

Indicators of Financial Stress in U.S. Food and Restaurant Sectors

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Fitch Ratings has published a report that identifies leading financial stress indicators in the U.S. food and restaurants sectors. The report reviews several companies that have struggled financially and have, at some point, either filed for bankruptcy protection or become 'fallen angels' due to their ratings being downgraded to high yield. The firms discussed include Chiquita Brands International, Inc., Interstate Bakeries Corporation, Krispy Kreme Doughnuts, Inc., Buffets Holdings, Inc. and VICORP Restaurants, Inc.

Key catalysts leading up to each firm's troubles and a chronological timeline of major events that occurred prior to the need to restructure its balance sheet are provided. Also included is a summary of financial measures demonstrating peak-to-trough performance and a snapshot of historical bond and/or loan prices.

'Regardless the trigger, the presence of high debt levels will always compound the effects of operating challenges that are often out of a company's control,' said Carla Norfleet Taylor, Director, Fitch Ratings.

Leading indicators include: a persistent decline in cash flow from operations, several years of negative free cash, recurring amendments to debt agreements in order to loosen covenants, considerable structural changes in the industry and excessive management turnover. For the restaurant industry, a prolonged decline in same-store sales is also an early warning signal.

'Increased commodity cost may be a structural change in the food industry. The global supply and demand dynamics for agricultural commodities may have permanently shifted, thus increasing companies' cost structures for the long term,' said Wesley E. Moultrie, Senior Director, Fitch Ratings.

Lagging indicators include: retaining outside consultants or advisors when experiencing financial pressure, missing interest payments and entering forbearance agreements with creditors.

Given ongoing pressures from heightened commodity costs and weaker consumer discretionary spending, several high yield and low investment grade food and restaurant companies are experiencing declines in profitability and cash flow.

To complement the review of financial stresses in the industries, Fitch provides an update on the credit outlook for Dole Food Company, Del Monte Foods, Co., Tyson Foods, Inc. and Brinker International, Inc. While most of these companies are not at risk for bankruptcy, all are experiencing operating and/or financial difficulties.

The full report 'A Reference Guide to U.S. Food and Restaurant Bankruptcies and Fallen Angels' is available on the Fitch Ratings Web site www.fitchratings.com.

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