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Academy Sports And Outdoor Inc. Secured Debt Rating Raised To 'BB+' On $100 Million Term Loan Repayment (Recovery: '2')

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NEW YORK (S&P Global Ratings) Feb. 2, 2024--S&P Global Ratings today said that it views Academy Sports and Outdoor Inc.'s (BB/positive/--) announced $100 million term loan repayment as in line with management's financial policy. This follows significant reduction of funded debt since Academy's 2020 initial public offering (IPO) and its $100 million term loan repayment last year. The repayment does not affect our adjusted credit metrics, including estimated S&P Global Ratings-adjusted leverage in the low- to mid-1x range, because we net excess cash in our calculations. Our issuer credit rating on Academy remains 'BB'.

At the same time, we raised the issue-level rating on the company's senior secured debt, including the $400 million secured notes and the remaining $92 million in term loan debt, to 'BB+' from 'BB'. We also revised upward our recovery rating on the secured facilities to '2' from '3' because of the reduction in secured debt in the capital structure post transaction. The '2' recovery rating reflects our expectation of substantial (70%-90%; rounded estimate: 75%) recovery in a simulated bankruptcy or payment default.

Academy operates as a full-line sporting goods and outdoor recreation products retailers in the U.S. with more than $6 billion of net sales and S&P Global Ratings-adjusted EBITDA greater than $1 billion. The company recently operated around 282 Academy Sports And Outdoors retail locations in 18 states, the majority of which are regionally concentrated in Texas and adjacent southern U.S. states. At the same time, the company continues to expand its store base, a trend we expect to continue.

The 'BB' issuer credit rating and positive outlook on the company reflects Academy's market position as a value-oriented sports and outdoor retailer, leading to elevated customer traffic and demand for sporting goods and outdoor equipment, along with capturing trade-down consumers. We also believe that consumer habits have aligned with more healthy lifestyles supported by hybrid workforce trend including work from home. While performance has modestly declined in the recent year, including a 5.4% decline in sales for the trailing months ended October 2023, operating levels have remained well ahead of pre-pandemic levels. This includes S&P global Ratings-adjusted EBITDA margins of 16.7% for annual period ended in October 2023, which compares to margins of 10.3% in 2019. Our positive ratings outlook reflects the potential for an upgrade if Academy demonstrates consistent performance amid an uncertain economy while sustaining low S&P Global Ratings-adjusted leverage of about 1x.

ISSUE RATINGS – RECOVERY ANALYSIS

Key analytical factors

- We raised our issue-level rating on Academy's secured debt to 'BB+' from 'BB', one notch higher than our issuer credit rating.
- The '2' recovery rating reflects our expectation of substantial (70%-90%; rounded estimate: 75%) recovery in a simulated bankruptcy or payment default.
- We simulate a bankruptcy occurring in 2029 because of lower consumer discretionary spending in a volatile economy, along with a significant step up in competition. This leads to declining consumer spending on sporting goods and, consequently, lower sales and operating margins for Academy, all leading to constrained liquidity.
- We believe the company's senior secured debtholders would maximize recoveries if the company emerges from bankruptcy given its competitive position and the lack of significant owned assets.
- We accordingly estimate Academy's post-emergence value by applying a 5x multiple to our forecasted emergence EBITDA. This multiple is in line with the multiples we use for its similar sporting good and other retail peers.
- After adjusting for the value we attribute to estimated administrative expenses and asset-backed revolver-related claims, we forecast approximately $380 million in collateral value available to the secured debtholders.

Simulated default assumptions

- Year of default: 2029
- Emergence EBITDA: about $207 million
- Implied enterprise value (EV) multiple: 5x
- Estimated gross EV at emergence: About $1.03 billion
- A 60% draw on the asset-based lending (ABL) facility on the path to default

Simplified waterfall

- Net EV after 5% administrative costs: $982 million
- Secured priority revolver claims: $601 million
- Remaining value after priority claims: $381 million
- Senior secured debt claims: $507 million
- --Recovery expectations: 70%-90%; rounded estimate: 75%

Note: All debts amounts include six months of prepetition interest.

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Issue-Level Raised; Recovery Ratings Revised

	To	From
Academy Ltd.		
Senior Secured	BB+	BB
Recovery Rating	2(75%)	3(65%)