

Office Supplies

INDUSTRY OVERVIEW

The office supplies industry continues to face challenges from a general decline in purchases of core products, namely paper, as offices become more digitized and less reliant on paper printouts. In addition, major players face continued competition from lower priced retailers and online options. As such, many companies have become more creative in their product offerings to offset sales declines. Office furniture, break room supplies, janitorial items, and other categories have become a larger percentage of inventory. During the back-to-school season, many retailers were highly promotional to drive customer traffic. Staples even offered a 110% price match guarantee to compete with low-price giants Amazon and Wal-Mart.



TREND TRACKER

Three month NOLVs	Decreasing ↓
Sales Trends	Decreasing ↓
Gross Margin	Decreasing ↓
Discounting	Increasing ↑

NOLVs: NOLVs have generally been on the decline by up to 1.0 percentage point due to ongoing sales declines; however, some regional players have experienced increases of up to 1.0 percentage point.

Sales Trends: Generally, retailers in the industry have experienced ongoing sales declines due to reduced spending on core products; however, some regional players have experienced increases in sales due to continued expansion.

Gross Margin and Discounting: Gross margin within retail stores has generally been declining due to increased discounting to spark sales; however, some companies have seen improvements in contract gross margin, due to better pricing and sourcing.

KEY INDUSTRY DRIVERS

- **Potential store closures:** The office supplies industry has already seen some consolidation in recent years, with Office Depot and OfficeMax merging, and many major retailers closing underperforming locations as leases expire. Going forward, major office supply retailers will continue to rationalize their store bases and transition from bigger-box formats to smaller store concepts. Staples has announced its plans to close as many as 225 stores by 2015, which includes the 140 slated to close in 2014. In addition, Office Depot reportedly plans to close a minimum of 400 stores by 2016, including an estimated 165 in 2014.
- **Competition:** Competition remains fierce in the office supplies sector, as the major players have lost market share to mass merchants such as Wal-Mart and Target, as well as online retailer Amazon, all of which offer staple products such as paper, office supplies, technology, and office equipment. The continued sales declines for the remaining major players, Staples and Office Depot, have left some analysts suggesting that the two should merge and close any stores that do not perform well, leaving only a streamlined operation that would be able to compete more profitably within the industry.
- **Product mix:** While longtime staples of the industry such as paper, ink, toner, and electronics sales have been down in many major office supply retailers, other categories, such as janitorial supplies, have fared better. Some retailers have further expanded their offerings to include specialized items, such as those geared towards the medical and educational industries.

SALES TRENDS

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

		Most Recent	Prior	Two	Three
Staples	N.A. Stores	(5.0%)	(4.0%)	(7.0%)	(3.0%)
	Commercial	2.6%	0.7%	(6.6%)	0.7%
Office Depot	Retail	(3.0%)	(3.0%)	(4.0%)	(2.0%)
	Contract	(1.0%)	(2.0%)	(1.7%)	(2.0%)

Note(s): The most recent quarter for Staples ended August 2, 2014 (N.A. stores exclude e-commerce and represent comparable store sales only); the most recent quarter for Office Depot ended June 28, 2014. The most recent three quarters for Office Depot include OfficeMax, which was acquired by Office Depot in late 2013.

OUTLOOK

Going forward, retailers within the office supplies sector will continue to evolve their business strategies. This will include streamlining operations, increasing e-commerce operations, and in general relying on a fewer number of smaller-format store locations. Retailers will continue to refine product assortments to drive 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:

Office Max	Linens 'N Things	Circuit City	Tower Records
Fortunoff	Fashion Bug	Mervyns	Payless Shoe Source
Jo-Ann Fabrics	Borders	Whitehall Jewelers	A&P
Ritz Camera	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 and business-to-business suppliers of office products, including major players in the marketplace, as well as smaller, more regional companies.
- 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.
- 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.
- Leading book retailers, including one with over 700 store locations and sales of upwards of \$4.5 billion.
- 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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