Effects of COVID-19 on the Retail Industry

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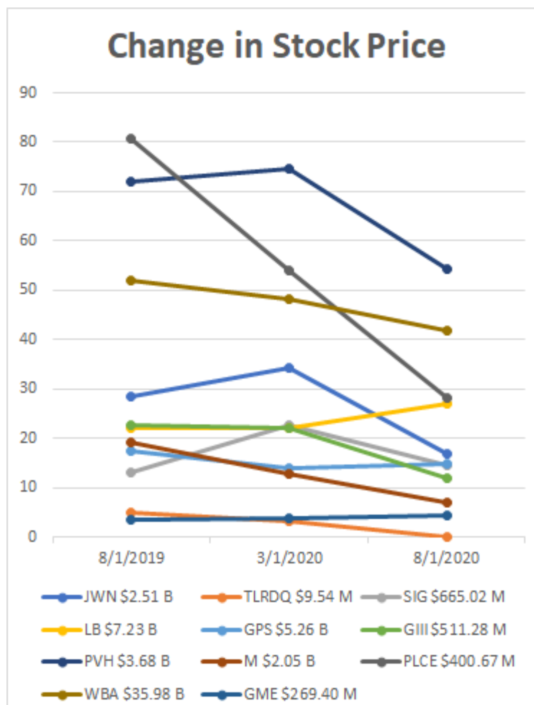
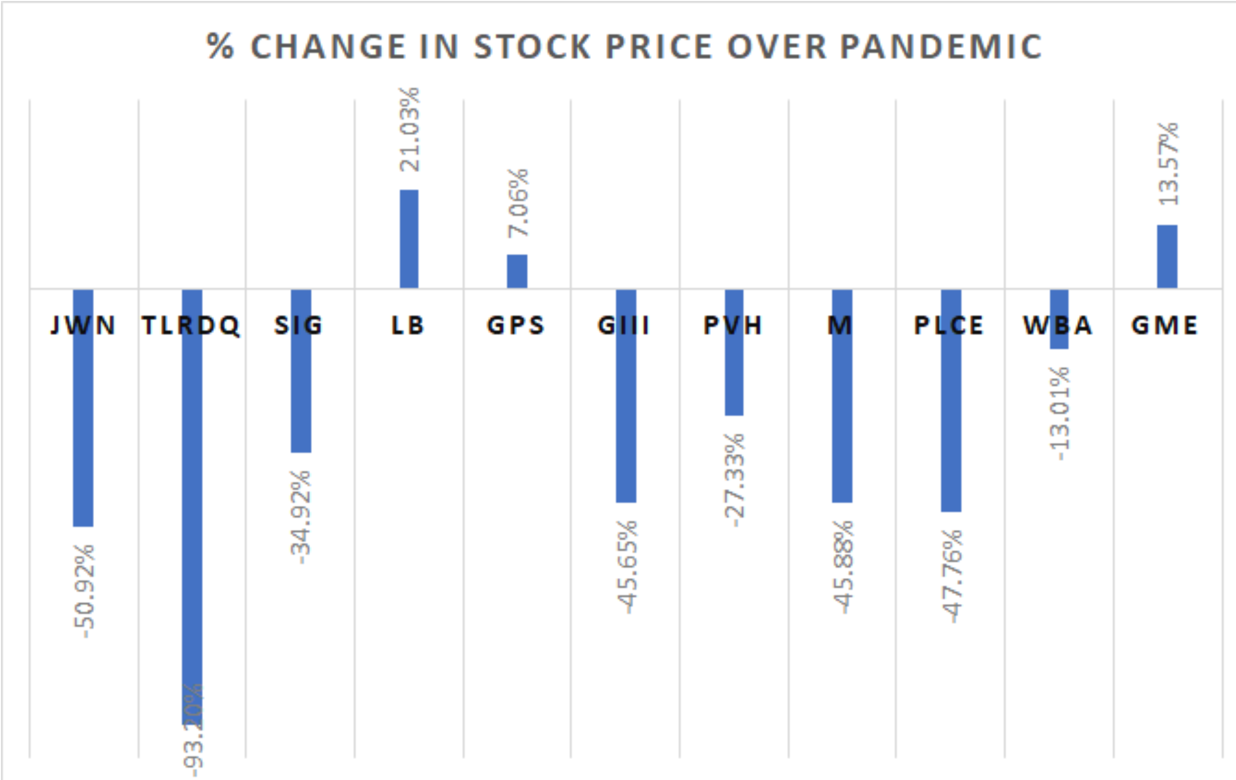
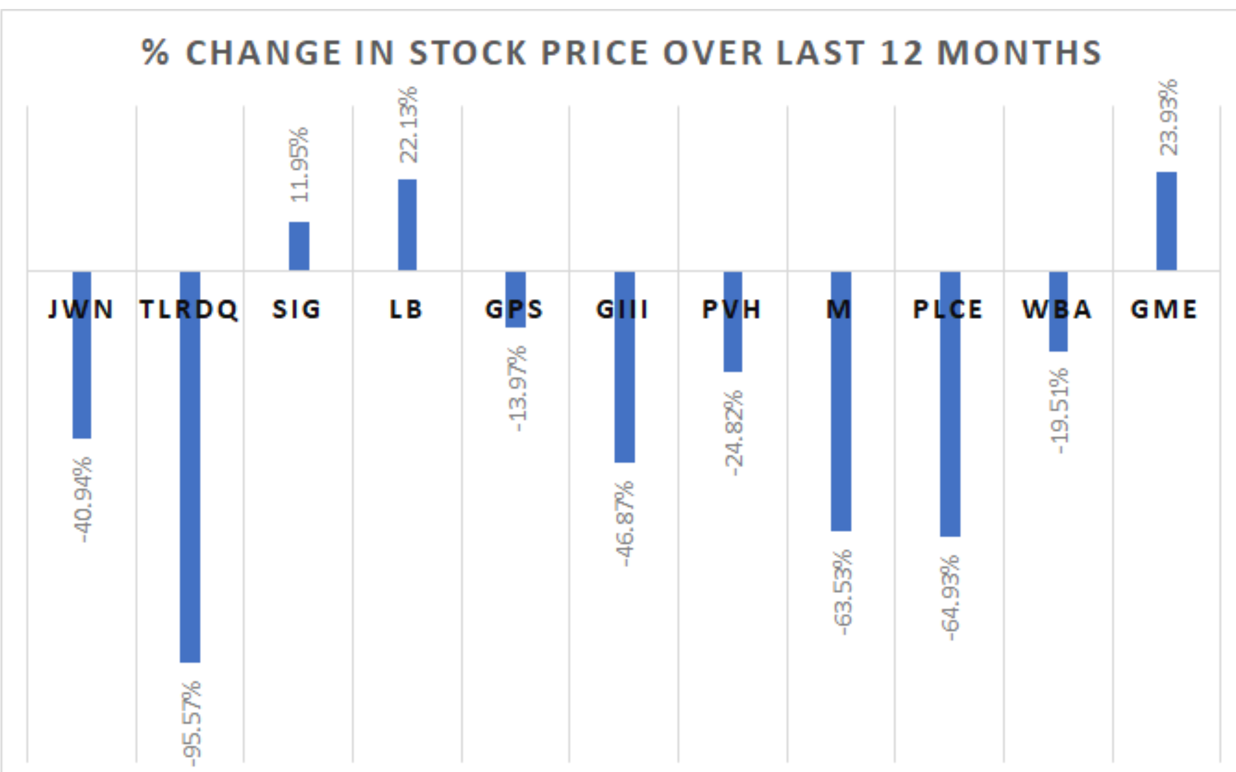
The US retail market has taken quite the hit since late February. 12 out of the 23 firms we analyzed declared Chapter 11 Bankruptcy, and hundreds of stores have been closed. Though the COVID-19 crisis was undoubtedly a significant factor in this rapid decline, many firms were slowly falling behind due to a lack of innovation and desire to stick with “older” forms of retail. For example, JCPenney and J Crew took considerable hits in the past year due to a lack of online presence and an inability to convince consumers to spend money on their more expensive products when compared to fast online fashion. These two factors were already eating away at the profit margins and customer base of these established firms long before the economic lockdown. Forever 21 declared Chapter 11 Bankruptcy in 2019, and Barney’s New York, another traditional clothing brand, did the same. This shows the weaknesses older firms had when compared to emerging trendy competitors and how the recession simply amplified those weaknesses. To further support this conclusion, US Gross Domestic Purchases decreased 9.20% from 22.05T in Q1 to 19.95T in Q2 (Y Charts). When examining the US retail market during COVID-19, we used a variety of metrics to gauge individual firm performance. These metrics included Market Capitalization, Debt to Assets ratio, Mergers and Acquisitions (M&A), and the percentage of stores closed, among others. We thought these measures accurately captured the change within the individual firms and the industry as a whole. We also discuss the effects of Bankruptcy and M&As within the retail market as well as their potential consequences.

