

Department Stores

INDUSTRY OVERVIEW

Department store retailers continue to perform well overall, as most reported positive comparable store sales during the holiday season. Sales growth continues to be driven through multi-channel retailing, with many reporting strong e-commerce growth, as mall traffic continues to be on the decline. Department store retailers have also been right-sizing their businesses, with many closing underperforming stores as leases expire. Department stores have been working to get the right mix of product in their stores, and have capitalized on departments that have performed well. For example, Macy's has had success in many categories online, while Nordstrom has had strong cosmetics, men's apparel, and accessories sales. Ladies' apparel and shoes trended well at Dillards, while Kohl's continues to focus on its beauty category, expanding its offering of several brands. Private label and exclusive brands also remain a focal point in the apparel categories for many.



TREND TRACKER

Three month NOLVs	Consistent/ Increasing ↑
Sales Trends	Increasing ↑
Gross Margin	Consistent
Discounting	Mixed ⇕

NOLVs: NOLVs have ranged from relatively consistent to trending up to 1.0 percentage point, driven by positive sales trends.

Sales Trends: Most department store retailers reported positive sales during the holiday season, with varying categories proving strong for each. Some reported that sales were driven by e-commerce, while others pointed to women's apparel, men's apparel, and home. However, there are some outliers, as Sears continues to struggle.

Gross Margin and Discounting: Gross margin has been relatively consistent; however, discounting has been mixed. Companies have been increasing discounting when needed to drive sales, while managing margin through factors such as markup and vendor allowances.

KEY INDUSTRY DRIVERS

- **Off-price counterparts:** Within the luxury sector, off-price counterparts such as Saks Off 5th and Nordstrom Rack have thrived. Recognizing the strength of the off-price concept, Macy's recently announced plans to expand into this arena, reportedly planning to open a chain that would compete with the likes of TJ Maxx and Marshalls, as opposed to Nordstrom Rack, the latter of which already vies for traffic against Macy's Inc.-owned Bloomingdales outlets.
- **Omni-channel:** Department stores aim to allow customers to shop via the most convenient method possible, through an omni-channel presence. Strong digital platforms remain key to capturing tech-savvy Millennials. Customers can shop online, and pick up items in stores, or return items bought on a website at a store location. Department stores also market to customers through a variety of methods, including email, social media, and targeted promotions sent to mobile devices. Recently, JC Penney announced it would be bringing back catalogs, which will be used to drive increased traffic to its website and stores. Some retailers have also reorganized operating structures to bring merchants and marketing staff for e-commerce and stores under the same umbrella.

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	5.6%	5.5%	4.9%	5.9%
Saks	1.0%	2.2%	2.6%	N/A
Saks Off 5th	19.2%	14.9%	15.1%	N/A
Hudson's Bay/Lord & Taylor	1.7%	1.1%	2.5%	(1.3%)
Nordstrom	4.5%	3.4%	2.7%	3.3%
Nordstrom Rack	3.2%	1.7%	4.0%	6.4%
Macy's	2.0%	(1.4%)	3.4%	(1.6%)
Dillard's	3.0%	(1.0%)	1.0%	2.0%
J.C. Penney	4.4%	0.0%	6.0%	7.4%
Kohl's	3.9%	(1.8%)	(1.3%)	(3.4%)
Sears	(7.0%)	(0.7%)	0.1%	0.2%

Note(s): The most recent quarter reported for Saks and Hudson Bay/Lord & Taylor ended November 1, 2014; all other companies ended January 31, 2015. Hudson's Bay Company reports collective consolidated same store sales for Hudson's Bay and Lord & Taylor stores for the most recent three quarters; prior includes Lord & Taylor only. Some retailers report results including e-commerce sales.

OUTLOOK

In 2015, e-commerce and off-price will continue to drive sales of department stores, which will aim to offer trend-right product at attractive price points. Some will reduce their store count, while others may expand into new markets, like Canada.

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:

Target Canada	Cache	Office Depot/Max	Circuit City
Macy's	Fashion Bug	Mervyns	Tower Records
Fortunoff	Frederick's of Hollywood	Eddie Bauer	RadioShack
Linens 'N Things	Naartjie	Whitehall Jewelers	Borders
Jo-Ann Fabrics	Boot Town	A&P	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 74 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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