RETAIL OUTLOOK
2023

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FEBRUARY 8, 2023

TABLE OF CONTENTS

SPECIAL ANALYSIS: *RETAIL OUTLOOK 2023*

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KEY TAKEAWAYS

- ***Consumer sentiment falling as inflation remains stubbornly high***
- ***A higher rate environment could stress over-leveraged companies***
- ***Inventory levels coming down, at the cost of margins and profits***
- ***Recession risk remains high; 2023 will be challenging***

OVERVIEW

Consumers and retail are bracing for a challenging year in 2023, and this comes after an extremely volatile 2022, which saw aggressive interest rate hikes to combat 40-year high inflation. Inflation has eased in recent months, dropping to 6.5% in December from a peak of 9.1% in June 2022, but the costs of many essentials, namely groceries, remain elevated.

The Federal Reserve's rate is expected to raise rates further, which would put the prime borrowing rate at around 8% from 3.25% at the beginning of 2022. In addition, companies are facing higher risk spreads and tighter lending standards for new borrowings. After a quiet year in 2022, defaults and bankruptcies are expected to rise.

Although through December we still had strong labor markets and consumer spending, there are signs of weakness. Monthly retail sales in the last two months of the year declined more than expected, while layoffs are beginning to extend beyond the technology sector into retail and especially among e-commerce, apparel, and houseware companies (e.g., Hudson's Bay, Stitch Fix, and Wayfair). We have seen more bifurcation among consumers between consumables and discretionary spending, with grocery and drug spending still strong, while sporting goods, houseware, apparel, and electronics spending have slipped. Bifurcation is also evident between low, mid-income consumers and higher income consumers, which to date have supported luxury brands (luxury tends to have a longer lag time during economic downturns). As a result, retail is facing a slower growth outlook.

Managing inventory has been a challenge. After struggling with supply constraints and out-of-stocks in 2021, retailers adopted longer lead times and more aggressive buying early on in 2022. However, as consumer demand suddenly waned, many were left with bloated inventory positions and forced to take more aggressive price discounting. While we expect broad-based margin erosion in 4Q, most retailers built a sizeable profit cushion during the pandemic, e.g., sporting goods retailers saw EBITDA margins as much as double into the mid-teen range. Further, inventory positions should be leaner heading into FY23, which will also help cash flow.

As many of the legacy issues which plagued retail pre-pandemic are returning, what worked then is still effective: staying out of the middle lane with uncompelling store formats and commodity-like goods, with limited assortment or discount (dollar stores, Aldi, TJX), or the high-end, experiential store offerings (Dick's, Dillard's, Wegmans) garnering the most growth. Also, successful retailers will continue to invest in customer-centric projects, converging digital and physical retail, and all things digital to improve merchandise planning and pricing. Those retailers with leveraged balance sheets and lacking cash flow to make these needed investments will be left behind; they will also struggle to refinance any upcoming debt maturities at a higher rate amid the more restrictive lending environment.

2023 may prove to be a revelatory year for the future of the economy and retail. How much monetary tightening is needed to curb inflation, how deep will job losses and any recession be, where will interest rates settle, and how will the consumer react to these challenges? Within retail, companies are taking a more conservative tact, with a focus on preserving capital by bringing inventory orders and levels down, and potentially conducting more layoffs. One thing seems sure is that we are in for more change, and the post-COVID world will offer up a new set of challenges.

In the following analysis, our analyst team takes a look at industry trends to watch for in 2023 along with predicted winners (👍), losers (👎), and question marks (?) for each segment

APPAREL

The apparel industry capped FY22 with a slowdown in sales during the critical holiday period. The U.S. Department of Commerce reported US retail sales in December down 1.2%, following a 1% decline in November, but up 5.2% compared to 2021, suggesting price inflation did not offset declines in transaction volume. Hence, FY23 is off to a difficult start, especially since many companies under our coverage went into 4Q22 with high inventory levels. Headwinds from FY22 are expected to continue into the new year, including inflation, declines in discretionary spending, and a likely but mild recession. Inflation is decelerating but also stacked onto last year's hikes, and remains above the 2% historical target, which has cut into consumers' daily spending, particularly at lower income levels. Macroeconomic uncertainty in FY23 suggests retail consumption will continue to decline as the stimulus money and excess savings dry up and credit card availability declines. Additionally, the shifting of spending from the pandemic-induced over-consumption of goods back to services and experiences will also cut into retailers' unit volume, and few companies have pricing power to sustain price/cost advantage. With decelerating prices and lower volumes, comps and sales will decline and require cost structure realignments, including the downsizing of labor as wages continue to rise. Slowing demand will prompt higher markdowns and promotions, which will pressure gross margins. On a brighter note, there should be some relief from lower supply chain and transportation costs. Ocean freight spot rates from Asia to the U.S. have dropped 80% since September 2022, and contract rates finished FY22 down 20% from COVID peaks. Contract rates adjust in the 2Q and factor into industry product pricing. While there is uncertainty forecasting product mix, low- and middle-income households are buying "as needed," lower margin basics and trading down. We have a guarded look for 1H23 as inventories adjusted to lower sales, but 2H23 may show improvement in results as companies lap normalized 2H22 comps and lower freight rates kick in.

Chico's

METRIC	CURRENT	PRIOR YEAR
Period:	**3Q 10/29/22**	**3Q 10/30/21**
Credit Rating:	**C1**	**D1**
Store Count:	**1,261**	**1,279**
YTD Sales Growth:	**23.2%**	**40.1%**
YTD Comp Sales:	**24.7%**	**N/A**
Total Liquidity:	**$329 million**	**$304 million**
Total Debt:	**$69 million**	**$99 million**

After struggling for years with declining sales and operational inefficiencies, Chico's turnaround really took shape in FY21 and positive performance has continued throughout FY22. The Company has been able to drive top-line momentum, while simultaneously strengthening its balance sheet, notching its seventh consecutive quarter of double-digit sales growth, and utilizing free cash flow to reduce debt by 30% in 3Q22. Management noted it is seeing healthy consumer behavior, contrary to many of its peers that have been reporting reduced demand due to pull backs in discretionary spending. Chico's targets a more affluent and loyal customer base, which has allowed it to drive full price sales. The Company recently lowered its FY22 guidance (after raising it three times this year) in light of holiday results, which showed softer sales at White House Black Market starting in December due to leaner inventories that did not align with demand. Nevertheless, the outlook is still strong, calling for revenue growth of approximately 18% and comps in the high teens. On the real estate front, Chico's has been rightsizing its footprint, closing nearly 150 net stores since the start of FY19. However, due to the continued improving productivity and profitability of its store base, it now plans to close a more modest 26 stores in FY22, down from its initial target of 40 closures. Management is expanding its footprint via its Soma banner and aims to open 27 stand-alone stores in FY22.

lululemon

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/30/22	3Q 10/31/21
Credit Rating:	A2	A2
Store Count:	623	552
YTD Sales Growth:	29.3%	54.5%
YTD Comp Sales:	17%	N/A
Total Liquidity:	$747 million	$1.39 billion
Total Debt:	$ -	$ -

lululemon maintained its brand appeal strength in the athletic apparel category. The Company continued to outperform despite strained global supply chains and inflationary pressures. 3Q22 revenue rose 28% for the period and the Company has raised its revenue guidance for the year. lululemon's "Power of Three x2" growth plan calls for a doubling of the business from FY21 net revenue of $6.25 billion to $12.50 billion by 2026. The key pillars of the plan are product innovation, guest experience, and market expansion, and the growth strategy includes a plan to double men's, double direct to consumer, and quadruple international revenue relative to FY21. The Company continues to expand its geographic footprint, opening 49 new stores YTD, with an additional 30 store openings planned for the remainder of the year, for a total of 79 new stores, including about 40 in international markets.

The Buckle

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	B1	B1
Store Count:	441	441
YTD Sales Growth:	3.3%	56.9%
YTD Comp Sales:	2.8%	57%
Total Liquidity:	$348 million	$500 million
Total Debt:	$ -	$ -

The Buckle is a conservatively managed, consistent performer, able to grow sales and maintain profitability even with its store count unchanged at 441 locations. Following a flat November (-0.3%), comps grew 7% in December 2022, and 3.2% for 4Q22. For FY23, despite a high own-brand mix, sales and margins will be pressured from the pullback in consumer spending.

Express

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	D2	E1
Store Count:	566	570
YTD Sales Growth:	5.8%	63.9%
YTD Comp Sales:	6%	34%
Total Liquidity:	$72 million	$192 million
Total Debt:	$235 million	$119 million

The Company has been rationalizing its store base over the last several years, while diversifying away from malls. So far, it appears the strategy has not been effective at increasing profitability as its top line continues to struggle amidst a highly promotional retail environment. In addition, the Company's cash levels have been fading while debt is up nearly 2x. Concerns about the Company's debt maturities were somewhat abated when the Company refinanced its credit facilities and extended maturities to 2027. In addition, the Company announced a strategic partnership with WHP Global to advance its omnichannel platform. We are taking a "watch and see" approach on whether or not this partnership will improve the Company's balance sheet and profitability. Execution will be required to stabilize the top line declines, but the Company now has some runway to do so. In 3Q22, Express opened five new locations (four Express Edit and one UpWest) and closed three (two UpWest and one Retail), ending the quarter with 566 locations. In 4Q22, Express plans to open four locations (two Express Edit and two UpWest) and close 12 (eight Retail, two Outlet, one Express Edit, and one UpWest), for a projected store count of 558 at FYE.

J.Jill

METRIC	CURRENT	PRIOR YEAR
Period:	**3Q 10/29/22**	**3Q 10/30/21**
Credit Rating:	**D1**	**E1**
Store Count:	**247**	**260**
YTD Sales Growth:	**6.3%**	**46.3%**
YTD Comp Sales:	**6.8%**	**24.9%**
Total Liquidity:	**$123 million**	**$53 million**
Total Debt:	**$208 million**	**$209 million**

J.Jill has been recovering throughout 2022. While its 3Q22 sales slipped 1%, higher prices and lower markdowns have driven margin improvement and improved profitability. Looking ahead, management expects FY22 sales growth of 4% to 5% and adjusted EBITDA between $103 million and $105 million, up from $92 million in FY21. The Company's improved performance has driven cash levels up more than 5x, though debt does need to be refinanced within the next two years. The pruning of its store base has also helped boost profitability. Prior to the pandemic J.Jill had 280 stores; as of 3Q22 it has 247. In 4Q22, the Company plans to close five locations and open one, bringing total net closures for FY22 to 10. It remains to be seen whether 2022 was a one-off of strong performance or if the Company has operationally improved. Still, we ask, could a mediocre J.Jill withstand the so-called looming recession? As such, we see J.Jill as a question mark heading into 2023.

Victoria's Secret

METRIC	CURRENT	PRIOR YEAR
Period:	**3Q 10/29/22**	**3Q 10/30/21**
Credit Rating:	**C2**	**C1**
Store Count:	**908**	**919**
YTD Sales Growth:	**-6.2%**	**39.1%**
YTD Comp Sales:	**-9%**	**3%**
Total Liquidity:	**$567 million**	**$1.03 billion**
Total Debt:	**$1.25 billion**	**$982 million**

18 months into its journey as a public company, Victoria's Secret continues repositioning its brand and stabilizing its business platform. However, the current economic environment is challenging that progress. 3Q22 sales declined 8.5% with comparable sales down 11%. While traffic was up in stores during the quarter, average basket sizes and conversion rates were down, reflecting a cost-conscious consumer. Overall, 3Q22 EBITDA fell 36% and EBITDA margin deteriorated 400 bps. Total debt rose 27%, primarily related to the funding of the spinoff from L Brands and increased revolver borrowings in connection with the Company's pending acquisition of Adore Me. During YTD22, there were 11 store openings and seven store closures in the U.S., bringing the total Company-operated store count to 838. The Company grew its Store of the Future fleet to 23, 12 in the U.S. and 11 Internationally. Over the next two to three years, the Company anticipates reducing costs by $250 million, primarily in the sourcing, procurement, and product cost initiatives, including changes to labor and processes in stores, distribution centers, and Company headquarters. Victoria's Secret expects 4Q22 operating income to be $245 million to $265 million, or about 12% to 13% of sales, narrowed and lowered from the high end of previous guidance of $240 million to $290 million for the quarter. The Company reaffirmed 4Q22 sales guidance of a decline in the high-single digit range, from 4Q21 sales of $2.18 billion. Ultimately, with a healthy balance sheet, no upcoming debt maturities, and solid liquidity, Victoria's Secret has sufficient flexibility to continue its strategic transformation. However, significant challenges remain, including ongoing inflationary pressure and a highly promotional environment.

