

# Department Stores

## INDUSTRY OVERVIEW

The department store sector experienced varying results during the holiday season and into the first quarter of 2014. Luxury department stores such as Neiman Marcus and Nordstrom continue to experience gains; however, these have been driven by growth in e-commerce sales and, in the case of Nordstrom, sales in its off-price Nordstrom Rack stores. Within the mid-and-lower-tier sector, Macy's had a solid holiday season, and J.C. Penney may have turned a corner, posting positive results in the fourth quarter. However, Sears and Kohl's continue to face challenges, as these retailers cater to a customer base that is price-sensitive and has not experienced as much of a bounce back in discretionary funds as has the luxury sector. Even those retailers that performed well noted that sales were disrupted by severe winter weather in many parts of the country, which often required stores to temporarily close and miss out on sales.



## TREND TRACKER

Three month NOLVs	Mixed ↕
Sales Trends	Mixed ↕
Gross Margin	Mixed ↕
Discounting	Mixed ↕

**NOLVs:** NOLVs have ranged from relatively consistent to trending up to 1.5 percentage points, while companies with sales declines have experienced decreases.

**Sales Trends:** Luxury department store sales continue to be positive. Mid-and-lower-tier players continue to vie for consumers dollars, and results are more mixed.

**Gross Margin and Discounting:** Gross margin has decreased for some companies due to increased discounting to drive sales and manage inventory levels, while others have not needed to discount so much, and gross margin has remained stable.

## KEY INDUSTRY DRIVERS

- **Expense management:** Department stores have been proactively working to control expense structures. Department stores continue to perform four-wall profitability analyses to ensure that business continues to operate as efficiently as possible. Retailers often choose to close underperforming store locations when leases expire. The recession shed light on the importance of managing expenses and store bases before problems arise, in order to avoid a knee-jerk reaction if sales do not meet expectations. Several major department store retailers have announced reductions in staff, as well as store closings, in an effort to keep expenses in check. J.C. Penney for example, plans to close 33 stores, while Macy's targets at least five closures.
- **Omni-channel:** Department store winners this past holiday season reaped the rewards of a strong omni-channel presence. Certain department store retailers experienced only slight comparable sales increases at the store level, or in some cases declines; however, some retailers reported online sales growth ranging from 15% to 30%. Having a seamless shopping experience between stores, websites, and mobile apps has been of the utmost importance, particularly as department stores seek to appeal to wider customer bases, such as Millennials. More recently, department stores have been looking for more creative ways to reach customers through marketing campaigns, including leveraging social media websites such as Instagram, SnapChat, Pinterest, and Facebook.

## SALES TRENDS

The table below illustrates comparable store sales trends for major public department stores (Represents the most recent fiscal quarter sales reported):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Neiman Marcus	5.5%	5.7%	5.4%	3.6%
Saks	-	-	1.5%	5.9%
Nordstrom	2.2%	(0.7%)	4.4%	2.7%
Macy's	1.4%	3.5%	(0.8%)	3.8%
Dillard's	2.0%	1.0%	1.0%	1.0%
J.C. Penney	2.0%	(4.8%)	(11.9%)	(16.6%)
Kohl's	(2.0%)	(1.6%)	0.9%	(1.9%)
Sears	(7.8%)	(4.0%)	(0.8%)	(2.4%)

Note(s): The most recent quarter reported for all companies except Saks ended February 1, 2014; Saks has not reported results since being acquired by Hudson's Bay Company in November 2013.

## OUTLOOK

Going forward, department stores will continue to vie for consumers' dollars through leveraging varying channels. Many department stores plan to expand into new markets as well, with Canadian expansion eyed by several key players. In addition, this sector continues to leverage its off-price and outlet counterparts, such as Nordstrom Rack or Saks Off 5th, which continue to post strong sales results.

## 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:

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

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:

- National and regional department store retailers that cater to luxury consumers, as well as mid and lower-tier department stores.
- Numerous retailers of apparel and accessories, including 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.
- Several e-commerce and multi-channel retailers, as well as flash sale websites and auction websites. In particular, GA has appraised 71 of the top 500 e-commerce companies as reported by *Internet Retailer*.
- Retailers of consumer electronics, including smaller, more localized chains, as well as regional, national, and international retailers with close to 4,500 store locations.
- 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.
- 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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