

Consumer Electronics

INDUSTRY OVERVIEW

The consumer electronics industry faces a lack of new technology or key category driving growth, as sales of televisions and computers have been on the decline for the past few years. As such, many consumer electronics retailers have been expanding into other categories, such as smartphones and tablets, to drive sales. Some have worked to capitalize on wearable health technology, as well as fitness equipment, with others relying on appliances and mattresses to boost sales. Regardless, retailers like Best Buy and RadioShack continue to struggle. RadioShack in particular has faced serious cash-flow issues in recent months, but managed to secure a deal to refinance its debt in the hopes of being able to improve its inventory position in time for the holidays. Conn's is exploring strategic alternatives, including a potential sale of the company.



TREND TRACKER

Three month NOLVs	Decreasing ↓
Sales Trends	Mixed ⇅
Gross Margin	Mixed ⇅
Discounting	Mixed ⇅

NOLVs: NOLVs have generally been decreasing, down 1.0 to 8.5 percentage points.

Sales Trends: Many consumer electronics retailers are experiencing declining sales due to decreased mall traffic, a competitive environment, and weak results in key categories. Some retailers that have expanded their product categories to include items like furniture, bedding, and appliances, have reported positive sales trends.

Gross Margin and Discounting: Results within the industry have varied, as some retailers have experienced declines in gross margin due to increased promotional activity needed to drive sales and sell through aged goods. Retailers reliant on smartphones have experienced margin declines, as these products typically generate lower margins. Conversely, retailers that have expanded product offerings into higher margin categories like bedding have seen gross margin results improve.

KEY INDUSTRY DRIVERS

- **Smartphones and tablets:** It is imperative for consumer electronics retailers to offer the hottest brands and the latest models and technology. Tablets had been gaining traction within the industry, and while sales remain healthy, smartphones continue to drive the industry. Specifically, in recent months, there has been a shift in the size of smartphones toward bigger screens. Apple unveiled the iPhone 6, and the iPhone 6 Plus. Both models feature larger screens than prior models, competing with other smartphone models on the market, such as Samsung's Galaxy S5 and LG's G3 model.
- **External competition:** This industry faces steep competition not only from traditional brick-and-mortar consumer electronics players, but also from online giants like Amazon, and players in other sectors such as office supply retailers and even some drug stores that dabble in offering prepaid smartphones.
- **Wearable technology:** Wearable technology, particularly those items geared toward health and fitness, have been gaining traction over the past year. Activity trackers allow consumers to wear a device and keep track of the level of activity in which they engage. These continue to be popular, with brands such as FitBit becoming extremely well-known this past year. Apple recently took this one step further with its smart watch, which includes not only fitness trackers, but also is compatible with the iPhone and includes simplified apps, allowing wearers to check messages, Facebook, and other notifications.
- **Video games:** During the upcoming holiday season, the gaming category will face tough comparisons to last year, when the new Playstation 4 and Xbox One consoles were released. No major console releases have been announced for this year; however, as the newest versions have been on the market for a while, games and accessories sales will be the key sales driver for the industry.

SALES TRENDS

The following table illustrates comparable store sales trends for major public consumer electronics retailers (Represents the most recent fiscal quarter sales reported):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Best Buy	(2.0%)	(1.3%)	(1.2%)	1.7%
hhgregg	(10.2%)	(9.9%)	(11.2%)	(6.2%)
Conn's	11.7%	15.6%	33.4%	35.1%
RadioShack	(20.0%)	(14.0%)	(19.0%)	(8.4%)

Note(s): The most recent quarter for hhgregg ended June 30, 2014; Best Buy and RadioShack ended August 2, 2014; Conn's ended July 31, 2014. RadioShack switched to a new fiscal calendar this year.

OUTLOOK

Going forward into the holiday season, retailers are hopeful that the newest models of smartphones will bode well for sales. In addition, Samsung's latest ultra-high-definition curved television has been heavily advertised, with some hoping that it will encourage consumers to upgrade their sets. Smart watches have also been available in the industry, but many hope Apple's popularity will boost sales.

Experience

GA is one of the largest liquidators of retail inventory and has been involved in a variety of liquidations, ranging from the disposition of excess inventory and the closing of underperforming stores, to full-scale liquidations of national retailers with hundreds of stores. GA has experience with full and partial liquidations of companies throughout a variety of retail sectors, some of which are detailed below:

Circuit City	Tower Records	Movie Gallery	Ritz Camera
Fortunoff	Fashion Bug	Mervyns	Payless Shoe Source
Jo-Ann Fabrics	Borders	Whitehall Jewelers	A&P
Linens 'N Things	Boot Town	Eddie Bauer	Macy's

These experiences, in addition to numerous others, provide GA with valuable insight into the market trends and the consumer response that can be expected in a liquidation. They give us an understanding as to recovery values that can be achieved for retailers within these industries. In addition to this liquidation experience, GA has worked with and appraised numerous retailers, including industry leaders within each sector. While our clients remain confidential, GA's extensive list of appraisal experience includes:

- Retailers of consumer electronics, including smaller, more localized chains, as well as regional, national, and international retailers with close to 4,500 store locations.
- Several e-commerce and multi-channel retailers, as well as flash sale websites and auction websites. In particular, GA has appraised 73 of the top 500 e-commerce companies as reported by *Internet Retailer*.
- Numerous retailers of apparel and accessories, including major department store retailers and a variety of specialty retailers that are found in malls throughout the country.
- Leading off-price retailers of apparel and accessories, including major national and regional chains.
- Many jewelry retailers, including one of the largest in the United States, with locations throughout the country and net sales exceeding \$1.4 billion annually.
- Major national and regional discount and dollar stores, including one of the country's largest chains, with over 10,000 stores.
- Leading book retailers, including one with over 700 store locations and sales of upwards of \$4.5 billion.
- Sporting goods retailers that specialize in a number of products, including those for outdoor sports, recreational ball sports, hunting, camping, and fishing, and a variety of other equipment for outdoor enthusiasts.
- Major regional grocery store chains including one with a store base of close to 400 and net sales of nearly \$8.0 billion, as well as smaller local grocery store retailers and pharmacies.

In addition to our internal personnel, GA maintains contacts within the retail industry that we utilize for insight and perspective on recovery values.

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About Great American Group

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. GA also offers the *UK Retail Monitor* via its subsidiary, GA Europe Valuations Limited.

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