Great American Group

MARCH 2018

Monitor

Retail

VOLUME 266

ON BORROWED TIME

NO MONEY, MORE PROBLEMS

Many debt-laden retailers have either already filed for bankruptcy, or find themselves teetering on the edge.

E-COMMERCE STILL HAS MOMENTUM

E-commerce continues to grow as a percentage of retail sales, with Amazon driving the growth.

FINDING THE RIGHT SIZE

Many retailers continue to close under-performing locations, particularly as leases expire.

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RIGHT
ON THE
MONEY

Deals are a moving target. A constantly shifting mix of people, numbers, and timing. We're here to simplify this process for you. Our experts are dedicated to tracking down and flushing out the values you need, even on the most complex deals. So when the time comes to take your shot with Great American, you're always—right on the money.

Top Trends

1 The retail sector continues to see debt-laden companies either filing for bankruptcy, or teetering close to the edge.

2 Mall-based retailers continue to experience declining traffic and a shift toward online spending.

3 E-commerce sales reached $453 billion in 2017, increasing 16% over the prior year. Amazon is responsible for much of the online growth; its online stores and third-party seller services revenue grew 24.1% in Q4.

4 The sporting goods sector has recently seen a backlash with respect to firearms and ammunition sales, with major retailers increasing age restrictions and limiting some product offerings.

Monitor Information

GA's *Retail Monitor* highlights key industry drivers within the retail sector and how they relate to GA's valuation process and current trends in recovery values. As the retail industry is impacted by consumer spending patterns and various macro and microeconomic factors, timely and accurate information is essential. GA strives to contextualize important indicators to provide an informed perspective of the market for our clients' needs. Such indicators include general industry trends, comparable store sales trends, gross margin changes, and discounting activity. Any comparable store sales illustrated in this monitor reflect figures as they have been reported by public retailers. The methodology for calculating comparable store sales may vary by company.

GA welcomes the opportunity to make our expertise available to you.

Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer using the contact information shown in all *Retail Monitor* issues.

GA's *Retail Monitor* provides an overview highlighting specific sectors of the retail industry. The information contained herein is based on a composite of GA's industry expertise, contact with industry personnel, liquidation and appraisal experience, and data compiled from a variety of well-respected sources believed to be reliable. GA does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this issue. Neither GA nor any of its representatives shall be liable for use of any of the information in this issue or any errors therein or omissions therefrom.

Overview

Many retailers reported comparable store sales gains in the fourth quarter; however, brick-and-mortar retailers, particularly mall-based retailers, continue to suffer from declining customer traffic.

Many retailers include e-commerce sales in their calculation of comparable store sales, which has been driving the growth in the retail sector. According to data released by the National Retail Federation ("NRF"), retail sales increased 5.5% during the combined 2017 November and December period, to total $691.9 billion. Further growth was seen in January 2018. While brick-and-mortar sales remain weak, retailers have been leveraging multi-channel strategies to generate traffic both in stores and online. The fourth quarter of 2017 saw e-commerce sales increase 16.9% year-over-year to total $119.0 billion on an adjusted basis. In total, online sales grew 16% in 2017, reaching over $453 billion, with Amazon still the dominant force in this sector.

While online sales have been the bright spot, 2017 saw many companies with high levels of debt that were forced to file for bankruptcy protection. Some liquidated (or sold) all of their store locations (Gander Mountain, Wet Seal, The Limited, Eastern Outfitters, BCBG, hhgregg, Gordmans, Alfred Angelo); others filed for bankruptcy, closed some stores, but plan to emerge, or have already emerged, from bankruptcy (Charming Charlie, Walking Company, Gymboree, RadioShack, Payless ShoeSource, Rue21, True Religion, Perfumania, Vitamin World, Aerosoles). Some retailers have found a home online-only after closing stores, such as the Bebe, The Limited, and Frederick's of Hollywood. Thus far in 2018, the risk remains, as already Bon-Ton has filed for bankruptcy protection. Toys "R" filed for bankruptcy and originally planned to close a portion of its store base, but has since announced the rest will be closed or sold. According to an analysis by S&P Global Market Intelligence, there are at least 15 companies at risk of default within 2018. Even those retailers that have not had to file have announced store closures, as retailers continue to right-size their business and close unprofitable locations. This has been prevalent within the department store sector in particular, with Macy's, JC Penney, and Sears, among others, all closing stores.

