retailstat FINANCIAL
Formerly Creditntell | F&D Reports

THE CHILDREN'S PLACE

Key Takeaways

1	The Children's Place's challenges are structural, with sales down 37% since FY21 and EBITDA deeply negative. New stores are adding fixed costs before the business stabilizes.
2	Working-capital levers are largely exhausted, while negative equity, limited collateral and lender restrictions leave the Company's majority owner as the only credible source of capital.
3	Our most likely scenario projects cash burn will exceed available liquidity within 12 months, requiring new capital or likely forcing a broader restructuring.

The Children's Place ranks among the few pure-play children's specialty retailers in North America, operating 518 stores, two websites and wholesale distribution across 13 countries. The Company sells value-priced apparel, footwear and accessories under its Children's Place and Gymboree banners. Mithaq Capital SPC took majority control in 2024 and raised its stake above 60% in 2025 through a rights offering, making it both the controlling shareholder and the Company's primary source of capital.

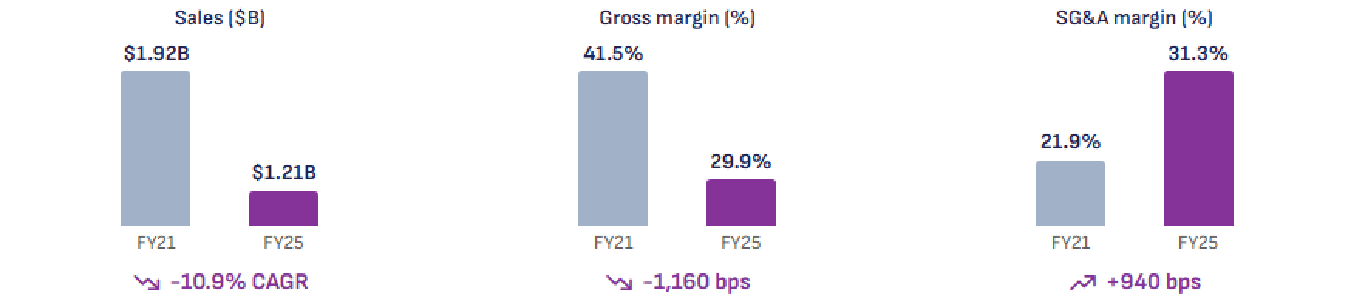
Competitively, the Company sits at a significant scale disadvantage. Carter's holds close to 9% of the roughly $29 billion U.S. baby and children's apparel market and keeps investing in omnichannel capabilities. GapKids and Old Navy lean on Gap Inc.'s stronger balance sheet, while mass merchants, Amazon and off-price retailers compete more effectively on price, convenience and assortment. Value positioning gives the Company little room to absorb tariffs, freight inflation or markdowns, made worse by a customer base already pressured by higher gas and grocery prices.

The Company's issues are structural as sales have fallen at a 10.9% CAGR from $1.92 billion in FY21 to $1.21 billion in FY25, and gross margin contracted from 41.5% to 29.9% across the same period. Customer counts have shrunk alongside the top line, a problem management acknowledges it is still working to stabilize, and the marketing pullback during Mithaq's initial cost-cutting made traffic declines worse. SG&A margin rose to 40.7% in 1Q26, up from 35% a year earlier. The Company also carries nearly $35 million of annual interest expense, a burden that continues to grow because the Mithaq term loans allow interest deferral, with $7.4 million of cash interest deferred as of 1Q26. After weak 1Q26 results, the Company held its F1 rating, reflecting five straight years of sales declines, deeply negative EBITDA and heavy dependence on Mithaq financing. The three scenarios in this analysis project continued losses and cash burn, yet the rating holds at F1 for as long as Mithaq keeps funding the gap, and any sign of Mithaq pulling back would make a downgrade to F2 unavoidable.