Stock Prices & Dividends

Of the retail firms we evaluated that were publicly traded, most have been delisted, or their respective stock price fell between 20% to 60% due to the pandemic. Of the retail firms that offered cash dividends, almost all dividend payouts remain halted. Our data lines up with information put forth by CNN Money, where they found that apparel/footwear retail stock prices fell on average 29.41% this year, while department store stock prices fell on average 23.31% this year (Stock Sectors: Retail Trade). Congress passed federal PPP (Paycheck Protection Program) loans on April 3rd as a way to protect firms from a decline in revenue resulting from decreased consumer spending. Between February and March 23rd, the Dow Jones Average fell by nearly 63%, erasing most gains made over the last four years. However, since the passage of PPP, investor confidence has seen a bounce-back, leading to a momentous upswing in stock prices for most tech firms. It remains to be seen whether or not the PPP stimulus will “rescue” the retail market in a similar fashion, however.




% CHANGE IN STOCK PRICE OVER PANDEMIC
JWN
TLRDQ
SIG
LB
GPS
GIII
PVH
M
PLCE
WBA
GME
-50.92%
-93.10%
-34.92%
21.03%
7.06%
-45.65%
-27.33%
-45.88%
-47.76%
-13.01%
13.57%


% CHANGE IN STOCK PRICE OVER LAST 12 MONTHS
JWN
TLRDQ
SIG
LB
GPS
GIII
PVH
M
PLCE
WBA
GME
-40.94%
-95.57%
11.95%
22.13%
-13.97%
-46.87%
-24.82%
-63.53%
-64.93%
-19.51%
23.93%

Bankruptcies & M&A

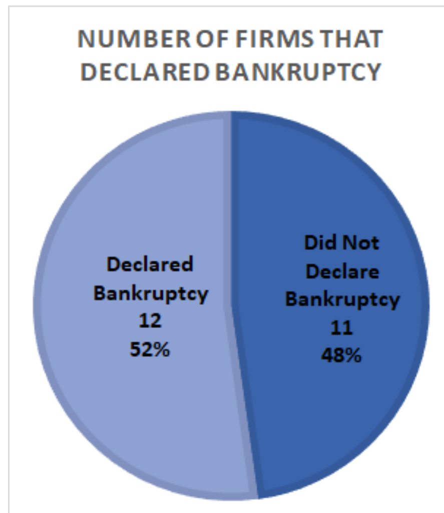
12 out of the 23 firms we evaluated declared Chapter 11 Bankruptcy with the intent to consolidate or merge: Tailored Brands, Pier 1 Imports, RTW Retailwinds, GNC, Tuesday Morning, Forever 21, JCPenney, Brooks Brothers, Papyrus, True Religion, J. Crew, and Neiman Marcus. Forever 21 has been acquired by Authentic Brands Group, JCPenney is exploring a merger with Belk, and Michaels will acquire 20 of A.C. Moore's stores. All firms but two, Forever 21 and True Religion, had no prior history of bankruptcy, showing how damaging the pandemic was for even historically healthy firms. This rapid restructuring within the retail market could lead to significant changes for consumers in the future. The loss of firms that relied heavily on brick-and-mortar stores rather than e-commerce may be an indicator of the pivotal nature of a firm's online presence in a period of social distancing and lockdowns.