While store closures undoubtedly remain rampant, there are some sectors that have been growing their store bases, proving that brick-and-mortar is not yet obsolete. Dollar stores such as Dollar General and off-price retailers such as TJX are just some of the names within these sectors that opened stores throughout 2017 and have further plans for expansion in 2018. Similarly, department stores have been closing stores, but expanding off-price and outlet concepts like Nordstrom Rack and Macy's Backstage.

Despite the ongoing shift toward online purchasing and the continued store closures within the retail sector, many retailers find that brick-and-mortar locations and online sales go hand-in-hand. Some retailers have found that online sales decline in markets in which a store closes, as consumers like to have the option of returning online purchases to a local store if needed. Even online-giant Amazon has been taking strides into brick-and-mortar, through its acquisition of Whole Foods and its partnership with Kohl's. Other companies have found a new way to reach customers through temporary pop-up shops, or shop-in-shops in other retailers; Aldi will open in 10 Kohl's store locations.

Going forward, the NRF forecasts retail sales to grow between 3.8% and 4.4% over the course of 2018. Growth will largely be driven by the online/non-store sector, which is expected to increase going forward. The off-price sector is expected to continue to perform well, as shoppers look for bargains. Conversely, department stores and specialty apparel retailers could face further store closures, as businesses right-size.

E-commerce

KEY INDUSTRY DRIVERS

- **Shift away from stores:** E-commerce continues to grow as a percentage of total retail sales. Online sales grew 16% in 2017, reaching over $453 billion. While it benefits total retail sales, e-commerce is also contributing to the general decline in mall traffic that has adversely impacted many retailers' comparable store sales.

- **Competition:** Amazon continues to be the top dog in the e-commerce sector; its online stores and third-party seller services sales increased 24.1% in the fourth quarter of 2017, with revenue reaching $45.9 billion. Many companies have opted to sell products via Amazon's marketplace. Conversely, larger mass merchants have been making plays to better compete with Amazon. Walmart has acquired a number of companies to strengthen its online presence, and Target has been focused on online growth and expanding its fulfillment capabilities. Amazon has also encroached into the brick-and-mortar space, acquiring Whole Foods and partnering with Kohl's.

- **Subscription model:** The subscription model, where customers pay a monthly fee to have items shipped to them each month, has grown in popularity over the past few years. Examples include food (Blue Apron, Hello Fresh); clothes (Stitch Fix, Trunk Club); and beauty products (Birchbox, Ipsy). While some models allow customers to purchase products outright, others, such as Rent the Runway, allow customers to rent and return items for prices lower than the typical retail price.

- **Shipping:** Retailers attempt to compete with Amazon's Prime membership. Free shipping adversely impacts profitability, and some retailers only offer it if customers' purchases reach a certain monetary threshold. The ability to buy online, but pick up in stores offered by many companies allows customers to avoid shipping costs.

Trend Tracker

NOLVs	Mixed ▲▼
Sales Trends	Consistent — Increasing ▲
Gross Margin	Increasing ▲
Discounting	Consistent —

SALES TRENDS

	Fourth Quarter 2017	Third Quarter 2017	Second Quarter 2017	First Quarter 2017
% of Retail Sales	13.3%	13.2%	12.8%	12.4%
Change Year Over Year	16.9%	15.4%	16.0%	15.4%

Source: www.census.gov/retail. Results are revised estimates, calculated using information in the most recent press release for the fourth quarter of 2017, excluding sales of automobiles and gasoline.

