SPECIAL ANALYSIS

retailstat™

Creditntell | F&DReports

MAY 2023

Retail Real Estate

Store Activity & Retailer Health Analysis

As you know, I've been expecting the inevitable tail-off of leasing activity for months and months now, as the portfolio leases up. These activity levels exceed historical levels by 20% to 30%. We just plainly haven't seen that tail-off yet. The retail demand for the product that we offer is in lockstep with what today's consumers and retailers demand in these affluent first-ring suburbs of major metropolitan areas.

Donald Wood, CEO

Quick-serve restaurants continue to have strong demand for our centers. Medical continues to have strong demand, and it's a growing percentage of the demand. Our current pipeline, approximately 20% of the pipeline is medical. And then lastly, health and beauty. So those are the 3 categories where we're continuing to see strong retailer demand. Those retailers do not seem to be concerned about the strength of the consumer and are being very aggressive in their growth plans.

John P. Caulfield, CFO, Executive VP & Treasurer

The lack of quality new supply is driving broad-based demand that includes grocers, off-price, general merchandise, home improvement, health and beauty, medical and sporting goods tenants. Given this demand, we expect to have signed leases in the next few months for all remaining Bed Bath and buybuy locations in the event we get the spaces back.

Brian Harper, President and CEO

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Retail Landscape | Key Takeaways

1. Inflation, the end of government stimulus, and heavier competition all contributed to a slowdown in retail sales growth in 2022

2. Discretionary spending categories are losing out to necessities as consumers limit their spending and/or trade down

3. Expansion is still a priority for discount and off-price players, though others are testing alternate formats and concepts

Retailers faced a myriad of headwinds in 2022, all of which contributed to slowing consumer spending and a tougher economic environment that invited increased competition, promotions, and for many companies a reevaluation of rosy predictions that were based on the surge in retail demand in 2020 and 2021 that has since evaporated. Squeezed by rising costs across several channels, including commodities, labor, and freight, retailers pushed those costs onto consumers, resulting in widespread inflation across nearly all categories. Consumers were further pressured by the end of government stimulus, especially the expanded child tax credit, which put an immediate damper on large swaths of lower- and middle-income demographics. These consumers naturally responded by **shifting their spending from discretionary channels to necessities, negatively affecting retailers in the Apparel, Department Stores, Footwear, Electronics, and several other segments.** The biggest impact may have been felt in Housewares/Home Furnishings, which in 2023 has already seen the bankruptcies of Bed, Bath, and Beyond, Tuesday Morning, and Christmas Tree Shops, as none could deal with the sharp reversal in demand.

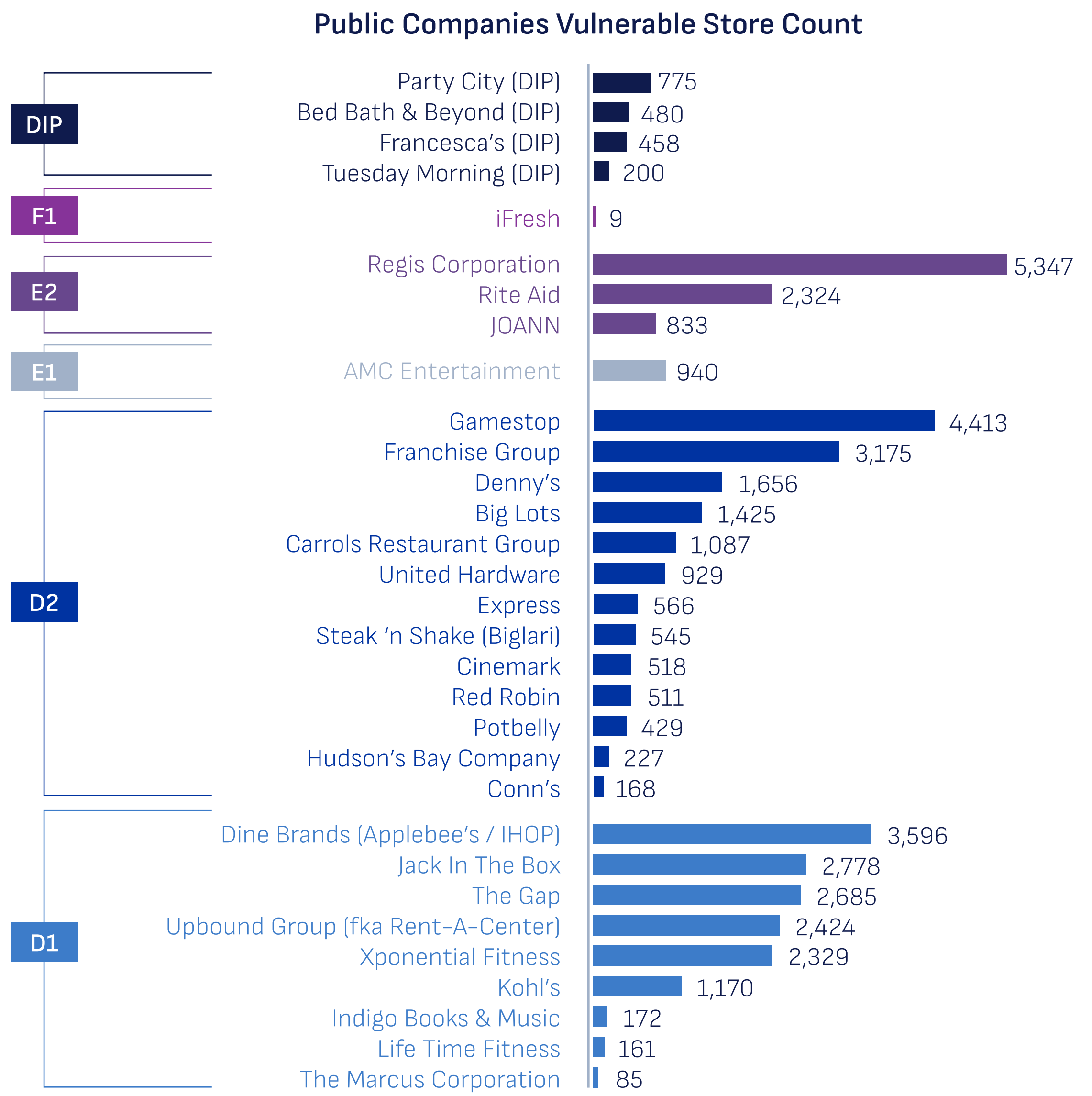
Retailers have increased promotional activity not just to drive traffic in the weaker environment, but in many cases also to move inventory that was accumulated in anticipation of high demand but unfortunately just as demand suddenly dissipated. However, once these elevated inventories are sold through, the retailers that stand to gain are the off-price or discount chains that can capture share as consumers trade down and look to stretch their budgets. **Even within the grocery segment, the quintessential necessity, with few exceptions like Publix, Sprouts and Whole Foods, deep discounters like Aldi, Lidl, and Grocery Outlet are the players still expanding, while most competitors instead focus on developing other facets of their business,** like e-commerce. Similar trends can be seen with the mass merchandisers, as dollar stores like **Dollar General and Dollar Tree expect to maintain a blistering pace of expansion.** At the same time, Big Lots, with over 70% of its offering considered discretionary, has abruptly pivoted from a robust store expansion plan to store closures.

Retailers' concerns stretch beyond just consumer sentiment. The Federal Reserve's haste to combat inflation resulted in an increase of the federal funds rate from 0.08% at the start of 2022 to 5.08% at present, a level not seen since 2007. **With debt now much more expensive to service, companies may be reevaluating if expansion and the related investments are the best use of capital, or limited liquidity may just preempt further expansion.** Supply chain disruptions have already been slowing construction activity over the past few years, and now the higher interest rates and stricter banking requirements are limiting deals and adding more difficulty to arranging financing. **With premium retail space incredibly hard to come by at the moment, we expect many of the store assets of Bed Bath & Beyond and other recent bankrupt retailers to be in high demand for retailers still in expansion mode.**

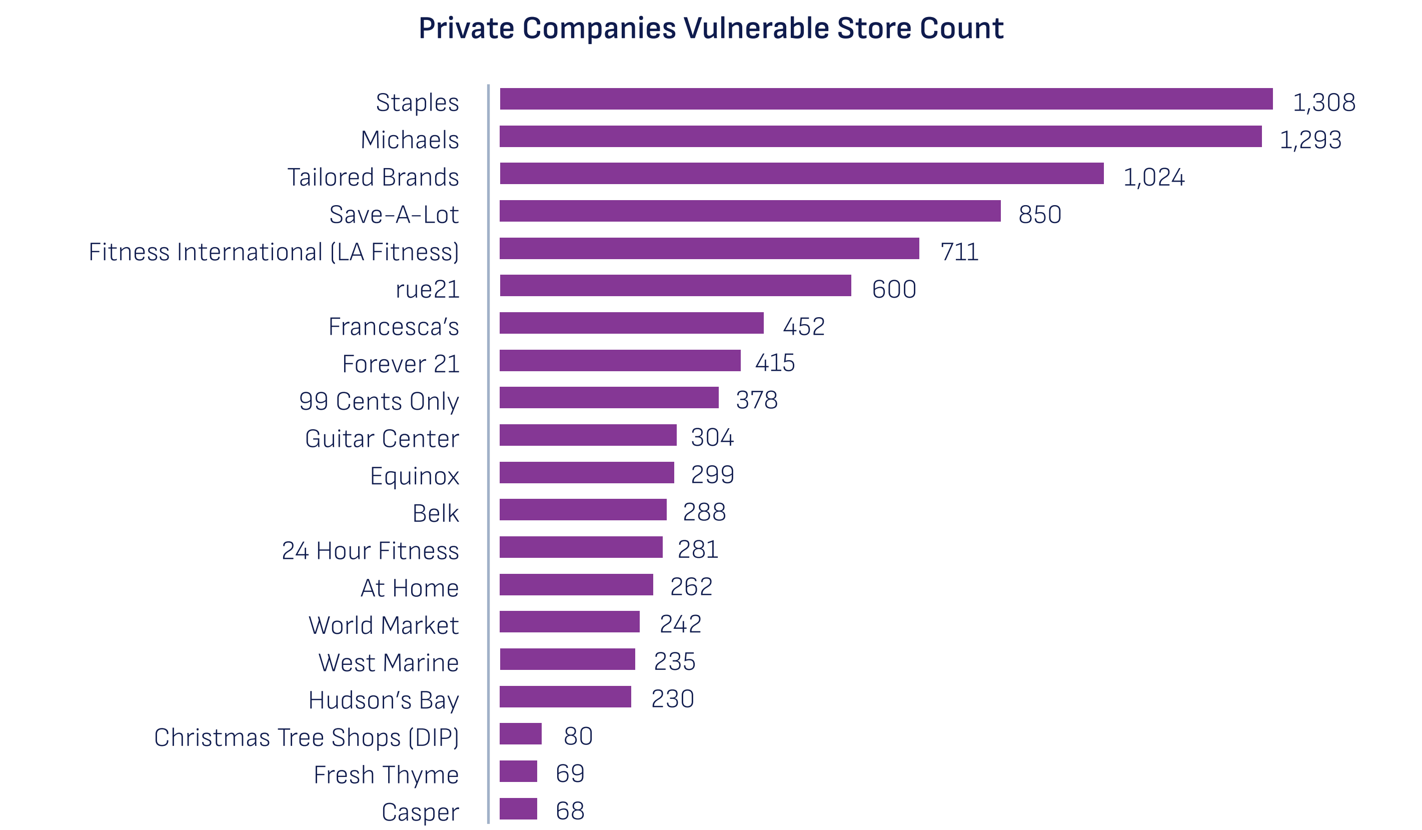
Having or developing a robust e-commerce platform provides an alternative here, as some retailers are testing store formats that lean into online fulfillment (and returns), though balancing the maintenance and efficiency of a website as well as physical stores/distribution centers, while also generating profits, remains a challenge. The good news is that the **higher interest rates appear to be having the intended effect, as commodity inflation has been easing in recent periods. Freight costs are also normalizing with the waning impact of the pandemic,** though labor inflation is likely to remain a headwind. The National Retail Federation estimated 2022 retail sales grew 7% to $4.94 trillion, down from an outsized 14.4% increase in 2021. Early estimates for 2023 are for 4% to 6% retail sales growth, accompanying a 1% increase in GDP and 3% to 3.5% inflation.

Vulnerable Store Count

The chart below shows our monitored retailers at risk of closing stores, including companies with a credit rating of D or worse.



Vulnerable Store Count (cont'd)



Projected Store Openings & Closings

The chart below shows our monitored retailers that have publicly announced plans to open and/or close stores in 2023.