Lands' End

METRIC	CURRENT	PRIOR YEAR
Period:	**3Q 10/28/22**	**3Q 10/29/21**
Credit Rating:	**D2**	**C2**
Store Count:	**29**	**30**
YTD Sales Growth:	**-5.1%**	**21.6%**
YTD Comp Sales:	**4.3%**	**N/A**
Total Liquidity:	**$134 million**	**$222 million**
Total Debt:	**$400 million**	**$321 million**

Supply chain and macro-related headwinds continued to impact Lands' End's top and bottom-line performance in 2022. The Company's lower sales paired with higher transportation costs, increased promotions, and margin mix from growth in its third-party business pressured margins and profitability. Looking ahead, management expects challenges to persist, forecasting decreases in revenue and profitability for 4Q22 and accordingly, lowered its FY22 guidance for the second time this year. In the trailing twelve months, Lands' End reported negative free cash flow and elevated inventory levels. The Company also drew down an additional $25 million on its revolver to cover investments in inventory, bringing revolver borrowings to $160 million as of October 28, 2022. As of the same date, Lands' End had total liquidity of $133 million, down from $150 million the previous quarter. With continued performance declines, interest coverage fell to 2.2x while total debt to TTM EBITDA increased to 5.1x, from 2.1x last year. Both of these metrics are now within our "warning signs" range. During 3Q22 the Company closed one Lands End location and currently operates 29 stores. The Company also offers its full assortment in over 500 Kohl's locations.

Stitch Fix

METRIC	CURRENT	PRIOR YEAR
Period:	**1Q 10/29/22**	**1Q 10/30/21**
Credit Rating:	**D1**	**B2**
Store Count:	**N/A**	**N/A**
YTD Sales Growth:	**-21.6%**	**18.5%**
YTD Comp Sales:	**N/A**	**N/A**
Total Liquidity:	**$286 million**	**$412 million**
Total Debt:	**$ -**	**$ -**

Stitch Fix struggled with declining subscriber growth, a high-cost structure, and excess inventory throughout FY22 and into 1Q23. Traditional e-commerce functionality (Freestyle) was added to the subscription service (Fix) to broaden market appeal. Freestyle didn't grow sales but appears to be cannibalizing the core Fix business instead. The CEO, who was not an experienced merchant, stepped down in January 2023, and a 20% cut in headcount was implemented to align costs with lower sales. The founder is now CEO, which is a positive, but no turnaround strategy has been articulated.

ARTS & CRAFTS

After a mini boom from late 2020 through the first half of 2021, the pendulum has swung in the other direction in the Arts & Crafts space. Lapping government stimulus and pent-up consumer demand, inflation and curbing of discretionary spending have significantly impacted revenues throughout 2022 and heading into 2023. The segment was also hit with supply chain challenges, including escalated freight costs and then extensive promotional activity enacted to push out inventory that was building up well beyond desired levels. Thus revenue, margins, and liquidity were impacted. The seemingly permanent rise in labor costs and creeping e-commerce fulfillment costs will also provide headwinds. This is a segment that has shown it is reliant on consumer spending, thus any continued or further declines in the economy will have a more lasting impact on the segment.

Hobby Lobby

Private Company **Store Count: 986**

Hobby Lobby has always held a unique spot in this category. Somehow the large format offering blends in the right mix of what consumers want. Sales for 2021 were reportedly up over 25% with margins pressing well above the normal, strong 20% range. While FY22 and the outlook for 2023 are not nearly as rosy, the Company remains financially solid and continues to churn out new store openings, adding 30-50 stores per year.

JOANN

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	E2	D1
Store Count:	840	852
YTD Sales Growth:	-9.4%	-12.4%
YTD Comp Sales:	-9.2%	-12.4%
Total Liquidity:	$102 million	$301 million
Total Debt:	$1.07 billion	$861 million

JOANN may have seen the sharpest declines with the 3Q YTD two-year comp at -21.6%. While the arts & crafts business had a tough year, the Company also lost out on the previous surge in sewing and mask making, which did not have the staying power the Company had hoped. Elevated freight costs crippled margins during the year. While there should be some upcoming cost relief, along with announced cost cuts, margins and liquidity have shriveled; the secured term loan debt is trading below $70. This has led to a trimming of capital spending and dialing down the store refresh program from 50 stores and a goal of 70 going forward, to about 25 this year.

Party City

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 9/30/2022	3Q 9/30/21
Credit Rating:	DIP	E1
Store Count:	830	830
YTD Sales Growth:	-0.7%	22.5%
YTD Comp Sales:	-2.6%	43.7%
Total Liquidity:	$107 million	$356 million
Total Debt:	$1.78 billion	$1.54 billion

* Credit rating was **F1** at the end of 3Q and further downgraded to **F2** on January 6th in our alert regarding the possibility of an upcoming bankruptcy filing

The heavily levered Party City has had a rough go of the last few years, with inconsistent traffic and consumer demand, elevated costs, and even issues with procuring helium. After another disappointing and crucial Halloween / holiday season, and with significant debt and interest payments coming due in February, the Company, as predicted, filed for Chapter 11 on January 18, 2023. The Company plans to implement a pre-negotiated restructuring agreement, whereby certain debt holders will convert debt to equity. The Company has thus far only rejected 28 leases on previously closed stores. With no further (obvious) closures announced to date, perhaps the extent of additional closures will be light and depend on lease negotiations.

Michaels

Private Company **Store Count: 1,287**

Michaels has followed a similar performance path as JOANN, though it has always been a bit bigger and stronger performer. The debt load added from the Apollo acquisition in April 2021 certainly does not help its leverage or cash flow, but maturities are way out to 2028 / 2029. The debt load and current recessionary environment could have major future ramifications, but we believe Apollo will have some short-term patience and Michaels likely stays ahead of JOANN regarding store closures or other restructuring activity. Michaels could eventually gain on any JOANN closures.

AUTO PARTS

In April 2020, as a result of COVID-19 related stay at home and work from home requirements, total miles driven in the U.S. reached the lowest level since February 1994. Yet despite fuel price volatility and overall high inflation, consumers remain reliant on their cars and miles driven has now rebounded to just slightly below pre-pandemic highs, which bodes well for continued strong demand for aftermarket parts. Further, there are more cars on the road, estimated at about 291 million in 2022, up slightly from 290 million in 2021. Cars are also getting older. According to the latest data provided by S&P Global Mobility (formerly IHS Markit), the average age of vehicles on the road is 12.2 years, an all-time high; IHS has also projected that the number of vehicles that are at least 16 years old will increase 22% in 2023. Thus, as the number of older vehicles being operated increases, so does demand for repair parts. There are a number of factors that have pushed the average vehicle age upwards this year, including higher average prices and the fact that many new vehicles last longer than those of prior generations. The average price of a new vehicle in November 2022 was $48,681, a 5% increase from November 2021, according to Kelley Blue Book. The high cost of a new ride pushed many consumers into the used car market. However, prices of both new and used vehicles are expected to decrease in 2023, as supply chain issues abate, and inflation is likely to ease; used vehicle prices may decline 10% to 20%. Looking further down the road, we believe that the encroachment of electric vehicles poses only a slight threat to the current business model of players within the sector. So, while electric vehicles continue to grow in popularity (about 1.7 million in operation as of June 30, 2022), they are not expected to significantly penetrate the overall market within the next five to ten years, providing ample lead time for auto parts retailers to adjust to shifts in vehicle mix.

AutoZone

METRIC	CURRENT	PRIOR YEAR
Period:	**1Q 11/19/22**	**1Q 11/20/21**
Credit Rating:	**B1**	**B1**
Store Count:	**6,978**	**6,785**
YTD Sales Growth:	**8.6%**	**16.3%**
YTD Comp Sales:	**5.6%**	**13.6%**
Total Liquidity:	**$2.52 billion**	**$3.21 billion**
Total Debt:	**$6.33 billion**	**$5.27 billion**

During 1Q23 (ended November 19, 2022), AutoZone's sales were up 8.6% on domestic comp growth of 5.6%, inflation, and the contribution from 193 (net) new stores. 1Q sales were positively impacted by 11% from inflation, in line with cost of goods. The Company believes both metrics will decrease slightly in 2Q23 as it begins to lap the onset of high inflation a year ago. Domestic commercial sales, which represent approximately 29% of total revenue, increased 15% to $1 billion. The Company's commercial sales program continues to deliver solid results, with the program currently in approximately 88% of all domestic stores. During 1Q23, the Company opened 35 new stores and expects to open roughly 200 across the U.S., Mexico, and Brazil during the remainder of the year. Management expects sales to be led by continued strength in its commercial business, as it executes on its differentiating initiatives, combined with a resilient DIY business.

O'Reilly Automotive

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 9/30/22	3Q 9/30/21
Credit Rating:	B1	B1
Store Count:	5,938	5,762
YTD Sales Growth:	7.3%	14.4%
YTD Comp Sales:	5.6%	12.9%
Total Liquidity:	$1.86 billion	$2.17 billion
Total Debt:	$4.37 billion	$3.83 billion

For O'Reilly, inflation and store base growth (net 174 increase), combined with enhanced in-store services and programs, a broader selection of product offerings, continued improvement in merchandising and store layout, and continued focus on serving both DIY and professional customers led to strong demand for its products through the end of 3Q22, its most recent quarter. Thus, the Company managed to deliver solid top line growth, with sales increasing 9.2% to $3.80 billion; comps were up 7.6%. We see the Company's customer base as healthy and believe consumers are in a stronger position now than in recent periods of economic uncertainty, with continued support from strong employment and wage growth. O'Reilly expects to open 180 to 190 new stores in FY23.

CONVENIENCE STORES

The COVID-19 pandemic was both a boon and an eye-opener for the convenience store sector. Consumers favored the less crowded locations for many of their needs. At the same time, traditional retailers upped their game with regards to convenience, forcing convenience stores to invest in digital infrastructure and amenities such as drive thru and curbside pick-up. Demand for grab and go prepacked foods increased, which presented an opportunity for growth. The sector has also been riding the fuel price volatility wave over the last two years. Fuel prices were depressed during the pandemic, only to rise again as money was pumped into the system to spur economic activity and boosted further by the war in Ukraine. With rising interest rates in 2022, acquisition activity has been fairly muted. FEMSA acquired Valora in a $1.20 billion transaction during the year. Most other operators are focused on expanding existing footprints. Wawa is perhaps the most aggressive here, indicating it wants to double its store count to 1,800 by 2030. Overall, the sector remains fragmented, creating the opportunity to make smaller fill-in type deals.

Casey's General Store

METRIC	CURRENT	PRIOR YEAR
Period:	2Q 10/31/22	2Q 10/31/21
Credit Rating:	B1	B2
Store Count:	2,463	2,380
YTD Sales Growth:	30.9%	49.2%
YTD Comp Sales:	6.1%	6.9%
Total Liquidity:	$865 million	$762 million
Total Debt:	$1.67 billion	$1.71 billion

Casey's is close to wrapping up its expansion/acquisition program outlined in January 2020, with a goal of adding 345 units by the end of FY23. The Company was particularly active in FY22, completing three large deals, including Buchanan Energy, with over 90 retail locations, 48 Circle-K stores primarily in Oklahoma City, and 40 Pilot stores primarily in the Knoxville, TN market. The Company is looking to acquire 80 units during FY23, which would push it above its stated goal. Besides these 80 units, management has indicated it has the capacity to do larger deals. Assuming it can successfully integrate the new stores and keep leverage metrics in check, we see Casey's becoming a much more high-profile player in 2023.

EG Group

METRIC	CURRENT	PRIOR YEAR
Period:	FY 12/31/21	FY 12/31/20
Credit Rating:	C2	C2
Store Count:	6,322	6,000
YTD Sales Growth:	23.1%	-8%
YTD Comp Sales:	N/A	N/A
Total Liquidity:	$1.18 billion	$1.26 billion
Total Debt:	$10.25 billion	$9.66 billion

After acquiring Cumberland Farms in 2019 ($2.30 billion), EG slowed down some during the pandemic in 2020 but picked up activity in 2021, acquiring 34 fuel and convenience stores and the proprietary Sprint Kitchen foodservice brand from Sprint for $283 million. However, in early 2022, the Company indicated it was conducting an ongoing review of its holdings. The Company then sold 35 locations in the Midwest, noting the small number of sites it was operating there did not offer the scale for operational efficiency. EG has been fairly quiet since then. The financial results above represent the last full year of operations. In 3Q22 the Company reported revenue growth of 12%, with YTD revenue up almost 20%. While these are respectable results, EG's problems lie in its leverage. Debt to TTM EBITDA was 7x at 12/31/21 FYE and is estimated to remain at or close to this level. Management indicated in its 3Q release that it is committed to reducing leverage through cash flow generation or "other deleveraging options", which could include the sale of its convenience store operations. However, we note that with valuations already elevated, the current high interest rate environment could pose a significant headwind for anyone thinking about making a blockbuster-type deal.

