

DECEMBER 2010 DEFAULT CASE STUDY

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Public Firm Default Report: Great Atlantic & Pac Tea Co.

Default Event

On December 12, 2010, **Great Atlantic & Pac Tea Co.**, the US regional supermarket group and one of the US oldest retail names, filed for Chapter 11 bankruptcy protection.

Company Profile

Once one of the largest grocery companies in the US, Great Atlantic & Pacific Tea Company has been reduced to a handful of regional grocery chains. It runs about 430 supermarkets in eight eastern states and the District of Columbia. In addition to its mainstay A&P chain, the firm now operates seven others, including Super Fresh along the East Coast from New Jersey to Virginia and The Food Emporium and Waldbaum chains in the New York and New Jersey area. A&P acquired its longtime rival in the Northeast, Pathmark Stores, for about \$1.4 billion in 2007. The Pathmark purchase added about 140 stores, but has yet to reverse A&P's lagging fortunes. Germany's Tengelmann Group owns about 41% of ailing A&P.

EDF Credit Measure and EDF Drivers

EDF value as of December 12, 2010: 35.00%

Traditional ratings, such as the ones used by the major rating agencies, are currently more commonplace than default probabilities. Therefore, to help facilitate users' understanding, we translate the EDF credit measure into an equivalent Credit Category. Great Atlantic & Pac Tea Co's Credit Category (not an agency rating) at default was C.

Figure 1
One-year Great Atlantic & Pac Tea Co's EDF Values

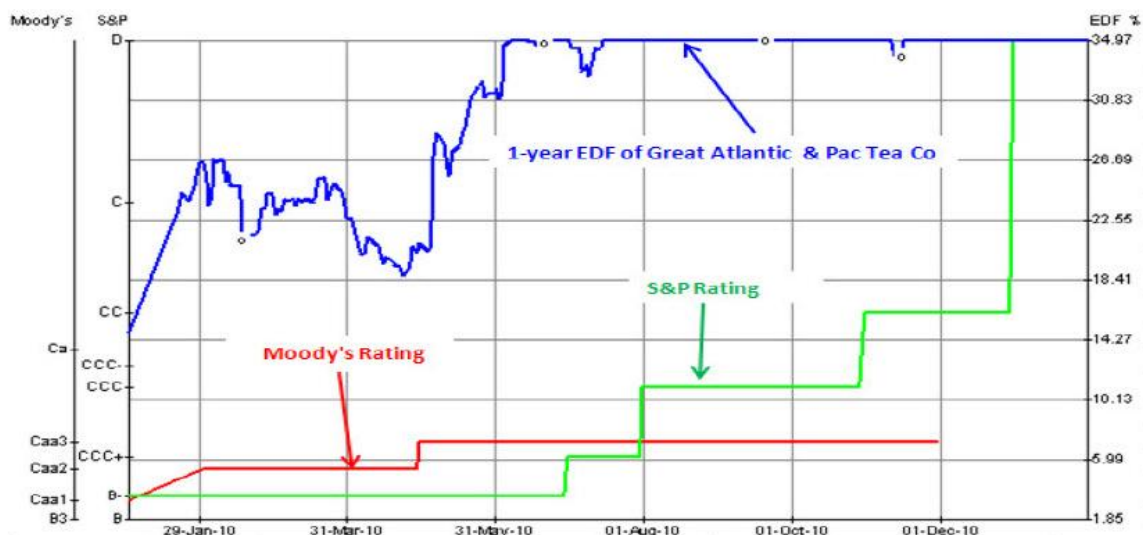


Figure 1 shows that Great Atlantic & Pac Tea Co's EDF credit measure has been rising since April 2010 and reached 35% in June 2010, six months prior to default.

Figure 2
Drivers of Great Atlantic & Pac Tea Co's EDF Values



Figure 2 shows the time series of EDF values and EDF drivers, which include the market value of assets, asset volatility, default point, and market leverage. Table 1 summarizes the definition of EDF drivers.

In December 2009, the market value of assets was \$3.2 billion. With weak sales performance and poor operating results since the first quarter of 2010, the company's market value of assets plummeted to \$2.1 billion in November 2010, much lower than the default point of \$2.3 billion. The company's asset volatility has remained high, around 25%, since December 2009. High financial risk combined with deteriorating business value led the company to default.