	Company	Expected Store Openings	Expected Store Closings	Current Store Count
Apparel	H&M[1]	100	**200**	4,414
	The Gap	30 to 35	**50 to 55**	2,685
	Urban Outfitters[1]	35	**16**	708
	Citi Trends	5 to 10	**10 to 15**	611
	Zumiez[1]	23	-	758
	Carter's	70	**22**	993
	Cato	30	**50**	1,280
	Chico's[1]	15	**20**	1,269
	Lululemon	45 to 50	-	655
	Tilly's	10	**2**	249
	Victoria's Secret	15 to 20	**13 to 18**	812
	Express	4	**12**	533
	The Buckle	6	-	441
	The Children's Place	-	**100***	613
Department Stores	TJX Companies	net 150	-	4,835
	Burlington Stores	90 to 100	**20**	927
	Ross Stores	100	**10**	2,015
	Macy's	-	**5**	783
	Dillard's	2*	**3**	277
Drug Retailers	CVS Health	-	**600***	9,674
	Walgreens	-	**450 to 500***	8,817
Electronics / Distributors	Conn's	11	-	168
	Aaron's	1 to 2	-	1,044
	Best Buy	10	**20 to 30**	1,138
Footwear	Skechers[1]	125 to 140	-	1,444
	Foot Locker[1]	300*	**400***	2,714
	Genesco[1]	31	**66**	1,410
	Caleres (Famous Footwear)[1]	11	**1**	965
	JD Sports (Finish Line)[1]	50	-	3,436
	Shoe Carnival	10 to 20	-	397
Grocery	Grocery Outlet	25 to 28	-	441
	Aldi	120	-	2,283
	Whole Foods	10 to 15	-	525
	H-E-B	5 to 10	-	323
	Publix	30	-	1,322
	The Fresh Market	3	-	159
	Lidl	10 to 20	-	180
	Hy-Vee	20*	-	285
	Trader Joe's	5 to 10	-	545
	Sprouts	30	**11**	386
	Natural Grocers	4 to 6	-	165
Gyms / Fitness	Xponential Fitness[1]	540 to 560	-	2,641
	Planet Fitness	150 to 200	-	2,446
	Life Time Fitness	10	-	156
Health / Beauty	Bath & Body Works	90	**50**	1,802
	Ulta Beauty	net 25 to 30	-	1,355
	Regis Corporation	-	**55 to 60**	5,347
	Madison Reed	18	-	82
	Sally Beauty	100*	-	4,498
Home Improvement & Building Materials	Sherwin-Williams	80	-	4,891
	Tractor Supply	80 to 85	-	2,333
	Floor & Decor	32 to 35	-	197
	LL Flooring	3	-	442

Projected Store Openings & Closings (cont'd)

	Company	Expected Store Openings	Expected Store Closings	Current Store Count
Housewares and Home Furnishings	The Container Store	9	–	95
	IKEA	51*	–	52
	At Home	8 to 10	–	257
	Bed Bath and Beyond (DIP)	–	360	360
	BuyBuy Baby (DIP)	–	120	120
	Tuesday Morning (DIP)	0	464	464
Mass Merchandisers	Dollar General	1,050	–	19,104
	Dollar Tree[1]	600 to 650	–	16,340
	Five Below	200	–	1,340
	Dollarama[1]	60 to 70	–	1,486
	Big Lots	18	20 to 25	1,425
	Ollie's Bargain Outlet	45	1	468
	Target	20	–	1,948
	Costco[1]	15	–	848
	BJ's Wholesale Club	11 to 12	–	237
Other	Mattress Firm	300	–	2,342
	Casey's General Store	80	–	2,472
	O'Reilly Automotive	180 to 190	–	5,971
	Advance Auto Parts[1]	60 to 80	–	6,397
	Warby Parker	40	–	200
	Barnes & Noble	30 to 35	10 to 15	603
	Hobby Lobby	30 to 50	–	989
	Pet Valu[1]	40-50	–	744
	PetSense	10	–	186
	PetSmart	5 to 15	–	1,660
	Petco	5 to 15	–	1,430
	Pet Supermarket	8	–	220
	Party City (DIP)	3	–	775
	Build-A-Bear	20 to 30	–	350
	Havertys	5	1	122
	Cinemark	1	–	518
Restaurants	Starbucks	400	–	36,170
	McDonald's	400	–	40,275
	Darden Restaurants (Olive Garden)	55	–	1,890
	IHOP	45 to 60	–	1,781
	Noodles & Co	34	–	461
	Texas Roadhouse	40-45	–	697
	Brinker[1]	31 to 35	–	1,648
	Cheesecake Factory	20 to 22	–	348
	Bloomin Brands	30 to 35	–	1,163
	Cracker Barrel	18 to 19	–	721
	Carrols Restaurant Group (Burger King)	–	10 to 15	1,087
	Dave & Buster's	16	–	204
	BJ's Restaurants	5	3	216
	Round One	6	2	149
	Chuy's	6 to 7	–	98
	Jack In The Box	25 to 30	–	2,778
	Applebee's		10 to 20	1,678
Sporting Goods	Hibbett	40 to 50	–	1,133
	Callaway (Topgolf)	11	–	81
	Dick's Sporting Goods	20*	–	853
	Sportman's Warehouse	15	–	131
	Academy	13 to 15	–	268
	Golf & Tennis Pro Shop (PGA Tour Suprtsores)	8	–	58
	Big 5 Sporting Goods	6	4	432
	Scheels All Sports	4*	–	30

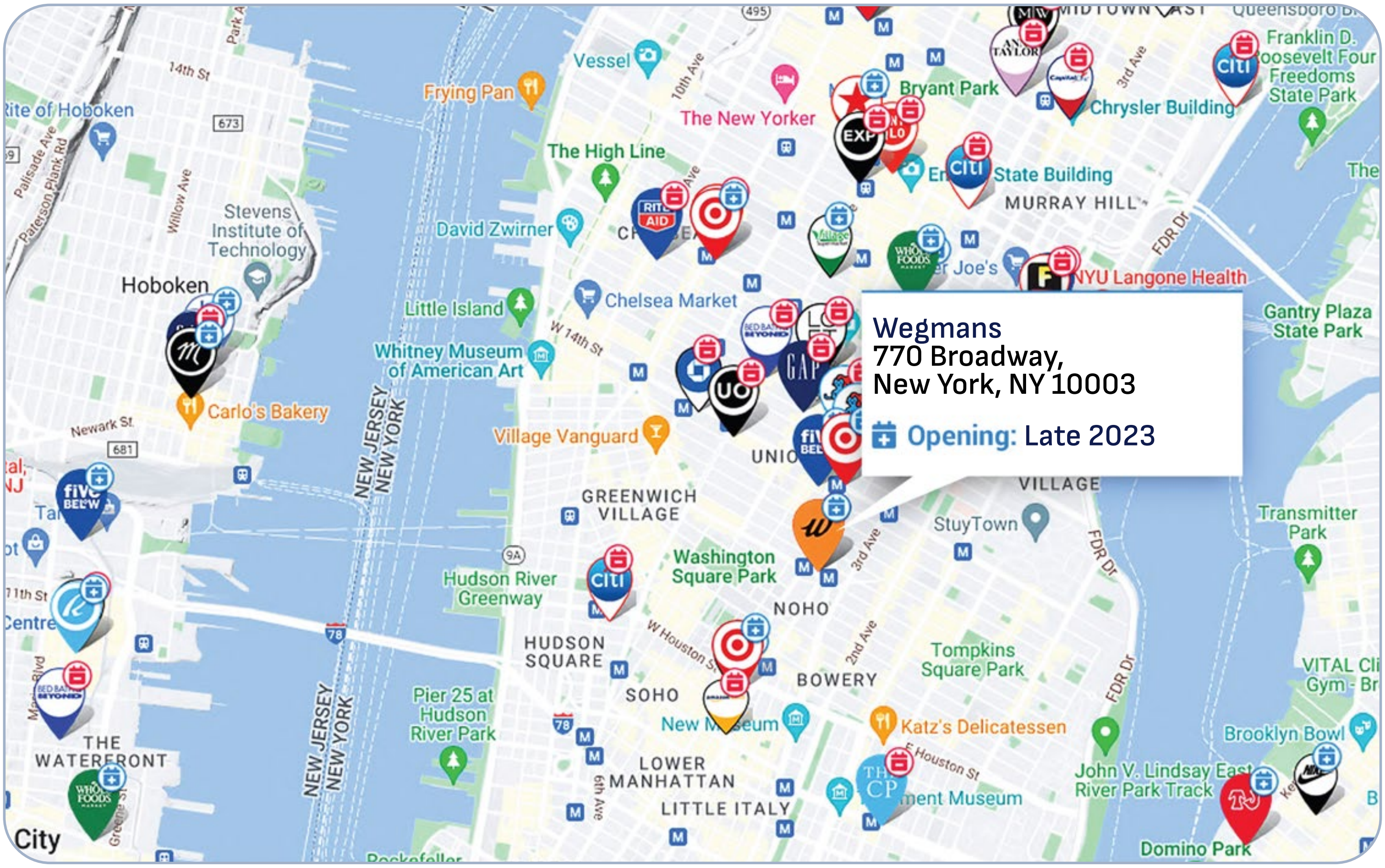
Figures above represent publicly announced plans as of 4/30/23 and are subject to change.
Figures above represent openings and closings in the U.S., unless otherwise noted

[1] includes international openings and closures
* over the next three years ** over the next five years

THE **PAST, PRESENT & FUTURE** OF RETAIL LOCATIONS

Future Openings & Closings Data [ROC]

- Effective Dates up to Years in Advance
- New Locations Added Daily
- 20+ Retail Segments, Hospitality, Experiential, New Concepts, etc.
- In-House Research Team, Dozens of Sources, Proprietary Automated Aggregation System
- In-House QA Team Monitors and Updates Future Openings/Closings Until Effective Date
- Readily Identify Potential Encroachment Issues



Key Uses

- Market Planning & Area Research
- Supply Chain Forecasting
- Financial Planning
- Proactive Merchandising
- Strategic Marketing

Visualization & Delivery

- ROC Mapping Interface
- Excel Export
- API Feed, SFTP, etc.
- Daily Email Notifications
- Mobile App

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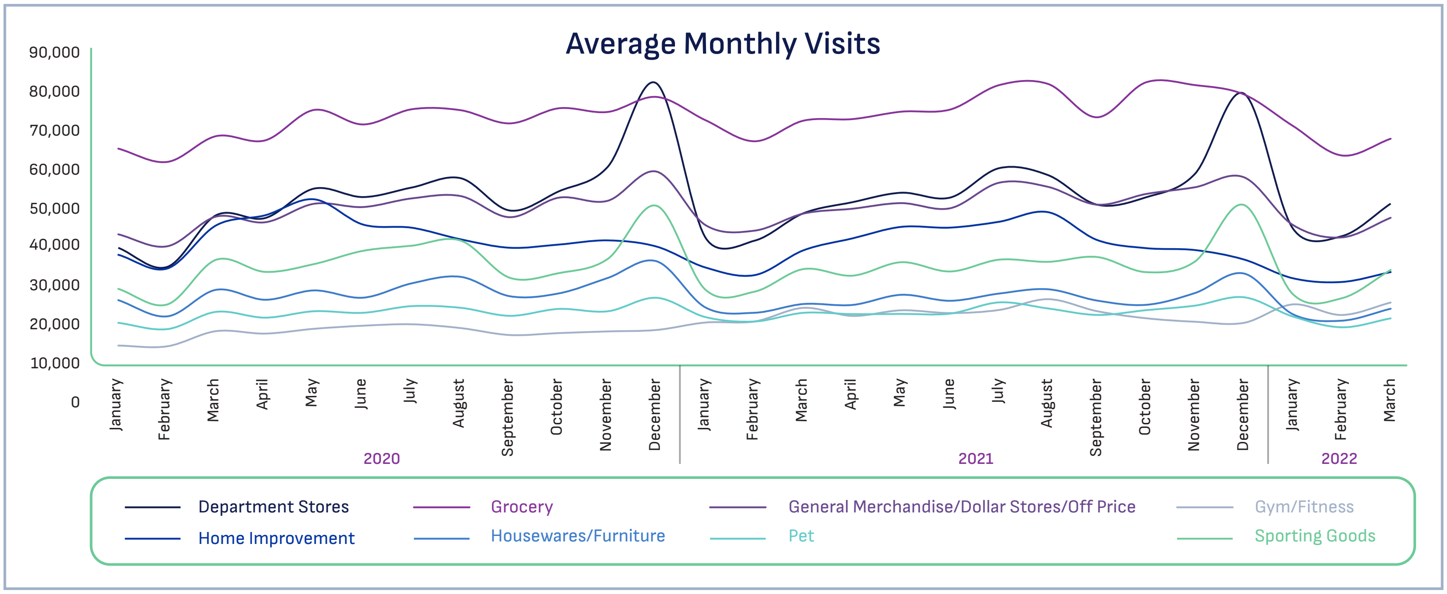
Retail Visitor Insights

Key Takeaways

- Fitness/Gyms are seeing the largest growth in visits currently. Which makes sense as many consumers have returned to gyms despite also owning a home gym now for the variety and community (including group fitness) that can only be found at a gym.
- Pet stores have also seen a bump in activity. We know pet ownership increased during the pandemic and even if new pet ownership has now plateaued, meeting the needs of the pets bought during the pandemic keeps many families returning to the pet stores in greater numbers than pre-pandemic.