DEPARTMENT STORES

After a sharp rebound from the early pandemic lows, the Department Sector is again facing a challenging outlook, including rising inflation and shifting consumer preferences. This has been especially acute for those players who cater to lower and middle-income consumers (e.g., J.C. Penney, and Kohl's). To date, luxury and higher-end formats like Neiman Marcus and Bloomingdales have been able to maintain growth, given the stronger demand for work and occasion-based wear, and not to mention a more resilient higher-income customer. With inventory levels elevated entering the key 4Q period, we expect a much more promotional environment, and erosion of margins and profits. With the easing of supply chain issues and economic headwinds curbing consumer discretionary spending, most retailers are focused on entering 2023 with cleaner balance sheets and have appropriately adjusted their inventory ordering. Those operators who are able to differentiate and stand out are the ones who will succeed, whether that be exclusive merchandising or unique store experiences, including expanded services and store events. Off-price retail also remains favorable, as this part of the sector continues to see strong store expansion.

Ross Stores

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	B1	B1
Store Count:	2,019	1,924
YTD Sales Growth:	-3.0%	67.8%
YTD Comp Sales:	-5.0%	N/A
Total Liquidity:	$5.21 billion	$6.06 billion
Total Debt:	$2.46 billion	$2.52 billion

Ross' 3Q performance was above management's expectations with revenue essentially flat and comps down 3%, as the Company cycled last year's outsized gains. Sales were flat despite the comp decline due to the revenue contribution from new stores added over the last nine months. As a result of its 3Q performance, management raised its 4Q guidance. With ample liquidity over $5.20 billion, continued expansion, and its off-price appeal to a stressed consumer, we expect Ross to be among the winners in FY23. So far this year, the Company opened 92 net new stores. The Company typically opens 100 stores per year, including 75 Ross and 25 dd's DISCOUNT, and closes or relocates 10.

TJX Companies

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	B1	B1
Store Count:	4,793	4,684
YTD Sales Growth:	2.1%	63.7%
YTD Comp Sales:	-2%	N/A
Total Liquidity:	$4.86 billion	$8.29 billion
Total Debt:	$3.36 billion	$3.35 billion

Thus far in 2022, TJX has led the pack amongst its off-price competitors with its results outpacing competition. However, as consumer spending normalized in the home sector, both HomeGoods' and HomeSense's sales declined from last year, dragging down TJX's overall sales. Looking ahead to 2023, TJX is poised to gain market share, given plentiful inventory in the off-price marketplace, increasing expansion, and solid liquidity. TJX expects to open a total of 170 new stores in FY22; the Company has not yet provided guidance on store openings for FY23.

Belk

Private Company **Store Count: 290**

Belk emerged from a pre-packaged bankruptcy in February 2021 but remains in survival mode as its competitors invest heavily in omnichannel offerings where it underperforms. While most competitors were generating sharp gains in sales and earnings coming into 2022, Belk's sales were still underperforming, while EBITDA saw just modest gains, EBITDA margin grew to just the mid 6% range before trends began to soften. Through its third quarter, Belk's FY23 sales continued to grow slightly; however, a more promotional environment has led to lower than expected EBITDA and cash burn. Further, the capital structure is still leveraged, with debt to EBITDA in the high single-digit range. After some unexpected turnover, the Company appointed a new president in October. Store count has seen little change since the bankruptcy. Given its underperforming stores, leveraged balance sheet, and growing macroeconomic headwinds, new management has little margin for error.

Hudson's Bay, Saks.com, Saks OFF 5th

Private Company **Store Count: 223**

In 2021, Hudson's Bay Company went against sector trends and separated the Saks.com and Saks OFF 5th e-commerce businesses from its brick and mortar retail assets (HBCx). While sales growth for all three companies had remained robust through 1H22, growth began to soften in 3Q, while EBITDA, which was already relatively weak at HBCx and negative at the e-commerce businesses, eroded due to the lower sales growth and higher costs, including labor. As a result, it wasn't a surprise to hear management tone down its investments in growth initiatives, and more recently announce layoffs. While demand for luxury brands like Saks have been more resilient, and typically benefit from longer lag times during economic downturns, the current macroeconomic headwinds are starting to slow growth. The problem is, all three of these banners need that growth to leverage costs and improve (HBCx) or begin to generate a profit (e-commerce).

Kohl's

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	D1	B2
Count:	1,166	1,162
YTD Sales Growth:	-7.1%	33.9%
YTD Comp Sales:	-6.6%	N/A
Total Liquidity:	$526 million	$3.37 billion
Total Debt:	$5.47 billion	$4.10 billion

It was a tough year for Kohl's. The Company rejected a buyout, and then as its valuation began to plummet, it accepted a deal with the Franchise Group, only to have that deal terminated. Meanwhile, operations turned sharply negative; YTD through 3Q, sales were off 7% and EBITDA down 37%, while leverage metrics deteriorated. The Company also ended the quarter with significantly elevated inventory, up 34% YOY, which would point to a highly promotional 4Q. During 2022, we downgraded Kohl's three times to its current D1 rating. Store activity has been muted, as management focuses on its strategic priority of rolling-out the in-store Sephora shops. Kohl's said it plans to open 100 smaller-format stores averaging 35,000 square feet over the next four years, located in smaller markets that can't support a full-size Kohl's, which average 80,000 square feet. However, the concept is still in the test phase, with the expansion ramp-up towards the latter years. Given the turmoil, the c-suite has seen turnover, including last November's resignation of CEO Michelle Gass. Tim Kingsbury, a former Burlington Stores CEO who joined Kohl's board in 2021 as part of a settlement with activist investors, has assumed the CEO position on a permanent basis. So far, management said it isn't looking for a new leader to change its strategy, which we question, as other than Sephora, its strategy has been muddled, leaving it with excess, slow moving goods, and cluttered stores. Without a more effective go-forward strategy, we could start to see store closures ramp-up.

Burlington

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	C1	C1
Store Count:	893	832
YTD Sales Growth:	-11.3%	92.8%
YTD Comp Sales:	-17%	18%
Total Liquidity:	$1.28 billion	$1.73 billion
Total Debt:	$1.48 billion	$1.63 billion

While Burlington maintains adequate liquidity of $1.28 billion, the Company's inventory levels remain elevated and performance continues to trail that of its off-price competitors, due to what management called "self-inflicted execution mistakes". For the second time this year, the Company lowered its FY22 guidance and now expects FY22 comps to decline 14% to 15%, with EBITDA margin contraction. Burlington's performance in 2023 will depend on how quickly it can recover from the merchandising and inventory mistakes made during 2022. Amidst sales and margin pressures, the Company continues to expand its real estate footprint with its 25,000 square-foot prototype. Burlington expects to end FY22 with a total of 87 net new stores and a projected store count of 927. The Company expects to open between 500 and 600 net new stores over the next five years.

J.C. Penney

METRIC	CURRENT	PRIOR YEAR
Period:	**3Q 10/29/22**	**3Q 10/30/21**
Credit Rating:	**C2**	**N/A**
Count:	**669**	**672**
YTD Sales Growth:	**-2.5%**	**N/A**
YTD Comp Sales:	**N/A**	**N/A**
Total Liquidity:	**$1.13 billion**	**$1.76 billion**
Total Debt:	**$943 million**	**$881 million**

J.C. Penney may be the canary in the coal mine when it comes to the outlook of the department store sector. 3Q22 sales and EBITDA fell 5% and 63%, respectively, while the Company burned nearly $600 million in free cash flow YTD. Debt levels were also up over 50%, although the capital structure is still stable. To date, store activity has been light, with just a handful of store closures. After losing the Sephora partnership, JCP is rolling out new beauty departments, with 300 expected by early this year and another 600 added by spring 2023. Penney's has a strong private label business, and its focus on value could provide some protection in a recession. However, we think the budget of the Company's core customer is already being stretched, and we expect sales and profits to continue to erode.

Macy's

METRIC	CURRENT	PRIOR YEAR
Period:	**3Q 10/29/22**	**3Q 10/30/21**
Credit Rating:	**B2**	**B2**
Store Count:	**781**	**792**
YTD Sales Growth:	**2.4%**	**49.5%**
YTD Comp Sales:	**2.3%**	**52.5%**
Total Liquidity:	**$3.08 billion**	**$3 billion**
Total Debt:	**$3.18 billion**	**$3.44 billion**

Macy's benefitted from the pandemic fueled surge in sales and profits, but also made good progress with internal initiatives, including better use of data to improve pricing and inventory control, while also recuperating its financial health, with debt to EBITDA now down in low 1x range. E-commerce sales have softened since the pandemic peak, but have been a strong focus, representing just 30% of sales, prompting management to slow store closures as it believes its stores support the online business; YOY store count is only down by 11. Meanwhile, it continues to slowly roll-out (~ six in 2022) its smaller format Market by Macy's, Backstage, and Bloomie's concepts; some replace existing full-line stores in the market and others into new markets that can't support a full-line location. Although to date only four store closures were announced (in 1Q23), as we enter a more challenging outlook and the return of aggressive promotions, the Company's full-line stores and merchandising, caught between discount alternatives like TJX and higher end formats like Nordstrom, remain vulnerable, which could mean more aggressive closures.

DRUG STORES

2022 saw the expected rebound in acute scripts, which were more than offset by COVID headwinds (declining vaccinations and testing). Front-end sales performance was largely improved but shrink (theft) remained elevated and is only now beginning to normalize. Late last year, Walgreens Boots Alliance and CVS Health each announced approximately $6 billion state and local government opioid settlements. This will hopefully put the opioid issue in the rear-view mirror, although there is potential for further litigation. The sector still faces the ongoing headwinds from reduced pharmacy reimbursement rates, increasing front-end and potential pharmacy online competition, including from Amazon. Given these factors, store rationalization is occurring. The bigger story was the continued shifts by Walgreens and CVS into primary care. Meanwhile, Rite Aid continues to struggle with underperforming stores and a leveraged capital structure. CVS and Walgreens are well positioned, with solid B1/B2 credit ratings, reflecting their larger scale, strong profit margins, stable capital structures, and robust cash flows, while Rite Aid was recently downgraded to an E2.

CVS Health

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 9/30/22	3Q 9/30/21
Credit Rating:	B1	B1
Store Count:	9,712	9,955
YTD Sales Growth:	10.7%	8.2%
YTD Comp Sales:	9.5%	7.3%
Total Liquidity:	$23.20 billion	$15.83 billion
Total Debt:	$52.21 billion	$58.39 billion

CVS Health remains the sector winner, with the strongest model, although it is still many quarters away from realizing potential performance gains from its shift into primary care, and specifically value-based care. The Company adopted a three-prong store strategy – primary care sites, HealthHUB hybrid stores, and traditional CVS stores. Store openings have been minimal, while the Company enters the second of its three-year plan to close about 900 stores.

Rite Aid

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 11/26/22	3Q 11/27/21
Credit Rating:	E2	E1
Store Count:	2,324	2,488
YTD Sales Growth:	-2.7%	2.1%
YTD Comp Sales:	5.9%	3.2%
Total Liquidity:	$1.38 billion	$1.67 billion
Total Debt:	$3.21 billion	$3.19 billion

Rite Aid is seeing some retail top-line growth, but earnings are taking a hit as the benefit of COVID vaccines and testing fades. The Elixir PBM business is losing sales, but these were less profitable accounts, so segment earnings are improving. Still, we see little synergies between the two segments and see a high probability of management ultimately selling the unit to shore up its balance sheet and allow it to focus on the struggling retail business. While its bigger competitors transform into primary care, Rite Aid's strategic move is to go where there is less competition, in smaller markets. However, even if this is a winning strategy, and we have our doubts, the Company lacks the financial resources to make a major investment, with its cash flow supported by the ongoing sale of the Elixir CMS receivables. Without a seemingly profound retail turnaround in 2023, the Company's options to stay viable are dwindling. Further, the Company has yet to announce its own global opioid settlement. In the past year, the Company announced 145 stores closures, and we estimate there could still be several hundred underperforming locations.