- **Mobile sales and technological enhancements:** Retailers have worked to drive web and mobile sales. According to Internet Retailer, 35% of web sales were made on a mobile device, such as a tablet or smartphone, in 2017. This number is expected to continue to grow. Those retailers with strong systems and an existing infrastructure have fared better than those with outdated systems. Retailers have been working to implement improved mobile websites, more personalized, targeted marketing, enhanced websites, and the ability to let sales associates use tablets in stores.

Department Stores

KEY INDUSTRY DRIVERS

- **Declining mall traffic/omni-channel initiatives:** Many department stores reported positive sales during the fourth quarter of 2017, despite continued declines in mall traffic, changing consumer spending habits, and increased competition from fast fashion, off-price, and online retailers. However, many department stores used promotions to drive sales, to the detriment of gross margin. E-commerce sales have been the bright spot, and department stores continue to execute multi-channel strategies, such as allowing customers to order online, but pick up the items in stores. They have also been enhancing mobile apps, improving store experiences through shop-in-shop formats, and implementing personalized marketing to build customer loyalty.

- **Profitability:** As has been seen in many retail sectors, several major department stores are debt-laden, and have been leveraging real estate and other assets to improve their position. For example, Macy's has been looking at its real estate; HBC sold off Lord & Taylor's flagship building in New York, and considered selling the HBC flagship in Vancouver as well. Earlier in 2017, Sears sold its Craftsman brand. Department stores also continue to right-size, closing unprofitable stores as leases expire. Macy's, JC Penney, and Sears reduced their store counts this year, and have also implemented layoffs.

- **Key categories:** Heavily-reliant on apparel, which has struggled from competition, department stores focus on other categories, such as home and cosmetics.

- **Off-price and outlet formats:** In order to compete with off-price and fast-fashion retailers, many department stores have shifted focus to off-price counterparts and outlets. Nordstrom Rack and Saks Off 5th remain focuses for their respective brands, and Macy's has been expanding its Backstage off-price concept within existing Macy's stores, planning to open up to 100 this year.

Trend Tracker

NOLVs	Consistent ▬
Sales Trends	Mixed ▲▼
Gross Margin	Decreasing ▼
Discounting	Increasing ▲

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Neiman Marcus	6.7%	4.2%	(0.5%)	(4.9%)
Saks	0.2%	1.7%	(4.8%)	0.1%
Hudson's Bay/ Lord & Taylor	(3.7%)	(1.6%)	(2.4%)	0.6%
Nordstrom	2.4%	(1.9%)	1.4%	(2.8%)
Macy's	1.3%	(4.0%)	(2.8%)	(5.2%)
Dillard's	3.0%	(1.0%)	(2.0%)	(4.0%)
JC Penney	2.6%	1.7%	(1.3%)	(3.5%)
Kohl's	6.3%	0.1%	(0.4%)	(2.7%)
Sears	(18.1%)	(17.0%)	(13.2%)	(12.4%)

*Note(s): The most recent quarter reported for Saks, and Hudson's Bay/Lord & Taylor ended October 28, 2017; Neiman Marcus ended January 27, 2018; all other companies ended February 3, 2018. Some retailers report results including e-commerce sales.

Specialty Apparel Stores

KEY INDUSTRY DRIVERS

- **Store closures/bankruptcies:** A slew of bankruptcies was seen in the specialty apparel retail sector in 2017. Some closed (or sold) all stores: Wet Seal, The Limited, Eastern Outfitters, BCBG, Alfred Angelo, Bebe. Others filed for bankruptcy, closed some stores, but plan to emerge, or have already emerged, from bankruptcy and have reduced store counts: Charming Charlie, Gymboree, Rue21, True Religion, B&B Bachrach. Other specialty apparel retailers have not filed for bankruptcy protection, but have nonetheless reduced their store bases, closing unprofitable stores as leases expire.

