

Tariffs Will Hurt U.S. Consumer And Retail And Restaurant Companies--To Varying Degrees, And Depending On The Subsector

February 13, 2025

(Editor's Note: S&P Global Ratings believes there is a high degree of unpredictability around policy implementation by the U.S. administration and possible responses--specifically with regard to tariffs--and the potential effect on economies, supply chains, and credit conditions around the world. As a result, our baseline forecasts carry a significant amount of uncertainty. As situations evolve, we will gauge the macro and credit materiality of potential and actual policy shifts and reassess our guidance accordingly [see our research here: spglobal.com/ratings].)

Key Takeaways

- Broad-based tariffs could hurt more U.S. consumer products and retail companies this time around than in 2018. Over 24% of retail credits and 19% of consumer credits have negative outlooks, indicating an above-average negative bias and little headroom for additional macroeconomic pressures.
- Price increases will be harder to pass along to the consumer this time around because of the recent inflation cycle and already weak consumer environment.
- Given the heterogeneity and global supply chain footprint of the consumer products and retail and restaurant industries, examining the tariff impacts requires knowledge of each company's product, supply, and manufacturing mix. Subsector impacts vary widely depending upon this mix.
- Companies cannot rely solely on price increases to mitigate the extra costs imposed by tariffs and retailers will ultimately have to decide how much they can and will pass on to the end consumer.

On Feb. 1, President Trump announced 25% import tariffs on goods from Mexico and Canada, with Canadian energy products at a lower rate of 10%, and an additional 10% tariff on imports from China. China responded with retaliatory tariffs of 10%-15% imposed on certain U.S. products. On Feb. 3, the U.S. and Mexico agreed to a one-month pause of tariffs on imports from Mexico and subsequently Canada. Canada and Mexico will also likely start their own tariffs on U.S. goods if the U.S. activates the tariffs. On Feb. 10, President Trump announced 25% tariffs on imports of steel and aluminum to the U.S. This round of tariffs is more broad-based than during the first Trump administration. A universal tariff has not yet been announced but could only add to higher costs for consumer and retail companies. It is unclear if and how long these tariffs will be in effect, but

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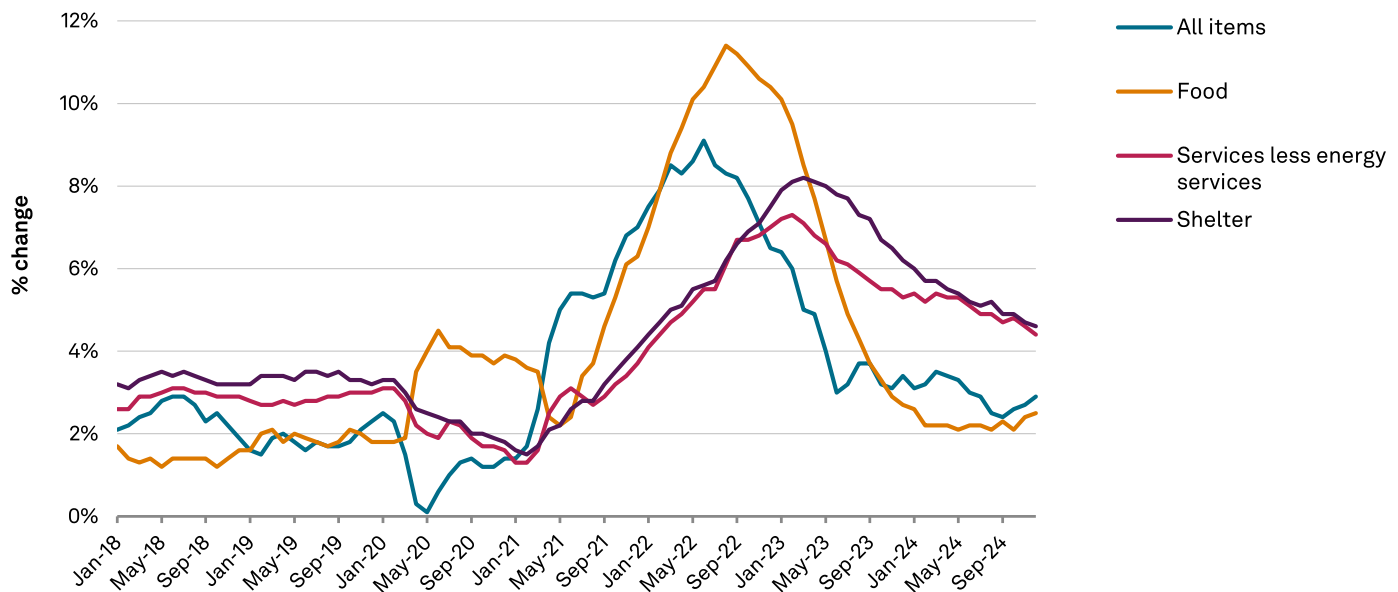
See complete contact list at end of article.

we examine the potential implications for the consumer products and retail and restaurant industries.

The 2018-2019 round of tariffs was more manageable. In 2018, inflation was about 2%. The tariffs were not as encompassing and did not cover all consumer goods imported from China. S&P Global Ratings took few rating actions related to tariffs. Companies were able to pass along nearly all the cost increases. In December 2024, the CPI rose 2.9%, a slight uptick from 2.4% in September 2024. The change in CPI peaked to nearly 9% in July 2022 and has gradually come down since, demonstrating the persistent high prices since 2018.

Chart 1

12-month percentage change, Consumer Price Index (CPI), not seasonally adjusted



Source: U.S. Bureau of Labor Statistics.

Since the last round of tariffs in 2018 and supply chain challenges after the pandemic, many consumer products companies have shifted manufacturing out of China and diversified their sourcing. Retailers have also diversified their supplier base and have strengthened their inventory management. The bad news is we are entering this tariff cycle at higher prices after extraordinary inflation in 2021 and 2022. The price at retail of goods and services are on average 25%-30% higher than in 2018 and consumer fatigue is weighing on discretionary spending. The good news is companies have navigated volatile times and are entering this tariff cycle with stronger supply chains and more experience with how to address tariffs and disruptions.

In 2024, imports from China comprised about 13% of U.S. imports down from 21% in 2018 (source: U.S. Census Bureau). Goods from Canada and Mexico account for 29% of all U.S. goods imports,

while exports to these two neighbors make up 33% of all American exports. The U.S. imports 43% of goods from Canada, Mexico, and China combined (see Economic Research: How Might Trump's Tariffs--If Fully Implemented--Affect U.S. Growth, Inflation, And Rates?, published Feb. 6, 2025.)

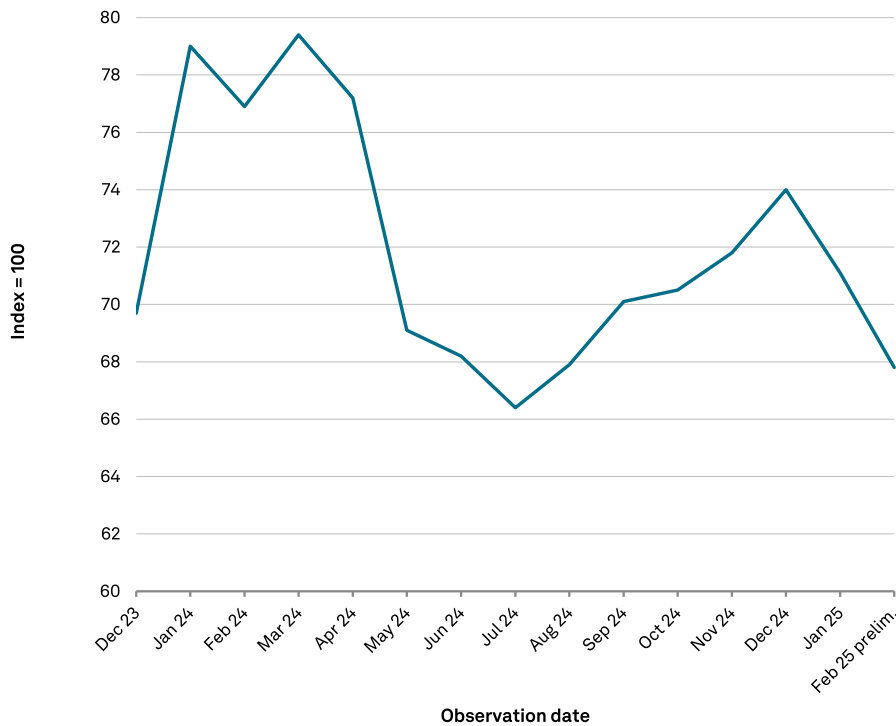
Tariffs on Mexico, Canada, and potential universal tariffs pose wider risks, adding complexity to assessing the impact and to companies' efforts to optimize supply chains.

