and highly leveraged scores respectively. Bon-Ton had been distressed for an extended period of time with a Fundamental PD in the worst 25% of the industry eight of the last ten reporting periods starting fiscal quarter (FQ)2 2016, and in the worst 10% of the industry for the last two periods. The most significant factor contributing to the increase in PD is total equity which was increasingly negative every quarter since FQ4 2017. Total equity decreased by 70% between FQ4 2017 and FQ1 2018 from -\$23MM to -\$79MM, and further decreased 29% each quarter between FQ1 2018 and FQ3 2018 resulting in a total equity of -\$156MM. The decrease in total equity was a result of persistent negative retained earnings. Retained earnings was negative for 14 of the 15 reporting periods between FQ1 2015 and FQ3 2018 due to net income losses in all 15 reporting periods. The net losses were a result of small operating profit margins with high interest expenses; on average, operating income was \$30MM compared to the average interest expense of \$65MM between FQ1 2015 and FQ3 2018. Bon-Ton's Fundamental PD demonstrates how brick-and-mortar retailers struggle to adapt to the shifting preferences of consumers and increasing competition from online retailers. Bon-Ton was challenged to find alternative methods of generating revenue with higher profit margins in order to pay off their financing, and this resulted in their eventual bankruptcy filing.

Exhibit 2: Fundamental Probability of Default Contribution Analysis



Source: S&P Global Market Intelligence as of June 28, 2018. For illustrative purposes only.

Exhibit 3: Key Developments

Date	Type	Headline
Feb-04-2018	Bankruptcy - Filing	The Bon-Ton Stores, Inc. Filed for Bankruptcy
Jan-31-2018	Discontinued Operations/Downsizing	The Bon-Ton Stores, Inc. Announces Closure of Stores as Part of Store Rationalization Program
Jan-31-2018	Bankruptcy - Other	The Bon-Ton Stores, Inc. Contemplates Bankruptcy
Jan-17-2018	Debt Financing Related	Bon-Ton Stores Announces Forbearance Agreements
Jan-03-2018	Executive/Board Change - CFO	The Bon-Ton Stores, Inc. Announces Management Changes
Dec-19-2017	Credit Rating - S&P - Downgrade	Issuer Credit Rating: SD; NM from CCC; Negative: Local Currency LT
Dec-18-2017	LCD Distressed News	Bon-Ton Stores skips interest payment, enters grace period
Dec-06-2017	Delisting	Nasdaq Announces Delisting Of Common Stock Of The Bon-Ton Stores
Nov-16-2017	Discontinued Operations/Downsizing	Bon-Ton Stores Inc. to Close at Least 40 Underperforming Locations
Oct-26-2017	M&A Rumors and Discussion	Sycamore Partners Reportedly Held Acquisition Talks With Bon-Ton

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