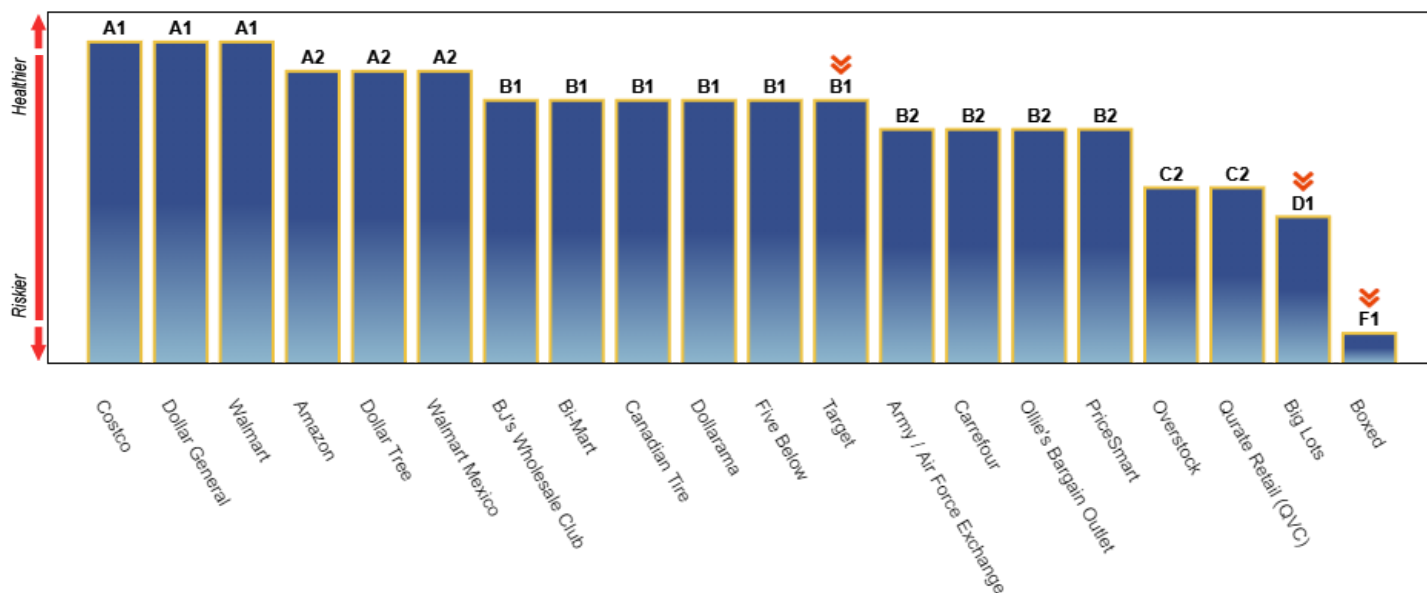


Industry Credit Scoring Report

Crystal Service Product

CreditIntell.com | February 27, 2023

Mass Merchandisers



The retail spending party of 2021, driven by pent up demand and COVID stimulus money, slowed considerably in 2022. Inflation, which had been rising steadily in 2021, caught up with consumers and started to show in the performance of mass merchandisers throughout the year. With slower spending came a shift to staples and away from discretionary goods. This led to a rise in inventory levels that were still up an average of 23% year-over-year at the end of 3Q. Retailers sought to move this excess inventory so as to enter the new fiscal year with a clean balance sheet, creating a more promotional environment and pressuring profitability.

The effects of the high levels of inflation on consumers have been disparate with lower income consumers being affected the most. This was apparent for Big Lots, which caters to a lower income demographic and the high proportion (about 70%) of the Company's sales being discretionary items. Contrast this with the dollar stores, whose consumables range from 60% to 80% of sales. Through 3Q22, Big Lots' sales and comps were down 11% and 13%, respectively, and gross margin slid just over 500 bps. This resulted in a downgrade from B1 at the beginning of 2022 to D2 in 3Q. The Company has shelved its grandiose plans announced with its FY21 results, and now plans to close just as many stores as it opens for FY22. Our only other retailer to be downgraded was Target, from an A2 to a B1. This was primarily due to the deteriorating margins created by discounting its excess inventory. The shift to more consumables affected most of our covered mass merchandise retailers, as average gross margin declined almost 80 bps in 3Q22. TTM EBITDA margins declined for 16 out of our 20 covered companies, with only Dollar Tree, BJ's Wholesale Club, Dollarama, and Overstock.com posting gains. The ratings on the remainder of our covered credits stayed stable.