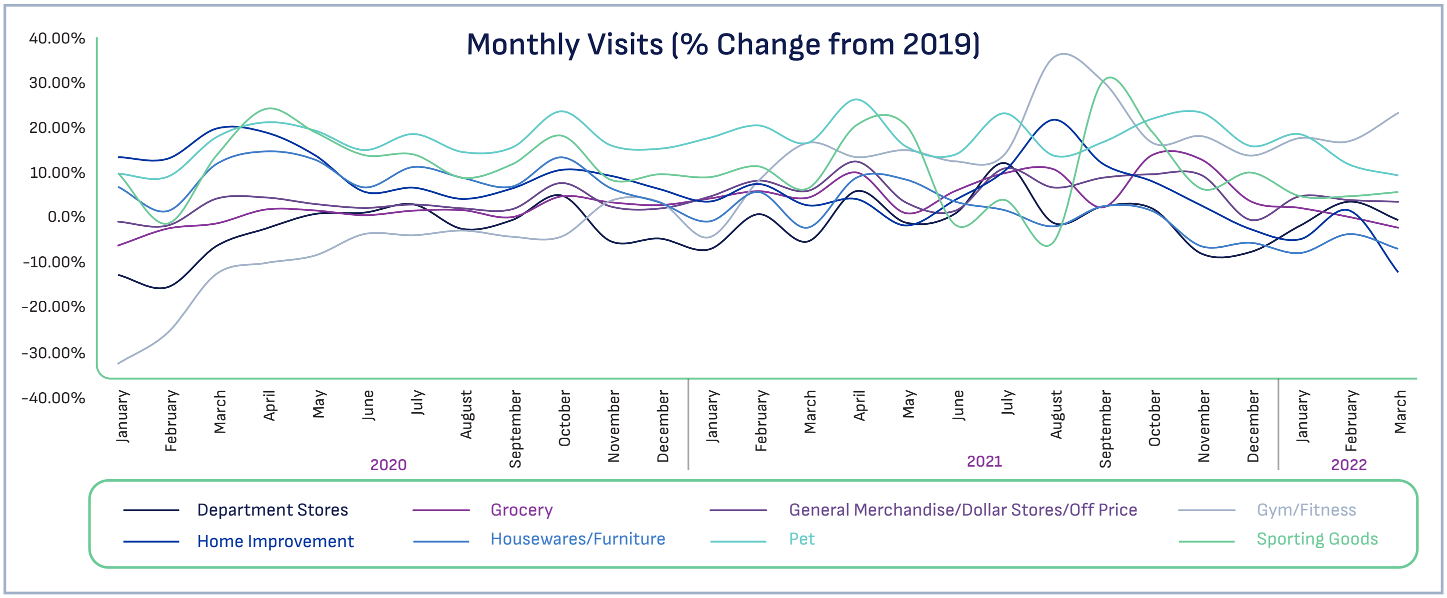


Monthly Avg									
		Department Stores	Grocery	General Merchandise/ Dollar Stores/Off-Price	Gyms/ Fitness	Home Improvement	Housewares/ Furniture	Pet	Sporting Goods
2021	January	39,790	65,405	43,086	14,372	37,831	26,252	20,463	29,272
	February	34,866	61,999	40,008	14,179	34,276	22,075	18,810	25,302
	March	48,195	68,601	47,656	18,126	45,432	28,921	23,341	36,682
	April	47,458	67,507	46,184	17,483	48,033	26,351	21,814	33,596
	May	55,059	75,301	50,945	18,731	52,168	28,756	23,494	35,578
	June	52,876	71,588	50,102	19,532	45,642	26,883	23,087	38,948
	July	55,345	75,480	52,332	19,903	44,815	30,590	24,837	40,259
	August	57,729	75,222	52,915	18,911	41,811	32,243	24,388	41,538
	September	49,407	71,859	47,491	17,112	39,642	27,260	22,295	32,090
	October	54,340	75,723	52,516	17,614	40,464	27,984	24,102	33,274
	November	60,648	74,781	51,710	18,049	41,550	31,958	23,477	36,878
	December	82,172	78,628	59,218	18,429	39,945	36,256	27,018	50,410
2022	January	42,388	72,668	45,452	20,359	34,534	24,357	21,957	29,035
	February	41,627	67,279	44,027	20,627	32,562	23,005	20,806	28,558
	March	48,695	72,552	48,422	24,172	38,978	25,259	23,081	34,306
	April	51,548	72,952	49,668	22,074	42,058	25,014	22,740	32,628
	May	53,990	74,856	51,113	23,537	45,042	27,630	22,791	36,050
	June	52,748	75,404	49,795	22,818	44,849	26,087	22,881	33,696
	July	60,328	81,653	56,363	23,624	46,362	27,949	25,813	36,703
	August	58,528	81,945	55,293	26,426	48,835	29,049	24,217	36,151
	September	50,916	73,420	50,721	23,308	41,653	26,140	22,529	37,379
	October	52,811	82,362	53,460	21,472	39,542	25,045	23,771	33,525
	November	58,854	81,661	55,189	20,561	39,049	28,077	24,962	36,225
	December	79,569	79,280	57,769	20,274	36,615	33,113	27,161	50,625
2023	January	44,806	71,230	45,510	25,074	31,766	22,632	22,117	27,943
	February	42,788	63,653	42,293	22,320	30,800	20,963	19,291	26,880
	March	51,180	67,933	47,343	25,560	33,349	24,043	21,630	34,090

Retail Visitor Insights

Key Takeaways

- The biggest declines are with Home Improvement and Home Furnishings & Furniture primarily due to households having their fill after a lengthy period of focusing on improving the home environment throughout the pandemic. Inflation is also a factor with the sector downturn leading to several distressed situations including Bed Bath & Beyond.



2019 % change									
		Department Stores	Grocery	General Merchandise/ Dollar Stores/Off-Price	Gyms/ Fitness	Home Improvement	Housewares/ Furniture	Pet	Sporting Goods
2021	January	-12.8%	-6.2%	-0.9%	-32.5%	13.6%	6.7%	9.8%	9.9%
	February	-15.6%	-2.4%	-1.8%	-25.7%	13.2%	1.3%	9.0%	-1.3%
	March	-6.3%	-1.3%	4.2%	-12.5%	19.9%	11.8%	18.0%	13.8%
	April	-2.4%	1.8%	4.4%	-10.1%	19.1%	14.6%	21.3%	24.1%
	May	0.8%	1.6%	3.0%	-8.4%	14.0%	12.7%	19.5%	19.0%
	June	1.2%	0.5%	2.1%	-3.6%	5.9%	6.6%	15.1%	13.9%
	July	3.0%	1.6%	2.9%	-3.9%	6.8%	11.1%	18.7%	14.0%
	August	-2.5%	1.7%	2.0%	-2.9%	4.3%	8.7%	14.6%	8.8%
	September	-0.5%	0.1%	1.8%	-4.2%	6.6%	6.8%	15.6%	11.8%
	October	5.0%	4.7%	7.6%	-4.2%	10.7%	13.3%	23.8%	18.2%
	November	-5.2%	3.4%	2.5%	3.8%	9.4%	6.4%	16.2%	8.4%
	December	-4.7%	2.8%	2.0%	3.5%	6.5%	3.2%	15.4%	9.6%
2022	January	-7.1%	4.2%	4.6%	-4.4%	3.7%	-1.0%	17.8%	9.0%
	February	0.8%	5.9%	8.1%	8.2%	7.6%	5.6%	20.6%	11.4%
	March	-5.3%	4.4%	5.8%	16.7%	2.9%	-2.4%	16.7%	6.5%
	April	6.0%	10.0%	12.3%	13.5%	4.3%	8.8%	26.5%	20.5%
	May	-1.1%	1.0%	3.3%	15.1%	-1.6%	8.3%	15.9%	20.5%
	June	0.9%	5.9%	1.5%	12.6%	4.1%	3.4%	14.0%	-1.5%
	July	12.3%	9.9%	10.8%	14.1%	10.5%	1.5%	23.3%	4.0%
	August	-1.2%	10.7%	6.6%	35.7%	21.9%	-2.1%	13.8%	-5.3%
	September	2.5%	2.3%	8.8%	30.4%	12.1%	2.4%	16.8%	30.2%
	October	2.1%	13.9%	9.5%	16.8%	8.2%	1.4%	22.1%	19.1%
	November	-8.0%	12.9%	9.3%	18.2%	2.9%	-6.5%	23.5%	6.4%
	December	-7.7%	3.6%	-0.5%	13.9%	-2.4%	-5.7%	16.0%	10.0%
2023	January	-1.8%	2.2%	4.7%	17.8%	-4.7%	-8.0%	18.6%	4.8%
	February	3.6%	0.2%	3.9%	17.1%	1.8%	-3.8%	11.8%	4.8%
	March	-0.5%	-2.2%	3.5%	23.4%	-12.0%	-7.1%	9.3%	5.7%

Real Estate Intelligence: Unparalleled Visitor Insights into your Retail Ecosystem

Customer Behavior

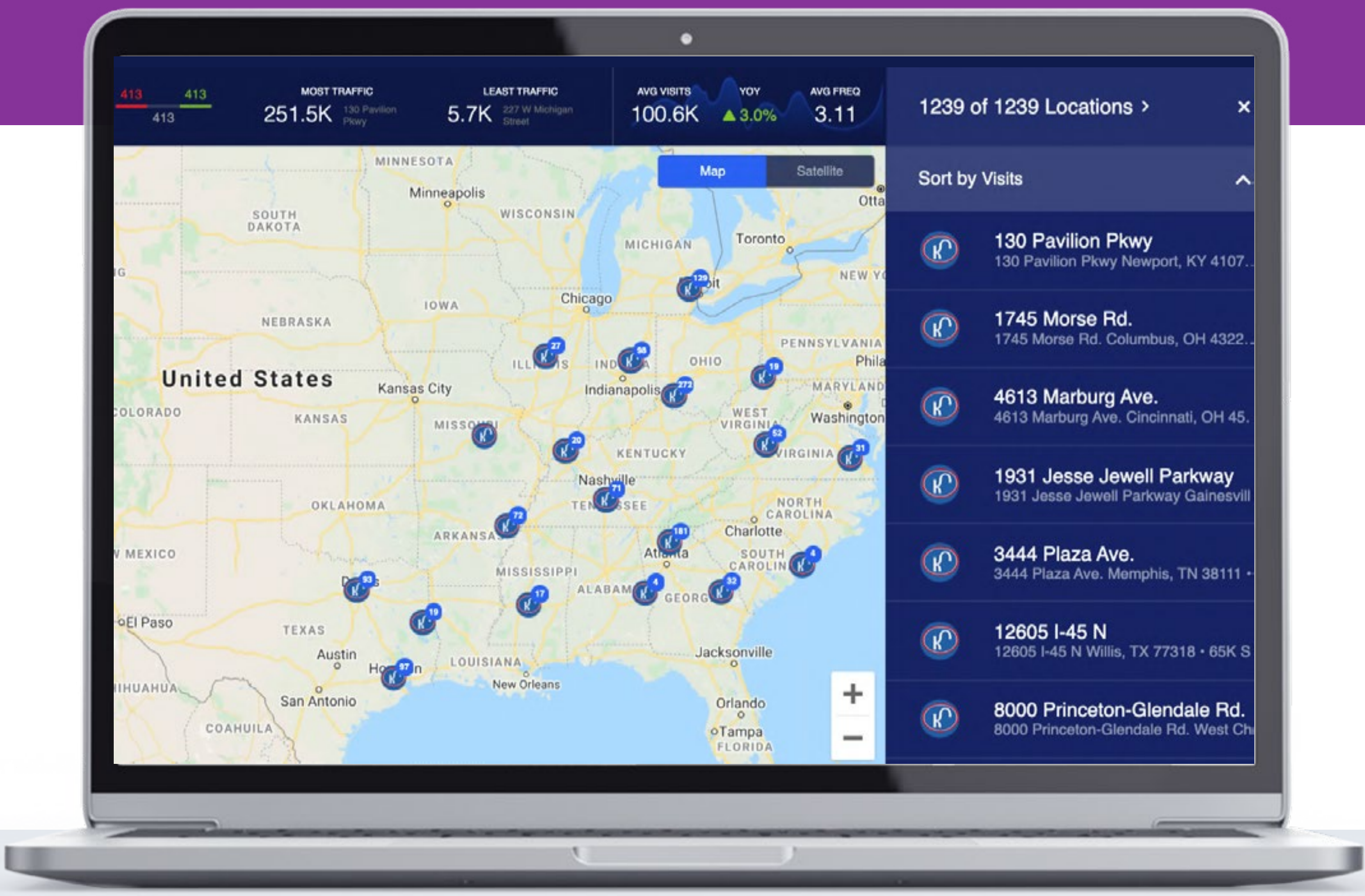
- True Trade Areas (based on where visitors live).
- Visitation Frequency.
- Average Visit Duration.
- Customer Trends & Demographics.

Estimated Visitation Trends – Unique Visitors & Total Visits

- View Foot Traffic By Time/Day, Week, Month, Year, Custom Period, etc.
- Compare Visitation Statistics at Multiple Locations.
- Property & Retailer Visitation Ranking by Timeframe, Demographics & Geography.

Key Uses

- Visitation trends and rankings.
- Deeper insight into who your visitors are and where they come from.
- Market optimization, internal and competitive cannibalization and "white space" analysis.



Learn More

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Apparel

Overview

Headwinds from FY22 continued into 2023, including inflation and declines in discretionary spending, particularly at lower income **levels. While there is uncertainty forecasting demand, low and middle-income households are buying "as needed,"** meaning they are shifting to lower margin basics and trading down where possible. **Slowing demand will prompt higher markdowns and promotions, and require cost structure realignments, including the downsizing of labor** as wages continue to rise. On a brighter note, there should be some relief from easing supply chains and transportation costs. **We have a guarded outlook for 1H23** as inventory levels are declining in line with demand, but 2H23 may show improvement in results as companies lap normalized 2H22 comps and lower freight rates kick in. Against this backdrop, **lululemon, Carter's and teen retailers, Zumiez and Tilly's, are increasing their store bases, while H&M and Children's Place are closing over 100 net stores each;** most other companies in the sector are holding store growth relatively flat.

Company	Credit Rating	TTM EBITDA Margin	Store Count	YoY Store Count % Change
Lululemon	A2	25.8%	655	14.1%
Aritzia	B1	17.9%	113	7.6%
The Buckle	B1	27.2%	441	0.2%
H&M	B2	13.2%	4,414	-6.5%
Urban Outfitters	B2	7.6%	708	3.8%
American Eagle	C1	10.7%	1,175	3.7%
Chico's	C1	9.3%	1,269	0.2%
Destination CL	C1	13.9%	281	-3.1%
Tilly's	C1	3.8%	249	3.3%
Zumiez	C1	6.2%	758	2.6%
Abercrombie & Fitch	C2	7.2%	762	4.5%
Carter's	C2	14.7%	993	1.3%
Cato	C2	Neg.EBITDA	1,280	-2.4%
Citi Trends	C2	12.5%	611	0.3%
Duluth Trading	C2	6.7%	65	0.0%
Victoria's Secret	C2	13.7%	915	1.8%
J.Jill	D1	17.8%	243	-4.0%
The Gap	D1	4.4%	2,685	-5.3%
Express	D2	0.2%	553	-1.4%
Land's End	D2	4.7%	28	-6.7%
The Children's Place	D2	5.1%	613	-8.8%

Spotlight Retailers

chico's

Chico's closed out 2022 with continued top-line momentum and an improved balance sheet. FY22 sales advanced 18.3% and comps grew 19.6% with performance driven by the Chico's and White House Black Market banners. During the year, the Company opened 27 stores and closed 24. Store closures were down from the Company's original target of 40 due to improvements in productivity and the profitability of its store base. Since 2018, the Company has closed 230 underperforming locations as part of its store rationalization plan. In FY23, the Company expects to close an additional 20 underperforming locations, primarily mall-based Chico's and WHBM boutiques, while opening 15 new Soma stores and upgrading 60 Chico's locations.