While substitution for commoditized raw materials and moving where products are manufactured is relatively easier for consumer products companies than for high technology or auto companies, broad-based tariffs could pose near-term margin and supply chain pressures as companies navigate ways to lower their costs. The consumer products industry is diversified with subsectors ranging from staples such as packaged food and household products and personal care companies to more discretionary categories such as durables and apparel. A universal tariff would hit raw materials, such as cocoa and coffee, where prices have continued to increase. These products are largely sourced abroad and in a few key regions such as Africa, South America, and Asia, and tariffs could hurt profits. Large, multinationals have diverse manufacturing and distribution footprints close to their local markets, which minimizes tariff risks. However, moving sourcing into different regions could increase freight costs, require additional investments, and cause operational disruptions. Higher tariffs on energy from Canada will universally increase transportation costs. Like the recent inflation cycle, we could see margin pressure as the tariffs roll into the costs of goods and a lag for companies to mitigate the higher costs. It took several consumer products companies about two years to fully realize the pricing benefits of the last inflation cycle. As inflation eased, companies did not lower their prices, but instead strategically promoted to drive volume lift. Hence, high prices at retail remain sticky. Inflation also weighed on cash flows due to high raw material costs and companies increased inventory levels during the supply chain bottlenecks.

The consumer is showing signs of weakness. We believe the largest near-term risk to the consumer products and retail industries is the further pressure on an already stretched consumer. While macroeconomic indicators such as consumer spending and low unemployment point to a generally resilient consumer, signs of stress are increasing. Recent preliminary consumer sentiment dropped due to inflation fears. Consumers are spending their savings, using more credit card debt, and the wealth and income gap is widening between higher and lower income earners.

Chart 2

University of Michigan consumer sentiment

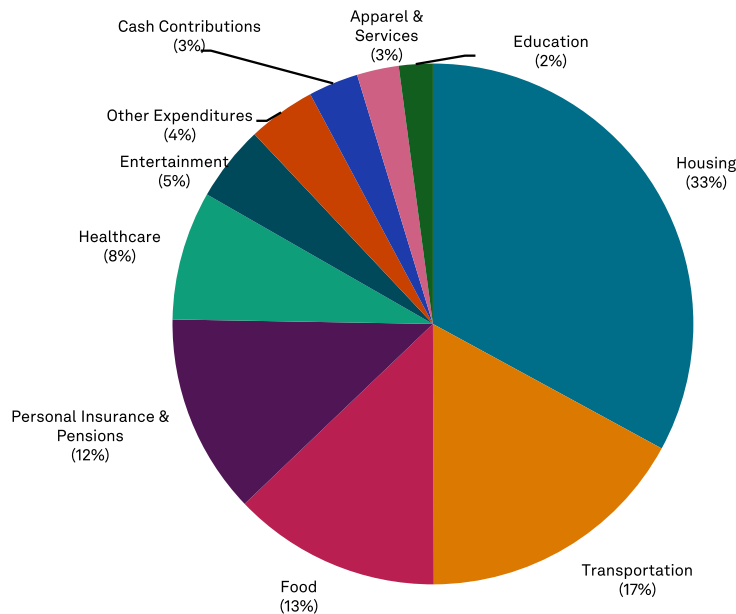


Source: University of Michigan, Feb. 7, 2025.
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Cost of essentials remain high. These factors along with higher costs for essentials such as shelter, food, and services has pressured discretionary spending. Per the CPI data in December 2024, all food prices grew 2.5% and shelter and service costs grew above 4% versus a year ago, compared with 3% of overall CPI. Demand remains weak in discretionary categories and retailers and manufacturers have less pricing power entering this tariff cycle. Demand for large ticket durables such as household appliances and mattresses has not recovered. Volumes for consumer staples such as packaged food remain weak, and consumers have traded down to private label. Lingering inflation could halt Fed rate cuts. Higher rates will pressure consumers who use credit card debt and lower turnover in the housing market will delay recovery in demand for durables or home related categories.

Chart 3

2023 consumer expenditures



Source: U.S. Department of Labor, Bureau of Labor Statistics, Sept. 25, 2024.
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Downgrade pressure increases. Higher tariff exposure does not necessarily equate to higher credit or downgrade risk. Effects on ratings will depend upon the companies' ability to mitigate the higher costs, pricing power, and their balance sheet cushion relative to our downgrade triggers. In the retail industry, our downgrade to upgrade ratio reached 1.5 to 1 by the end of 2024, indicating stress in the sector, and we would expect this to increase as tariffs from suppliers are passed forward. In 2024, we saw rating actions on U.S. consumer products companies turn more positive after lapping the inflationary periods and fully realizing price increases and the ratio of upgrades and downgrades were about equal. Tariffs and resultant input inflation would likely result in a reversion back to negative rating actions in consumer products.

Consumer Products

Consumer categories with the most imports to the U.S. from Canada include bakery products and frozen french fries (Canada-based McCain Foods is the largest supplier of frozen potato products globally), wood and paper products, metals and metal products, and furniture. With respect to Mexico, fresh vegetables, beer, tequila, mezcal, and fresh fruits such as avocados and berries are large imports. Trade policies and retaliatory tariffs would affect exports for agribusiness and commodity foods.

Many U.S. consumer products companies source commodities abroad and have manufacturing facilities in Canada and Mexico and these regions have been an extension of their U.S. supply chains. For most companies, the cost of producing in the U.S. may still exceed the costs of manufacturing in those countries even with current proposed tariff levels factored in because of lower labor and production costs, but it depends on the degree of exposure. Broadly for less discretionary categories like food and staples, we are focused on locations of manufacturing plants, raw material sourcing and mix, substitutability of inputs, and export sales in the event of retaliatory tariffs.

According to S&P Global Market Intelligence (Jan. 15, 2025) certain popular consumer categories that were excluded from the original Section 301 tariffs in 2018 on imports from China, would be included this time around. These include toys and kids' clothes. Less than 20% of U.S. consumer goods imports were captured by Section 301 tariffs.

The additional 10% tariffs on China will affect highly elastic categories such as durable and discretionary goods such as furniture, home appliances, leisure goods such as toys and games, and apparel. Alcoholic beverages and luxury goods have larger China exposure and export risk, depending on where products are made and shipped.

Below we highlight the consumer products subsectors we believe have meaningful exposure to the proposed tariffs. The credits we highlight below are topical or those we deem may have some exposures. The list below is not exhaustive and is subject to change based on available information.

Agribusiness And Commodity Foods

While China is an important grain importer an additional 10% tariff does not materially change our view of credit quality in this sector, particularly after China opted to import primarily from South America instead of the U.S. following the first Trump administration tariffs. But Canada and Mexico continue to import roughly 30% of all U.S. agricultural exports, and both have agricultural trade surpluses with the U.S. (according to USDA data). Therefore, U.S. import tariffs on agricultural goods from those trading partners could cost U.S. domestic users more than potential retaliatory tariffs on their U.S. exports. Still, most U.S. agribusiness companies we rate continue to operate with significant leverage headroom to their downgrade triggers, and any ratings impact to North American companies would vary depending on their position in the supply chain and where they operate.

Our rated U.S. issuers typically are more exposed to Mexico than Canada, where the latter country's agricultural trade with the U.S. involves similar commodities like livestock and dairy whose U.S.-Canada trade volumes make up a much smaller share of any producer's total volume. By contrast Mexican-U.S. trade involves commodities that don't overlap and for which each partner has a respective domestic production advantage, so tariff exposure is higher. The U.S. exports are largely concentrated in grains, feeds, livestock, and meat to Mexico and imports largely consist of beer, spirits, vegetables, and fruits.