Walgreens

METRIC	CURRENT	PRIOR YEAR
Period:	1Q 11/30/22	1Q 11/30/21
Credit Rating:	B2	B2
Store Count:	8,817	8,942
YTD Sales Growth:	-1.5%	7.8%
YTD Comp Sales:	3.8%	7.9%
Total Liquidity:	$9.23 billion	$9.09 billion
Total Debt:	$12.63 billion	$14.85 billion

Walgreens Boots Alliance has completed the majority of its exit from its European wholesale operations, while deciding to retain the Boots business; however, we estimate if market conditions improve, Boots could again be put in play. In the U.S., it ramped up its investments in primary care, completing the year with its acquisition of Summit Health - CityMD and the pending CareCentrix deal. That should wrap up the major deals, as management focuses on getting the new healthcare segment profitable by the end of FY23. The Company now operates over 700 clinics. Store closings are continuing, albeit at a slower pace with about 70 closures in FY22.

ELECTRONICS & OFFICE

Business volume at electronics retailers continues to fall following the pull-forward in demand during 2021. Many products purchased during that period of unusually high spending were discretionary and need not be replaced annually. Consequently, demand and revenue are down and will likely continue to fall as shoppers conserve scarce resources for food and necessities amid pressure from inflation and concerns about recession. Further complicating the current outlook is a glut of inventory as the electronics sector faces industry-wide promotional pressure because of over-ordering by mass merchandisers. We believe that the inventory problem will remain at least partially unresolved at year-end and spill over into 2023, causing additional promotional pressure and leading to lower margins.

Best Buy

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	B2	B1
Store Count:	1,139	1,137
YTD Sales Growth:	-10.8%	16.7%
YTD Comp Sales:	-10.2%	17.5%
Total Liquidity:	$2.18 billion	$4.72 billion
Total Debt:	$1.16 billion	$1.24 billion

We anticipate ongoing sales and margin pressure at Best Buy due to promotional activity, despite satisfactory management of its own inventory. In this regard, average selling prices will continue to be pressured by other retailers and mass merchandisers which need to move excess stock following over-ordering. Additionally, internal pressure may continue to be applied by under-performance of the Totaltech membership program, following its roll-out at the same time as macroeconomic issues intensified and consumers reduced spending. The balance sheet and liquidity should remain strong. Management continues to downsize stores at a moderate pace and said it has no plans to alter its historical rate of closing 20 to 30 stores annually (about 2%) through FY25.

Conn's

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/31/22	3Q 10/31/21
Credit Rating:	D1	C2
Store Count:	165	157
YTD Sales Growth:	-15.1%	16.6%
YTD Comp Sales:	-20%	18.7%
Total Liquidity:	$209 million	$357 million
Total Debt:	$119 million	$313 million

Conn's sub-prime customers are having difficulty paying for necessities, which reduced discretionary purchases of electronics products and pushed comps down almost 30% in 3Q22. Most of the Company's customers finance their purchases, consequently, lower portfolio balances will likely reduce finance income at the same time as delinquencies rise. Expenditures related to an aggressive expansion program may undercut management's cost reduction initiatives. A mid-course correction may be difficult to engineer, as Conn's has commitments for 10 new stores (12 to 18 month ramp-up period per store), a new DC, and the relocation of another DC. The Company plans to continue its store-within-a-store presence within Belk units.

ODP

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 9/24/22	3Q 9/25/21
Credit Rating:	C2	C2
Store Count:	1,009	1,084
YTD Sales Growth:	-0.6%	-5.4%
YTD Comp Sales:	N/A	N/A
Total Liquidity:	$1.41 billion	$1.71 billion
Total Debt:	$191 million	$353 million

Operations at ODP will likely continue their two decade-long descent. Downward pressure from competition in the retail unit continues to offset the slight uptick in the B2B unit, as businesses slowly return to pre-pandemic volume levels. Margin pressure may intensify due to the unfavorable shift in product mix to the less profitable B2B unit (cleaning products and technology). As part of a three-year plan, management anticipates store count to fall to between 800 and 900 units (a decrease of between 10% and 20%) by the end of 2025. However, this may not be fast enough, considering the combined impact of lower demand and increasing competition. The failure of a business combination with Staples' retail unit in 2022 likely means there will be no appetite for similar initiatives in 2023. Consequently, Staples will remain a significant competitor and both companies will struggle under the weight of an unnecessarily large number of underperforming stores. In the interim, inventory reductions at closing stores will continue to subsidize the impact of deteriorating operations.

Staples

Private Company **Store Count: 1,316**

In the near-term, sales and margins at Staples' B2B unit will likely plateau or fall as the "return to the workplace" reaches its upper limit. Staples' retail unit faces weak industry-wide demand, aggravated by increasing competition. These insurmountable problems prompted past initiatives for a merger whose purpose was to increase the pace of underperforming store closures. The attempted business combination in 2022 failed, which will likely shelf any attempts during 2023. The B2B unit remains burdened with a significant amount of LBO debt; however, prospects for an IPO appear dim during 2023 and until the economy shows signs of strengthening. We expect the Company to continue closing stores at a moderate pace.

GameStop

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	E1	E1
Store Count:	4,573	4,599
YTD Sales Growth:	-1.5%	26.6%
YTD Comp Sales:	N/A	N/A
Total Liquidity:	$1.36 billion	$1.62 billion
Total Debt:	$39 million	$46 million

GameStop continues to encounter operational problems as it attempts to transform itself into a digital player. The Company recently reported its largest quarterly drop in revenue in two years and its seventh consecutive quarterly loss. Operations have been funded by a significant cash balance from previous sales of stock during the meme craze, but this windfall is being eroded by ongoing cash burn. However, cash flow and margins should ultimately benefit from significant store closings and inventory reductions. So far, we have not seen details or a timetable for a path forward into the digital domain, nor evidence that the Company is weaning itself from its legacy hardware business. Consequently, the next year may continue to be a drain on cash, perhaps at a slower pace.

FOODSERVICE DISTRIBUTORS

2022 was primarily a rebuild year for foodservice as overall sector volumes gained, restaurants basically returned to pre-pandemic levels, and lagging sectors like health, office, leisure, and hospitality started to finally regain their stride. The sector also contended mostly successfully with unprecedented double-digit inflation, which is ongoing. Looking forward into 2023, the sector will likely face a transition year as the uneasy macro-backdrop and stretched consumer lead to a rebalancing. We already started seeing this in the tail-end of 2022 as chain restaurants saw a pullback, but that trend will likely gain steam across many segments in 2023 as independents, entertainment, and other segments all suffer fatigue. With little organic growth in the cards, the focus will be on share and gaining new accounts, a scenario that favors the larger distributors, especially considering the major operators continue to sit with sizeable cash war chests and haven't completed any significant acquisitions in well over a year. It also stands to reason that US Foods, which has been noticeably absent from the M&A scene, could be in the market again now that it has hired its new CEO. Lastly, with Sysco noticeably absent in the quick-growing cash and carry segment dominated by US Foods, Gordon Food Service, and Jetro, there is a likelihood that Sysco may try to make an acquisition in order to grow its independent business and not get left behind in the higher margin segment.

Chef's Warehouse

METRIC	CURRENT	PRIOR YEAR
Period:	**3Q 9/23/22**	**3Q 9/24/21**
Credit Rating:	**D1**	**E1**
YTD Sales Growth:	**53.4%**	**43.1%**
Total Liquidity:	**$322 million**	**$244 million**
Total Debt:	**$499 million**	**$401 million**

Chefs' business is uniquely positioned to succeed in this bifurcated market. While the average consumer is being squeezed by elevated inflation, which is leading to a general pullback in retail and foodservice, the value end of the market and the luxury end, where Chef's Warehouse business positions itself, are continuing to see strength. Chef's business is up over 50% in the year-to-date period, as it has benefited from both organic volume gains, a handful of well-placed acquisitions, and inflation. Further, despite inflation and continued industry wide cost pressures, pricing power has remained intact and margins have improved, leading to profitability more than tripling in the year-to-date period. Lastly, after recently refinancing and upsizing its debt, which boosted liquidity, expect acquisitions to continue as the Company looks to take advantage of market conditions that benefit the Company's scale.

Performance Food Group

METRIC	CURRENT	PRIOR YEAR
Period:	**1Q 10/1/22**	**1Q 10/2/21**
Credit Rating:	**C2**	**D1**
YTD Sales Growth:	**41.7%**	**47.4%**
Total Liquidity:	**$2.46 billion**	**$2.46 billion**
Total Debt:	**$4.12 billion**	**$4.10 billion**

Performance Food Group remains the fastest growing distributor in the country with TTM sales now over $55 billion, compared to $26 billion just two years ago. Growth has been fueled by several significant acquisitions in recent years, including Core-Mark, Merchants Foodservice, and Reinhart Foodservice. Despite the massive integration efforts attached to these purchases, PFG has shown no signs of slowing down and continues to outperform most of the market. PFG kicked off FY23 delivering better-than-expected sales and profitability, putting the Company on track to exceed its original FY23 guidance and achieve its three-year targets (revenue of $62 billion to $64 billion and adjusted EBITDA of $1.50 billion to $1.70 billion by FY25). Performance was broad-based, with strength across all three channels: Foodservice notched new independent restaurant business wins, Vistar experienced continued recovery from the channels hardest hit by the pandemic, and Convenience benefited from the Core-Mark acquisition. While the Company has not been immune to supply chain and labor related headwinds, it recently noted improvements in its in-bound fill rates, particularly in Foodservice, and staffing levels. PFG has also been utilizing free cash flow to pay down debt taken on to fund acquisitions. Now that the Company's net leverage ratio is within its target range, we may see more activity on the M&A front; management noted it has "a lot in the works" and plans to remain aggressive. We expect PFG to remain a winner not only on the foodservice side, but also within its surging c-store business.

Sysco

METRIC	CURRENT	PRIOR YEAR
Period:	**1Q 10/1/22**	**1Q 10/2/21**
Credit Rating:	**C1**	**C2**
YTD Sales Growth:	**16.2%**	**39.7%**
Total Liquidity:	**$3.44 billion**	**$4.07 billion**
Total Debt:	**$10.82 billion**	**$11.15 billion**

Sysco holds a dominant 17% share of the U.S foodservice distribution industry and has positioned itself nicely to meet its goal of growing 1.5x faster than the market by FY24. The Company's recent top line momentum has been fueled by inflation and higher volumes, with both local and total case volumes surpassing pre-pandemic levels in its most recent quarter. The Company has been successful at passing on product cost inflation, which remains elevated in the double-digits but has shown signs of moderation as of late. While most of the industry has not seen significant relief from ongoing supply chain and labor pressures, Sysco has benefited from several recent investments, including the launch of a new Driver Academy, the build out of a new Distributed Order Management System (DOMS), and the conversion of its supply chain to a six-day work week. Although supply chain and labor pressures are not expected to go away anytime soon, Sysco's ability to invest heavily in technology and people provide a distinct competitive advantage. Looking ahead, management cautioned that macroeconomic headwinds would slow growth in FY23, but it is nevertheless anticipating sales gains of at least 10% (on top of FY22's 34% growth), aided in part by bolt-on acquisitions. Sysco closed on two independent Italian distributor acquisitions in 1Q23, and we expect the Company to take an aggressive approach to M&A in the year ahead.

FOOTWEAR

The footwear industry contended with supply chain disruptions and product availability issues for much of 2021 and early 2022. Most retailers bulked up their inventory to avoid out-of-stocks, only to find themselves over-inventoried just as consumers began cutting back on discretionary spending. As a result, the industry has become more promotional, and combined with high freight expenses, retailers' margins are being squeezed. There are several positive trends, including continued recovery in the dress and fashion categories and strength in e-commerce sales, though traffic is still flowing back to in-person shopping. Store expansion is varied by retailer, with stronger operators like Boot Barn maintaining double-digit growth and others like Designer Brands, Caleres, and Genesco continuing to trim their store fleets in the low to mid-single-digits.

Boot Barn

METRIC	CURRENT	PRIOR YEAR
Period:	**2Q 9/24/22**	**2Q 9/25/21**
Credit Rating:	**B2**	**B1**
Store Count:	**321**	**278**
YTD Sales Growth:	**15.9%**	**86.3%**
YTD Comp Sales:	**6.1%**	**69.1%**
Total Liquidity:	**$123 million**	**$220 million**
Total Debt:	**$147 million**	**$49 million**

Boot Barn easily surpassed 300 stores this year and remains on pace to achieve its target of 10% unit growth or at least 40 new stores in FY23 (ending March 2023). Comp growth remained positive during 1H23 but flipped into the red in 3Q23 as the Company cycled over 50% growth in the prior-year period. Nevertheless, the Company appears committed to further expansion over the next few years with a long-term goal of reaching 900 stores over the next decade.