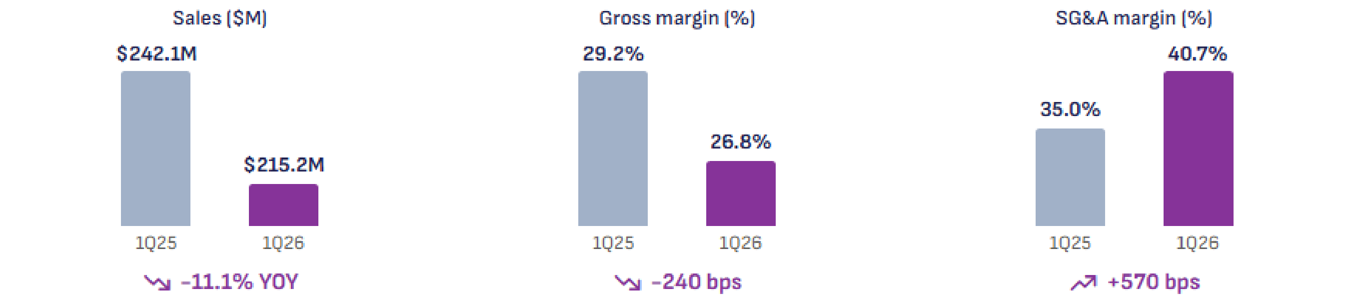
Beyond Mithaq, the Company has no credible financing alternative. Negative equity, negative EBITDA, an absence of owned real estate and a capital structure that already pledges substantially all U.S. and Canadian assets to the ABL lender leave little unencumbered collateral, and the ABL's covenants restrict additional indebtedness and asset dispositions without lender consent. Muhammad Umair, named President and CEO during the transformation, resigned in early July, marking the third CEO change since Mithaq took control, and Muhammad Asif Seemab, a Mithaq executive and the Company's Executive Vice Chairman, stepped in on an interim basis, putting a Mithaq insider directly in charge of daily operations. Just days earlier, the Company had drawn $15 million under the previously undrawn $40 million Mithaq credit facility to prepay revolver borrowings and reduce vendor payables, reducing the remaining commitment to $25 million. The real question is how much longer Mithaq will keep funding the gap before recapitalizing or pursuing a broader restructuring.

Operating Trends

Five-year structural decline



1Q26 performance — deterioration accelerating



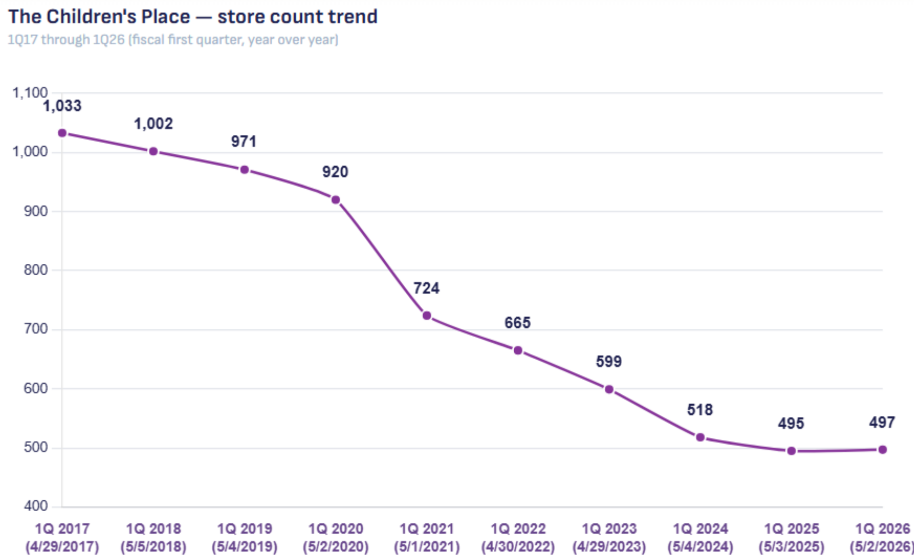
The Company's structural decline continued through FY25 and accelerated in 1Q26. Sales, margins, and EBITDA are all deteriorating faster than a year ago. Management attributes the 1Q26 sales decline partly to a planned Amazon wholesale pullback it calls "inventory misalignment" rather than lost demand (Amazon sell-through was flat YOY), though it is unclear whether orders can recover once the inventory reduction is complete. Of roughly $40 million in filed tariff refund claims, $5.5 million has been received, mostly monetized at a discount as financing rather than a P&L benefit. The tariff regime also reset in late July with the 10% Section 122 surcharge expiring July 24 and new Section 301 forced-labor duties of 10% to 12.5% taking effect the same day, a modest net increase for China- and Vietnam-sourced goods at the 12.5% tier. Cost cutting is ahead of plan at $45 million of a $60 million FY27 target, partly offset by $10 million to $15 million of new recurring costs. Looking ahead, neither the cost program nor the tariff reset is likely enough to offset the continued sales declines, so margin improvement will depend on demand stabilizing.

Balance Sheet Snapshot — 1Q26	
Debt Outstanding	
Revolver Drawn (of $350M facility)	$150M
SLR Term Loan	$100M
Mithaq Related-Party Debt	$110M
Receivable Monetizations (ST debt)	$44.4M
Total Debt	**$400M**
Liquidity	
Cash	$4.8M
Revolver Availability [1]	$38M
Mithaq Commitment (then undrawn)	$40M
Total Liquidity	**$82.8M**
Inventory (-23% YOY)	$326.4M

[1] Net of the ABL facility's $35 million minimum liquidity covenant.