U.S. produce companies would be the most hurt by tariffs on Mexican imports. Moreover, their ability to fully pass on the impact of higher tariffs to consumers would be limited by under-pressure consumer discretionary income from the recent bout of consumer price inflation and by higher financing costs with post-pandemic savings largely gone. Still our rated universe of produce companies is limited to names like Dole PLC (BB/Stable/--), which do not have a lot of sourcing exposure to Mexico or Canada.

U.S.-based commodity processors either with Mexican export sales or a production footprint in

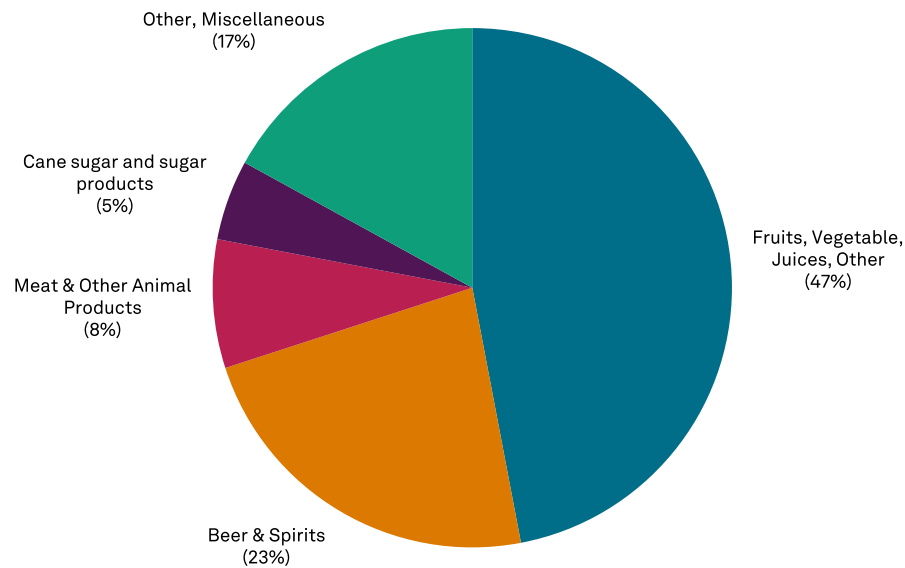
Mexico could be hurt by the tariffs, but Mexico relies on agricultural imports for much of its food staples, suggesting retaliatory tariffs may not be pursued aggressively. Mexican domestic corn production only satisfies about half of its consumption needs, and it imports the rest primarily from the U.S. Similarly, Mexico's domestic sugar production only satisfies about 75% of its sweetener consumption, and the country relies on U.S. corn imports for the other 25% of its corn-based products. This reliance likely mitigates the counter-tariff risk to corn and starch-based commodity processors like Primary Products LLC (BB/Stable/--) and Ingredion Inc. (BBB/Stable), the latter of which owns and operates facilities in Mexico. Moreover, those companies' exposure to Mexico is small at less than 10% of sales and we believe it's unlikely that Mexican operators would consider large capital outlays to change their manufacturing mix away from corn-based products when the long-term duration of potential tariffs is highly uncertain.

Other U.S. commodity processors with export exposure to Mexico such as feed operators, beef packers, and chicken producers, have limited concentration risk to Mexico. Feed operators like Land O'Lakes Inc. (BBB-/Stable/--) and Alltech Inc. (B+/Stable/--) either benefit from significant product diversification (Land O'Lakes) or geographic diversification (Alltech) to mitigate tariff risk. U.S. beef packers and poultry processors (including Tyson Foods [BBB/Stable/A-1], Smithfield Foods [BBB-/Stable/A-3], Pilgrim's Pride Corp.. [BBB-/Stable--], Walnut Sycamore Holdings LLC [BB/Stable/--], and Simmons Foods Inc. [B/Stable/--]) all sell to Canada and Mexico in particular, but their sales mix to those markets is well below 10%

Further upstream, our rated global grain traders (including Archer Daniels Midland Co. (A/Negative/A-1), Bunge Global S.A. (BBB+/Watch Pos/A-2), and Cargill Inc. (A/Stable/A-1)) are least at risk. Although they could face lower grain and oilseed shipment volumes to Mexico due to tariffs, these global companies have the scale and logistics infrastructure to benefit from trade flow disruption caused by tariffs. A more concentrated regional trader could be considerably affected. Savage Enterprises LLC (BB-/Stable/--) owns a regional grain trading operation that almost exclusively exports U.S. corn to Mexico, so it is highly exposed to tariffs. However, we believe U.S. corn exports to Mexico would remain competitive despite tariffs given the unfavorable logistics of importing from other regions like Brazil that don't benefit from the cost-effective rail infrastructure that already exists between the U.S. and Mexico. Therefore, we believe the risk to Savage is contained.

Chart 4

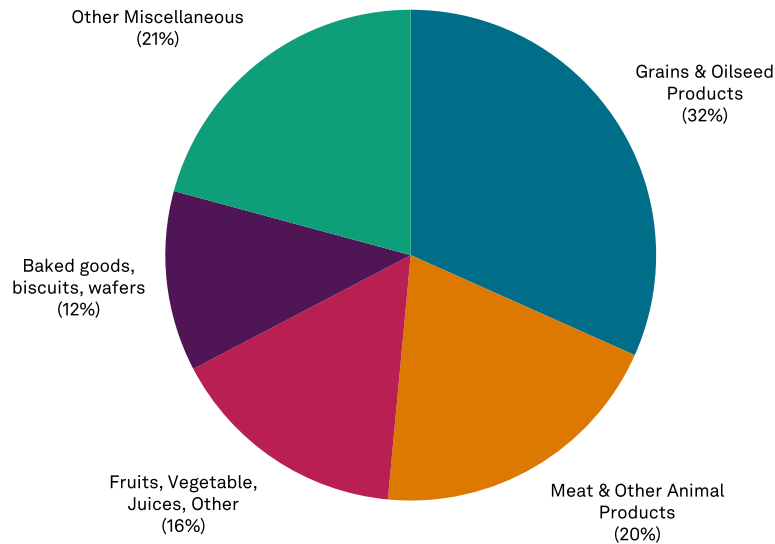
U.S. mix of Mexican agricultural imports



Source: USDA.
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Chart 5

U.S. mix of Canadian agricultural imports



Source: USDA.
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Table 1

Agribusiness and commodity foods

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
Archer Daniels Midland Co.	A/Negative/A-1	Lower risk, although could face lower grain and oilseed shipment volumes to Mexico due to tariffs. The company is global and has the scale and logistics infrastructure to benefit from trade flow disruption caused by tariffs.	2.1x	2.5x
Bunge Global S.A.	BBB+/Watch Pos/A-2	Lower risk, it although could face lower grain and oilseed shipment volumes to Mexico due to tariffs. The company is global and has the scale and logistics infrastructure to benefit from trade flow disruption caused by tariffs.	0.2x	We would affirm or upgrade pending the merger with Viterra Ltd.
Cargill Inc.	A/Stable/A-1	Lower risk, it although could face lower grain and oilseed shipment volumes to Mexico due to tariffs. The company is global and has the scale and logistics infrastructure to benefit from trade flow disruption caused by tariffs.	0.7x	2.5x

Table 1

Agribusiness and commodity foods (cont.)

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
Lamb Weston Holdings Inc.	BB+/Stable/--	North American operations account for two-thirds of revenues, and includes some exports sales to Mexico. It does not have material sales to Canada and its China operations either produce domestically or import from production outside the U.S.	3.7x	3.5x
Smithfield Foods Inc.	BBB-/Stable/A-3	Export exposure to Mexico, Canada, and China is less than 10% of sales. It is also reducing hog farming activity so the mix will continue to shift toward U.S. packaged meats.	1.7x	2x
Tyson Foods Inc.	BBB/Stable/A-2	Export sales to China, Mexico, and Canada is less than 10% combined. Import exposure not material.	2.4x	>3.5x (during challenging industry cycles)/3.0x in normal cycles

Ratings as of Feb. 10, 2025. (1) S&P Global Ratings estimates based on available information. (2) S&P Global Ratings-adjusted latest 12-month data available. (3) S&P Global Ratings-adjusted metrics.