Caleres

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	C2	C2
Store Count:	965	995
YTD Sales Growth:	8.3%	35.7%
YTD Comp Sales:	-2.5%	11.5%
Total Liquidity:	$158 million	$387 million
Total Debt:	$365 million	$275 million

Famous Footwear has shed 15 stores through 3QYTD, and comps have been negative for each of the first three quarters of the year. Nevertheless, Caleres' revenue has grown 8% YTD due to strong performance at its Brand Portfolio segment from both wholesale and direct-to-consumer channels.

Shoe Carnival

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	B1	B1
Store Count:	395	377
YTD Sales Growth:	-4.5%	40.7%
YTD Comp Sales:	-11.4%	41.6%
Total Liquidity:	$145 million	$291 million
Total Debt:	$ -	$ -

Shoe Carnival has acutely felt the impact of softening retail spending and the lapping of government stimulus, with organic sales down 10% in 3Q22. The Company expects to fall two stores short of its goal to reach 400 stores by year-end and has revised its FY23 target to 10 new stores, down from 20 previously. A silver lining for the Company is that the Shoe Station is outperforming sales and profit expectations by mid-single to low double-digits. The smaller banner serves a more affluent demographic that Shoe Carnival wants to tap into, and management hopes to expand it from 22 units at present to over 100 by 2028.

FURNITURE / MATTRESS

The furniture and home furnishings industry continues to face deteriorating external business conditions, which have pressured operations at most companies. Industry-wide revenue continues to exceed pre-pandemic levels; however, the stimulus-fueled buying spree has faded. Products in the furniture industry are largely discretionary and are impacted by the housing market, which is slowing down. Consumers tend to defer purchases or trade down during periods of inflation and high interest rates, such as this. Prices have recently started to moderate, and we expect the industry to remain challenged in 2023, with continued volatility in product prices and the cost of transportation and labor, not to mention possible labor shortages and supply chain disruptions. Suppliers will continue to scrounge for products in demand, especially imports, although lead times are starting to return to pre-pandemic levels. In that regard, market volatility was a major factor in Mattress Firm's recent withdrawal of its registration for an IPO. However, there is speculation that the withdrawal may have been prompted by manufacturer Temper Sealy's acquisitive interest in Mattress Firm. Or perhaps the falling valuation made a potential acquisition more palatable. We also note that amid continued operational and cash flow pressure, Bob's Discount Furniture faces the scheduled maturity of a $250 million term loan in August 2023.

Haverty Furniture Companies, Inc.

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 9/30/22	3Q 9/30/21
Credit Rating:	B1	B1
Store Count:	121	121
YTD Sales Growth:	2.7%	47.3%
YTD Comp Sales:	2.6%	22.5%
Total Liquidity:	$200 million	$248 million
Total Debt:	$ -	$ -

Haverty Furniture tends to appeal to higher-income customers, especially women, in upper-to-middle income households. These customers tend to be more resilient to the current economic situation. Nevertheless, the Company has experienced a relative slowdown in customer traffic, which has reduced the number of orders written. In the current climate, even wealthier consumers are cutting back on spending, although proportionately less than the general population. We believe that the favorable demographic will provide Haverty with better operational stability than furniture retailers whose customers' spending patterns are more closely tied to changes in the economy.

Franchise Group, Inc.

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 9/24/22	3Q 9/25/21
Credit Rating:	D2	C2
Store Count:	3,133	1,972
YTD Sales Growth:	41.9%	50.4%
YTD Comp Sales:	N/A	N/A
Total Liquidity:	$338 million	$310 million
Total Debt:	$1.68 billion	$1.07 billion

The volatile economy has negatively impacted three of Franchise Group's units, including American Freight (furniture and mattresses), Buddy's (residential furniture, appliances, and household accessories) and Badcock (furniture, appliances, and bedding). On top of external industry-wide problems, management admitted that its execution in its furniture units was poor, highlighted by overpaying for the wrong mix of inventory. This led to lower revenue, margins, and profitability from heavy discounts and write-offs of slow-moving and damaged inventory. Management noted that inventory costs are currently falling, and it is taking steps to replace the flawed inventory with a mix that is more consistent with customers' expectations. Nevertheless, the Company admits it will cost "tens of millions more" to overcome the current predicament, which will likely strain cash flow. Reports indicate the Company is considering going private as part of a management buyout, and/ or acquiring Conn's, Inc. We note that going private would give management more flexibility in operating its business out of view of the SEC and investors, but it would also likely result in increased financial leverage. Conn's could be a "problem child" at this time as it is expanding at the same time as its subprime customers are having increasing difficulty paying for their purchases amid an economic downturn.

GYMS / FITNESS

The fitness industry has increasingly recovered each year as we continue to move past the pandemic, in part due to about 25% of all fitness centers closing permanently during the pandemic and a growing population putting an emphasis on improving their overall health and wellbeing. High-Value Low-Price (HVLP) chain Planet Fitness reported record membership levels of more than 16.6 million members in 3Q22. The Company was also able to increase its Company-owned store percentage to 10% with its $800 million acquisition of Sunshine Fitness in 1Q22. While the highly competitive mid-tier segment has lagged its value competitors, LA Fitness anticipates that by FYE23, its membership and sales count will surpass pre-pandemic levels. Conversely, 24 Hour Fitness anticipates that by FYE23, its membership count will only reach 90% of pre-pandemic levels. Both LA Fitness and 24 Hour Fitness attempted to entice customers with new lower-priced offerings in an effort to compete with the HVLP chains, but their efforts were unsuccessful and have since reversed course. Meanwhile, premium operator Life Time saw sales growth of 31% in its most recent period; however, the gain is not uniform with Equinox, which continues to trail its FYE19 membership base by almost 20%. Due to seasonality and the industry's strong tailwinds, health clubs should continue to see rising membership count in 2023. Additionally, the increased investment consumers are making in their health will likely benefit premium and boutique operators who can cater to individual needs, despite looming recessionary risks that favor the already strong HVLP chains.

Planet Fitness

METRIC	CURRENT	PRIOR YEAR
Period:	**3Q 9/30/22**	**3Q 9/30/21**
Credit Rating:	**C2**	**D1**
Store Count:	**2,353**	**2,193**
YTD Sales Growth:	**62.5%**	**47.8%**
YTD Comp Sales:	**N/A**	**N/A**
Total Liquidity:	**$544 million**	**$586 million**
Total Debt:	**$2 billion**	**$1.76 billion**

The Company reached record membership levels in 3Q22 thanks to strong industry tailwinds and a low-priced business model, which has traction in a high inflation environment. Throughout 2023, membership is likely to continue pushing record levels. Management has been able to penetrate roughly 8.8% of the millennial market going into 4Q22 and remains focused on attracting younger generations to its gyms. In YTD22, the Company opened 100 new clubs, with 1,000 committed area development agreements to build new clubs within the next three years. Management maintains its goal of growing to over 4,000 locations in the long run (2,353 as of September 2022) though elevated building and financing costs could slow growth.

Xponential Fitness

METRIC	CURRENT	PRIOR YEAR
Period:	**3Q 9/30/22**	**9/30/21**
Credit Rating:	**D1**	**E1**
Store Count:	**2,219**	**1,889**
YTD Sales Growth:	**64.3%**	**34.1%**
YTD Comp Sales:	**28%**	**36%**
Total Liquidity:	**$31 million**	**$26 million**
Total Debt:	**$135 million**	**$95 million**

The Company opened more than 2,600 studios in 2022 and is confident that longer term it can expand to 7,900 locations in the U.S. alone. Additionally, membership count jumped 32% in FY22 to 590,000. The boutique fitness industry benefits from its low cost to start and operate while catering to a very focused customer base that fosters community.

24 Hour Fitness

Private Company **Store Count: 286**

24 Hour Fitness was already losing members pre-pandemic and has had a slower start than most on its rebuild coming out of the downturn. By FYE23, management only projects reaching 90% of pre-pandemic membership levels, which is especially concerning given the rising cost environment. Additionally, the Company has balance sheet concerns. Management averted a second restructuring in two years in March 2022 by successfully pushing through an extension on its PIK $60 million super priority term loan to September 2025. However, given that the majority of the Company's debt has variable rates, along with the sharp increase in interest rates, cash flows continue to be pressured. Lastly, the bulk of the debt is due in 2025, which will be a huge obstacle given current operating trends, tighter credit markets, and the interest rate environment.

Equinox

Private Company **Store Count: 275**

Premium operator, Equinox, is experiencing a sluggish membership recovery, much like the mid-tier market. The Company was able to grow its membership base 17% by mid-Fall 2022, but this still trails its pre-pandemic levels by 18%. The Company faces increased refinancing risks given its heavily leveraged balance sheet that starts coming due in March 2023. There is an increasing chance that it will require a distressed exchange to restructure its balance sheet or default on the debt. Ultimately, Equinox remains a high-risk situation.

GROCERY

As we head into 2023, we expect the effects of inflation will continue to bolster grocers' top lines. Extreme weather, diseases impacting crops and livestock, supply chain complications, and geopolitical unrest (including the war in Ukraine) are all contributing to stubbornly high grocery inflation that is making a significant dent in consumers' budgets. Meanwhile, profitability is expected to retreat, as consumer demand becomes more price elastic, sparking increased promotional activity, while labor, inflation and omnichannel fulfillment will keep costs high. While we expect traditional brands to continue to dominate over consumer purchasing, we see private labels continuing to gain in popularity in 2023. Currently, private label accounts for just over 17% of grocery sales, with branded products holding an 83% share. Finally, we continue to see e-commerce remaining at the forefront of grocer's growth strategies, with most making significant investments in their digital capabilities. Amazon's recent significant fee hikes for grocery delivery could be the initial step in the industry to acknowledge the cost of this service and acquiesce to charging properly for it, which could slow or alter that growth. The planned merger between Kroger and Albertsons could exert additional pressure on smaller operators, though in the short term, it may become a bit of a distraction for the top two retailers in this sector.

We expect the food wholesale segment to continue to see gains, as inflation drives top line results despite the anticipated slight pullback in unit volumes. Margins should be somewhat insulated though, as high efficiency operating improvements and automation brought onboard since the start of the pandemic are boosted by the return of retail and brand promotions, which generally means a favorable product margin mix shift for distributors. Additionally, after five years of limited M&A, since UNFI's acquisition of Supervalu, we believe the sector is primed for consolidation and merger activity, especially at the highly fragmented lower tail of the market.

Aldi

Private Company **Store Count: 2,257**

Aldi, firmly established as the value priced sector leader, should continue to gain from a much more price elastic consumer in 2023. The Company is also one of the few grocers still rapidly adding stores, now approaching 2,300 stores and targeting 2,500 over the next year or two. We also expect ALDI to continue to increase access to online shopping options, having expanded its Curbside Grocery Pickup partnership with Instacart to about 1,500 stores at the end of 2022.

Grocery Outlet

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/1/22	3Q 10/2/21
Credit Rating:	B1	B1
Store Count:	431	407
YTD Sales Growth:	15.3%	-1.3%
YTD Comp Sales:	10.6%	-7.6%
Total Liquidity:	$204 million	$253 million
Total Debt:	$379 million	$451 million

Situated as a discount grocer, Grocery Outlet's top line gains should be at the high-end of grocery in 2023 as inflation-stressed shoppers continue to search for lower prices. The Company has refreshed its brand image, adopted a new marketing campaign, and recently started offering Natural, Organic, Specialty and Healthy or "NOSHA" products to further drive traffic. As of its most recent quarter, Grocery Outlet's revenue grew 19.2% and is up 15.3% for the YTD period. Supply issues from 2021 have mostly resolved and focus now remains on expanding its omnichannel and new store growth, targeting 10% growth each year.

Publix

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 9/24/22	3Q 9/25/21
Credit Rating:	A1	A1
Store Count:	1,305	1,284
YTD Sales Growth:	10.7%	5.2%
YTD Comp Sales:	9%	3.6%
Total Liquidity:	$2.13 billion	$1.95 billion
Total Debt:	$548 million	$148 million

Publix continues to generate industry leading performance which isn't expected to change in 2023. Although the Company faces a new kind of competition from Kroger's Ocado fulfillment center in Orlando, which opened in 2021, as well as Amazon's e-commerce expansion in Tampa, Publix itself continues to invest in its own ecommerce offering, now providing nearly immediate delivery service via a partnership with Instacart. Additionally, the Company continues to expand its store portfolio, adding 20 stores per year in both its current markets and new markets, including stores scheduled to open in Kentucky later this year.

Raley/Bashas

Private Company **Store Count: 233**

After many years of slowly repositioning the brand and store base to a more upscale offering, Raley's trajectory and velocity shifted for the better following the pandemic, aided by the sustained grocery tailwinds. The favorable scenario also encouraged the Company to acquire out-of-state grocer Basha's, a geographically well-positioned peer that was aged and in desperate need of capital. Since then, Raley's has already started scaling its e-commerce leadership and services into the Bashas stores. Looking ahead, we believe Raleys / Bashas may have another chance for opportunistic acquisitions in the near-term as it would be one of the most likely suitors in Arizona to acquire required spin-off stores from Kroger/Albertsons, should the deal be approved and consummated.