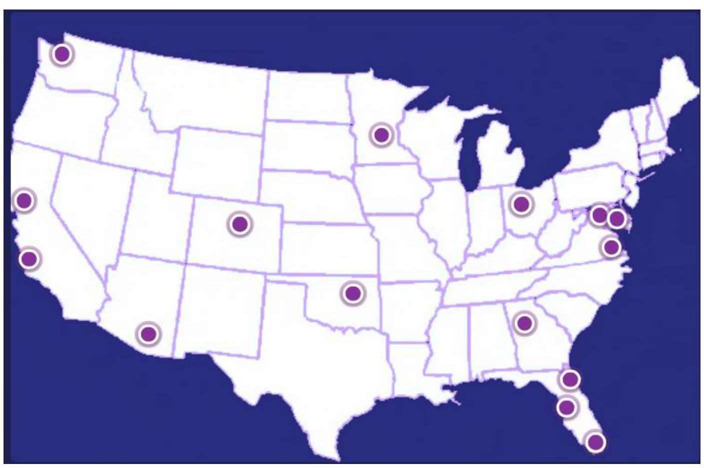
Store Base

Historically, the Company's store strategy focused on shrinking and optimizing its footprint, closing underperforming locations as part of a fleet rationalization initiative launched in 2013 that reduced the store base by roughly 700 units, combined with selective lease renegotiations to lower occupancy costs and adapt to declining mall traffic. Unlike competitors leaning into experiential formats or in-store technology, the Company has stayed more traditional, relying on product assortment and pricing to drive sales.

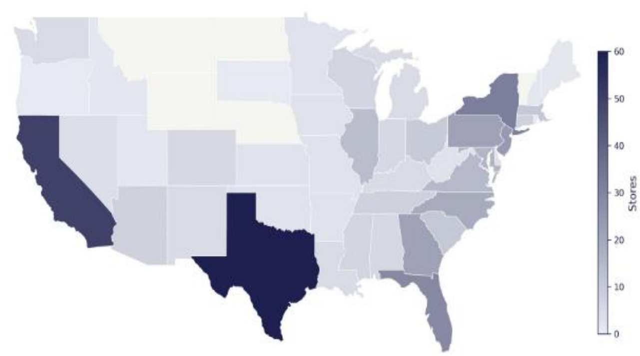


After acknowledging that it had closed too many stores, including profitable ones, management reversed course toward expansion. The Company targeted roughly 15 new stores by the end of FY25 and ultimately opened 17, relocated 12, and closed 14, for three net new stores, its first annual increase in a decade. Guidance then called for 15 to 20 new stores in 1H26 ahead of back-to-school, with more planned in 2H26. One net store closed in 1Q, bringing store count to 497 as of May 2, 2026. However, as of late July, the Company's store locator shows it has opened 21 net new stores QTD (all outlet locations), bringing total count to 518, including 456 in the U.S., six in Puerto Rico, and 56 in Canada. All three scenarios below assume 20 net new stores YOY by fiscal year-end.

U.S. Latest Store Openings



Store Concentration by State



Store count by state. Texas (60) and California (50) are the largest concentrations, followed by New York (32) and Florida (29). Hawaii, Oregon, Rhode Island, and South Dakota each carry a single location and are not visually distinct at this scale.

Recent openings were located in:

- Seattle Premium Outlets – Tulalip, WA
- Vacaville Premium Outlets – Vacaville, CA
- Pismo Beach Premium Outlets – Pismo Beach, CA
- Tucson Premium Outlets – Tucson, AZ
- Denver Premium Outlets – Thornton, CO
- Tulsa Premium Outlets – Jenks, OK
- Albertville Premium Outlets – Albertville, MN
- Tanger Outlets Columbus – Sunbury, OH
- Tanger Outlets Locust Grove – Locust Grove, GA
- Tampa Premium Outlets – Lutz, FL
- St. Augustine Premium Outlets – St. Augustine, FL
- Florida Keys Outlet Marketplace – Florida City, FL
- Clarksburg Premium Outlets – Clarksburg, MD
- Queenstown Premium Outlets – Queenstown, MD
- Norfolk Premium Outlets – Norfolk, VA

Cash Flow and Liquidity Scenarios

To test whether cash burn will outrun available liquidity over the next 12 months, and what that implies for the credit rating, we model three scenarios off TTM results through 1Q26: more favorable, most likely, and less favorable. Each carries through to a pro-forma liquidity position and rating below. All three assume 20 net new stores and that the $15 million drawn under the Mithaq facility in July remains outstanding. Neither of FY25's two cash-flow supports is assumed to repeat: the $75.9 million freed by lower inventories (now lean) nor 1Q26's $42.3 million of proceeds from receivable monetizations (claims already sold).