Alcoholic Beverages

Tariffs levied on alcoholic beverage products would add an unwelcome headwind to an industry that has underperformed over the last 18 months in the U.S. Consumers have been much more value conscious, which has constrained product mix with a shift away from premium offerings. They also are spending less in the on-premise channel. This has led to excess inventories that only now are returning to levels that could spur higher shipments. The current industry landscape will make it difficult for the industry to offset tariffs with price increases. Building up inventories ahead of the tariffs is also not likely given excess inventories are only now getting to normalized levels, while the lead time to accelerating shipments ahead of possible future tariffs is also tight. Therefore, we view elevated credit risks from tariffs and are very closely surveilling developments.

The major U.S. alcoholic imports that could face lower sales because of tariffs include beer and tequila from Mexico. Bourbon is the primary U.S. spirit potentially subject to counter tariffs. In fact, certain Canadian retailers have already stopped restocking shelves with bourbon in response to tariff threats; albeit such reports may reflect a small segment of that market.

Several rated brewers have a large presence across Mexico, Canada, and the U.S. but not all face the same degree of tariff risk. Constellation Brands Inc. (BBB/Stable/A-2) is the company facing the largest risk from tariffs as more than 75% of its sales are U.S. beer sales from Mexican imports. Moreover, the company has regularly communicated to investors that it takes a very measured approach to price increases because it does not want to disrupt its ongoing share gains suggesting a cautious approach to price increases. Anheuser-Busch InBev S.A./N.V. (A-/Stable/A-2) has a large brewing presence in Mexico too, but that production is only for Mexican consumption and non-U.S. export destinations, while its U.S.-produced beer is largely consumed in the U.S. Molson Coors Beverage Co.'s (BBB/Stable/A-2) U.S. brewing is largely consumed in the U.S. as well and its fledgling export growth of flagship brands Coors Lite and Millers Lite to Mexico remains small. Its Canadian beer under the Molson Canadian brand is largely consumed domestically in Canada, but modest exports to the U.S. (less than 10% of sales)

would be affected.

Spirits companies with large U.S. tequila imports include Diageo (A-/Stable/A-2) and Bacardi Ltd. (BBB-/Stable/A-3), the latter of which has a leverage ratio above its downgrade trigger because of recent acquisitions (4.4x as of Sept. 30, 2024, though steadily sequentially declining such that we believe leverage will be near or below its downgrade trigger by fiscal year end March 31, 2025).

Rating headroom for Diageo is likely to further reduce if the proposed U.S. trade tariffs are implemented. We estimate that Diageo's adjusted debt leverage is likely to remain below our 4.0x rating downside in such a scenario despite lower profits in the U.S. (Diageo's largest market with around 50% of the group operating profit). In the U.S., about 45% of Diageo's net sales of products sold must be made in either Canada or Mexico given geographic origin requirements. The key products which would be affected would be tequila which must be made in Mexico, and Canadian whisky. The group should also be able to take a number of mitigating steps to cushion itself against any potential impact through pricing, promotion and working capital management, lower expansion capex and marketing costs in the region.

Brown-Forman Corp. (A-/Stable/--) too has a tequila presence in the U.S. with El Jimador and Tequila Herradura, but it's the risk of counter tariffs on its flagship Jack Daniels Bourbon (and premium priced Woodford Reserve Bourbon) that could hurt sales more. Still, its sales exposure to Mexico (excluding tequila) and Canada is estimated at below 10%, and its 2.4x leverage ratio as of Oct. 1, 2024, had just over a half-turn cushion to its downgrade trigger such that its tariff credit risk exposure is also well contained.

Table 2

Alcoholic Beverages

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
Bacardi Ltd.	BBB-/Stable/A-3	Large U.S. tequila imports and has little headroom against downside given recent acquisition.	4.4x	4x
Brown-Forman Corp.	A-/Stable/A-2	Has a tequila presence in the U.S. with El Jimador and Tequila Herradura, but it's the risk of counter tariffs on its flagship Jack Daniels Bourbon (and premium priced Woodford Reserve Bourbon) that could hurt sales more.	2.5x	3x
Constellation Brands Inc.	BBB/Stable/A-2	Faces the largest risk from tariffs as more than 75% of its sales are US beer sales from Mexican imports. Might be cautious with pricing to mitigate market share losses.	3.0x	4x
Molson Coors Beverage Co.	BBB/Stable/A-2	U.S. brewing is largely consumed in the U.S. as well and its fledgling export growth of flagship brands Coors Lite and Millers Lite to Mexico remains small. Its Canadian beer under the Molson Canadian brand is largely consumed domestically in Canada. Modest exports to the U.S. that would be affected (less than 10% of sales)	2.3x	3x

Ratings as of Feb. 10, 2025. (1) S&P Global Ratings estimates based on available information. (2) S&P Global Ratings-adjusted latest 12-month data available. (3) S&P Global Ratings-adjusted metrics.

Packaged Food

We believe that the U.S. packaged food sector could face temporary margin pressure from newly imposed tariffs, though the degree of exposure varies across the industry. Most of these companies manufacture the majority of their products within the U.S., limiting their direct tariff exposure, but others with direct imports of finished goods could face materially higher costs on their products. For instance, Mondelez International (BBB/Stable/A-2) imports some products from Canada and it has a large Oreo production facility in Mexico. Nevertheless, the company has a diversified supply chain and could mitigate any near-term pressure. In addition, it is well diversified outside of the U.S. and has good headroom to our 4x downgrade trigger, so the tariffs present limited ratings pressure. Many companies with lower ratings also have modest production footprints outside the U.S. and potentially some direct tariff exposure, including B&G Foods Inc. (B-/Positive/--), TreeHouse Foods Inc. (B/Stable/--), and 8th Avenue Food & Provisions Inc. (CCC/Negative/--). Many of these companies can pass through the costs but there is a lag. We note low-rated, speculative-grade companies have much less room in their ratings for operating disruptions.

Tariffs levied on raw materials imports would be the most significant headwind for most of our rated U.S. packaged food companies. Companies could incur higher costs due to their exposure to some fruits and vegetables (mostly Mexico), dairy (Canada), and packaging and ingredients (China and Mexico). While larger players with diversified supply chains could potentially find alternative domestic sources for ingredients such as garlic, durum wheat, breakfast syrups, and tomatoes, they may not be as easily or cheaply substituted (potentially leading to higher costs for companies like McCormick & Co. Inc. (BBB/Stable/A-2), B&G Foods, and 8th Avenue. Moreover, certain other ingredients, such as cocoa, coffee, and black pepper cannot be grown in the U.S. due to climate conditions. Importers of these commodities will face higher costs, if universal tariffs are implemented.

Retaliatory tariffs could present an additional headwind but we currently assume they will have a limited impact on the majority of our rated U.S. packaged food companies, unless more broadly implemented. Canada and Mexico generally represent a small percentage of our rated issuers overall revenue base, and some have production facilities located with those nations to meet local demand. For example, Canada represents about 6% of The Kraft-Heinz Co.'s (BBB/Stable/A-2) revenues. However, the company produces ketchup, one of its largest product categories, locally, limiting the company's exposure to potential Canadian retaliatory tariffs. Kraft-Heinz also has significant cushion to our 4x downgrade trigger so we do not believe the tariffs will pressure the ratings.

While packaged food companies would likely implement targeted price increases to offset the tariffs, we believe they would absorb at least some of the costs rather than risk market share losses, as the already stretched consumer continues to seek value. Nevertheless, we do not expect tariffs to pressure ratings for our investment-grade issuers who will explore ways to offset higher costs, including through productivity savings, product reformulations, and price pack architecture. Low speculative-grade issuers with significant direct import exposure could face greater risk if they are unable to redirect production and cannot cost effectively compete with larger issuers.