Kroger

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 11/5/22	3Q 11/6/21
Credit Rating:	B1	B1
Store Count:	2,720	2,726
YTD Sales Growth:	8.2%	3.0%
YTD Comp Sales:	5.4%	-1.0%
Total Liquidity:	$3.66 billion	$5.04 billion
Total Debt:	$13.23 billion	$13.72 billion

Albertsons

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 12/3/22	3Q 12/4/21
Credit Rating:	B2	B2
Store Count:	2,270	2,278
YTD Sales Growth:	9.0%	1.1%
YTD Comp Sales:	7.3%	-2.3%
Total Liquidity:	$7.16 billion	$6.41 billion
Total Debt:	$9.12 billion	$8 billion

The proposed merger of Kroger and Albertsons is far from a certainty, as regulators, states, politicians, and unions weigh-in mostly contesting its merits. If approved, it is likely to result in hundreds of store divestments (the deal allows up to 650), which could be acquired, closed, or assumed by a company Albertsons is prepared to spin-off (SpinCo). If the deal fails, Albertsons may still consider a multi-billion-dollar sale leaseback of its owned real estate; its owned real estate is assumed to be valued at over $13 billion. We expect the regulatory process could drag on well into 2024. In the interim, we don't expect much store activity from either company (they both have shown net store closures for years) , as they continue to ramp up investment in their omnichannel offerings and all things digital.

Sprouts

METRIC	CURRENT	PRIOR YEAR
Period:	**3Q 10/2/22**	**3Q 10/3/21**
Credit Rating:	**B1**	**B1**
Store Count:	**379**	**366**
YTD Sales Growth:	**4.8%**	**-5.3%**
YTD Comp Sales:	**2%**	**-8.4%**
Total Liquidity:	**$741 million**	**$682 million**
Total Debt:	**$260 million**	**$261 million**

Coming into 2023, Sprouts is still challenged to deliver consistent comparable store gains and is one of the few grocers where comp sales have fallen on a two-year stacked basis. Although profitability has improved, lagging top line performance doesn't bode well for long-term success. Looking ahead, it will be interesting to see how the Company's new store model, with a smaller footprint, compares with expectations, as it ultimately means less ability to service the customer in a differentiated manner amongst intense competition. Despite trailing industry peers, Sprout's cash flow and balance sheet remain solid with ample liquidity and no credit concerns. However, we believe the Company's goal of 10% unit growth over the coming years is unsustainable unless management can successfully find a way to drive foot-traffic and comparable store sales.

HOUSEWARES & HOME FURNISHINGS

Home Furnishings saw a surreal rebound from COVID lockdowns resulting in a great second half of 2020 and at least the first half of 2021. However, consumers began to pull back on spending in 2022 based on the accumulating impact of steep inflation and pulled forward demand from the prior year. Making matters worse was highly elevated supply chain and freight costs and excess inventory buildup, resulting in enhanced promotional activity, compared to nearly none the prior year when inventory was scarce. We expect a slight improvement in 2023 based on normalizing freight costs and potentially less need for discounting. However, macro issues, including the continued impact from rising interest rates and inflation on consumer spending, will determine any type of rebound or if trends may worsen. The luxury players have continued to do well, though starting to show some cracks. RH's reported 3Q22 sales fell 13.6% with EBITDA down 30%, HomeGoods reported 3Q comps of -16%, and Williams Sonoma is starting to see negative comps at a few banners, though financial metrics at these companies remain well above pre-pandemic levels.

Williams Sonoma

METRIC	CURRENT	PRIOR YEAR
Period:	**3Q 10/30/22**	**3Q 10/31/21**
Credit Rating:	**A2**	**A2**
Store Count:	**547**	**577**
YTD Sales Growth:	**8.3%**	**27.9%**
YTD Comp Sales:	**9.6%**	**27.7%**
Total Liquidity:	**$601 million**	**$1.15 billion**
Total Debt:	**$ -**	**$ -**

Bed Bath & Beyond

METRIC	CURRENT	PRIOR YEAR
Period:	2Q 8/27/22	2Q 8/28/21
Credit Rating:	F2*	D1
Store Count:	955	999
YTD Sales Growth:	-26.4%	-1.4%
YTD Comp Sales:	N/A	N/A
Total Liquidity:	$450 million	$1.85 billion
Total Debt:	$1.73 billion	$1.18 billion

*Credit rating was further downgraded from F1 to F2 in our January 5th alert regarding the Company evaluating strategic alternatives, including bankruptcy

CEO Sue Gove had no idea she was stepping onto the Titanic back in July. Instead of slowing down and veering, she captained three disastrous quarters with initial projections for 1Q23 even worse, if possible. The Company lost trade support over the last few months and longer and has now defaulted on its bank line, crippling liquidity and leading to more forced store closures. It has been evaluating strategic alternatives, which include "obtaining relief under the U.S. Bankruptcy Code" for at least a month. While bankruptcy appeared imminent and actually long overdue, the Company's latest scheme is an equity offering, which would resolve the immediate defaults on the bank lines and missed bond interest payments. This is not a solution to the Company's woes, just a temporary postponement of the inevitable. The Company was forced to close (permanently) the Harmon chain, has had no success monetizing the buybuy Baby chain (which we feel will eventually be sold) and will soon have closed near half the Bed, Bath chain, where performance is spiraling despite closures. Bondholders already rejected an offer for a haircut and about a third of the equity. The Company has stated that even should they complete the offering, they may be required to file for bankruptcy and should they fail to complete the transaction, a bankruptcy and liquidation is probable.

Tuesday Morning

METRIC	CURRENT	PRIOR YEAR
Period:	1Q 10/1/22	1Q 9/30/21
Credit Rating:	F2	E2
Store Count:	487	489
YTD Sales Growth:	-11.2%	9.5%
YTD Comp Sales:	-10.4%	N/A
Total Liquidity:	$32 million	$44 million
Total Debt:	$69 million	$50 million

Tuesday Morning does not have a lot of debt but had very soft margins before filing for bankruptcy in May 2020, closed half its store base before emerging, and has seen performance falter further, not even seeing a bump during the surge in demand in 2020 / 2021. New ownership, via a backdoor acquisition of equity shortly after a convertible debt offering, is in high risk, high reward mode, potentially striking the deal with its desire for more intellectual property. Retail Ecommerce Ventures LLC (REV) has commented it is attempting to monetize its other previously failed brands, including Pier 1, through Tuesday Morning's business and store base. Is Pier 1 the recipe for success? We have retained our F2 rating as current trends show minimal chance for a turnaround and a liquidity situation that may require a cash infusion. We do not see REV making an additional investment into the business.

Kirkland's

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	E1	C2
Store Count:	356	369
YTD Sales Growth:	-11.9%	9.6%
YTD Comp Sales:	-10.4%	13.7%
Total Liquidity:	$26 million	$101 million
Total Debt:	$60 million	$ -

Kirkland has seen many of the same challenges as others in the segment, including a drop in demand and escalating costs. Management was initially optimistic about holiday sales, with November comps flat, and was hopeful margins would improve in 2H23 as freight costs are now largely normalized, though it takes some time to cycle through those products and inherent costs. However, the Company later updated holiday performance to reveal December comps falling 11%, a big hit to the temporary positive outlook. After seeing liquidity shrivel in 1H22, the Company did prove it could push through excess inventory levels, meaningfully reducing debt by the end of 3Q22. Should inflation continue to ease and the economy stabilize, the Company could once again find its traction. However, any further steep drops in consumer spending could have dire consequences.

At Home

Private Company **Store Count: 257**

At Home had a robust 2021 leading to a leveraged buyout and accelerated expansion plans. With performance in 2022 taking a sharp u-turn, that debt load and leverage metrics are not looking quite as solid as before. At Home is believed to be slowing down expansion for now to conserve cash and based on weak performance. We do not see any immediate issues, with debt maturities mostly going out to 2028 and 2029, but should consumer discretionary spending retract more than expected, things could get uncomfortable toward the back half of the year due to elevated cash burn.

HOME IMPROVEMENT / BUILDING MATERIALS

The Home Improvement and Building Supply sector experienced a slowdown in growth in 2022, as inflation took hold and any remaining pandemic benefits faded away. In 3Q22, home improvement retailers' comps averaged 8.2%, with 10.6% average sales growth, which was mostly inflation driven. Despite battling supply chain issues since late 2020, we believe the construction industry will see continued material price escalation in 2023 before retreating to more historic norms in 2024. Further, the outlook for U.S. real GDP growth has dimmed appreciably over the past year, with the Federal Reserve calling for it to increase by just 0.8% in 2023. In addition, housing sales and construction have also turned lower; real residential fixed investment decreased at annual rates of 3.1%, 17.8% and 26.4% through the first three quarters of 2022, respectively. In 2023, economic uncertainty and high interest rates are likely to continue to weigh heavily on the consumer considering whether or not to invest in home improvement projects, pressuring the sector. Finally, housing prices are also beginning to soften, although they remain well above where they were before the COVID-19 pandemic.

Floor & Decor

METRIC	CURRENT	PRIOR YEAR
Period:	**3Q 9/29/22**	**3Q 9/30/21**
Credit Rating:	**A2**	**A2**
Store Count:	**183**	**155**
YTD Sales Growth:	**27.7%**	**48%**
YTD Comp Sales:	**11.6%**	**33.1%**
Total Liquidity:	**$602 million**	**$709 million**
Total Debt:	**$374 million**	**$197 million**

Floor & Décor's comps grew 12% through 3Q22 but are expected to decelerate in 4Q22 on tougher comps and ease to 9% to 10% for FY22. While the slowdown in comps and sales is expected to continue well into FY23, the Company has not trimmed expansion plans. It's on track to complete 32 stores in 4Q, ending FY22 with 191 locations. Current FY23 plans call for 32 to 35 new stores, mostly in 2H23, even with ongoing construction setbacks.

LL Flooring

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 9/30/22	3Q 9/30/21
Credit Rating:	C2	B1
Store Count:	439	422
YTD Sales Growth:	-2.3%	9.3%
YTD Comp Sales:	-4.6%	9.8%
Total Liquidity:	$134 million	$232 million
Total Debt:	$69 million	$ -

LL Flooring had poor 3Q22 results as sales of merchandise and services fell 4.8% and 4.4%, respectively. Comps were down 7%, despite a 13% increase in average unit price, driven by a 21% drop in transaction volume. Management suspended guidance, but recently announced the scaling back of store openings in FY23 due to inflation and unemployment concerns affecting its macro-sensitive customers. In contrast to the 14 stores opened in FY21 and 18 opened in FY22, management plans to open only three to four new stores in FY23, citing “prudence” and “near-term caution on consumer spending”- a fiscally conservative move aimed at preserving liquidity ($134 million) during difficult times. Instead, share repurchases will restart, presumably to support the Company’s stock, which was down nearly 70% since 1/05/22.

MASS MERCHANDISERS

In 2022, reality set in for the mass merchandising sector. The daydream that was 2021 was shattered in 1Q22 when both Target and Walmart posted lackluster results and both companies indicated they had too much inventory on hand and would have to discount in coming quarters to move inventory out of its stores. Many retailers did not anticipate the effect inflation was having on consumers. Trailing twelve-month inflation peaked at 9.1% back in June and while it has now fallen for five consecutive months, consumers are still feeling the pinch. Food inflation peaked even higher at 11.4% (TTM) and remains up double digits as of December. In 2021, consumers flush with stimulus cash, shifted spending to discretionary items, propelling sales and margins. In 2022, it was a reversal of fortune as shoppers focused on staples and feeding their families amid the rising costs. This led to bloated U.S. inventories, up an average of 18.6% and an average gross margin decline of 73 bps in 3Q22. Improvements in the supply chain also contributed to higher inventory levels. Companies had ordered earlier, anticipating longer fulfillment times; however, many goods arrived early, pushing up inventory levels.

Store expansion continued in 2022 as most of our covered retailers had a double-digit number of store openings. The dollar stores continued their rapid expansion with Dollar General opening almost 700 stores through 3Q and Dollar Tree opening over 200; we anticipate both will target mid to high triple digit expansion for FY23. Five Below also joined the triple-digit club with just over 100 openings. Supply chain issues have caused some slowing in planned openings along with delayed approval processes in many municipalities. Big Lots made the “big splash” in 1Q22, announcing it would open 50 stores in FY22 and was targeting 80 per year thereafter. These plans changed rapidly as consumers pulled back on discretionary spending and the Company now plans to close as many stores as it opens in FY22, with future plans set aside to the back burner. The big boxes should experience only moderate growth as they have shifted much of their capital spending to remodels and digital infrastructure.