Looking ahead to 2023, the crystal ball is a bit cloudy. Many prognosticators are calling for at least a mild recession. January data painted a very different picture. Retail sales were up 3%, and the economy generated 517,000 new jobs, exceeding expectations. Throw in the overall reasonably strong holiday season (retail sales up 7.6%) and it appears things look rosy. However, the bottom-line impact may be impaired as the strong sales reflect consumers responses to heavy promotions. The strong numbers are a two-edged sword. Most were hoping the Fed might be done raising rates, but in light of this performance, that appears unlikely in the immediate future. This also complicates the Fed's goal of engineering a "soft landing." The higher rates also increase the cost of debt financing. January inflation was running at 6.4%, down just a tick from December's 6.5%. With the Fed's stated goal of inflation in the 2% range, it appears there is still work to be done. While this is a daunting scenario, it benefits the mass merchandiser segment as shoppers trade down, seeking more value for their dollars.

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All data is TTM - Trailing Twelve Months

Company Name	Credit Rating	Sales (in millions)	Y-O-Y Store Count +/-	Comparable Store Sales		EBITDA Margin (TTM)		Interest Coverage	Debt To EBITDA
				Most Recent Q	8Q Avg.	Current Year	Last Year		
Costco	A1	\$231,028	2.7%	7.1%	10.8%	4.5%	4.7%	Net interest income	0.62
Dollar General	A1	\$36,293	5.0%	6.8%	1.6%	10.9%	11.8%	22.67	1.73
Walmart	A1	\$600,112	0.2%	8.5%	7.0%	5.8%	6.4%	19.86	1.29
Amazon	A2	\$513,983	N.A.	N.A.	N.A.	14.4%	15.3%	53.55	1.26
Dollar Tree	A2	\$27,691	2.0%	6.5%	3.1%	11.1%	10.4%	17.33	1.10
Walmart Mexico	A2	\$789,851	3.0%	11.1%	6.7%	10.9%	11.3%	16.91	0.80
BJ's Wholesale Club	B1	\$18,743	4.5%	5.3%	4.6%	5.0%	5.1%	21.74	0.93
Bi-Mart	B1	\$804	0.0%	N.A.	N.A.	6.4%	5.3%	278.16	N.A.
Canadian Tire	B1	C\$17,607	-0.5%	0.7%	7.3%	14.1%	16.5%	11.29	2.03
Dollarama	B1	C\$4,804	4.7%	10.8%	4.7%	29.5%	28.5%	13.56	1.52
Five Below	B1	\$2,949	10.1%	-2.7%	27.6%	14.6%	15.9%	2.00	N.A.
Target	B1	\$108,721	0.9%	2.7%	10.3%	7.4%	11.1%	17.83	2.46
Army / Air Force Exchange	B2	\$6,870	0.6%	N.A.	N.A.	5.8%	5.8%	306.79	0.51
Carrefour	B2	€76,671	5.2%	7.3%	3.9%	6.1%	6.4%	20.28	3.19
Ollie's Bargain Outlet	B2	\$1,778	8.7%	1.9%	-5.1%	8.9%	14.9%	Net interest income	0.01
PriceSmart	B2	\$4,145	2.0%	5.0%	8.4%	6.0%	6.5%	31.16	0.66
Overstock	C2	\$2,137	N.A.	N.A.	N.A.	3.9%	1.9%	Net interest income	0.54
Qurate Retail (QVC)	C2	\$12,639	N.A.	N.A.	N.A.	10.0%	14.8%	2.77	6.99
Big Lots	D1	\$5,657	2.3%	-11.7%	-4.9%	0.5%	7.8%	1.97	-2.87
Boxed	F1	\$176	N.A.	N.A.	N.A.	Neg. EBITDA	-18.4%	Neg. EBITDA	-1.87

Walmart Mexico: Sales in Mexican Peso in Millions

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