Table 1.
Drivers for EDF Values

EDF DRIVERS	DEFINITION
Market Value of Assets	The market's view of the enterprise value of the firm as determined by the firm's equity value, equity volatility, and liability structure
Default Point	The liabilities that matter in case of default. If the market value of assets falls below this value, it is assumed that the firm will be unable to sell assets or raise additional capital to pay its debt. A firm's default point is a value close to its short term liabilities plus half of its long-term liabilities
Market Leverage	Ratio indicating how much of the market value of assets is financed by debt. It is calculated as the default point/market value of assets
Asset Volatility	Standard deviation of the annual change in the market value of the assets

The two main drivers of EDF values are asset volatility and market leverage. Figure 3 depicts a meter showing the level of risk on each of the two measures. The levels are relative values computed on the United States and Canada Large Corporates Group.

Figure 3
United States and Canada Large Corporates Group



- » **Asset Volatility.** EDF credit measures for United States and Canada Large Corporate issuers such as Great Atlantic & Pac Tea Co reflect an average of asset volatility levels over the past three years. As of the default date, Great Atlantic & Pac Tea Co's asset volatility was 24.96%, between the 25th and 50th percentiles relative to the US and Canada Large Corporates Group.
- » **Market Leverage.** Great Atlantic & Pac Tea Co's market leverage is 104.44%, in the 99th percentile of the entire US and Canada Large Corporates Group.

Relative Analysis

The relative analysis feature allows users to chart EDF, fundamental data, and bond values for a select company or group relative to other companies and/or groups. Users may manually select their own list of peer companies or groups for comparison, or view a Moody's Analytics predefined peer list, based on an automated algorithm. To determine peers for each company, Moody's Analytics finds all the companies that share the company's Bloomberg Subgroup.

Users can also customize and save their own peer company and peer group choices for future use.

Figure 4

One-year Great Atlantic & Pac Tea Co vs. US Grocery Stores Group

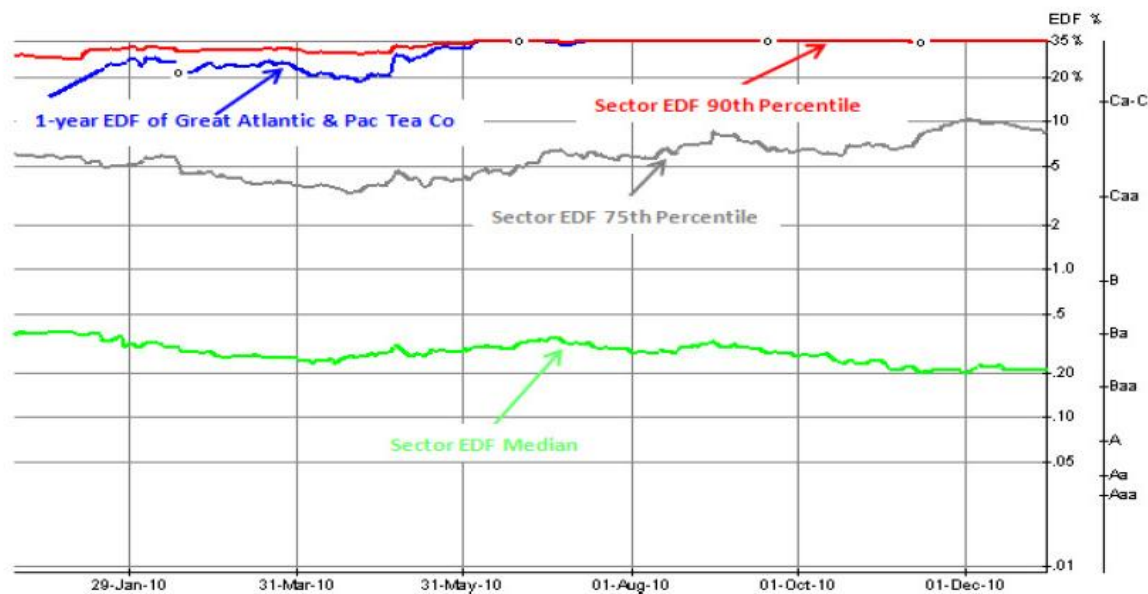


Figure 4 shows Great Atlantic & Pac Tea Co's EDF value had been above the 90th percentile of the US Grocery Stores Group since May 2010. The company bankrupted in December 2010.

Conclusion

Great Atlantic & Pac Tea Co's EDF Credit Measure indicated high default risk before default occurred. Firm EDF values have remained above the 90th percentile relative to the peer group of US Grocery Stores Group since May 2010. High financial risk combined with deteriorating business value led the company to default.

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