The economic outlook remains uncertain, with many projecting a recession in 2023. Inflation remains stubborn and the Fed has indicated it is not done raising rates. Under this scenario, we should see reduction in consumer spending and a shift to a value offering, which would benefit many in this space. Retailers that have a higher proportion of food and grocery sales such as Walmart, Costco, and BJ’s will continue to lead the pack. Sam’s Club, which also has a higher percentage of food sales recently announced it will open about 30 new clubs over the next several years, which is well above its historical expansion plans over the last few years. The dollar stores also have a higher percentage of consumable sales which bodes well as consumers trade down and continue their hunt for value.

Costco

METRIC	CURRENT	PRIOR YEAR
Period:	1Q 11/20/22	1Q 11/21/21
Credit Rating:	A1	A1
Store Count:	847	823
YTD Sales Growth:	8.1%	16.6%
YTD Comp Sales:	7.1%	9.8%
Total Liquidity:	$12.92 billion	$14.53 billion
Total Debt:	$6.54 billion	$8.57 billion

Costco remained the stellar performer among the mass merch universe in 2022. Comps remained at or close to double digits in FY22 and came in at a respectable 7.1% for 1Q23 (quarter ending 11/2/22). Customers flocked to its warehouses looking for value as inflation took its toll. Going forward, indications are that Costco will get a little more aggressive opening new clubs, with about 30 new openings per year over the next few years.

BJ's Wholesale Club

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	B1	B1
Store Count:	232	222
YTD Sales Growth:	16.9%	7.2%
YTD Comp Sales:	5.7%	-1%
Total Liquidity:	$927 million	$1.02 billion
Total Debt:	$895 million	$748 million

Much like Costco, inflationary pressures are driving current and new members to BJ's Wholesale. 2022 comps have been respectable, but not spectacular, up 5.7% YTD. The Company has consistently gained members, with membership revenue up 10% through 3Q22. The Company's investment in its digital capabilities appears to be paying off with 41% growth. The Company has been a little more expansion minded in FY22 with six openings so far and a target of 11 for the FY. In FY23, BJ's has 10 new clubs on the drawing board.

Big Lots

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	D1	B1
Store Count:	1,457	1,424
YTD Sales Growth:	-11.2%	-1%
YTD Comp Sales:	-12.8%	-2.6%
Total Liquidity:	$443 million	$666 million
Total Debt:	$460 million	$ -

In January 2022, Big Lots issued its long-term growth outlook, albeit without any relevant timelines. The Company set ambitious goals of $8 billion to $10 billion in revenue and opening an additional 500 stores (no specific timeline). FY21 revenue was $6.15 billion, and the store count stood at 1,431. The first quarter humbled these expectations, especially for store growth. Big Lots now expects to close as many stores as it opens (about 50) for FY22, indicating no net store growth. The Company will also sell 25 properties that it owns but will not reopen. About 70% of Big Lots' merchandise could be considered discretionary, which has been hit hard by inflation as consumers focused on food and other staples. Margins have been hit hard, with gross margin down 510 bps YTD and EBITDA margin turning negative. F&D/Creditntell has downgraded Big Lots from a B1 at the beginning of the year to its current level of D1.

MOVIE THEATERS

The Movie Theater industry still has a long road to recovery from the pandemic, as attendance has yet to reach pre-COVID levels. Part of this is out of the theaters' hands, as the film studios have yet to produce movies at pre-pandemic levels, resulting in an uneven slate of releases in 2022. Movie theaters are outperforming pre-pandemic results in terms of average ticket price and per patron concession spending, but that has mainly been driven by inflation being passed on to customers. Several chains have indicated that per patron concession spending may be boosted by the weaker attendance and could fall if crowds return and concession lines get longer. The ongoing bankruptcy proceedings of Cineworld (and its Regal chain in the U.S.) and the fate of its over 400 domestic venues also present uncertainty for the industry.

AMC

METRIC	CURRENT	PRIOR YEAR
Period:	**3Q 9/30/22**	**3Q 9/30/21**
Credit Rating:	**E1**	**E1**
Store Count:	**943**	**951**
YTD Sales Growth:	**115.3%**	**25.6%**
Total Liquidity:	**$896 million**	**$1.82 billion**
Total Debt:	**$5.38 billion**	**$5.53 billion**

AMC generated $32.1 million in EBITDA YTD through 3Q22 ($191.3 million EBITDA in the TTM period). The Company continues to burn cash ($725 million YTD) but has conducted several refinancing transactions in 2022 to push out maturities and in December raised $110 million from Antara Capital in addition to a debt for equity swap. Ultimately, AMC remains heavily leveraged with over $5 billion in debt.

Cinemark

METRIC	CURRENT	PRIOR YEAR
Period:	**3Q 9/30/22**	**3Q 9/30/21**
Credit Rating:	**D2**	**D2**
Store Count:	**517**	**524**
YTD Sales Growth:	**119.8%**	**43.5%**
Total Liquidity:	**$732 million**	**$643 million**
Total Debt:	**$2.60 billion**	**$2.62 billion**

Cinemark's YTD sales have more than doubled to $1.86 billion due to recovering attendance, though management noted that margins were pressured by an 11% increase in hourly wage rates and rising food and film costs. Despite these pressures, the Company has a healthier TTM EBITDA margin than its peers at 15.6%, though its over 6x debt to EBITDA still represents a significantly leveraged capital structure.

PET CARE

The pet industry kicks off 2023 in a strong position yet again. Sales in 2022 continued to tick up due to residual tailwinds caused by the pandemic, including increased pet adoption, e-commerce growth, and now heightened inflation. Consumables and services fueled the growth, but a slowdown in pet adoptions and softening consumer spending pulled back discretionary categories. Online shopping remains sticky with Petco's CEO noting ecommerce representing close to 30% of all market sales and Chewy continued to report double-digit top line growth and improved margins throughout the year. Competition, however, intensified from outside competitors looking to gain market share; Walmart expanded its pet insurance offerings and Albertson's began piloting its health service program, while grocery chains like Hy-Vee have also significantly expanded their pet-care / pet-focused lines. The major Pet retailers have responded by shifting their focus to growing e-commerce through AutoShip (recurring) business while also investing in In-store services, such as grooming, training, and veterinary clinics to differentiate and drive foot-traffic. To that end, Petco acquired the remaining 50% interest in Thrive Pet Healthcare, its in-store Pet hospital system of about 100 clinics, and has already started rapidly expanding the service to other locations. Traditional M&A remained lite except for Canadian operator, Petvalu acquiring all 66 Chico locations, Quebec's largest pet specialty franchise. Pet Supplies Plus similarly acquired 15 Wag N' Wash in February and now plans to open 115 by the end of this year. For 2023, strength in premium food and services is likely to continue; however, the overall pullback due to the weakening consumer, increased promotions to drive traffic, and a shift towards lower margin products will adversely impact margins.

Chewy

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/30/22	3Q 10/31/21
Credit Rating:	B2	B2
YTD Sales Growth:	13.7%	27.4%
Total Liquidity:	$1.12 billion	$1.19 billion
Total Debt:	$ -	$ -

Chewy is well positioned to continue to gain in 2023 as consumers stick to online shopping and the Company focuses on expanding its automated fulfillment centers. Despite a pull-back in discretionary spending, Chewy continues to report record high AutoShip sales with recurring orders now accounting for 73% of revenue. The Company's active customer base has grown 13% over the past two years and now totals over 20.5 million. Credit metrics continue to improve and based on its most recent quarter (3Q22), the Company's YTD EBITDA has jumped 103% compared 2021. Chewy plans to expand private label brands and its CarePlus banner through new insurance plans and additional telehealth vet offerings in 2023. It is also investing heavily in automated fulfillment centers providing much better throughput economics.

Petco

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	C2	C2
Store Count:	1,428	1,449
YTD Sales Growth:	3.8%	19.8%
YTD Comp Sales:	4.3%	21%
Total Liquidity:	$593 million	$666 million
Total Debt:	$1.65 billion	$1.66 billion

Petco continues to differentiate itself with investments in services and a new store concept. During 2022, the Company launched its new concept "Neighborhood Farm & Pet Supply," catering to pets and farm animals in small towns and rural communities with plans to build at a more rapid pace throughout 2023. Petco is focused on building out its vet services through additional veterinary locations and further integrations of Thrive, which the Company acquired in March. Vital Care subscription members continue to rise and now totals 400,000, up 42% from prior quarter. Lastly, Petco expanded its insurance offerings by partnering with Nationwide Insurance later in the year, all of which helps keep the customer base extremely sticky to Petco's offering.

RESTAURANTS

Restaurants continued their recovery in 2022 amid the diminishing impact of the pandemic, and many full-service companies joined their fast casual and QSR peers in finally surpassing pre-COVID sales levels on a consistent basis. A large portion of the overall sales growth in the industry was due to increased menu prices as companies shifted the impact of commodity and labor inflation on to customers. Traffic trends were weaker, and most operators have seen declines as customers responded to the higher prices, and heavy retail inflation in general, by cutting back on restaurant visits. With inflation starting to ease in the latter half of the year and supply chain costs normalizing, price increases are likely to slow down in 2023, but restaurants will have to balance preserving margins with becoming more promotional to attract and retain customers in a potential recession. Construction supply chain issues delayed many companies' expansion goals in 2022 or pushed openings into 2023. Additionally, worries over a weaker macroeconomic environment is making some restaurants more reticent to commit to aggressive expansion. Nevertheless, expansion remains a priority for stronger operators, in particular QSR and fast casual companies like Chipotle, Starbucks, and Shake Shack. Others plan to rely on franchisees to drive some or all expansion, including Jack in the Box and Brinker.

Chipotle

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 9/30/22	3Q 9/30/21
Credit Rating:	A2	A2
Store Count:	3,090	2,892
YTD Sales Growth:	15.5%	27.6%
YTD Comp Sales:	8.9%	20.8%
Total Liquidity:	$1.28 billion	$1.52 billion
Total Debt:	$ -	$ -

After successfully returning to over 200 new store openings in FY21, the Company upped the stakes with a planned 235 to 250 new stores in FY22 (135 opened through 3Q) and plans to raise them even further with 255 to 280 new stores in FY23. Strong 8.9% comp growth YTD has helped Chipotle self-fund its aggressive expansion and remain debt-free.

Steak 'n Shake

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 9/30/22	3Q 9/30/21
Credit Rating:	D2	E1
Store Count:	552	581
YTD Sales Growth:	-8.6%	-27.9%
YTD Comp Sales:	N/A	N/A
Total Liquidity:	$135 million	$127 million
Total Debt:	$30 million	$ -

Progress in the Company's re-franchising strategy has slowed in FY22, with just 12 Company-owned stores transitioned YTD compared to 54 in the prior-year period. At the same time, 25 Steak 'n Shake stores have permanently closed this year (six Co-owned, 19 franchised), and another 39 of the remaining 181 Co-owned stores remain temporarily closed, perhaps indicating weak operating results or difficulties related to the ongoing transition from a counter-service model to a limited-service model.

Noodles & Company

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 9/27/22	3Q 9/28/21
Credit Rating:	C2	C2
Store Count:	459	450
YTD Sales Growth:	3.5%	25.8%
YTD Comp Sales:	4.5%	26%
Total Liquidity:	$86 million	$75 million
Total Debt:	$36 million	$22 million

The pandemic and building supply chain delays have contributed to Noodles & Company missing store expansion targets for the past three years. Management hoped to get to 10% growth in FY23, but now expects something closer to 7%, mostly Co-owned stores. Expansion in ensuing years will be buttressed by franchise development deals, including a 40-unit deal with Warner Foods, which was made as part of re-franchising agreement for the California market in January 2022.

Potbelly

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 9/25/22	3Q 9/26/21
Credit Rating:	D2	N/A
Store Count:	434	443
YTD Sales Growth:	19.7%	28.1%
YTD Comp Sales:	18.5%	29.1%
Total Liquidity:	$24 million	$29 million
Total Debt:	$10 million	$16 million

Potbelly's recovery from the pandemic was somewhat slower in comparison to other fast casual chains partly due to its many urban locations, which rely on the office worker lunch crowd that has been diminished by the persistence of work-from-home trends. The Company's operating performance is on the upswing in FY22, and the forgiveness of a $10 million PPP loan in July strengthened its balance sheet. Management has set a goal to re-franchise 25% of its Co-owned shops by the end of 2024 and achieve a 10% franchise unit growth rate through development agreements with new franchisees. Several agreements have been signed thus far covering the Carolinas, Florida, and Illinois among other markets.