EXPRESS

In FY22 Express' top and bottom line struggled to keep up with the prior year. Since 2019, the Company has been focused on rationalizing its store base, closing 144 locations while opening 66 (mainly outlets, Express Edit and UpWest) over the past four years. In FY22, the Company opened 17 stores (seven Express Edit and 10 UpWest) and closed 25. In FY23, Express plans to open 14 new locations (seven UpWest, four Express Edit, two Retail and one Outlet) while also closing 14 (nine Retail, three Outlet, one Express Edit and two UpWest), for a projected flat store count of 553 at FYE. During 4Q22, Express formed a partnership with global brand management firm WHP Global and received $260 million in gross proceeds which it used to strengthen its balance sheet. In 1Q23, Express, in partnership with WHP, acquired Bonobos from Walmart for $75 million. Bonobos currently operates 56 locations in the U.S.

GAP

The Gap continued to struggle in 4Q22 as comps fell across all its businesses. Comps at the largest banners, Old Navy and Gap North America dropped 7% and 5%, respectively, while at the smaller brands, Banana Republic and Athleta, comps were down 3% and 5%, respectively. As part of the Company's rationalization program, 205 stores closed in FY22, of which 102 units were in Asia, and 90 new stores opened, mostly in North America. As of FY22, the Company achieved 90% of its target of closing 350 nonstrategic Gap and Banana Republic stores in North America by the end of 2023. For FY23, management plans to open 30 to 35 Old Navy and Athleta stores in total and close 50 to 55 Gap and Banana Republic stores.

H&M ended a difficult FY22 with mixed 4Q results, as macro factors and the Ukraine war weighed on operations. During FY22, H&M opened 91 new stores and closed 427, of which 175 (41%) were in Russia and Belarus. The Company closed an additional 58 stores during 1Q23 and opened seven. In addition, 175 stores were closed in Russia and Belarus; H&M ended 1Q23 with 4,414 locations. For FY23, the Company plans to expand in India and in North & South America, with a focus on Latin America. Management plans to open about 100 new stores and close around 200 stores, for a net reduction of 100 stores. Most of the openings will be in growth markets, while the closures will mainly be in mature markets. The Company intends to launch the first flagship stores for H&M Beauty in two European markets, and H&M Home will have concept stores in six new markets.

Despite inflationary pressures, Lululemon continued to outperform with strong performance across all products, channels and regions in FY22. The Company opened 81 net new locations, bringing the total to 655 during the year. The Company expects to open 45 to 50 net new stores in FY23, including 30 to 35 stores in international markets, with the majority planned for China. Lululemon also plans to complete approximately 25 remodels.

Victoria's Secret's FY22 sales declined 6.5%, with comps down 8% as higher traffic was more than offset by aggressive promotions. The Company continues to test different "store of the future" concepts including smaller off-mall format stores of around 5,000 square feet compared to the traditional 8,000 to 10,000 square feet, and with much lower capex of less than $400 per foot. As of the end of FY22, the Company expanded its store of the future fleet to 52 stores worldwide. Management noted that the stores are performing up high single digit relative to their control group. In the U.S., the Company opened 16 stores and closed 13 during FY22, bringing the total U.S. Company-operated store count to 837 on January 28, 2023. By region, there were 812 stores in the U.S. and 25 in Canada; an additional 72 stores were operated in China under a joint venture. The Company is projecting 15 to 20 new store openings in FY23, all of which will be in the store of the future format. The Company also plans for about 50 store renovations to the new store of the future format. It plans to increase its store of the future investment by $100 million in FY23, which is expected to bring the concept from about 2% to 3% of its current fleet to upwards of 10% as it exits FY23.

The Children's Place sales, profitability and credit metrics worsened during FY22 due to inflationary pressures, the slowdown in consumer demand, competitive pricing pressures, lapping of the child tax credit, permanent store closures and a solid holiday season in 2021. The Company closed 59 stores in FY22, bringing the total store count to 613, down 8.8% from 672 a year earlier. Since the announcement of its fleet optimization initiative in 2013, the Company has closed 586 stores. The Company is planning to close 100 more stores, with the bulk in FY23, completing its store optimization plans and leaving a base of about 500 stores entering FY24. Management noted that over 75% of its stores have a lease action within the next 24 months. Meanwhile, the Company is investing up to $40 million to expand its Alabama distribution center to boost e-commerce fulfillment capabilities over the next 18 months. Digital is projected to represent over $1 billion in sales by FY25, or over 60% of total sales versus 33% in FY19. Digital represented 48% of retail sales during FY22.

Zumiez's FY22 sales, margins and cash flow fell amid macroeconomic headwinds, including a tight labor market, unfavorable currency exchange rates, high inflation, increased operating costs and intense competition for declining discretionary dollars. Despite this, the Company continues to plan for store openings, with 23 new locations slated for FY23, including up to eight stores in North America, 10 stores in Europe and five stores in Australia. Zumiez opened 19 new stores during FY22; as of January 28, 2023, it operated 758 stores, including 608 in the United States, 78 in Europe, 51 in Canada and 21 in Australia.

Department Stores

Overview

Like apparel and much of retail, in 2022 **the department store sector struggled to unload bloated inventory levels, as consumer spending shifted and inflation weighed on discretionary spending,** leading to pressure on sales and margins. However, **we expect the off-price sector to continue to thrive.** The value proposition and treasure hunt it offers will resonate even more with consumers in the current environment. **With the exception of off-price retailers, there is little net growth within the department store sector. However, many chains are focused on expanding their off-mall presence and experimenting with small format stores,** like Macy's Market by Macy's and Bloomie's formats. Department stores also continue to invest more in digital and omnichannel platforms.

Company	Credit Rating	TTM EBITDA Margin	Store Count	YoY Store Count % Change
Dillard's	B1	19.1%	277	-1.1%
Ross Stores	B1	13.4%	2,015	4.8%
TJX Companies	B1	11.3%	4,835	3.1%
Macy's	B2	10.6%	783	-0.5%
Beall's	C1	6.8%	670	7.7%
Boscov's	C1	N/A	49	2.1%
Burlington Stores	C1	7.8%	927	10.4%
J.C. Penney	C2	7.1%	669	-0.4%
Nordstrom	C2	7.7%	358	0.6%
Kohl's	D1	6.1%	1,170	0.4%
Belk	Private	N/A	290	0.0%
Hudson's Bay	Private	3.0%	223	-1.8%
Neiman Marcus	Private	N/A	36	-14.3%

Spotlight Retailers

belk

Belk stores continue to underperform, which means it's not generating the cash flow needed to support its leveraged capital structure. Liquidity is limited and is being further strained as it no longer has the PIK option under its term loan, which now requires a cash interest payment. Store count has held relatively steady in recent years, although the Company hopes to see a bump as it converts some underperforming locations to its new Outlet format (six now opened).

Burlington

After trailing its peers for much of 2022, Burlington's top line improved in 4Q, with sales up 5.2%, aided by 87 net new stores; comps dipped 2%. For the full year, sales and comps were down 6.7% and 13%, respectively, and EBITDA margin contracted 320 bps to 7.8%. During FY22, Burlington opened 113 new stores, relocated 22, and closed four, bringing the total store count to 927. In FY23, the Company expects to open 90 to 100 new stores, offset by relocations and closures, which will yield about 70 to 80 net new stores for the year. Management noted its expansion plans are lower than anticipated due to the lack of available high-quality real estate locations and supply chain issues in the construction industry. After 2023, the Company expects it will open 500 to 600 net new stores over the next five years.

HBC

With a more resilient shopper, luxury was able to maintain growth in 2022, although trends softened in 2H. This is pressuring both the brick and mortar and ecommerce operations of privately held Hudson's Bay, whose capital structures are also highly leveraged. The Company closed nine stores through its YTD 3Q22, although it also added two Saks OFF Fifth locations, with two more that opened in early 2023. If retail performance continues to erode, we might expect management to repurpose or monetize some of its underperforming locations.

JCPenney

J.C. Penney's sales and EBITDA fell in 2022, but it remained profitable and the capital structure and liquidity are stable. After shedding 150 stores in Chapter 11, and about 20 since emerging in January 2021, management said it feels comfortable with its current store base of 167. The Company is also refreshing stores, with about 75 completed in 2022.

KOHL'S

Kohl's has been an underperformer within the sector, resulting in its credit rating falling from B2 to D1 during the past four quarters. New management is tasked with turning around a heretofore muddled retail strategy that resulted in excess, slow-moving goods, and cluttered stores. Store count increased by five in 2022, and plans call for adding six stores in 2023 while continuing to roll-out the Sephora shops. However, management also shelved its plans to open 100 new small format stores.

macy's

Macy's made a lot of progress since the pandemic, including improving store performance and omnichannel offerings. While net store count fell by four in 2022, the Company has been active testing new smaller store formats and relocating stores to off-mall locations. In FY22, the Company opened 10 and closed or relocated 14 stores. The Company also opened 41 store-within-a-store Macy's Backstage locations, increasing its count to 309 at FYE22, including nine freestanding sites. Macy's Backstage in-store shops range from 11,000 to 16,000 square feet of retail space. In FY22, the Company also opened three Market by Macy's small format locations (resulting in eight total averaging 30,000 to 40,000 square feet) and opened its second Bloomie's in Chicago in November. In FY23, the Company plans to close five locations, while commenting that roughly 99% of its mall base is profitable on a four-wall basis. While the bulk of FY23 capex is being focused on building digital, distribution and omnichannel efficiencies, the Company still plans to open four Market by Macy's and one Bloomie's. If new locations continue to outperform, management will look to incrementally accelerate off-mall openings beginning in 2024.

TJX

After two consecutive quarters of sales and comp declines, TJX delivered better-than-expected top-line performance in 4Q23; sales were up 2.9% and comps were flat, while EBITDA margin slipped 70 bps to 11.3%. During the year, TJX opened 146 stores, including 120 in the U.S., eight in Canada, 12 in Europe and six in Australia. In the U.S., the Company opened 15 T.J. Maxx, 35 Marshalls, 44 HomeGoods, 19 Sierra and seven Homesense locations. In international markets, the Company opened four Winners and four HomeSense locations in Canada, 11 T.K. Maxx and one Homesense in Europe, and six T.K. Maxx in Australia. Looking ahead, in FY24 TJX expects to open a total of 150 net new stores, bringing total store count to roughly 5,000. In the U.S., plans call for 45 new stores under the Marshalls and T.J. Maxx banners, 50 HomeGoods (including 18 Homesense) and 18 Sierra stores. Plans for international markets include 11 new stores in Canada, 18 in Europe and six in Australia. During the year, the Company also expects to remodel 400 stores and relocate 55.

ROSS DRESS FOR LESS

Ross Stores' 4Q22 sales and EBITDA improved. While the Company's FY22 EBITDA margin was pressured by higher costs, we note that its 12.8% margin remained strong, beating competitors TJX and Burlington. During FY22, the Company opened 87 net new stores. In FY23, the Company expects to open 100 new locations, including 75 Ross and 25 dd's DISCOUNTS (dd's), while closing or relocating 10 stores. Looking ahead, management believes that Ross Dress for Less can expand to about 2,900 locations and dd's DISCOUNTS can eventually become a chain of approximately 700 stores.

Electronics / Office Supply

Overview

Increased competition and a promotional selling environment have replaced the record sales of the past two years. The resulting pull-forward of demand means that **consumer electronics retailers are experiencing operational malaise** as the replacement cycle readjusts. Additionally, the weak economy has consumers diverting their attention to necessities rather than discretionary products. Consequently, **industry-wide sales are down and margins are under pressure. This is not an environment which is favorable to store openings.**

Company	Credit Rating	TTM EBITDA Margin	Store Count	YoY Store Count % Change
Best Buy	B2	6.6%	1,138	-0.5%
ODP Corporation	C1	5.5%	980	-5.6%
Aaron's	C2	8.1%	1,044	-2.8%
Rent-A-Center	D1	11.1%	2,424	-0.5%
Conn's	D2	3.1%	168	6.3%
Staples	Private	N/A	1,036	-0.3%

Spotlight Retailers

Aaron's

The weak economy has sapped the spending capabilities of the Company's financially stressed customers in both its Aaron's leasing unit and the BrandsMart appliance and consumer electronics unit, which was acquired last year. The Company is contracting the store base at a 2% annual rate, which will likely continue, while BrandsMart plans to add up to two stores to its 10 existing units in 2023.

BEST BUY

In addition to weak industry-wide demand, Best Buy's Totaltech membership program was rolled out at an inopportune time as the pandemic was winding down. It has yet to contribute to operating margin growth although improvement is expected as the program achieves scale. Best Buy is diversifying into non-traditional services like healthcare devices in order to hedge the risk of lower consumer demand for TVs and other core electronics products. The Company continues to reduce its store base at a moderate pace. During the current year, it plans to close 20 to 30 large format stores (2% to 3% of the store base), and open 10 outlet stores. The plans assume closing an average of 15 to 20 large-format stores per year through the normal lease review process.

Conn's HomePlus

Sales, profitability, and cash flow are down significantly, as Conn's subprime customers reduce discretionary spending. Economic realities have forced management to suspend its store expansion program. Before that can take effect, the Company plans to fulfill its commitments to open 11 stores and two distribution centers during the current year. Upon completion, there will be no expansion over the following two years as the focus will turn toward revitalizing operations.