($ millions)	Scenario 1	Scenario 2	Scenario 3
Store Count	517	517	517
Comps	-2.0%	-8.0%	-14.0%
Sales	$ 1,180.0	$ 1,110.0	$ 1,040.0
EBITDA	($35.0)	($80.0)	($115.0)
EBITDA Margin	*-3.0%*	*-7.2%*	*-11.1%*
Interest Expense	$ (25.0)	$ (30.0)	$ (40.0)
Capital Expenditures	$ (25.0)	$ (20.0)	$ (20.0)
Taxes, Dividends, Other [1]	$ (10.0)	$ (10.0)	$ (10.0)
Net Change in Cash Flow	($95.0)	($140.0)	($185.0)
Cash	$ 5.0	$ 5.0	$ 5.0
Revolver Borrowing Base	$ 290.0	$ 260.0	$ 230.0
Revolver Borrowings	$ 230.0	$ 285.0	$ 325.0
ABL Availability [2]	$25.0	($60.0)	($130.0)
Mithaq Facility Availability	$ 25.0	$ 25.0	$ 10.0
Total Liquidity	$55.0	($30.0)	($115.0)
Debt	$ 485.0	$ 530.0	$ 575.0
Debt to EBITDA	Neg. EBITDA	Neg. EBITDA	Neg. EBITDA
Interest Coverage	Neg. EBITDA	Neg. EBITDA	Neg. EBITDA
Pro-forma credit score	F1	F1	F2

** Estimates are rounded to nearest multiple of 5.*
[1] Reflects non-cash interest deferred by Mithaq, which is assumed to continue.
[2] Net of the ABL facility's $35 million minimum liquidity covenant

Scenario 1: In the more favorable scenario, comps decline 2% and sales remain roughly flat YOY, supported by a strong back-to-school season. DC-closure savings offset the new Section 301 duties, holding gross margin flat. SG&A stays flat in dollars as new-store costs offset savings initiatives. This is the only scenario that does not require new capital within 12 months. The rating is maintained at F1.

Scenario 2: In this baseline scenario, comps remain down 8% and sales decline 6% YOY as lower-income customers keep trading down and value players take share. Heavier markdowns outweigh savings initiatives, and SG&A deleverages amid the leadership transition and e-commerce migration. The liquidity shortfall of $30 million would need new capital, added collateral, or a covenant waiver, but Mithaq's majority ownership, board control, and subordinated debt position give it strong incentive to keep funding. Rating holds at F1 as long as it does, but any sign that Mithaq won't fund the gap triggers a downgrade to F2.

Scenario 3: In this less favorable scenario, comps fall 14% and sales decline 12% YOY on a weak back-to-school season, further trade-down by lower-income customers, and tighter supplier terms. Section 301 duties, heavier discounting, and weaker supplier leverage contract gross margin, while SG&A deleverages on fixed costs and restructuring expenses. A gap this size ($115 million) likely exceeds what Mithaq is willing to cover alone, making a broader recapitalization, potentially converting Mithaq debt to equity, more probable, with restructuring and liquidation risk rising. The rating is downgraded to F2.

Conclusion

The Children’s Place is adding stores before the core business has stabilized. Sales have declined for five consecutive years, the customer file keeps eroding and EBITDA remains sharply negative. The 21 net new stores opened in 2Q26 may support sales, but they also add fixed costs. Even the more favorable scenario leaves the Company with a $35 million EBITDA loss.

With the current economic backdrop, children's apparel is a category where parents can cut spending through deferred purchases, hand-me-downs, or trading down. Additionally, The Children’s Place’s value customer skews toward households with the least slack, the bottom of the K-shaped economy, where budgets are tightest. This highlights the demand problem beneath the comp declines, both now and going forward. Competitively, The Children’s Place is stuck in the middle with its products not premium enough for the higher-income, more insulated shopper and only able to match Walmart/Target private label, Amazon, and off-price through markdowns it cannot afford. Macro pressure on its core customer only makes that squeeze worse.

Liquidity remains the more immediate issue. 1Q26 results benefited from lower inventories and receivable monetizations, neither of which provides a meaningful source of future cash. With nearly all assets pledged and outside borrowing heavily restricted, Mithaq remains the only realistic source of additional capital. Scenario 2 leaves a $30 million gap after the remaining Mithaq commitment, while Scenario 3 produces a $115 million shortfall before any further tightening in supplier terms. At that level, another loan is unlikely to be enough, and a broader balance sheet solution involving new capital, lender relief and potentially a conversion of Mithaq debt to equity becomes more probable.

Mithaq has strong reason to keep supporting the Company given its majority ownership, board control and subordinated debt position. This supports maintaining the F1 rating under Scenario 2 despite the projected shortfall. However, the rating depends on Mithaq providing additional capital. If it declines to fund the gap or makes further support conditional on a restructuring, an F2 downgrade would follow. Under Scenario 3, the size of the shortfall makes restructuring likely and liquidation a real possibility.

Emily Manley (631) 240-8618