Wendy's

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/2/22	3Q 10/3/21
Credit Rating:	C2	C2
Store Count:	7,080	6,891
YTD Sales Growth:	9.5%	13%
YTD Comp Sales:	3.3%	10.2%
Total Liquidity:	$1.04 billion	$884 million
Total Debt:	$3.44 billion	$2.94 billion

One year after announcing a massive 700-unit development commitment with REEF (a ghost kitchen operator) over a five-year period, Wendy's drastically reduced this target down to 100 to 150 units. The ghost kitchens underperformed, and REEF expressed its desire to run multiple brands out of their stores to meet needed AUVs, to which Wendy's was opposed. Nevertheless, Wendy's still expects 2% to 2.5% unit growth in 2022 and plans to step up that growth from 2023 to 2025.

SPORTING GOODS

We expect continued sales retrenchment following the two-year long top line expansion, which was fueled by changing consumer preferences and stimulus. The ability to maintain at least a portion of the outsized margin growth may be the biggest differentiator between the winners and losers. Vulnerabilities include excess inventory, a high concentration of promotional apparel and footwear, and store expansion amid a weak economy. Also, we continue to see manufacturers selling more via the direct-to-consumer channel and paring their retail customers, while further developing relationships with their strongest retail partners (e.g., Nike and Dick's). To maintain top-line sales, sporting goods retailers need to provide a point of differentiation to effectively compete against big box and online competition, which are increasingly growing their market share of commodity or non-differentiated products. Companies like Dick's, Bass Pro, and PGA Tour Superstores, which offer differentiated and exclusive products, superior customer service, and overall exceptional store experience, are able to better compete against competitors like Big 5 and even Academy. Given the growing economic pressures, a deep selection of private label merchandise can offer consumers lower priced options, which generate higher margins than national brands. On the other hand, those with a high concentration of apparel and footwear will face even more promotional pressure, especially Hibbett and Big 5 which enter 2023 with high levels of inventory. Additionally, retailers which expand, like Academy and Sportsman's Warehouse, may incur higher debt loads as they ramp-up capital expenditures and operating costs, which are unmatched by revenue at a time when consumers are cutting back on purchases.

Dick's Sporting Goods

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	A2	A2
Store Count:	868	866
YTD Sales Growth:	-1.9%	38.4%
YTD Comp Sales:	-2.6%	37.5%
Total Liquidity:	$3.02 billion	$3.21 billion
Total Debt:	$1.64 billion	$444 million

We continue to maintain that sector leader Dick's Sporting Goods is best positioned and the only true national sporting goods chain The Company has expanded its partnerships with key vendors, sourcing more upscale and exclusive merchandise, made impressive investments in growing its digital and omnichannel capabilities (e-commerce is over 20% of sales, with stores fulfilling over 80% of online sales), while also effectively adding new specialty shops to its stores and adding a number of new formats, from its experiential, store of the future House Sports, outdoor focused Public Lands, and outlet, which it employs to clear slow moving inventory from its stores. The Company also continues to upscale and grow Golf Galaxy. Dick's plans to open 15-20 stores a year, while also closing a handful.

Golf & Tennis Pro Shop, Inc. (PGA Tour Superstores Inc.)

Private Company **Store Count: 58**

Golf was a major winner during the pandemic, gaining new participants and demographics, and all data to date indicate most of those new players are sticking with the game. PGA Tour Superstore was a main beneficiary and saw its sales grow by over 100% since FY19; it has added 16 stores over that period, to a store count of 58. Management said it has the potential to grow to 100 stores by 2026, as it opportunistically snaps up shuttered boxes left behind by department stores. With a strong merchandise assortment, customer service and experiential format, we believe the Company is well positioned to continue expanding into existing and new markets.

Big 5 Sporting Goods

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/2/22	3Q 10/3/21
Credit Rating:	C1	B1
Store Count:	431	429
YTD Sales Growth:	-14.8%	18.4%
YTD Comp Sales:	-14.9%	18.9%
Total Liquidity:	$183 million	$263 million
Total Debt:	$9 million	$10 million

The high concentration of apparel and footwear at Big 5 makes it a candidate for sales weakness and margin compression, as these categories are among the most competitive in retail. Big 5 also enters 2023 with high inventory levels, while its merchandise and store format lacks differentiation. Comps have been down for four of the last five quarters and we do not see this trend reversing in the near-term. Store activity has been relatively flat since the pandemic, although we could start to see more closures as we reach 2H23.

Hibbett

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	B2	B1
Store Count:	1,126	1,086
YTD Sales Growth:	-4.4%	25.4%
YTD Comp Sales:	-7.4%	24.1%
Total Liquidity:	$98 million	$130 million
Total Debt:	$54 million	$2 million

As a second-tier player, Hibbett is vulnerable to customers taking their business elsewhere to find a better selection. In this regard, we anticipate lower sales and deteriorating margins, especially in light of the Company's concentration of highly promotional apparel and footwear, which approaches 90% of the sales base. Nevertheless, Hibbett was one of the companies which was able to maintain its relationship with Nike. We note that the recent quarterly increase in comps is not indicative of future trends. The improvement was an anomaly, due to a shift in the timing of reporting sales between quarters, as cash-strapped consumers delayed back to school spending. Merchandise margin will likely be vulnerable, as the Company may be forced to cut prices to keep customers. In 2023 the Company plans to open between 30 and 40 new stores (a 3% growth rate).

Camping World

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 9/30/22	3Q 9/30/21
Credit Rating:	C1	B2
Store Count:	193	187
YTD Sales Growth:	2.7%	28.4%
YTD Comp Sales:	-0.9%	19.7%
Total Liquidity:	$257 million	$193 million
Total Debt:	$2.41 billion	$1.67 billion

Camping World benefited from industry-wide supply and demand imbalances during and after the pandemic. This was most prominent in the used vehicle market where prices skyrocketed due to difficulty stocking new vehicles. While camping and outdoor activities are typically considered recession-proof, we see vulnerability at Camping World, given the unusually high rate of demand which was concentrated in the last two years. As markets shift and cost-conscious consumers balk at paying record prices for used vehicles, the Company may experience lower sales, shrinking margins, and increasing levels of unsold, high-cost inventory. Typically, the Company has expanded during downturns by taking advantage of lower acquisition prices. Camping World has already been acquisitive during the past year, acquiring properties at peak market prices, so we see them taking full advantage of a buyers' market in the next year.

SIGNA Sports United N.V.

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 6/30/22	N/A
Credit Rating:	D2	N/A
Store Count:	N/A	N/A
YTD Sales Growth:	28.8%	N/A
YTD Comp Sales:	N/A	N/A
Total Liquidity:	€65 million	N/A
Total Debt:	€284 million	N/A

Struggling with a global downturn in consumer sentiment and inflated inventories leading to a much more promotional environment at least through 1H23, Signa Sports United was forced to raise additional capital to support its cash flow drain and prop-up liquidity. With the outlook for demand challenged, the Company has been forced to focus on cost cutting and capital preservation. However, if operations fail to turnaround by 2H23, it may be forced once again to raise new capital to stay afloat.

Academy Sports + Outdoors

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	B1	B1
Store Count:	265	259
YTD Sales Growth:	-6.4%	21.3%
YTD Comp Sales:	-6.9%	21.2%
Total Liquidity:	$1.30 billion	$1.38 billion
Total Debt:	$686 million	$687 million

Academy achieved an operational and financial turnaround in the last two years. This gave management the confidence to relaunch an aggressive expansion program in 2023. In this regard, the Company plans to open 80 to 100 stores over the next five years. The timing is not fortuitous; it comes during an economic slowdown. This will likely result in additional expenses at a time when the top line is contracting. On the other hand, a strong private label program, which comprises about 20% of sales, should help to bolster merchandise margin.

Sportsman's Warehouse

METRIC	CURRENT	PRIOR YEAR
Period:	3Q 10/29/22	3Q 10/30/21
Credit Rating:	C1	B2
Store Count:	130	119
YTD Sales Growth:	-6.4%	7.5%
YTD Comp Sales:	-12.1%	1.5%
Total Liquidity:	$195 million	$152 million
Total Debt:	$105 million	$58 million

Sportsman's Warehouse was a key beneficiary of the surge in demand for firearms and ammunition, which represents over 50% of its sales (in-line with historical performance). After seeing record demand the past two years, we expect the highly cyclical category to wane significantly in 2023. At the same time, management is adopting a highly ambitious store growth plan, expecting to add 60 to 80 stores over the next three years. The new stores employ a more flexible format, ranging from 7,500 to 65,000 square feet, compared to an average store size of 37,000 square feet. Sales are softening but remain elevated, while margins have fallen back down to pre-pandemic levels. The capital structure is currently strong (debt to EBITDA of 1x), but with the added investment and cost to support the store growth, we expect leverage metrics to also deteriorate. Accordingly, it will remain to be seen if management is able to pull-off its growth plans.

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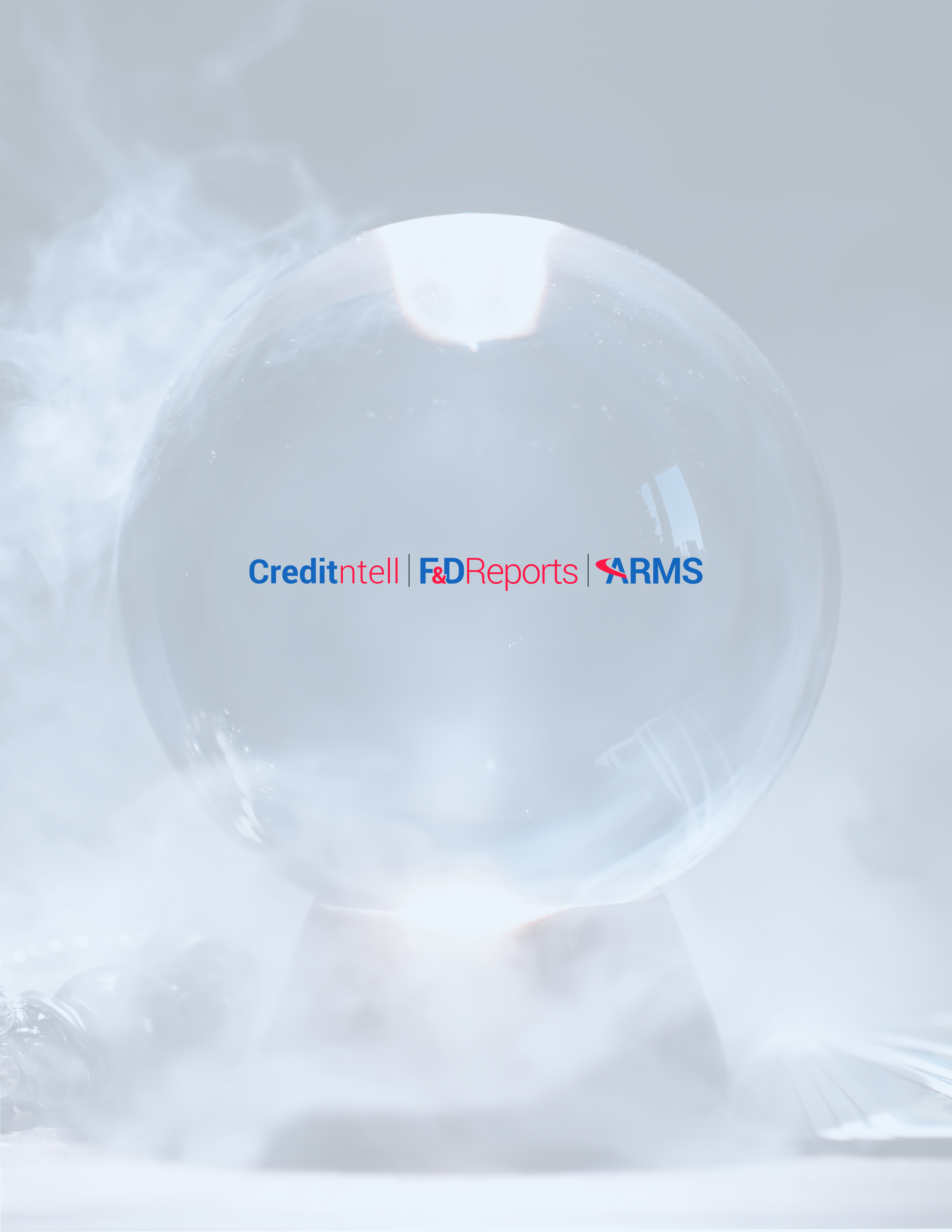
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