Staples

The Company's retail unit faces pressure as workers return to the office and buy fewer products at stores for work-at-home, as they did during the pandemic. Additionally, there is a drop in volume of cleaning supplies, which was an unplanned source of revenue during the pandemic. The failed attempt at merging with ODP's retail unit means the two companies remain competitors and continually need to close stores in order to reduce expenses as a way to offset top line pressure from Amazon and Walmart.

Footwear

Overview

The footwear sector responded to supply chain disruptions in FY21 by overstocking inventory in FY22, just in time to face diminishing demand as consumers tightened their wallets in a weakening macroeconomic environment. **Retailers upped their promotional activity** to aid in selling through the outsized inventory, **which continued into FY23 and is pressuring margins across the board.** In these conditions many of the larger operators are **looking to trim their store counts and reposition stores from underperforming mall locations to non-mall, often larger formats.** They are also banking on increased adoption of e-commerce platforms to make their remaining brick-and-mortar stores more productive. However, **certain small to mid-size operators are continuing to expand as they seek a wider customer base.**

Company	Credit Rating	TTM EBITDA Margin	Store Count	YoY Store Count % Change
JD Sports (Finish Line)	B1	16.1%	3,436	4.0%
Shoe Carnival	B1	13.8%	397	1.0%
Boot Barn	B2	16.6%	333	15.2%
Foot Locker	B2	10.6%	2,714	-5.0%
Skechers	B2	10.2%	1,444	6.2%
Genesco	C1	6.3%	1,410	-1.1%
Caleres (Famous Footwear)	C2	7.7%	965	-1.5%
Designer Brands (DSW)	C2	9.3%	639	-1.4%

Spotlight Retailers

DSW DESIGNER SHOE WAREHOUSE

Designer Brands closed nine stores in FY22. Management plans to further optimize the store base over the next three years by reducing total square footage by about 14%. Not all of that reduction will be store closures, as the Company will also seek to reduce the size of some existing stores.

Foot Locker

Foot Locker announced a substantial store transformation initiative in March 2023. The plan involves over 400 underperforming, mall-based store closures through 2026, while opening 300 new stores under several larger formats, including the 15,000 sq. ft. Community model, the 10,000 sq. ft. Power model, and the 7,500 sq. ft. Kids Foot Locker House of Play concept. Overall, the initiative will reduce the Company's store count by 10% to about 2,400 units by FYE26, though total square footage will rise by over 10% due to the larger formats. FY23 will be a "reset" year with an expected 9% unit decline, including the closure of Sidestep, Footaction, and some Champs stores. One banner that will continue to expand is WSS, which is 100% off-mall and opened 17 locations in FY22 (17% unit growth).

GENESCO

Genesco's store count edged down 1.1% in 2022 as management sought to improve productivity at its remaining stores and lean into strengthening e-commerce trends. Digital sales accounted for 20% of total sales last year, up from 13% pre-pandemic. The Company will shrink further by an estimated 35 net stores this year (2.5%) with 31 openings and 66 closures. Many Journeys openings will likely be off-mall stores, as Genesco expanded its pilot program by up to 25 units to further test different product mixes and types of locations.

SHOE CARNIVAL

Shoe Carnival fell short of its expansion goals in FY22, opening just four stores when it had previously planned for 10. The Company is hoping to make that up in FY23 with 10 to 20 new stores, though most will be heavily backloaded. Shoe Carnival will surpass 400 stores in FY23, and plans to reach 500 stores by the end of FY28, which may include targeted acquisitions in addition to organic growth.

BOOT BARN

Boot Barn appears committed to maintaining an aggressive pace of expansion with 43 new stores opened in FY23 (ended March 2023) representing a 14% growth rate. Management is targeting 10% or higher annual unit growth going forward, which would include at least 34 new stores in FY24. The Company is expanding into the Northeast, having recently opened its first stores in NJ in mid-2022, CT in January 2023, and NY in February 2023.

Grocery

Overview

After its stint as one of the top beneficiaries of the pandemic, **Grocery sector sales continued to ride the crest of the wave in 2022 and thus far into 2023,** as inflation and eat-at-home trends provide more topline tailwinds. **However, profitability is now under pressure, as consumer demand is more price elastic,** igniting the return of promotions, while inflation, labor shortages, and omnichannel fulfillment keeps costs high. **With the exception of deep discounters like Aldi and Lidl, who continue to expand, enhancing e-commerce capabilities, rather than building new stores, will continue to be the primary use of capital investments.**

Company	Credit Rating	TTM EBITDA Margin	Store Count	YoY Store Count % Change
Publix	A1	10.2%	1,322	2.2%
Ahold Delhaize	A2	7.8%	2,048	-0.1%
Whole Foods/Amazon Fresh	A2	14.4%	627	6.8%
Grocery Outlet	B1	6.0%	441	6.3%
Ingles Markets	B1	8.7%	198	0.0%
Kroger	B1	4.6%	2,719	-0.3%
Loblaw	B1	9.9%	2,441	0.1%
Metro Inc.	B1	12.4%	1,283	0.2%
Natural Grocers	B1	5.2%	165	1.9%
Sobeys	B1	7.0%	2,004	0.7%
Sprouts	B1	8.3%	386	1.8%
Village Super Market	B1	4.3%	38	2.7%
Weis Markets	B1	5.6%	197	0.5%
Albertsons	B2	5.9%	2,271	-0.2%
Grupo Comercial Chedraui	B2	8.3%	780	9.1%
North West Company	B2	12.4%	222	2.8%
Organizacion Soriana	B2	N/A	798	0.0%
SpartanNash	C1	2.5%	147	1.4%
Chef'Store (US Foods)	C2	3.9%	86	7.5%
Aldi	Private	N/A	2,283	5.7%
Lidl US	Private	N/A	180	2.9%
Raley's	Private	N/A	239	1.7%
Save-A-Lot	Private	N/A	850	-6.1%
Southeastern Grocers	Private	N/A	425	0.2%
The Fresh Market	Private	N/A	159	0.0%
Trader Joe's	Private	N/A	545	0.9%

Spotlight Retailers

ALDI

Aldi, firmly established as the value-priced sector leader, has been benefiting from the current economic climate, as inflation takes its toll on consumers' grocery budgets. The Company is also one of the few grocers still rapidly adding stores. It has been adding about 120 stores per year and should reach its goal of a total of 2,500 stores in 2024. On the downside, Aldi is the largest grocer without its own e-commerce solution, partnering with Instacart for customer deliveries.

WHOLE FOODS MARKET

amazon

After years of very slow unit growth, Whole Foods is again accelerating openings. Management recently noted it would like to double its pipeline to around 100 locations and get to a cadence of opening about 30 stores per year, up from 11 in 2022, which was the most since Amazon acquired it in 2017. Additionally, though Amazon is pausing opening any more Amazon Fresh stores as it works out some kinks in the model, the Company remains committed to this mass-appeal physical footprint grocery business, which offers so much room for growth, and likely will restart opening stores at some point in the future.

As expected, growth is accelerating as the Company densifies its West Coast operation and amps up east coast expansion. It is now targeting just shy of 30 store openings this year and nearly 50 in FY24. Performance is similarly on the uptrend, in no small part due to inflationary headwinds, which are squeezing the consumer and pushing them to search for the type of value offering provided by Grocery Outlet. Balance sheet and leverage metrics are solid, and cash flows are more than adequate to support the Company's growth plans.

In October 2022, Kroger and Albertsons agreed to merge, potentially creating a company with close to $220 billion in annual sales from roughly 5,000 stores throughout the U.S. Since the announcement, the companies have been taking steps to effectuate the merger. To date, the necessary funding has been secured, they have survived a legal battle over a special dividend, and, most recently, launched planning efforts "for a seamless cultural and operational integration." Yet, a plan for store divestures will be a significant challenge and a critical element for the proposed acquisition given the significant store overlap and market concentration. Meanwhile, Kroger continues to open automated customer fulfillment centers which allow it to extend its reach in current markets and enter new geographic markets with the scale of 100 stores with significantly less capital investment. During FY22, the Company opened four additional Kroger Delivery customer fulfillment (Ocado) centers, including in Dallas, TX; Pleasant Prairie, WI; Romulus, MI; and Aurora, CO, bringing the Company's total CFC count to seven. The Company's other CFCs are located in Monroe, OH; Groveland, FL (a new Kroger geography); and Forest Park, GA.

Publix's performance has been nothing less than extraordinary over the last few years with comps up an astonishing 31% from the pre-COVID period due to both general sector trends and an influx of residents to its primary Florida and Southeast markets. Results have further emboldened management to accelerate its expansion strategy with the Company now opening 30+ stores per year including about 50% in expansion markets as far away as Kentucky. Publix's pristine balance sheet and robust cash flows are more than adequate to continue supporting expansion in the future.

Sprouts is a bit of a mixed story: Though top line comp gains have long lagged sector trends, even before COVID, the Company's focus on margins as well as an already profitable business means that cash flow has continued to grow, with the Company generating almost $375 million of operating cash flow last year. Management has in turn accelerated store openings, targeting around 30 this year and 40+ next year. However, Sprouts is also closing 11 stores this year after shuttering just four over the last three years combined. The closures are primarily related to its older format stores and likely represent a one-off style correction. Ultimately, given the significant cash flow and a very strong balance sheet, credit concerns are minimal.

After struggling for years, The Fresh Market got a much-needed COVID lift and now has a new owner, Cencosud, a larger Latin American retailer which was looking for a foothold in the U.S. market. With a freshly recapitalized balance sheet carrying much less debt, the Company is now looking to grow, targeting two or three new units in 2023 and more to follow. Though we remain far from convinced that the Company is completely out of the woods, the rejuvenation and reduced credit concerns are a welcome change of pace from those over the last decade.

TRADER JOE'S

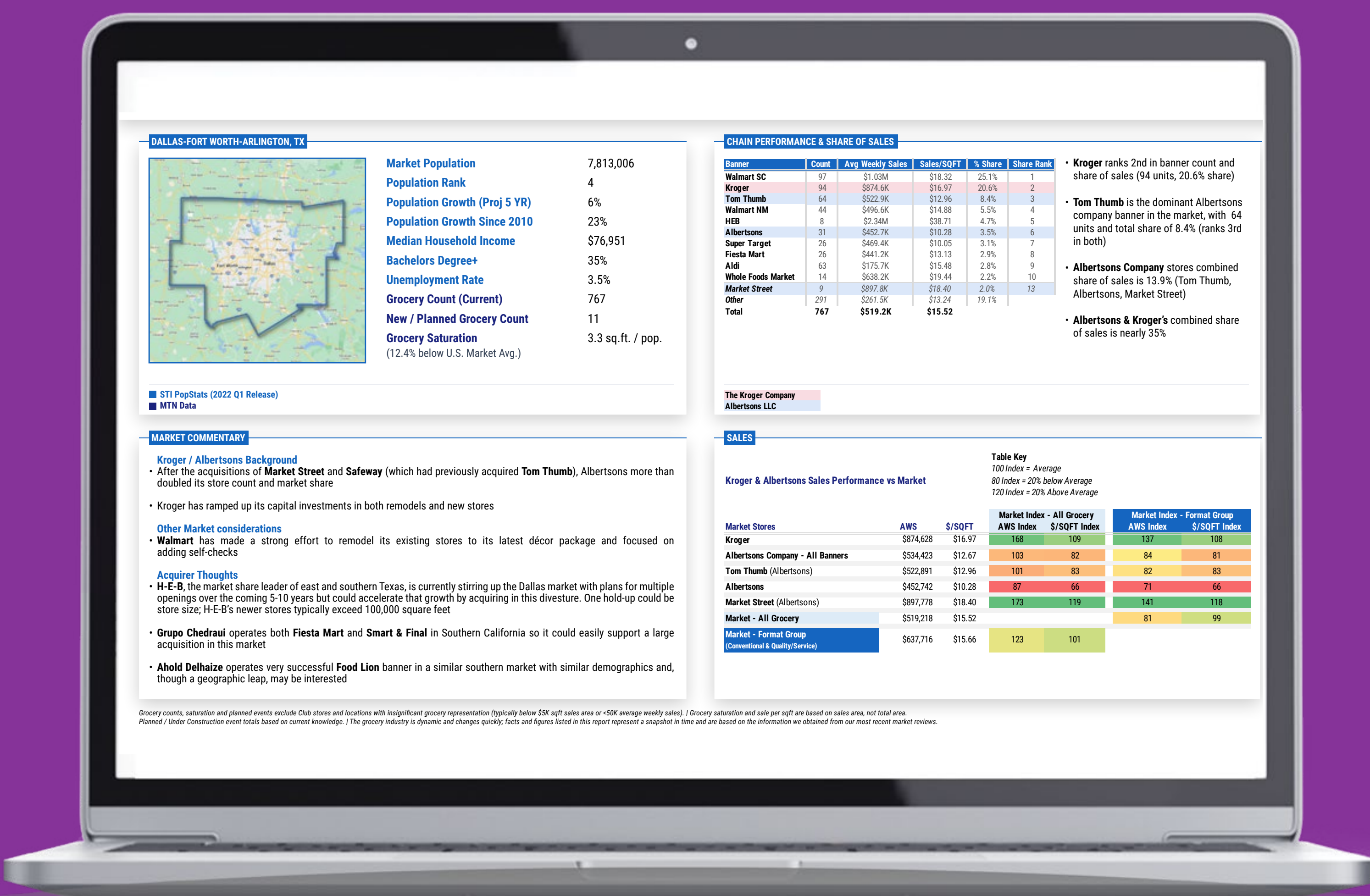
Trader Joe's remains an anomaly in the grocery space with industry leading visitation metrics for its small-footprint model. While the Company seemingly doesn't have a demand problem and could be opening dozens of stores annually, like some of its small-format peers, it opened just nine stores in 2022 and only appears on pace to open a handful in 2023. Though financial insight is limited, cash flows are likely strong enough to fund ongoing expansion, and it is believed that Trader Joe's balance sheet remains debt free.

