Industry Top Trends Update

Retail and Restaurants

Poised to shake off the pandemic blues

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What's changed?

Retailers' have shown higher-than-anticipated resilience to extremely tough operating conditions. Most European retailers we rate have protected their balance sheets well through cost reduction and prudent financial management, despite a sharp drop in earnings. This has prompted many positive rating actions in recent months.

E-commerce accelerated rapidly, becoming a meaningful earnings driver. Retailers are investing heavily in technology, storage, and distribution to develop omnichannel capabilities. Margin dilution from online sales remains a concern for grocers, while nonfood retailers are less tolerant of loss-making stores.

The importance of sustainability has increased. The social and environmental agenda is gaining traction, with more focus on plastics reduction and sustainable supply chains. Demand for fresh, plant-based foods and organic produce is rising.

How is recovery taking shape?

Retail sales are picking up. Economic recovery, vaccination rollouts, and the release of pent-up demand following the reopening of nonessential stores will support a recovery in retailers' top lines.

Credit metrics should reach 2019 levels only by 2023 for many nonfood retailers. Factoring in the significant cash burn during store closures and the deferral of capital expenditure, we expect discretionary and nonessentials retailers, restaurants, and pubs to prioritize investment over deleveraging.

High levels of household savings should support consumption. European households accumulated excess savings of about 12 percentage points of disposable income in 2020 (€300 billion or 2.7 percentage points of GDP). This, together with pent-up demand, should support strong consumer spending.

What are the key risks around the baseline?

Uneven vaccine rollouts and new variants could impede a return to normal activity and global economic recovery.

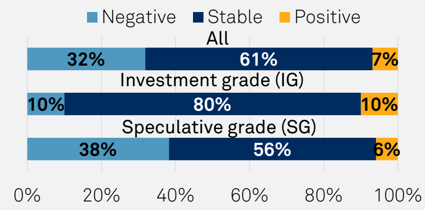
Though not our base case, the build-up in inflation is a risk. Headline inflationary pressures will rise this year, linked to higher energy prices and a rebound in commodity prices on restocking and higher activity levels. Competition will remain intense, but retailers with leveraged capital structures have limited promotional flexibility if inflation remains persistent.

Solvency issues remain acute for some retailers. Of our rated retail portfolio, 9% defaulted since the onset of the pandemic, and over 9% remain in the 'CCC' rating category. These retailers will struggle to capitalize on post-pandemic recovery due to strong competition, limited capital to invest in digital transformation, and high pre-COVID-19 leverage that the pandemic has only exacerbated.

Latest Related Research

- European Retailers Seek To Reopen Their Doors To Usher In The Post-Pandemic Recovery, June 29, 2021
- U.K. Pubs, Shaken And Stirred, Look To Recover After A Cocktail Of Headwinds, April 8, 2021

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	10	34	44
Downgrades	0	1	1
Upgrades	1	3	4

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Estimated Recovery To 2019 Credit Metrics

Retail - essential/grocery	No decline
Retail - nonessential	2023
Retail - restaurants	2023

Potential Neg. Long-Term Industry Disruption

Retail - essential/grocery	No
Retail - nonessential	Yes
Retail - restaurants	Yes

2020 Versus 2019

Revenue decline	EBITDA decline	Incremental borrowings
Retail - essential/grocery		
No decline	0%-10%	<5%
Retail - nonessential		
15%-25%	25%-40%	10%-25%
Retail - restaurants		
25%-50%	40%-60%	10%-25%

2021 Estimates Versus 2019

Revenue decline	EBITDA decline
Retail - essential/grocery	
≥2019	≥2019
Retail - nonessential	
0%-10%	10%-20%
Retail - restaurants	
10%-20%	20%-30%