- **Competition:** Specialty retailers face steep competition from online players, lower-priced fast fashion retailers, and off-price retailers. In addition, specialty retailers face competition from newer business models. Examples include Rent the Runway, which allows customers to rent higher-end fashions for a limited time, and for a price that is less expensive than buying the item. There are also personal shopper subscription companies such as Stitch Fix, which send subscribers articles of clothing. Amazon has also been taking aim at the apparel sector, offering Amazon Prime wardrobe, which allows customers to pick items, have them sent to their house, try them on, and only pay for items they keep. Amazon has been expanding the apparel brands it offers, as well as its own private labels.

- **E-commerce:** Specialty apparel retailers have tried to offset brick-and-mortar sales declines with e-commerce growth. However, some specialty retailers lack adequate systems to accommodate tactics employed by larger retailers, such as shop online, pick up in store, or fulfilling online orders from store inventory. Those retailers with a strong existing infrastructure have fared better online, while others have struggled due to the lack of capital to upgrade to the necessary systems.

Trend Tracker

NOLVs	Consistent ▬ Decreasing ▼
Sales Trends	Decreasing ▼
Gross Margin	Mixed ▲▼
Discounting	Increasing ▲

- **Declining mall traffic:** As department stores have suffered from a general decline in mall traffic, so too have specialty retailers that benefit from customers stopping in on their way to a mall anchor store.

- **Pop-up shops:** While many retailers within the industry have been closing permanent stores, some companies have found a niche in using pop-up shops to drive brick-and-mortar sales. Mall owners, faced with high vacancy rates, have been more amenable to temporary pop-up shops in recent years. Simon Properties introduced an area in one of its malls dedicated to rotating pop-up shops. Retailers, especially those such as Bonobos that primarily operate online, benefit by getting their brand in front of more customers, and potentially growing their customer base by allowing customers to try on product. Other companies have used pop-ups through strategic partnerships. For example, J.Crew partnered with WeWork, and featured a new wear-to-work collection in its existing stores and online, as well as in some pop-ups in certain WeWork locations.

Specialty Apparel Stores

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Family Specialty Apparel				
J. Crew	(9.0%)	(5.0%)	(9.0%)	(5.0%)
Banana Republic	1.0%	(1.0%)	(5.0%)	(4.0%)
Gap	0.0%	1.0%	(1.0%)	(4.0%)
Old Navy	9.0%	4.0%	5.0%	8.0%
Urban Outfitters	2.0%	1.0%	(7.9%)	(3.1%)
Women's Specialty Apparel				
White House/Black Market	(9.3%)	(14.1%)	(10.6%)	(9.7%)
Chicos	(3.2%)	(5.8%)	(9.0%)	(10.0%)
Christopher & Banks	5.7%	(5.0%)	(0.6%)	(8.9%)
Dress Barn	(12.0%)	(10.0%)	(4.0%)	(8.0%)
Lane Bryant	0.0%	(5.0%)	(6.0%)	(11.0%)
Ann Inc.	(8.0%)	(6.0%)	(2.0%)	(7.0%)
Guess	(10.0%)	(10.0%)	(15.0%)	(7.0%)
New York & Co.	2.2%	(1.1%)	(0.7%)	(0.4%)
Express	(1.0%)	(1.0%)	(4.0%)	(10.0%)
Anthropologie	5.0%	2.0%	(4.0%)	(4.4%)
Victoria's Secret	(1.0%)	(4.0%)	(11.0%)	(12.0%)
Soma	(2.3%)	(1.7%)	(1.8%)	0.2%
Men's Specialty Apparel				
Men's Wearhouse	2.3%	(1.0%)	(2.2%)	(3.1%)
Jos A. Bank	5.3%	4.9%	7.8%	3.5%
DXL	(0.1%)	0.1%	(2.1%)	(1.9%)
Teen Specialty Apparel				
Abercrombie & Fitch	9.0%	4.0%	(1.0%)	(3.0%)
American Eagle	8.0%	3.0%	2.0%	2.0%
The Buckle	(3.2%)	(5.9%)	(7.7%)	(12.7%)
Zumiez	7.5%	7.9%	4.7%	1.8%
Children's Specialty Apparel				
The Children's Place	8.5%	5.1%	3.1%	6.1%
Justice	7.0%	(2.0%)	(4.0%)	(6.0%)
Carter's/OshKosh Retail	(3.3%)	(3.2%)	0.4%	(10.4%)