US FOODS | CHEF'STORE GREAT FOOD. WHOLESALE PRICES.

US Foods is accelerating openings of its CHEF'STOREs. The Company opened six of these stores in FY22 and is on pace to open eight in 2023 which would bring unit count to around 100 by the end of the year. The stores primarily target independent restaurants looking to save on delivery fees or do fill-in purchases, but are also open to the general public, and management has indicated openings could ramp up even further in future years. Though U.S. Foods is currently rated C2, indicative of balance sheet concerns, there are no near-term maturities, and the Company is actively reducing its debt load which spiked during the pandemic.

Grocery Sales Data Now Available

Kroger-Albertson's Merger Special Analysis



DALLAS-FORT WORTH-ARLINGTON, TX

Market Population	7,813,006
Population Rank	4
Population Growth (Proj 5 YR)	6%
Population Growth Since 2010	23%
Median Household Income	$76,951
Bachelors Degree+	35%
Unemployment Rate	3.5%
Grocery Count (Current)	767
New / Planned Grocery Count	11
Grocery Saturation (12.4% below U.S. Market Avg.)	3.3 sq.ft. / pop.

STI PopStats (2022 Q1 Release)
MTN Data

CHAIN PERFORMANCE & SHARE OF SALES

Banner	Count	Avg Weekly Sales	Sales/SQFT	% Share	Share Rank
Walmart SC	97	$1.03M	$18.32	25.1%	1
Kroger	94	$874.6K	$16.97	20.6%	2
Tom Thumb	64	$522.9K	$12.96	8.4%	3
Walmart NM	44	$496.6K	$14.88	5.5%	4
HEB	8	$2.34M	$38.71	4.7%	5
Albertsons	31	$452.7K	$10.28	3.5%	6
Super Target	26	$469.4K	$10.05	3.1%	7
Fiesta Mart	26	$441.2K	$13.13	2.9%	8
Aldi	63	$175.7K	$15.48	2.8%	9
Whole Foods Market	14	$638.2K	$19.44	2.2%	10
Market Street	*9*	*$897.8K*	*$18.40*	*2.0%*	*13*
Other	*291*	*$261.5K*	*$13.24*	*19.1%*	
Total	**767**	**$519.2K**	**$15.52**		

- **Kroger** ranks 2nd in banner count and share of sales (94 units, 20.6% share)
- **Tom Thumb** is the dominant Albertsons company banner in the market, with 64 units and total share of 8.4% (ranks 3rd in both)
- **Albertsons Company** stores combined share of sales is 13.9% (Tom Thumb, Albertsons, Market Street)
- **Albertsons & Kroger's** combined share of sales is nearly 35%

The Kroger Company
Albertsons LLC

MARKET COMMENTARY

Kroger / Albertsons Background

- After the acquisitions of **Market Street** and **Safeway** (which had previously acquired **Tom Thumb**), Albertsons more than doubled its store count and market share
- Kroger has ramped up its capital investments in both remodels and new stores

Other Market considerations

- **Walmart** has made a strong effort to remodel its existing stores to its latest décor package and focused on adding self-checks

Acquirer Thoughts

- **H-E-B**, the market share leader of east and southern Texas, is currently stirring up the Dallas market with plans for multiple openings over the coming 5-10 years but could accelerate that growth by acquiring in this divesture. One hold-up could be store size; H-E-B's newer stores typically exceed 100,000 square feet
- **Grupo Chedraui** operates both **Fiesta Mart** and **Smart & Final** in Southern California so it could easily support a large acquisition in this market
- **Ahold Delhaize** operates very successful **Food Lion** banner in a similar southern market with similar demographics and, though a geographic leap, may be interested

SALES

Kroger & Albertsons Sales Performance vs Market

Table Key
100 Index = Average
80 Index = 20% below Average
120 Index = 20% Above Average

			Market Index - All Grocery		Market Index - Format Group	
Market Stores	AWS	$/SQFT	AWS Index	$/SQFT Index	AWS Index	$/SQFT Index
Kroger	$874,628	$16.97	168	109	137	108
Albertsons Company - All Banners	$534,423	$12.67	103	82	84	81
Tom Thumb (Albertsons)	$522,891	$12.96	101	83	82	83
Albertsons	$452,742	$10.28	87	66	71	66
Market Street (Albertsons)	$897,778	$18.40	173	119	141	118
Market - All Grocery	$519,218	$15.52			81	99
Market - Format Group (Conventional & Quality/Service)	$637,716	$15.66	123	101		

Grocery counts, saturation and planned events exclude Club stores and locations with insignificant grocery representation (typically below $5K sqft sales area or <50K average weekly sales). | Grocery saturation and sale per sqft are based on sales area, not total area.
Planned / Under Construction event totals based on current knowledge. | The grocery industry is dynamic and changes quickly; facts and figures listed in this report represent a snapshot in time and are based on the information we obtained from our most recent market reviews.

Gyms / Fitness

Overview

Over the past three years, the Fitness Industry has experienced a strong post-COVID recovery, reflecting a growing awareness of the importance of physical health and wellness. However, not all operators have fared equally. **High-value low-price (HVLP) gyms have maintained their strength led by Planet Fitness but now also joined by Crunch and EOS, which both stress a larger free-weight component. Additionally, premium operators like Life Time, which almost resembles a country club, have seen operations significantly improve. Similarly, boutique operator Xponential Fitness has also capitalized on industry tailwinds,** now supporting 10 brands and nearly 2,500 units in the U.S. **Even the mid-tier segment is seeing some uplift despite continued pressures from both HVLP and premium operators,** as LA Fitness has been on a steady recovery. In contrast, **24 Hour Fitness, another mid-tier operator, and Equinox, with its urban concentration reliant on in-person office dynamics, remain high risks** as membership and sales have trailed that of the industry and both have very levered capital structures. Given the strong tailwinds, looking forward, **most operators are focused on expansion to further capitalize on industry trends with Xponential leading the way, but almost all operators are aiming for unit growth for the year.**

Company	Credit Rating	TTM EBITDA Margin	Store Count	YoY Store Count % Change
Planet Fitness	C2	38.4%	2,410	5.2%
Life Time Fitness	D1	15.4%	156	3.3%
Xponential Fitness	D1	30.5%	2,641	35.2%
24 Hour Fitness	Private	N/A	279	-3.5%
Equinox	Private	N/A	290	-5.2%

Spotlight Retailers

24 Hour remains a high-risk situation. However, operations are on the uptick, and it was recently able to push the maturity of its $60 million PIK term loan out to September 2025. Despite this, membership levels are only expected to be at 90% of pre-pandemic levels by the end of FY23. Liquidity is also reportedly tight, and whispers are growing of a lurking restructuring, which wouldn't be a surprise. Accordingly, there are no openings on the radar and there was one closing announced in Portland, OR. If things head south, expect more closures.

Equinox has lagged the industry as membership levels and sales still trail pre-pandemic levels, primarily due to the lower demand and foot traffic at urban-based health clubs. A leveraged balance sheet and negative cash flow are now also a major concern, with $1.50 billion of variable rate debt becoming increasingly costly to fund given today's interest rate environment. These challenges are further amplified by more than $1.20 billion of secured debt maturing over the next 10 months. This remains a high-risk situation, with liquidity reportedly tight, despite the Company raising almost $400 million through new equity and debt over the last two years. In 2022, the Company closed roughly 20 SoulCycle locations amidst weak demand in certain markets, including the New York City area, California, Washington D.C., Massachusetts, Illinois, Florida, and Georgia. Given these ongoing challenges, there are likely further closures coming.

Premium operator Life Time closed out a robust FY22, which has continued into 2023. Membership jumped 13% to 764,000 in 1Q23 (up from 725,000 in 4Q22) in part due to 13 new clubs in operation. As the Company continues to report successive profitability improvements each quarter, it has revised guidance upwards which, when combined with management's sale-leaseback strategy, has supported an improved balance sheet. With no near-term maturities and liquidity of $395 million, Life Time is well-positioned within the premium fitness segment. During FY22, management opened 10 new centers, followed by three more in early 2023; one each in the New York City area, Scottsdale, AZ, and Irvine, CA. Life Time plans to open seven more locations during the fiscal year including in Oregon, Virginia, Connecticut, Florida, and California, and two in Texas. As of March 31, 2023, the Company operated 164 centers.

Planet Fitness remains well positioned in the fitness sector and continues to report record membership numbers quarter-after-quarter; most recently announcing more than 18.1 million members. Building upon 156 new clubs in FY22, the Company and franchisees opened 36 new clubs in 1Q23, bringing its total club count to 2,446. Supported by ample liquidity, management expects to add about 200 new clubs in 2023, almost all franchise based, and remains confident that it will reach more than 4,000 clubs over the long term.

Despite a slower return to normalcy, LA Fitness, which operates in the competitive mid-tier segment, is now finally back above pre-pandemic levels for sales and membership. Leverage ratios remain elevated, estimated between 4x and 5x EBITDA, but are expected to improve as operations normalize. The Company operates roughly 790 locations and reportedly has ample liquidity in both cash and revolver availability. Given its softer performance, the Company only expects to open one location in FY23.

Xponential Fitness operates 2,382 boutique franchise fitness studios in the U.S. (2,756 globally), across 10 unique brands including Club Pilates, Pure Barre, and Stretch Lab. and posted strong operating performance in 2022 that has carried over into 2023. The Company recently reported an all-time high membership count of 665,000, and average annual studio volume improved to $542,000 (up from $522,000 in 4Q22). Despite Xponential recently borrowing $130 million to repurchase some convertible preferred shares, leverage ratios have continued to improve. Liquidity is adequate for ongoing operations. Looking forward, management revised FY23 guidance upward, citing strong momentum carrying into 2Q23; it expects franchisees to open roughly 550 new studios during the fiscal year.

Home Improvement / Building Materials

Overview

After two years of pandemic driven demand, **the relentless pace of inflation in 2022 caused consumers to think twice about home improvement projects,** a situation that has continued thus far into 2023. Rising interest rates have also had an impact on consumer psyche. Currently, over 90% of U.S. homeowners, either own their homes outright or have fixed rate mortgages under 5% and have little incentive to sell and take on a higher rate mortgage or home equity loan, curbing the appetite for remodels. The largest among the home improvement retailers, **Home Depot and Lowe's, are both feeling the pinch from a cash strapped consumer, as each reported slightly negative comps in their most recent fiscal quarter, but more notable declines in traffic (both down around 6%); comps, at best, are expected to be roughly flat in 2023.** On a positive note, both retailers reported relative strength in professional sales, most likely fueled by a higher income consumer less impacted by inflation. **Price increases aided the building materials distributors stable despite volume declines, which most affected those closely tied to the residential construction market.** U.S. single-family housing starts dropped 27% in 4Q22, followed by a 28% decline in 1Q23. **Looking ahead, we note that building materials companies, with a considerable share of revenues derived from public construction activity, are expected to outperform building products manufacturers.**

Company	Credit Rating	TTM EBITDA Margin	Store Count	YoY Store Count % Change
Home Depot	A2	17.4%	2,322	0.2%
Tractor Supply	A2	12.9%	2,333	7.0%
ACE Hardware	B1	4.8%	5,746	2.9%
Floor & Decor	B1	13.5%	197	21.6%
Lowe's	B1	15.3%	1,738	-11.8%
Sherwin-Williams	B1	16.1%	4,891	0.7%
Tile Shop	C1	12.6%	142	-0.7%
Do It Best	C2	3.0%	2,917	-7.7%
LL Flooring	C2	2.2%	442	4.2%
Harbor Freight	Private	N/A	1,409	9.4%

Spotlight Retailers

HARBOR FREIGHT
QUALITY TOOLS LOWEST PRICES

In May 2022, Harbor Freight opened its 1,300th store and currently operates nearly 1,400 locations. The Company's stores average 15,000 to 16,500 square feet and are typically 70% retail selling area and 30% warehouse space. For the past several years, the Company has been opening approximately two new stores a week.

TSC TRACTOR SUPPLY CO

Tractor Supply had a solid FY22, posting double-digit sales and comp growth. The Company has been consistently opening about 70 new Tractor Supply stores each year; expectations for FY23 are the same. FY23 capital spending is expected to be $700 million to $775 million with funds earmarked for the continued remodeling of stores and garden center transformations, and to open 10 to 15 new Petsense stores. In addition, the Company has budgeted funds for the continued build out of its tenth distribution center in Maumelle, AR, with operations slated to begin in 1Q24.

Housewares & Home Furnishings

Overview

The housewares and home furnishings segment has experienced volatility like perhaps no other area of retail. A post-COVID housing boom resulted in off-the-charts performance for many in the space, only to be followed by a reversal of equal magnitude as consumer discretionary is crashing. **The weaker players, such as Bed, Bath & Beyond and Tuesday Morning are headed for extinction, while the others face a reversal of fortune and/or fight for their own survival. With this new gloomy outlook, the appetite for store growth has certainly slowed.** Williams Sonoma and Kirkland were already pushing to reduce store counts and focus on growth from their online platforms. **The sales previously generated at the over 1,000 Bed, Bath and Tuesday Morning stores in the process of closing are already being absorbed by Target, Amazon and Wayfair,** though hopefully some can be retained by direct brick and mortar competitors in the space. **The current shortfall of discretionary spending, along with expectations of a pending recession, is likely to keep store growth in check, though we continue to see some expansion from At Home, The Container Store and HomeGoods.**

Company	Credit Rating	TTM EBITDA Margin	Store Count	YoY Store Count % Change
Williams-Sonoma	A2	19.7%	530	-2.6%
Otto Group (Crate & barrel)	B2	7.6%	161	5.2%
RH (Restoration Hardware)	B2	25.9%	119	0.0%
The Container Store	C2	11.0%	95	1.1%
Franchise Group	D2	9.1%	3.175	7.7%
Kirkland's	E1	Neg. EBITDA	346	-4.2%
At Home	Private	N/A	262	7.8%

Spotlight Retailers

BED BATH & BEYOND

Previous CEO Mark Tritton's blind and rapidly executed shift into private label was a complete failure. Tritton's replacement, Sue Gove, missed her chance at a restructuring perhaps in a failed attempt to ameliorate performance issues ahead of an inevitable bankruptcy. As such, the collapse in performance over the last year rivals just about any in retail history. The Harmon stores were closed out of desperation and lack of cash flow, the Bed, Bath chain is now essentially beyond repair and the buybuy Baby chain, which may have had a market back in 2021, also saw performance slide. The down retail market along with a more expensive financing environment, may preclude interest in this marginally profitable banner, which has begun liquidation absent a last minute buyer.

at home — The Home Décor Superstore

At Home was leveraged up following its July 2021 buyout by Hellman & Friedman. An aggressive growth strategy was initially implemented but has been scaled back due to the weaker macro environment as well as dwindling cash flow resulting from very weak performance over the last few quarters. The Company eased to 13 openings in 2022 and has plans for 8 to 10 new locations in 2023. Growth appears focused on California, Texas and the New York tri-state area. While the Company has plenty of distribution capacity, it will not approach its white space target of 600 total stores anytime soon.