Table 3

Packaged Food

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
8th Avenue Food & Provisions Inc.	CCC/Negative/--	Durum wheat imported from Canada. 15% of its total peanut butter volumes produced by 2 plants in Canada.	12x	Default scenario
B&G Foods Inc.	B-/Positive/--	Maple Grove Farms (4% of total sales) sources maple syrup from Canada and sells in U.S. Green Giant has a facility in Mexico and products are sold in the U.S. Chinese garlic and black pepper for the spices and seasonings segment are sourced from Asia (China/Vietnam).	6.8x	Leverage >7x to go back to stable
Kraft Heinz Co. (The)	BBB/Stable/A-2	Some exposure to Canada and Mexico, but not material. Tomatoes are sourced in California and Spain.	3.1x	4x
Mondelez International Inc.	BBB/Stable/A-2	Mondelez has a large Oreo production facility in Mexico. It also produces Oreos in the U.S. so it has back-up production. Also has large presence in Canada through Give & Go but company has ability to shift manufacturing to other facilities.	2.9x	4x
TreeHouse Foods Inc.	B/Stable/--	5 facilities in Canada that manufacture crackers, frozen griddle, tea, and broth/stocks (20% of TreeHouse's total revenues with majority production in the U.S.)	6.1x	7x

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Durables

We believe the U.S. durables sector overall faces medium to high risk if broad-based tariffs are levied since many of these companies' supply chains stretch to nearby Mexico and as far as China. The newly announced tariff on steel and aluminum would pressure the durables sector, especially the appliance and furniture manufacturers. Further, the industry has not recovered volumes since lapping pandemic gains and the categories are highly discretionary. Regardless of whether additional tariffs are enacted, we believe over the short-term sell-in could be weak as manufacturers likely shipped excess product in the fourth quarter of 2024 to get ahead of potential tariff increases.

Should tariffs increase further we believe some of the most exposed subsectors are small appliances and personal care electronics--where typically the entire product is manufactured in Asia--with China accounting for the bulk of manufacturing. We also believe grill manufacturers like Weber have meaningful sourcing from China and are highly exposed. Peer Traeger will likely be more affected if its products were subject to tariffs this time around because it sources about 80% of its grills from China and it was exempted during the 2018 tariffs. In general, companies in these subsectors have made efforts over the last few years to shift production outside China though we believe sizable footprints still exists. Conair Holdings LLC (B-/Negative/--), for example, generates approximately 70% of its sales in the U.S. and has been working to diversify its production footprint, but still has significant exposure to China. An inability to mitigate tariff cost increases on Chinese imports could present downside risk to its already pressured ratings.

We also believe the large appliance subcategory is exposed including sizable imports from Korean-domiciled manufacturers with extensive global supply chains and to a much lesser extent U.S.-based Whirlpool which tends to manufacture closer to home but imports components from China and has some production in Mexico. Whirlpool could actually be a net beneficiary compared to rivals since we believe its U.S. supply chain is more North American focused. We also believe the office furniture companies including Steelcase Inc. and MillerKnoll Inc. could suffer from the steel tariffs and a rise in global steel prices since metals are a sizable component of their products, as well as lumber from Canada which could face direct tariffs.

The imposition of tariffs would negatively affect cash flows immediately while in most cases the income statement impact would occur over time depending on inventory turnover. companies will attempt to partially offset potentially higher tariffs by seeking supplier concession and raising prices selectively considering a stretched consumer.

Table 4

Durables

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
ACCO Brands Corp.	BB-/Negative	Imports finished product from China and other APAC countries. Has 1 manufacturing facility in Canada and 1 in Mexico that may be exporting to U.S. Large portion of sales from paper products, highly exposed to pulp volatility.	4.3x	4x
Conair Holdings LLC	B-/Negative/--	Imports most of its finished product from China; moving some supply chain to other APAC countries.	8.4x	EBITDA interest coverage < 1.5x
Hillman Solutions Corp.	BB/Stable/--	Imports most of its finished product from China and other APAC countries. Given low price point of items, has historically been able to pass along price increases.	3.1x	4x
MillerKnoll Inc.	BB/Stable/--	Moderate to high, primarily reflecting potential rise in components from China, lumber from Canada and general rise in steel costs.	4x	>4x
Newell Brands Inc.	BB-/Negative/B	Newell has 15% import exposure to China with a goal of improving to 10% over the next 12 months.	5.5x	5x
Steelcase Inc.	BB+/Stable/--	Moderate to high, primarily reflecting potential general rise in steel costs as well as some components imported from overseas.	0.6x	Leverage 3x
Traeger Inc.	B-/Stable/--	Traeger's grills were exempt from previous rounds of tariffs. About 80% of its grills products are sourced from China and 20% sourced from Vietnam. Traeger's accessories are subject to current tariffs, but only 20% of such products are manufactured in China; thus, we believe tariff risk would primarily affect its grill products.	6.6x	EBITDA interest coverage declines to mid 1x-area, negative free operating cash flow.

Table 4

Durables (cont.)

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
Weber LLC	CCC+/Watch Pos/--	Has meaningful sourcing from China.	N.M.	Upgrade pending merger with Blackstone Products.
Whirlpool Corp.	BBB-/Negative/A-3	~20% of products sold in U.S. are manufactured outside. Most of this is from Mexico (refrigeration) and remainder from China (microwaves).	5.1x	>=4x by end of 2026

Ratings as of Feb. 10, 2025. (1) S&P Global Ratings estimates based on available information. (2) S&P Global Ratings-adjusted latest 12-month data available. (3) S&P Global Ratings-adjusted metrics. N.M.--Not meaningful.

Apparel

We estimate the apparel sector has medium-to-high exposure to tariffs, depending on each company's product and manufacturing mix. If universal tariffs are enacted on regions outside of China, the entire industry would be further pressured. Demand is already weak and margins are depressed. China is the largest exporter and producer of apparel and textiles, but many apparel and footwear brands have moved production to countries in Southeast Asia (such as Bangladesh and Vietnam) in response to earlier tariffs and to diversify supply chains after the pandemic disruptions. Tariffs on staples and other goods will also decrease demand for discretionary items such as apparel and footwear, where demand is already weak. Due to these dynamics, we believe pricing power to offset tariffs is limited. We believe apparel companies will use trans-shipping practices to offset tariff exposure, whereby they move product regionally before importing finished goods into the U.S. If this practice becomes subject to tariffs, the risk for the sector would be greater. Companies have instituted various cost-mitigating actions in their supply chains such as having their China-based producers purchase raw materials locally to reduce their overall tariff rates.

Aside from tariff risk, U.S. companies face risk of retaliation from the Chinese government including legal inquiries and bans from selling channels, examples include Nike Inc. (AA-/Negative/A-1+) and PVH Corp. (BBB-/Positive/A-3). U.S. companies are also legally prohibited from using cotton from the Xinjiang region of China due to concerns over forced labor. We believe companies including VF Corp. (BB/Stable/B), Capri Holdings Ltd.. (BBB-/Watch Neg/--), and PVH Corp. are generally sourcing below 15% of products from China. China is an important sourcing market for Nike, as are certain other Asian countries.

Table 5

Apparel

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
Crocs Inc.	BB/Stable/--	We believe Crocs has medium exposure. Approximately 83% of Heydude brand production was in China.	1.4x	>2x

Table 5

Apparel (cont.)

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
Kontoor Brands Inc.	BB/Stable/--	We believe Kontoor has medium exposure. Approximately one third of sourcing is from Kontoor's internal manufacturing in Mexico.	2x	>3x
Nike Inc.	AA-/Negative/A-1+	Medium exposure, supply chain is diversified and footwear is largely out of Vietnam. Some apparel still out of China, but lower than before. Nike does face retaliatory risk from the Chinese government.	0.5x	1.5x
PVH Corp.	BBB-/Positive/A-3	Similar to Nike, PVH faces retaliation risk from the Chinese government including legal inquiries and bans from selling channels.	1.9x	3x
VF Corp.	BB/Stable/B	We believe VF has low exposure. Recent earnings said very minimal exposure of imports coming out of China, Mexico, Canada.	4.1x	5x

Ratings as of Feb. 10, 2025. (1) S&P Global Ratings estimates based on available information. (2) S&P Global Ratings-adjusted latest 12-month data available. (3) S&P Global Ratings-adjusted metrics.

Toys

Prolonged material tariffs for China could pressure toy manufacturers margins. Prodded in part by tariff threats in 2019 under the first Trump administration, there has been a long-term trend across the toy industry to make fewer toys and games in China by relocating factories and diversifying supply chains. Rated toy manufacturers Mattel Inc. (BBB/Stable/--) and Hasbro Inc. (BBB/Negative/A-2) have shifted production away from China, and in 2024 sourced only about 50% and 40% of production China, respectively. Both companies are pursuing strategies to reduce exposure further in 2025. Mattel expects to decrease its exposure to below 40% in 2025 and Hasbro expects to decrease exposure to roughly 20% within four years. While exposure to China has decreased over the past few years, we believe Trump's recently imposed 10% additional tariff on Chinese imports and potential further tariffs would mean an increase in input costs and ultimately dampen gross margins. In response to the most recently imposed tariffs, Mattel on its most recent fourth-quarter earnings call noted plans to utilize its global supply chain and pricing power where it can to maintain gross margin, and we would expect Hasbro to use similar resources to attempt to alleviate the impact on its margins. While toy manufactures will try to pass on these higher input costs to the degree they can, ultimately retailers' willingness to continue to share higher input costs with toy manufacturers depends on consumers' willingness to pay higher prices. We believe amid a flat toy industry this year, material tariffs could pose a significant burden on margins and may lead to weaker credit metrics.