Note(s): The most recent quarter reported for Anthropologie and Urban Outfitters ended January 31, 2018: J. Crew, Guess, New York and Company, and DXL ended October 28, 2017; Lane Bryant, Dress Barn, Ann Inc., and Justice ended January 27, 2018; Carter's/OshKosh ended December 30, 2017; all other companies ended February 3, 2018. The Children's Place represents comparable store sales for the U.S. business for the first nine weeks of the quarter only.

Off-Price/Dollar Stores/Mass Merchants

KEY INDUSTRY DRIVERS

- **Varying performance:** Many off-price, dollar store, and mass merchant retailers reported strong sales during the fourth quarter. Some department stores have also been experiencing better results in their off-price or outlet formats. Nordstrom Rack has been reporting sales gains, and Macy's Backstage concept has also been doing well. Target and Walmart have also been expanding e-commerce capabilities. Walmart has made strategic acquisitions, such as that of Parcel Inc., to allow same-day deliveries in New York City.

- **Growing store counts:** While other sectors have been reducing store counts, the off-price and dollar store sectors continue to expand. Examples include Dollar General (900 stores planned); TJX (260 stores in 2018); Nordstrom Rack (12 in 2018); Macy's (100 new Backstage stores within stores in 2018). Neiman Marcus has bucked the trend, scaling back on Last Call locations to focus on full price stores. TJX, which opened its 4000th store in 2017, has indicated increasing its store count to 5,600 eventually; it also introduced the HomeSense concept and opened some Sierra Trading Post stores. In 2017, some retailers have remodeled stores, with Walmart and Target testing redesigns. Walmart also partnered with Lord & Taylor to offer premium fashion brands for the department store on Walmart's website, launching in spring 2018.

- **Partnerships:** This sector has seen expanded partnerships with top-selling brands. For example, Target has announced a partnership with Hunter boots for a limited-edition collection, and also has a deal with Pinterest to integrate some of its technology into Target's mobile app and website. However, some brands, such as Ralph Lauren, Michael Kors, North Face, and Timberland have been scaling back from off-price channels to protect brand images.

Trend Tracker

NOLVs	Increasing	▲
Sales Trends	Increasing	▲
Gross Margin	Consistent	—
Discounting	Consistent	—

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
TJX	4.0%	0.0%	3.0%	1.0%
Ross Stores	5.0%	4.0%	4.0%	3.0%
Burlington Stores	5.9%	3.1%	3.5%	0.5%
Saks Off 5th	(7.6%)	(2.3%)	(6.8%)	(5.9%)
Nordstrom Rack	3.7%	0.8%	3.1%	2.3%
Stein Mart	(5.4%)	(6.9%)	(5.0%)	(7.6%)
Walmart	2.6%	2.7%	1.8%	1.4%
Target	3.6%	0.9%	1.3%	(1.3%)
Kmart	(12.2%)	(13.0%)	(9.4%)	(11.2%)
Costco	5.7%	8.7%	5.8%	5.0%
Dollar General	3.3%	4.3%	2.6%	0.7%
Dollar Tree	3.8%	5.0%	3.9%	2.5%

*Note(s): The most recent quarter reported for Costco ended February 18, 2018 and excludes fuel; Off 5th ended October 28, 2017; TJX and Ross Stores ended January 27, 21018; Walmart ended January 26, 2018; Dollar General ended February 2, 2018; all other companies ended February 3, 2018; Walmart excludes Sam's Club and fuel; Dollar Tree excludes Family Dollar.