The Container Store®

The Container Store has carried a rather flat store count for the last five years. It finally worked up plans for significant expansion, hopefully not tied heavily to the false surge in performance during 2020/2021. The larger plan calls for 76 new stores by FY27, including three recently opened and another nine expected in 2H23. The new stores will be smaller 10,000 to 15,000 square foot formats, compared to the average 25,000 square feet of its existing base. That keeps the initial investment lower but brings additional risk from potential mistakes in merchandising, ensuring proper distribution, and meeting customer expectations.

Mass Merchandisers / Dollar Stores

Overview

The mass merchandiser sector had a major wake-up call in 1Q22, as inflation caught up with consumers and they pulled back on discretionary spending. Those with a larger grocery product mix fared better, but any with exposure to discretionary products were impacted. **The consumer pull back left many retailers with excess merchandise that required discounting throughout the year** to bring inventory levels back to normal. Consumers looking to stretch their budgets turned to dollar stores and traded down to more private label brands. **2023 finds many of these retailers cautiously optimistic but hedging their bets in terms of their outlook. This has not deterred them from continuing with store expansion, especially the dollar stores and discounters.**

Company	Credit Rating	TTM EBITDA Margin	Store Count	YoY Store Count % Change
Costco	A1	4.7%	848	2.4%
Dollar General	A1	10.9%	19,104	5.4%
Walmart	A1	5.6%	10,623	0.3%
Dollar Tree	A2	11.0%	16,340	1.6%
Walmart Mexico	A2	10.8%	3,745	3.5%
BJ's Wholesale Club	B1	4.9%	235	5.0%
Canadian Tire	B1	14.7%	1,702	-0.5%
Dollarama	B1	29.5%	1,486	4.6%
Five Below	B1	15.4%	1,340	12.6%
Target	B1	6.0%	1,948	1.1%
Carrefour	B2	5.7%	14,348	5.9%
Massy Holdings	B2	11.8%	60	5.3%
Ollie's Bargain Outlet	B2	9.3%	468	8.6%
PriceSmart	B2	6.2%	50	2.0%
TESCO	B2	5.7%	3,878	1.5%
Big Lots	D2	Neg. EBITDA	1,425	-0.4%
99 Cents Only	Private	N/A	378	-1.3%
Christmas Tree Shops	Private	N/A	80	0%
Meijer	Private	N/A	260	1.6%
Variety Wholesalers	Private	N/A	399	1.8%

Spotlight Retailers

BIG LOTS!

The Company struggled in FY22 as 70%-75% of its inventory would be considered discretionary. Sales and comps declined in all four quarters. Big Lots scaled back the grandiose expansion plans announced at the end of 4Q21 and wound up closing more stores than it opened. For FY23, the Company plans on opening 18 new stores, and closing slightly more. There are 210 leases expiring this year, of which 48 have no renewal options, which may lead to additional closures. The Company's performance will depend on whether there is a rebound in discretionary spending. A moderate decline in sales would still leave the Big Lot's with adequate liquidity, however a performance that mirrors FY22 (sales down 11%, comps off 13%) would leave the Company looking for additional liquidity in a tough credit environment.

DOLLAR TREE

Dollar Tree had a busy FY22, with 464 openings, 120 relocations, and 205 closures, finishing the year with 16,340 locations. The Company benefited as consumers looked to stretch their budgets in this inflationary environment. With about 60% of its sales consisting of food and other consumables, Dollar Tree did not suffer from the pullback in discretionary spending as much as other retailers. For FY23 the Company is targeting 650 new stores. In the long-run, Dollar Tree believes the market can support 10,000 Dollar Tree stores (8,100 currently) and 15,000 Family Dollar stores (8,200 currently).

Dollar General is in a similar position as Dollar Tree. During FY22 the Company opened 1,039 stores and remodeled almost 1,800. At 80%, the Company has a higher proportion of consumable sales than Dollar Tree, which sheltered it from the slow down in discretionary spending. For FY23, the Company plans on adding 1,050 stores.

Five Below slowed its store openings during the height of the pandemic, but rebounded quickly once restrictions were lifted. The Company's long-term strategy is to reach 3,500 stores by FY30. Since 2012, average store growth has been about 20% per year. In FY22 Five Below fell just short of its targeted 160 new stores, reaching 150. Supply chain issues and a slower permitting process in local jurisdictions were the primary causes of the miss. For FY23, the Company plans to open 200 new stores and convert 400 locations to the new Five Beyond format.

Target has weighted its capex spending heavily towards remodels over the past few years. Typically, the Company has been opening 20-30 new stores, with an emphasis on its small footprint format (under 50,000 square feet). In FY23, capex is projected to be between $4 billion and $5 billion. Target is also testing new formats that enhance the digital side of the business, and are designed to streamline online sales, especially ship from store and curbside pickup.

CTS was spun off by Bed, Bath & Beyond to Handil Holdings in October 2020 and ultimately faces the same ending as its former parent. The entity has been short on cash, had vendor payment issues since the get-go and then faced supply chain issues and tightening consumer spending; 2022 performance caused a huge strain on liquidity which resulted in a bankruptcy filing on May 5. Ownership has suggested that the bankruptcy was finance related and it plans to take control of a rehabilitated entity, with 10 less stores, by August. It is quite early to determine how realistic that is.

Pet Care

Overview

The Pet Industry remains elevated driven by increased pet ownership, a generational shift to younger pet parents, and high "petflation". However, the industry is expected to stabilize, as consumers return to pre-pandemic norms. Additionally, as the consumables competition intensifies from grocers, mass merchandisers, and online options such as Chewy, **we expect brick-and-mortar pet operations will continue to increase their focus on differentiated, higher margin, and private label items as well as foot traffic driving services, including grooming, dog-walking, and pet health.**

Company	Credit Rating	TTM EBITDA Margin	Store Count	YoY Store Count % Change
PetValu	B2	22.6%	744	17.5%
PetSmart	C1	13.0%	1,660	-0.1%
Petco	C2	8.1%	1,430	-0.2%
Pet Supermarket	Private	N/A	220	1.4%

Spotlight Retailers

PETSMART

PetSmart, the largest pet store in the United States with roughly 1,660 locations, remains focused on boosting in-store amenities and partnerships as opposed to expansion. The Company offers hospital services in 750 stores through a long-term partnership with Banfield and is now focused on expanding its own vet practice, which was introduced in June 2022. As of January 2023, its in-house vet practice had expanded to 11 locations, and the Company is targeting a rapid rollout nationwide. Looking ahead, beyond growing in-store services, PetSmart's growth strategy includes investments in marketing and partnerships to target Gen Z pet parents who are willing to spend more on premium products and amenities. Credit concerns also continue to lessen due to both improved performance as well as the refinance and debt paydown completed in 2021 following the separation from Chewy.

petco

Petco is the second largest pet retailer with more than 1,430 locations and 247 hospitals in the country. Unit expansion is somewhat heating up under the Company's new small-format Neighborhood Farm & Pet Supply pet care centers banner, which now has five units across Texas, North Carolina, and Kentucky. Management plans to accelerate openings over the coming year, targeting a total of 100 to 200 potential locations, though the format is still in its pilot stage. The Company is also expanding its shop-in-shop partnerships with Lowe's and Canadian Tire. Petco's shop-in-shops are expected to be available in 450 Canadian Tire stores, roughly 90% of the chain, by mid-2023.

Restaurants

Overview

Restaurants saw continued top line recovery in FY22 that was mainly attributable to higher menu pricing in response to significant inflation. Customers increasingly returned to in-restaurant dining, greatly benefiting the casual dining and fine dining categories, **but most operators eventually saw traffic declines as prices rose.** Store expansion varies considerably from company to company, **though a common thread was supply chain delays pushing planned openings from 2022 into 2023.** With inflation easing and price increases also likely to slow, **restaurants may lean into more promotions to rebuild traffic and win share.**

Company	Credit Rating	TTM EBITDA Margin	Store Count	YoY Store Count % Change
Chipotle	A2	18.1%	3,187	7.5%
McDonald's	B1	53.4%	40,275	0.6%
Starbucks	B1	19.0%	36,170	5.4%
Chuy's	B2	12.5%	98	2.1%
Darden Restaurants (Olive Garden)	B2	15.5%	1,890	1.9%
Texas Roadhouse	B2	12.4%	697	4.5%
YUMI (KFC / Pizza Hut / Taco Bell)	C1	35.0%	55,361	3.6%
BJ's Restaurants	C2	6.1%	216	1.9%
Bloomin' Brands	C2	11.8%	1,163	-0.3%
Brinker (Chilli's)	C2	8.3%	1,648	-0.3%
Cheesecake Factory	C2	6.1%	348	3.3%
Cracker Barrel	C2	7.2%	721	2.7%
Dave & Buster's	C2	24.5%	204	41.7%
Fiesta Restaurant Group	C2	3.8%	169	0.0%
Noodles & Co	C2	6.5%	461	2.9%
Round One	C2	22.8%	149	2.8%
Shake Shack	C2	6.8%	254	16.5%
Wendy's	C2	23.3%	7,095	2.1%
Wingstop	C2	30.6%	1,959	13.2%
Dine Brands (Applebee's IHOP)	D1	25.3%	3,596	4.8%
Jack In The Box	D1	20.1%	2,778	25.8%
Carrols Restaurant Group (Burger King)	D2	3.4%	1,087	-0.4%
Denny's	D2	18.8%	1,656	1.0%
Potbelly	D2	3.6%	429	-3.2%
Red Robin	D2	5.1%	511	-3.8%
Steak 'n Shake	D2	20.5%	545	-7.3%

Spotlight Retailers

Jack in the Box hopes to meaningfully expand its store count over the next few years, starting with 25 to 30 planned JITB openings from franchisees in FY23. Since FY21, the Company has signed 72 development agreements to open over 300 franchised JITB stores. Many of these units will be in new markets including Florida, Salt Lake City, and Louisville. The Company also has 11 agreements to open 79 new Del Taco stores, but its focus for that banner will be the re-franchising of many of its 290 Company-operated stores.

Chipotle opened 100 new stores in 4Q22 to reach 236 for the full year and barely meet its target of 235 to 255 openings. Now in FY23 the Company plans to further accelerate its pace with 255 to 285 new stores, including 10 to 15 relocations. As with recent years, at least 80% of the new stores will include a drive-thru (17% of Chipotle's stores had a drive-thru at year-end). The Company opened 41 restaurants in 1Q23. Chipotle continues to self-fund its expansion and remains debt-free.

McDonald's exit from Russia in 2Q22 included the sale of 847 stores (about 700 Company-operated) and limited the overall FY22 expansion to just 0.6%, or net 244 locations. The Company expects to up the pace of expansion in FY23 to make up for it with 1,900 new restaurants (400 Company-operated, 1,500 franchised), or about 4% unit growth.

Noodles & Company saw significant development delays during FY22 that limited it to just 16 Company-operated openings compared to the 20 to 25 it initially expected; franchisees opened another three locations. Management set a FY23 target of 7.5% system-wide unit growth, followed by 7% to 10% annual growth in following years. The franchise part of the equation has looks promising; the Company had eight signed development agreements for 97 franchised stores at year-end.

Potbelly has sworn off Company-operated store expansion, and in FY22 closed 13 locations, or about 3% of its fleet. The path for future expansion now lies with its re-franchising strategy, as potential franchisees will have to sign development agreements as part of any deal. The first of these re-franchising deals was struck in March 2023, with an existing restaurant operator agreeing to acquire eight NYC Potbelly stores and develop 13 new shops over the next eight years.

Since raising $300 million from a convertible note issuance in March 2021, Shake Shack has been steadily utilizing the proceeds to fund store expansion; it still retained a net cash position of $67 million at the end of FY22. The Company fell short of its FY22 goal of 45 to 50 new Company-operated stores with just 36 openings during FY22 but does not expect to slow down with another 40 stores planned for FY23. 15 of these stores will include a drive-thru. Licensees are expected to open another 30 to 35 stores, mostly in various Asian markets. Through 1Q23, six Company-operated and seven licensed stores have opened.

Texas Roadhouse was one of the stronger casual dining performers in FY22 with 23 new Company-owned and seven franchised restaurants, representing 4.5% unit growth, contributing to a 16% sales improvement. The Company expects higher growth in FY23 from 25 to 30 new Texas Roadhouse and Bubba's 33 restaurants as well as three fast casual Jaggers locations, while franchisees will open nine Texas Roadhouse and another three Jaggers.