Table 6

Toys

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
Hasbro Inc.	BBB/Negative/A-2	Exposure to China 40% as of 2024 and expect to be lower in 2025 (Co. has some power to raise prices and can utilize its global supply chain).	3.0x	3x and FOCF/debt below 15%
Mattel Inc.	BBB/Stable/--	Exposure to China expected to be less than 40% in 2025 (the company has some power to raise prices and can utilize its global supply chain).	2.0x	2.75x

Ratings as of Feb. 10, 2025. (1) S&P Global Ratings estimates based on available information. (2) S&P Global Ratings-adjusted latest 12-month data available. (3) S&P Global Ratings-adjusted metrics. FOCF--Free operating cash flow.

Retail And Restaurants

Retailers with scale, pricing power, and market share takers like Walmart Inc. (AA/Stable/A-1+), Amazon.com Inc. (AA/Stable/A-1+), and Costco Wholesale Corp. (AA/Stable/A-1+) will likely be more resilient even though they have meaningful exposure to tariffs in their assortment. These companies have negotiating power over their suppliers. Although Walmart sells grocery products such as fresh produce with likely exposure to Mexico and hard goods and apparel that are subjected to higher tariffs from China, its everyday low-price strategy will continue to give it a competitive edge. Its competitive prices will allow it to continue to gain market share in a persistent inflationary environment.

We estimate Amazon has meaningful exposure to Chinese imports, but its convenience, negotiating power, and move to everyday essentials could mitigate the tariff risk. Some of Costco's food mix may be subject to Mexican tariffs. Its hard goods and apparel will have China tariff exposure as well. But its lower price per unit and ability to control its stock keeping units and product assortment will mitigate its exposure.

Among mass retailers, we believe Target Corp. (A/Stable/A-1) is more exposed to tariff risk than Walmart given its higher proportion of general merchandise sales. Food and beverage sales represent less than 25% of Target's revenue, while grocery accounts for roughly 60% of Walmart U.S.'s sales. Target sources, both directly and indirectly, a large portion of its inventory internationally, with China being its largest source. During the previous round of tariffs, Target CEO Brian Cornell sized the impact of tariffs at \$50 million to \$60 million per quarter in fiscal 2019. Most of Walmart's products are sourced domestically. Additionally, Target's large portfolio of owned and exclusive brand merchandise, which represents approximately one-third of its sales, increases its direct supply chain risk.

Off-price retailers such as The TJX Co. Inc. (A/Stable/A-1), Ross Stores Inc. (BBB+/Stable/--), and Burlington Stores Inc. (BB+/Stable/--) source domestically and typically buy excess inventory from other retailers. These retailers could benefit if retailers and brands forward buy too much inventory in advance of anticipated tariffs and need to off-load excess inventory at a discount. Historically, they also benefit from offering value when prices are high and consumers trade in.

Retailers with the tariff exposure are ones with higher proportions of private label offerings or directly source from suppliers and sell more hard goods, apparel, and discretionary products. Small, narrowly focused retailers will suffer more than the larger players. They will have less negotiating power with suppliers and less pricing power with consumers.

Below we highlight the retail subsectors we believe have meaningful exposure to the proposed tariffs. The credits we highlight below are topical or those we deem may have some exposures. The list below is not exhaustive and is subject to change based on available information.

Table 7

Mass/General Merchandise

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
Amazon.com Inc.	AA/Stable/A-1+	Limited disclosure; Approximately 60% of products sold are from third-party sellers. While essentials/grocery is growing, we believe the majority of Amazon's direct retail sales are in general merchandise categories featuring products that are mostly sourced outside of the U.S.	0.5x	>1.5x
Target Corp.	A/Stable/A-1	General merchandise accounts for ~75% of sales; a large portion of this merchandise is sourced, directly or indirectly, from outside the U.S., with China being the single largest source imported goods.	1.9x	2.5x
Walmart Inc.	AA/Stable/A-1+	Sources most products domestically. Grocery accounts for 60% of U.S. sales. Some produce and hardlines exposure to tariffs. International sales less than 20% of revenues. Its scale and pricing power over suppliers limits these risks.	1.3x	2x

Ratings as of Feb. 10, 2025. (1) S&P Global Ratings estimates based on available information. (2) S&P Global Ratings-adjusted latest 12-month data available. (3) S&P Global Ratings-adjusted metrics.

Grocers

In an already low-margin business, traditional grocers like Kroger Co. (BBB/Stable/A-2) and Albertsons Cos. Inc. (BB+/Stable/--) will have little choice but to pass increased costs on to consumers. Mexico and Canada are key suppliers of fruits, vegetables, grains, and proteins to the U.S. While tariffs on such items would affect all importers and sellers, traditional grocers may be more disadvantaged than other retailers. Consumers are shopping in multiple channels and making more trips with smaller basket sizes as they seek value. While consumers may still frequent their nearby grocers for some items, an increasing amount of wallet-share is likely going to a combination of mass merchants, discount retailers, and club stores. Add to this a heavy promotional environment in the food-away-from-home space and the threats to grocers only increase. We expect those that can shed costs (Albertsons has set out to cut \$1.5 billion in costs over the next 3 years), increase private label to boost traffic and margins, successfully leverage retail media and e-commerce platforms, and offer a differentiated shopping experience, will be best able to slow the share loss the industry has experienced over the years.

Table 8

Grocers

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
Albertsons Cos. Inc.	BB/Stable/--	Produce likely exposed to Mexican tariffs. China exposure would be general merchandise, which is limited.	4x	4x

Table 8

Grocers (cont.)

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
Heritage Grocers Group LLC	B/Negative/--	Company has not specified publicly but they sell Hispanic products and likely import products from Mexico.	5.7x	6x
Kroger Co.	BBB/Stable/A-2	Fresh produce is largely sourced from Mexico and Canada.	2.2x	4x

Ratings as of Feb. 10, 2025. (1) S&P Global Ratings estimates based on available information. (2) S&P Global Ratings-adjusted latest 12-month data available. (3) S&P Global Ratings-adjusted metrics.

Home Improvement

Home improvement retailers have large exposure to tariffs for imports from Canada for lumber and metal products and for imports from China for hardware, tools, and other durable products such as appliances and home-related goods. They began to diversify their supply chain after the first round of Trump tariffs but there is still work to be done that will take time. Given industry demand continues to lag in a high-interest rate environment, we believe pricing power is limited to offset tariff impacts. We believe they will seek to offset tariffs within their supply chains to mitigate, before attempting to pass along the remainder of costs to consumers. Lowe's has meaningful exposure to tariffs with 40% of its goods, which includes its own private brands, sourced internationally. Home Depot Inc. also sources about half its goods outside North America, with China among them.

Harbor Freight's supply chain remains highly exposed to China despite the company's effort to increase the geographic diversity of its merchandise sourcing. The company offers a variety of tools and equipment and has rapidly expanded its operations supported by competitive pricing, new private label offerings and a direct sourcing model. The inability to maintain competitive pricing could hurt its value proposition.

Table 9

Home Improvement And Home-Related

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
Harbor Freight Tools USA Inc.	BB-/Stable/--	High exposure to China, high private label offerings and direct sourcing exposure, compete on value.	3.8x	5x
Home Depot Inc.	A/Stable/A-1	High exposure to tariffs on lumber, metal products, hardware, tools, appliances, and other durables.	2.4x	2x
Lowe's Cos. Inc.	BBB+/Stable/A-2	High exposure, 40% of products are sourced internationally. Lumber, metal products, hardware, tools, appliances and durables.	2.9x	3x

Table 9

Home Improvement And Home-Related (cont.)

