The iconic brands that could disappear because of coronavirus

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The retail industry, rife with bankruptcies and shuttered stores long before the coronavirus, is facing its biggest test yet.

Lockdowns triggered by the pandemic have forced the temporary closures of 263,000 stores, according to GlobalData Retail, and analysts say it remains to be seen how many will be able to reopen.

A number of the nation's most iconic brands are at risk of disappearing, as weeks-long lockdowns and deep economic unrest disrupts consumer spending. More than 100,000 stores could disappear by the end of 2025, according to UBS. There already are signs of distress: Retail sales plummeted 8.7 percent in March, their worst drop on record, and analysts say conditions will only worsen in the coming months.

The crisis accelerates a long-expanding divide between the nation's strongest retailers — like Amazon, Walmart and Target — and its weakest. Department stores and apparel companies have reported huge drops in sales since March, as many Americans hunker down at home. Other sectors, like restaurants and car dealerships, which have notoriously low profit margins, also have been hard-hit.

"The companies with the thinnest margins are the most vulnerable," said Hugh Ray, a bankruptcy attorney for the Dallas-based law firm McKool Smith. "The bread and butter for bankruptcy lawyers is restaurants, grocery stores, and automobile businesses with margins that are too thin to sustain much of an interruption."

Agencies like Moody's and S&P Global Ratings have slashed credit ratings for a number of struggling retailers, scuttling their chances of accessing corporate bonds or government stimulus money reserved for companies in good financial shape. This

“The question becomes how strong you were going into the crisis,” said Mickey Chadha, a senior credit officer at Moody’s. “A lot of retailers that were already weak are going to come out of this even weaker, if they come out at all.”

In recent weeks, S&P Global has downgraded 50 of the 125 retailers and restaurants it tracks, including Jo-Ann Stores and Party City.

“The traditional retail sector has been distressed for many years, and now this intense shock is pushing more companies to the brink," Sarah Wyeth, sector lead for retail and restaurants at S&P Global. The proportion of retailers the company considers “distressed” has risen from 15 percent to about 30 percent since the pandemic began, she said.

The most vulnerable companies, Chadha said, tend to have two things in common: large swaths of debt and little cash. Many, like Neiman Marcus and J. Crew, are struggling to pay back billions of dollars from leveraged buyouts.

Another category at risk: mall-based department stores like Macy’s, Belk and J.C. Penney. Analysts say these companies have been struggling for years as people do more of their shopping online from direct-to-consumer brands. Sears and Barneys New York both filed for bankruptcy last year, and analysts say other major companies like Neiman Marcus will probably follow soon.

“Retailers have furloughed employees. They’re taking salary cuts. A lot of them have stopped paying rent, but it’s still not enough," Chadha said. “Stores are shut, so there is zero revenue coming in. And they’re burning through cash."

He added that even stable department store chains, like Nordstrom and Kohl’s, are facing “extreme pressure.” Their fates, he said, may depend on exactly how long the pandemic lasts.

The Gap last week warned that it could run out of cash to cover routine costs. The company, which also owns Banana Republic and Old Navy, didn’t pay rent in April and said it is talking to landlords about permanently closing some of its stores.

The newest challenges come on top of years of bankruptcies and store closures that have gutted some of the nation’s best known retailers, including Toys R Us and Sears. More than a dozen national brands including Gymboree and Payless ShoeSource filed for bankruptcy last year, fueling thousands of store closures.

Now analysts say the coronavirus pandemic that has killed more than 55,000 Americans could change the face of the retail industry, which employs 29 million and supports 1 in 4 U.S. jobs, according to the National Retail Federation. It could be years, analysts say, before consumers feel comfortable walking into a shopping mall again.

“From a big-picture standpoint, it’s obvious that the pandemic is not going to leave any retailer unscathed," said Chadha.

Lenny Bronner and Reuben Fischer-Baum contributed to this report.

About this story

Retail sales data come from the U.S. Census Bureau’s advance monthly retail trade report. Historical numbers are adjusted for inflation to March 2020 dollars.

Credit rating data was provided by S&P and Moody’s. Not all retailers they rated are included in the graphic. If the two agencies gave significantly different ratings for a company the higher rating was used, unless that rating had a negative outlook attached. Revenue data for public companies was taken from SEC annual reports. Totals are from the 2019 fiscal year, except for 99 Cents Only Stores which is from the 2017 fiscal year. Revenue data for non-public companies was collected from Moody’s reports and Forbes.com.

Foot-traffic data was provided by SafeGraph, a company that aggregates location data from tens of millions of devices and compares it with building footprints. The number of mobile devices recorded fluctuates, so the visits data is normalized according to how many devices were reported each day. The stores total represents the number of stores the show up in the data, not the total number of stores operating.