Specialty / Other

Overview

Specialty retailers that focus on a heavy discretionary offering are largely under pressure as consumers cut back. The arts & crafts space has certainly experienced this trend. However, book retailers are partially benefiting from inflation, as reading is a relatively cost-effective alternative to other more expensive leisure activities. **The Retail Drug sector is undergoing a transformation as the top two players diversify their assets with a significant push into value-based primary care.** This involves acquiring and adding new clinics. **Store count has fallen across the board, including the underperforming Rite Aid which closed 144 last year** with more to come in 2023.

Company	Credit Rating	TTM EBITDA Margin	Store Count	YoY Store Count % Change
Ulta Beauty	A2	18.8%	1,355	3.6%
AutoZone	B1	22.6%	6,978	2.4%
Casey's General Stores	B1	6.6%	2,472	1.7%
CVS Health	B1	6.3%	9,674	-2.7%
Havertys	B1	13.6%	122	0.8%
O'Reilly Automotive	B1	23.2%	5,971	3.2%
Advance Auto Parts	B2	9.4%	6,397	1.7%
Build A Bear	B2	15.9%	350	1.2%
Ethan Allen	B2	19.3%	168	-1.8%
Walgreens	B2	4.1%	8,817	-1.0%
Warby Parker	B2	4.6%	200	26.6%
Mattress Firm	C1	29.2%	2,342	-0.5%
Bath & Body Works	C2	21.6%	1,802	2.7%
Sally Beauty	C2	12.7%	4,498	-7.5%
Sleep Number	C2	7.0%	670	3.4%
Cinemark	D2	13.7%	518	-0.4%
GameStop	D2	Neg. EBITDA	4,413	-3.5%
JOANN	E2	Neg. EBITDA	833	-1.8%
Regis Corporation	E2	4.8%	5,347	-6.1%
Rite Aid	E2	1.7%	2,324	-5.1%
Barnes & Noble	Private	NIA	606	0.3%
Books-A-Million	Private	NIA	181	0.0%
Hobby Lobby	Private	NA	989	3.6%
Michaels	Private	NIA	1,287	0.9%

Spotlight Retailers

BARNES&NOBLE

Sales of books in brick and mortar stores have improved as the pandemic wound down but the top line has started to plateau. In 2023 the Company will continue expanding as it plans to open between 30 and 35 stores and close between 10 and 15 units, for a net growth rate of between 2% and 4%. The new stores will include larger 30,000 square-foot stores as well as units as small as 8,000 square feet. The smaller version of the standard store format was introduced in 2022; these units generate more revenue per square foot than the larger stores.

BAM! BOOKS·A·MILLION

Competition from Barnes & Noble and Amazon has forced Books A Million to continue closing stores in its predominantly central and eastern US locations. The Company has closed an average of 5% of its units annually over the last few years. It is possible this trend could be tempered by the renewed interest in reading as an inexpensive form of entertainment during the current period of economic stress.

GameStop

Management had originally intended to transform itself into a digital retailer, accompanied by mass closings of its mall-based stores. This would have lowered costs in an effort to stabilize profitability. However, after experiencing falling ecommerce sales it appears there has been a change, or at least a pause, in the digital transformation plans. The Company has closed 4% of the store base in the last year; it has not indicated specific plans for the coming year. Gamestop has significant liquidity from the sale of stock last year, which may temper the impact of operational inefficiencies inherent in management's uncertain path. Management has not provided guidance on plans for its store base; we believe the rate of store closures in FY23 will be similar to last year, absent another revision to the strategic plan.

HOBBY LOBBY

Hobby Lobby continues to thrive with store expansion plans matching that performance. The Company has maintained a steady pace of 30 to 50 new stores per year, and current plans call for a similar 40 stores per year for each of the next two years. While we do expect some slow-down in performance, in line with tough comparisons and the weaker economic environment, the Company remains plenty strong to take advantage of the down environment.

Michaels

Like At Home, Michaels was acquired in early 2021 based off an unsustainable spike in performance, resulting in a heavily levered balance sheet. New ownership also set out for quick expansion, which may need to slow down a bit based on weaker performance and a hit to cash flow. The Company thus far has kept a solid pace of opening 20 stores per year with a bigger picture scenario showing space for another 100 stores nationwide. We believe performance would need to show a significant rebound for this pace of expansion to continue. Should that rebound not materialize, store closures become a possibility.

JOANN

The reverse of Michaels, the surge in performance in the arts & crafts space enabled JOANN to go public again via an IPO. However, the good times have proven temporary with declining sales and margins jeopardizing the Company's liquidity with a credit rating lowered to E2. The Company has not been adding any new stores, and actually closed 15 last year, instead focusing on remodels when they can afford them. The Company entered into a new $100 million term loan to hopefully provide enough liquidity for the rest of the year, but if the performance rebound does not come, its likelihood of avoiding bankruptcy diminishes greatly and the future of its 833 stores comes into question.

Party City

Party City filed for bankruptcy in January 2023 as the sagging economy was too much for the Company's overleveraged balance sheet. On the positive side, the Company appears to be quickly approaching an exit while only needing to clean out about 50 stores and thus may emerge with around 725 stores. Internal plans still call for a focus on its NXTGEN store format, including about three and 10 new stores and about 18 and 90 remodels over FY23 and FY24, respectively. Performance and liquidity post-emergence will play a role in how aggressive they can be.

MATTRESS FIRM

The recent agreement under which Tempur Sealy agreed to acquire Mattress Firm should eliminate uncertainty surrounding the possible default of its current parent, Steinhoff International, which would have likely led to an eventual sale of Mattress Firm. Tempur Sealy and Mattress Firm have a long history as retail partners. Mattress Firm has been experiencing a period of slow sales caused by macroeconomic factors and the pull-forward of demand during the last two years, as many households have upgraded their mattresses during the pandemic. The Company closed 11 stores in FY22; it may not return to expansion mode in the near-term.

ULTA BEAUTY

Ulta steamrolled through FY22 with both 4Q and FY22 sales up over 18%, leading to record-setting sales and earnings. Ulta ended the year with no debt and $1.74 billion in liquidity. During the year, the Company opened 47 new stores and expects to open 25 to 30 more in FY23. Over the next two years, management still expects to open about 100 Ulta stores, but noted that it is seeing project delays due to real estate and supply chain issues and, as a result, the timing of openings between FY23 and FY24 may shift. Ulta currently has 355 Ulta Beauty at Target "shop-in-shops" which both Ulta and Target said are performing well. Longer term, the Company believes it has the potential to grow its footprint to up to 800 Ulta Beauty at Target shops. Looking ahead, the Company expects sales growth to moderate, calling for FY23 comps growth of 4% to 5% with margin contraction.

SALLY BEAUTY

Sally Beauty's 1H23 sales fell 0.8% on fewer stores, while comps grew 3.3%. Over the last couple of years, Sally Beauty has been grappling with escalated SG&A and as a result, YTD23 EBITDA margin fell 150 bps to 12.3%. In YTD23, the Company closed 378 stores (356 SBS and 22 BSG) while also closing two distribution centers in Oregon and Pennsylvania. Management stated that its store optimization plan is essentially complete, and it expects to end FY23 with 6% to 7% fewer locations than at the end of FY22 when there were 4,794. During 2Q23, the Company launched its first 'Studio By Sally' concept store in Dallas/Ft. Worth, a new digital-first, DIY-centric salon. The Company plans to pilot five more locations this year, with the potential to roll out to more than 100 stores over the next three to four years. We remain concerned about elevated debt levels and only time will tell if the Company's store optimization plan will be enough to turn EBITDA declines around. Looking ahead, the Company expects FY23 comps to increase low single digits with a net sales decline in the low single digits.

Bath & Body Works

Bath & Body Works' FY22 sales fell 4%, while EBITDA sank 28% amid the pressure of heavy markdowns and rising costs. The Company also continues to service nearly $5 billion in debt which, when paired with deteriorating operations, has put pressure on its credit metrics resulting in a rating downgrade. Management recently launched a Company-wide cost cutting effort targeting $200 million in savings, with more than 50% expected to occur in FY23. The Company has also experienced executive level shake-ups, with a new CEO coming onboard and the retirement of its CFO in 4Q22. On the real estate front, in FY22 the Company opened 95 new stores and closed 48, bringing total store count to 1,802. Management indicated that approximately 99% of its stores are profitable, and that they continue to significantly outperform pre-pandemic levels, led by strength in non-mall locations. The Company has plans for 115 real estate projects in FY23, including 90 new off-mall stores and 25 remodels, partially offset by roughly 50 mall closures.

WARBY PARKER

Warby Parker delivered robust top-line growth in FY22, with sales up nearly 11% from FY21. The Company opened 40 new stores and ended the year with 200 retail locations. Warby Parker stores are both free-standing and in malls (36% street, 37% outdoor center, 27% indoor center), and average 1,621 square feet. The Company's strategic priorities include scaling its omnichannel operations, opening 40 additional stores, launching 20 new collections and growing its eye exam business to over 190 locations by the end of 2023.

CVS Health

Starting in 2022, CVS Health began closing the first 300 of a planned 900 store closures over a three-year period. However, the Company also opened 44 stores in 2022, including four relocations. As for the rest of the store base, it is being broken into three distinct models to support its shift to increasing its health care offerings: advanced primary care clinics, enhanced HealthHub locations, and traditional CVS pharmacy stores.

RITE AID

Rite Aid is struggling with weaker sales per square foot and bottom-line losses. Its outlook assumes further margin and EBITDA erosion, as it looks to offset the margin pressures with more cost cutting and store closures (predicted to be fewer than 144 stores that closed last year). The Company is also testing a new smaller store format (2,500 square feet) in underserved rural markets, with a handful that have opened; however, its limited liquidity precludes any big expansion push.

Walgreens

Like CVS, Walgreens is expanding its health care offerings, including significant acquisitions in the primary care space. As it shifts focus, Walgreens has unloaded its European wholesale assets and is likely to also sell the Boots retail assets (assuming it can get an attractive price). In the U.S. it is closing up to 500 stores, with about half that number already closed.

Sporting Goods

Overview

After producing record sales, margins and profits in 2021, **the Sporting Goods sector gave back some ground in 2022. However, most companies in this group continue to outperform pre-pandemic sales and profitability levels.** The selling environment will become more promotional, especially in apparel and footwear, which faces more online competition. **We expect sales pressure and margin compression in 2023. Second-tier retailers, which lack pricing power will feel the impact more immediately than their larger peers.** The pressure is not yet intense enough to force tough decisions about store closings. The question is, **how much sales and margin pressure can they sustain in 2023?**

Company	Credit Rating	TTM EBITDA Margin	Store Count	YoY Store Count % Change
Dick's Sporting Goods	A2	15.4%	853	-0.9%
Academy	B1	15.2%	268	3.5%
Hibbett	B2	12.8%	1,133	3.4%
Big 5 Sporting Goods	C1	5.5%	432	0.2%
Sportsman's Warehouse	C1	7.0%	131	7.4%
Callaway (Topgolf)	C2	12.8%	81	15.7%
Camping World	C2	9.9%	197	5.3%
Dunham's Athleisure	Private	N/A	253	3.3%
Golf & Tennis Pro Shop (PGA Tour Superstores)	Private	N/A	50	13.6%
REI	Private	N/A	181	2.8%
Scheels All Sports	Private	N/A	30	-3.2%

Spotlight Retailers

The Company plans to open between 13 and 15 new stores in 2023 as part of a five year plan with a goal of 80 to 100 openings. This follows the opening of nine units in 2022, after a multi-year hiatus as it regained its footing, aided by a fortuitously timed IPO at the beginning of the pandemic.

The Company's lack of pricing power and high concentration of apparel and footwear makes it susceptible to economic problems driving consumer behavior. During the remainder of FY23, the Company expects to open five new stores, relocate one store, and close three stores. If operating performance continues to erode, more store closures are likely.

Operations continued to benefit from increased participation in golf. The number of venues increased 16% (11 new units) in 2022. In FY23, the Company plans to open 11 new owned-and-operated venues, with a mix of large and medium sizes.

Dick's Sporting Goods is the only true national sporting goods chain, but it still controls just 8% of what remains a fragmented market. After opening four legacy and nine specialty stores last year, in FY23 the Company plans to open nine DICK'S House of Sport stores and 11 Golf Galaxy Performance Centers, while also making improvements within existing stores including converting over 100 stores to premium full-service footwear decks, bringing the total to over 75% of DICK'S locations. The Company also announced it would wind-down the Field & Stream brand, with plans to convert the existing 17 Field & Stream stores, the majority of which are part of a combo store, to DICK'S House of Sport stores, expanded DICK'S Sporting Goods stores or other specialty concept stores. Dick's is also investing in technology to enhance store fulfillment and pickup capabilities (70% of online sales are fulfilled by stores).

The Company's relatively strong results reflect a rebound from last year's supply chain bottleneck. Management expects increasing margin pressure due to the high concentration of apparel and footwear in an increasingly promotional environment. The store base has been expanding at a 3% annual rate, which may increase slightly in 2023.

The Company is coming off a disastrous 2022 as margins cratered despite a modest increase in sales. A more promotional selling environment resulted in lower gross margin while higher freight and payroll costs as well as expenses associated with new stores led to a deterioration in SG&A margin and an operating loss and cash burn. The Company opened five new stores in FY22, but we doubt there is much of an appetite for continued expansion in 2023.

Bob's Stores and Eastern Mountain Sports were acquired by GoDigital Media Group in 2022, with a plan to capitalize on synergies by opportunistically purchasing stores closed by other retailers, and entering market areas which have been vacated by other retailers, for example Olympia Sports' market area between Maine and Virginia. We note that the unspecified expansion plans may be delayed by macroeconomic factors.

The Company continued to expand the store base in FY22, adding eight units for a total of 253 stores. The growth in retained earnings appears to indicate continued profitability, while an increase in inventory led to a drop in the net cash position. We note that continued expansion, coupled with the Company's high concentration of apparel and footwear, could contribute to margin compression as consumers cut back on discretionary spending.

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