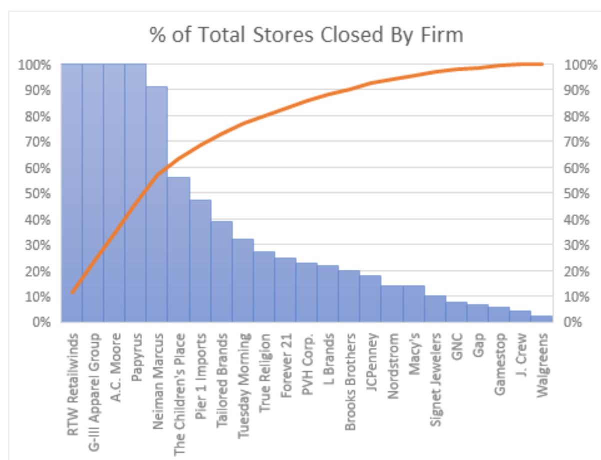
Store Closures & Unemployment

All of the retail firms we evaluated decided to close at least some of their stores, with a few closing all of their stores. This seems to indicate that although some firms were wiped out, the majority of store closures were between 10% and 56% with a median of 23%. From this data, most firms that were profoundly affected by COVID-19 closed down underperforming or excess stores while keeping most other stores open. In contrast, the firms also considered other cost-saving options like restructuring or consolidation. Some fashion firms were announcing store closures before the pandemic, where lockdowns and temporary closures only exasperated issues that already existed. It appears as though the epidemic refreshed economic expectations for both firms and consumers.

Unemployment among wholesale and retail trade, private wage and salary workers rose exponentially following the March lockdown and subsequent recession. According to FRED data, retail unemployment rose from 4.2% in February to 17.1% in April, representing an especially hard hit sector within the US domestic market (*FRED UE Rate*). Though the rate has declined to 9.7% as of July, it is still acutely worse than previous levels. It puts a significant number of Americans at risk for future employment opportunities since 16 million Americans work within the retail industry (*Aspen Institute*).

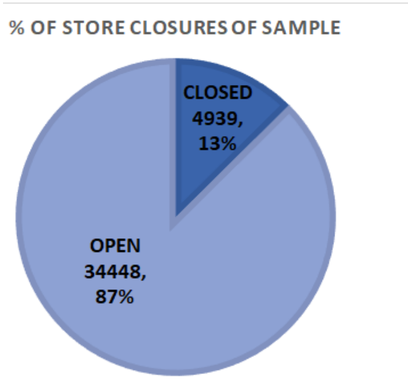
The retail industry has traditionally been extremely competitive. Still, with more available market space, firms could now rush to fill the void left by closing rivals or competitors that are slow to fulfill their Chapter 11 requirements. The fashion retail market looks to be exceptionally prime for a shake-up due to large firms restructuring or closing such as JCPenney, Forever 21, J Crew, and Brooks Brothers. With preventative measures closing down dressing rooms, among other things, there seems to be little incentive for consumers to go to a physical store. With that in mind, fashion retailers may continue to close down stores and increase their online presence.





Summary of Findings

The retail market has been through quite a few changes since the economic lockdown in March and will continue to face upheavals for months to come. The closure of numerous stores, drastic changes in stock prices, and various bankruptcies or mergers have decidedly changed the face of retail.



Older established firms of US fashion like Brooks Brothers and JCPenney have closed their doors to begin a tedious Chapter 11 process. Firms like Gamestop, Macy's, and Gap have closed hundreds of stores, hurting revenue collection and leading investors to sell shares in anticipation of impending doom. The retail market, already headed for a tough road before the pandemic due to competition from online giants like Amazon, will continue to evolve throughout the epidemic. However, other emerging firms like UNIQLO, Primark, TopShop, and Fashion Nova are revolutionizing the fashion retail industry by offering cheap trendy products for a tech-savvy demographic. These emerging competitors threaten to take market share from established firms like Macy's and Nordstrom by competing fiercely on price and appealing to budget-minded young women. With the prevalence of fast fashion firms competing on price point, retailers will also be looking to lower production costs, which could lead to sourcing changes.

E-commerce firms are also changing the approach to fashion and retail as a whole by making more comprehensive selections available from the convenience of one's home. Due to this external ecommerce pressure from Amazon, Rakuten, ShopClues, and others, many stores will begin to further expand online and appeal to a younger demographic while also maintaining healthy profit margins by eliminating expensive brick-and-mortar overhead costs. This could forever change the landscape of retail as firms begin offering products mostly through online means and replacing physical locations. However, if established fashion firms cannot adapt in time to the changing market and the US economy continues to experience a severe downturn, high fashion firms will potentially be the first businesses to fold due to consumers decreasing unnecessary spending and the loss of market share to encroaching competitors.

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