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
Wayfair LLC	B+/Stable/--	While Wayfair's tariff exposure is high given that a large portion of products sold on its platform are sourced from China, its marketplace model limits its direct impact.	5.1x	5x

Ratings as of Feb. 10, 2025. (1) S&P Global Ratings estimates based on available information. (2) S&P Global Ratings-adjusted latest 12-month data available. (3) S&P Global Ratings-adjusted metrics.

Specialty

We believe tariff exposure and operating performance risk is elevated across specialty retail given heavy product sourcing from China, limited pricing power, and merchandise that is driven by discretionary demand. Music retailers including Guitar Center Inc. (CCC/Negative/--) and Sweetwater Borrower LLC (B/Stable/--) sell products imported from China and Mexico, including musical accessories and entry-level instruments. We believe arts and crafts retailer The Michaels Cos. Inc. (B-/Stable/--) is one of the most exposed specialty retailers to incremental tariff risk. The company sources most of its products from China and has elevated direct sourcing exposure. Additionally, the highly discretionary nature of its products makes passing higher costs on to its customers difficult. The impact on demand from higher prices implemented to cover previous tariffs as well as higher freight and supply chain costs has been meaningfully negative, with the company consistently generating negative same store sales. While Michaels has reduced its exposure to China by diversifying its supplier base, the low average unit cost of Michaels' products and infrastructure advantages will make it difficult to materially reduce exposure in our view.

Consumer electronics retailer Best Buy Co. Inc. (BBB+/Stable/--) is also highly exposed to tariff risk. While the company's direct imports are limited to 2%-3% of its products, it sources most of its products internationally. Roughly 60% of its cost of goods sold originate in China and the second-largest country of origin is Mexico. Best Buy largely avoided previous tariffs as many consumer electronics products were excluded from Section 301.

Other less exposed specialty retailers include Bath & Body Works Inc. (BB/Stable/--), which has minimal risk given its largely domestic supply chain. The company sources 85% of its products from the U.S., with China, Mexico, and Canada accounting for 7% of total supply. Petco Health and Wellness Co. Inc. (B/Negative/--) and PetSmart LLC (B+/Negative/--) also have moderate exposure. Both have large consumables businesses, accounting for roughly 50% of their sales, which includes food and supplements that are primarily sourced domestically. While tariff risk is lower than many other specialty retailers, both companies have exposure through their pet supplies merchandise, which we believe is primarily sourced from China. Petco recently noted that while it directly sources some products from Canada and Mexico, its exposure is immaterial. Petco also operates more than 100 locations in Mexico through a joint venture and noted it sources products primarily from the U.S.

Many sporting goods retailers have diversified their supply chains and shifted away from China over time. On its last earnings call, Academy Sports and Outdoor Inc. (BB+/Stable/--) discussed the reduction, noting what was once a 70% exposure to Chinese imports is now 50% while also calling out no exposure to Mexico and Canada. Similarly, Dick's Sporting Goods Inc.

(BBB/Positive/--) has diversified its supply chain through the years. It was able to successfully negotiate with suppliers during the last round of tariffs in 2018 and 2019, which limited their impact. But with record inflation transpiring between then and now, this round of tariffs could hurt margins in the near term if companies cannot reduce costs with their suppliers or pass along price increases.

Table 10

Specialty

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
Academy Sports and Outdoor Inc.	BB+/Stable/--	High exposure to China at over 50%, no exposure to Canada and Mexico.	1.6x	>2x
Best Buy Co. Inc.	BBB+/Stable/--	High exposure. Approximately 60% of Best Buy's cost of sales are sourced from China. Mexico is Best Buy's second largest country of import.	1.1x	>2x
Dick's Sporting Goods Inc.	BBB/Positive/--	We estimate medium exposure. Has a diversified supplier base with strong ability to negotiate with vendors, Worked with suppliers and vendors to mitigate cost increases in the past.	1.2x	>1.5x (to stable)
Great Outdoors Group LLC	BB-/Stable/--	High exposure to China at over 50%, no exposure to Canada and Mexico.	4.6x	5x
Guitar Center Inc.	CCC/Negative/--	High exposure. Company sells many products imported from China, Canada, and Mexico.	8.2x	Default scenario
Petco Health and Wellness Co. Inc.	B/Negative/--	50% of sales are consumables, primarily sourced domestically and most pet food is produced in the U.S. Tariff exposure is higher for pet supplies, which is sourced largely in China.	4.4x	Negative FOCF and EBITDA/Interest Coverage approaching 1x
PetSmart LLC	B+/Negative/--	50% of sales are consumables. Tariff exposure is higher for pet supplies, which is sourced largely in China.	4.3x	5x
SSH Holdings Inc. d/b/a Spencer Spirit	BB-/Stable/--	High, most products are sourced from China and highly discretionary purchases.	1.5x	2.5x
Sweetwater Borrower LLC	B/Stable/--	High exposure. Company is not importer of record for most products but has exposure to China.	4.8x	>7x
Victra Holdings LLC	B+/Stable/--	High exposure, nearly all products are imported including phones, tablets, wearable technology, and accessories.	4.4x	4.5x

Ratings as of Feb. 10, 2025. (1) S&P Global Ratings estimates based on available information. (2) S&P Global Ratings-adjusted latest 12-month data available. (3) S&P Global Ratings-adjusted metrics.

Department Stores

Department stores have high exposure to tariffs as they rely heavily on imported merchandise such as apparel, home goods, and cosmetics. Additionally, these retailers directly import for their

private label offerings. In a retail segment that has been declining with an assortment in highly discretionary categories, further cost pressures could weigh on performance.

We believe value-oriented department stores that cater to price-sensitive consumers and lean heavily into promotional strategies will have less ability to pass along the cost increases, such as Macy's Inc. (BB+/Stable/--) and Kohl's Corp. (BB-/Negative/--). Macy's sources a significant amount of its private label products from Chinese factories, and others in Asia. The company noted in 2024 the risk of increased cost of goods that would adversely affect profitability if tariffs are enacted on third-party vendors and suppliers sourcing products abroad. Kohl's noted most of the goods it sells are produced by vendors in factories overseas. Private brands, which are largely directly imported, are a key part of its merchandise mix. With a negative outlook on its ratings, Kohl's has limited cushion to absorb further margin pressures.

Nordstrom Inc. (BB/Stable/--) disclosed in its latest annual report for 2024 that it sources the majority of goods from outside the U.S., primarily in Asia. Despite this exposure, we believe Nordstrom has greater pricing power because it caters to the higher income consumer.

Table 11

Department Stores

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
Kohl's Corp.	BB-/Negative/--	Most of the goods it sells are produced by vendors in factories overseas. Private brands, which are largely directly imported, are a key part of its merchandise mix.	4.5x	5x
Macy's Inc.	BB+/Stable/B	High for all major categories such as apparel, home goods, and cosmetics. Private label and direct import business are imported and are meaningful contributors to margins.	2.5x	3x
Nordstrom Inc.	BB/Stable/--	Most of goods are imported, primarily in Asia. Has greater pricing power than other peers because it caters to the higher income consumer.	Pro forma mid-3x area	4x

Ratings as of Feb. 10, 2025. (1) S&P Global Ratings estimates based on available information. (2) S&P Global Ratings-adjusted latest 12-month data available. (3) S&P Global Ratings-adjusted metrics.

Dollar Stores

We believe dollar stores have a medium exposure to tariffs, although mitigation efforts could significantly lower the impact. Most discretionary, non-consumable items sold at dollar stores are imports from China. At Dollar Tree Inc. (BBB/Stable/A-2) stores, that amounts to about 50% of sales, and at Dollar General Corp. (BBB/Negative/A-2) it is around 20% of sales. We believe dollar stores will attempt to offset extra tariff costs through supply chain initiatives before attempting to pass along price increases, given the pressured lower income consumer. Unmitigated tariff impacts will likely be covered via pricing. Higher prices could dampen sales in this higher margin category.

We think the current stress on low-income consumers, in addition to tariffs, could shift more spending to staples and consumables, which Dollar General is better positioned to capture, although Dollar Tree's Family Dollar brand is also more focused on consumables. The overall negative economic impact on consumers could drive more traffic to dollar stores, potentially mitigating the effect of higher prices and lower sales in non-consumables. Because the tariffs are

broad-based and likely to also affect other retailers, we expect dollar stores to maintain their value proposition of low prices and convenience such that their financial results are not significantly curtailed.

