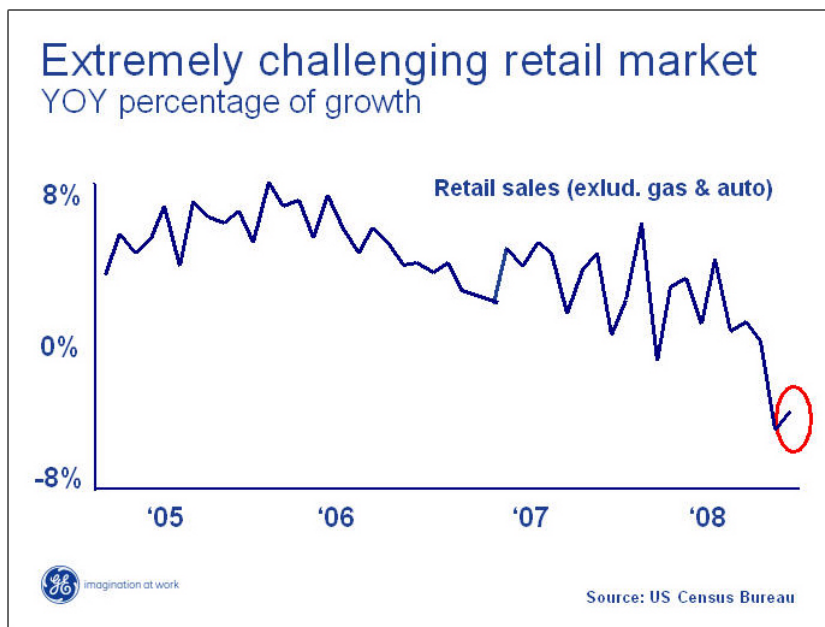




Market Minute

By Tim Tobin, managing director of retail restructuring finance for GE Capital.

The significant increase in credit defaults among retailers leaves no question that this is the most challenging (figure 2) environment retailers have operated in for decades. Unfortunately no immediate end is in sight. Consumer spending continues to decline forcing retailers to increase discounts negatively impact the value of their inventories. Those most hard hit are big-box retailers given their high rent and occupancy costs, and retailers selling luxury or big-ticket items.



(Figure 2)

Given this environment (figure 3), the demand for retail restructuring finance is increasing dramatically. Although lenders continue to be active in deploying capital to support Chapter 11 filings, many distressed retailers will be challenged to successfully execute a restructuring due to several factors.

Lenders active in DIP lending

Top DIP Lenders Jan. 1 – Dec 31, '08

BY VOLUME:

# Lender	# of Deals	Volume (\$mil)
1. GE	21	1,960.1
2. Wells Fargo & Co.	38	1,533.7
3. Barclays plc	5	1,128.8
4. Bank of America Corp.	24	1,120.9
5. General Motors Corp.	2	977.3

BY # OF DEALS:

# Lender	Volume (\$mil)	# of Deals
1. Wells Fargo & Co.	1,533.7	38
1. Bank of America Corp.	1,120.9	24
2. GE	1,960.1	21
3. Cerberus Capital Management LP	412.4	15
4. ING Groep NV	30.3	12



imagination at work

Source: The Deal – Bankruptcy Insider

(Figure 3)

First, the Bankruptcy Code has compressed the amount of time allowed to reorganize under Chapter 11, leaving retailers with less than 210 days to fully emerge from a Chapter 11 proceeding. Due to the complex nature of retail restructuring – including decisions on leases, non-performing store locations and the sale of large quantities of inventory -- this compressed period of time will leave many retailers with few options. In many cases there will be little choice but to undergo a full-chain liquidation (figure 4).

Restructuring more difficult today

- Bankruptcy Code has tightened timeframe for distressed retailers to restructure
- Abundance of overleveraged balance sheets and falling earnings have led to insufficient amounts of collateral to secure DIP financing
- Amount of capital and ability to syndicate remain challenging



(Figure 4)

Second, like so many companies today, the affordable and abundant debt of years past has led to an abundance of overleveraged balance sheets. This in combination with falling corporate earnings has left many distressed retailers without sufficient unencumbered collateral or the necessary funds to support a Chapter 11 reorganization.

Finally, the amount of available capital and the ability to successfully syndicate remain challenging. Bank consolidations combined with liquidity constraints within the capital markets continue to restrict the amount of DIP financing available, and makes the syndication of loans exceeding \$100 million dollars in commitment more challenging to execute.

Given all of these factors (figure 5), retailers in the best position to secure financing and successfully execute a restructuring are those with sound business models, a good level of liquidity, smart management and solid niche positions within their segments. The value-added shopping experience – one in which the consumer feels they paid a fair price and will be a repeat shopper – is more critical to a retailer's longevity than ever before.

Retailers in the best position

Obtaining DIP financing may depend on these factors

- Sound business models
- Good level of liquidity
- Smart, capable management
- Solid niche position within segment



(Figure 5)

By Tim Tobin, for GE Capital's Market Minute.