Table 12

Dollar Stores

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
Dollar General Corp.	BBB/Negative/A-2	Medium exposure. Non-consumables are 20% of sales--likely imported from China.	3.5x	3.5x
Dollar Tree Inc.	BBB/Stable/A-2	Higher exposure than Dollar General. Variety and seasonal is 50% of sales; likely imported from China.	2.3x	3x

Ratings as of Feb. 10, 2025. (1) S&P Global Ratings estimates based on available information. (2) S&P Global Ratings-adjusted latest 12-month data available. (3) S&P Global Ratings-adjusted metrics.

Quick-Service Restaurants (QSR)

We think QSRs have low exposure to tariffs both because restaurants have diversified domestic and international supply chains and franchisors such as McDonald's Corp. (BBB+/Stable/A-2) and Restaurant Brands International Inc. (BB/Positive/--) are mostly insulated from restaurant-level food costs. QSRs will continue to have a solid value proposition relative to fast-casual and casual dining because the supply chain for all restaurants will be subject to similar tariff pressures. With such large scale in specific items, QSRs could be exposed to temporarily higher prices for a menu item (e.g., frozen French fries from Canada-based McCain Foods), but we believe this could be mitigated by planning to get ahead of tariffs and clout with suppliers to shift to local sourcing. QSRs could also alter menu offerings or promoting items that are less subject to higher tariffs.

If broad-based tariffs strain the overall economy, we could see more traffic to QSRs because of value-oriented offerings.

Table 13

Quick-Service Restaurants

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
McDonald's Corp.	BBB+/Stable/A-2	Direct impact to McDonald's is low because franchisees bear the higher cost. While the company likely sources french fries from Canada, it has pricing power and we believe it could mitigate with menu changes and switching to local sourcing.	3.4x	4x
Restaurant Brands International Inc.	BB/Positive/--	Direct impact is low, franchisees bear the higher cost. Similar to McDonald's, they can change menu offerings or switch to local sourcing.	Pro forma for acquisition is around 4.7x	sustained above 4.5x to return to stable

Ratings as of Feb. 10, 2025. (1) S&P Global Ratings estimates based on available information. (2) S&P Global Ratings-adjusted latest 12-month data available. (3) S&P Global Ratings-adjusted metrics.

Aftermarket Automotive Parts

The majority of U.S. automotive aftermarket parts are imported, with the biggest countries of origin including Mexico, Canada, and China. However, we believe the automotive aftermarket is better positioned than most retail subsectors to weather potentially higher tariffs given the industry's demonstrated ability to pass on higher costs through inflationary cycles and past rounds of tariffs. Major industry players possess pricing power over their suppliers given their scale, with the top four U.S. auto parts chains representing roughly 50% of total stores. Additionally, consumer demand for aftermarket parts is relatively inelastic given the necessity of automotive repair.

Table 14

Aftermarket Automotive Parts

Company	Issuer credit rating	Tariff exposure (1)	LTM leverage (2)	Downgrade leverage/other (3)
Advance Auto Parts Inc.	BB+/Negative/--	High imports from Mexico, Canada, and China. However, given inelastic demand, company has pricing power and can pass along.	6.4x	~ high 4x range
AutoZone Inc.	BBB/Stable/A-2	Similar to others. High imports from Mexico, Canada, and China. However, given inelastic demand, company has pricing power and can pass along.	3.3x	4x
O'Reilly Automotive Inc.	BBB/Stable/A-2	High sourcing exposure: China (~25%), Mexico (~high-teen %), Canada (~low-single-digit %). Can pass along price increases.	2.7x	4x

Ratings as of Feb. 10, 2025. (1) S&P Global Ratings estimates based on available information. (2) S&P Global Ratings-adjusted latest 12-month data available. (3) S&P Global Ratings-adjusted metrics.

Canadian Companies

The tariffs imposed on Canadian goods should have limited effect for the entities we rate in the Canadian retail and consumer products industries. In our view, most of the rated companies have either sufficient flexibility in their capital structure or limited exposure to the U.S. market. In the consumer segment, we believe Canada Goose Holdings Inc. (BB-/Stable/--) has significant exposure since the majority of its products (nearly 70%) are manufactured in Canada, including nearly all of its down-filled outerwear while it generates almost a quarter of its revenues in the U.S. Combined with weakness in the Canada and China markets, we think Canadian Goose's leverage will likely be pressured should 25% tariffs be imposed.

On the other hand, branded seafood manufacturer High Liner Foods Inc. (B+/Stable/--) will likely be less affected. The company has manufacturing facilities in the U.S and if tariffs are imposed, it will likely pivot its production volumes within U.S. Similarly, the impact is minimal for Journey Personal Care Holdings Ltd. (B-/Stable/--) (manufacturer of adult personal care products) and Knowlton Development Corp. Inc. (B-/Stable/--) (a value-added custom formulator to personal care companies) because of diversified manufacturing facilities. Both fuel retailers, Alimentation Couche-Tard Inc. (BBB+/Stable/A-2) and Parkland Corp. (BB/Stable/--), have operations in the U.S, but we don't believe tariffs will affect them directly. However, second-level effects where higher fuel prices and inflationary influence from tariffs could limit spending from lower income

consumers.

However, the retaliatory tariffs that Canada may impose (originally \$30 billion of U.S. goods in the first round included food, apparel, and wine) could squeeze an already weak Canadian consumer and a weakening Loonie will magnify the impacts of the tariffs. For grocery stores facing tariffs on food imported from the U.S., they will need to balance between absorbing costs or passing price increases to increasingly value- focused consumers. At the same time, the procurement focus will shift to local products or products not subject to tariffs. Clearly, it will accelerate the grocers' (Loblaw Cos. Ltd. [BBB+/Stable/--], Metro Inc. [BBB/Stable/--], and Sobeys Inc. [BBB-/Stable/--]) focus on cost efficiency while in the short term, exposure to private label will be an advantage.

Discretionary retail will be pressured; we think Canadian Tire Corp. Ltd. (BBB/Stable/A-2) will face more headwinds as consumers continue to curtail discretionary spending compared to Dollarama Inc. (BBB/Stable/A-2) which have low pricing. Finally, if Ontario, Quebec, and B.C. provincial retailers pull U.S. alcohol from shelves, we believe there could be some impact on Canadian wine producer and blender Arterra Wines Canada Inc. (B-/Stable) and whether they can quickly pivot their U.S. bulk wine exposure to global substitutes. On the other hand, it could be beneficial since the majority of the company's brand of wines are Canadian originated and as such could support the company's revenues.

Mitigating Actions

Consumer products companies will utilize similar tactics as they have in the past to mitigate inflation. The obvious action that most companies will undertake is to increase prices and pass along the costs to consumers. However, as we note above, we think companies' pricing power is weaker entering this tariff cycle. Consumer products companies will have to negotiate harder with retailers. Retailers will have to decide how much of the costs they can and will pass along to the end consumer. Changing packaging, changing product mix, reformulating or re-engineering products, and cutting costs are easier primary steps. Secondary actions that will take longer and may require investments, include switching suppliers to lower tariff regions, modifying sourcing and manufacturing arrangements to reduce costs along the value chain, shifting manufacturing locations, and bringing manufacturing in-house or onshore.

Retailers will work with and negotiate with their suppliers on price increases. They can change their merchandise mix away from heavily imported categories and reduce their direct import exposure. Ultimately, retailers will decide on how much price increases to pass along to the consumer or to take a margin hit to preserve market share. We also expect companies in the sector to cut costs to mitigate the cost pressure. We believe inventory and working capital management will be key because if companies forward buy in anticipation of tariffs, they could be stuck with inventory overhang that could force future discounts or liquidation of inventory if demand is much weaker than anticipated.

Related Research

- Economic Research: Macro Effects Of Proposed U.S. Tariffs Are Negative All-Around, Feb. 6, 2025
- Economic Research: How Might Trump's Tariffs--If Fully Implemented--Affect U.S. Growth, Inflation, And Rates?, Feb. 6, 2025
- Industry Credit Outlook 2025: Consumer Products, Jan. 14, 2025
- Industry Credit Outlook 2025: Retail and Restaurants, Jan. 14, 2025

This report does not constitute a rating action.

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