Footwear

KEY INDUSTRY DRIVERS

- **E-commerce/direct-to-consumer ("DTC"):** Footwear retailers face competition from online players, such as Amazon-owned Zappos, which has recently revamped its running shoes category. Footwear retailers have focused on growing their online presence, as well as improving the overall experience for customers in stores and online. Many have been integrating technology into the shopping experience, such as by allowing customers to pre-select items to try on in stores, or purchase items online, but pick up in stores. However, major brands, such as Nike and Adidas, have been selling directly to customers both in stores and online, bypassing wholesale channels.

- **Varying results:** While many footwear retailers reported strong fourth quarter sales, the industry continues to see varying results by category. While the athletic footwear sector increased 2.0% in 2017, according to the NPD Group, some companies reported weakness in other categories, such as boots and high heels. Other companies reported gains in total; however, strong sales were driven by e-commerce, while comparable store sales declined.

- **Bankruptcies/store closures:** The footwear sector has not been immune to the bankruptcies and store closures that have been plaguing the retail industry overall. In late 2017, Aerosoles Group and Sheikh Shoes filed for bankruptcy, as did Charlotte Olympia in early 2018. Nine West has been trying to restructure its significant debt as well. Other companies have not filed, but have reduced their store bases to right-size their business. Notable store closure activity in 2017 includes Payless (closing 800 to 900 stores), Crocs (160 stores), Aerosoles (74 stores), Foot Locker (150 stores), and Finish Line (24 stores).

Trend Tracker

NOLVs	Mixed ▲▼
Sales Trends	Mixed ▲▼
Gross Margin	Decreasing ▼
Discounting	Increasing ▲

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
DSW	1.3%	(0.4%)	0.6%	(3.0%)
Johnston & Murphy	4.0%	(1.0%)	(1.0%)	(3.0%)
Foot Locker	(3.7%)	(3.7%)	(6.0%)	0.5%
Finish Line	0.8%	(4.5%)	(1.1%)	(4.5%)
Famous Footwear	2.8%	0.9%	2.8%	(0.6%)
Journeys	11.0%	4.0%	1.0%	(5.0%)
Skechers	10.5%	3.1%	7.1%	2.9%
Steve Madden	(5.1%)	(3.8%)	2.2%	(6.0%)
Deckers	1.7%	3.7%	12.7%	0.0%
Crocs (Americas)	7.0%	2.8%	(0.9%)	(6.0%)

*Note(s): The most recent quarter for Finish Line ended November 25, 2017; Skechers, Steve Madden, Crocs, and Deckers ended December 31, 2017; all other companies ended February 3, 2018.

Jewelry

KEY INDUSTRY DRIVERS

- **Mixed sales trends:** According to the U.S. Census Bureau, sales at jewelry stores reached $34.6 billion in 2017, an increase of 5.2% compared to last year. According to Mastercard SpendingPulse, holiday jewelry sales increased 5.9% in 2017. Even though sales increased in 2017 and holiday sales appeared relatively strong, the industry is not without its challenges. Although the economy continues to make gains, consumers remain frugal and in search of deals. Millennial shopping habits are also affecting the industry. Recent studies have shown Millennials to be less interested in fine jewelry. Similar to trends seen within apparel, Millennial shoppers are directing more of their spending toward experiences and electronics versus jewelry.

- **Holiday results:** Holiday sales results varied amongst the public industry players. Mid-tier player Signet Jewelers reported comparable store sales declines of 10.8% for Kay Jewelers and 5.9% for Jared the Galleria of Jewelry, but a 4.2% increase for the Zale U.S. stores. These mall stores have been impacted by reduced customer traffic. In addition, Signet has been plagued by internal issues associated with the outsourcing of its financing program, as many Kay and Jared customers rely on financing (Zale was not impacted by the change). On the luxury side, Tiffany reported sales increases during the holidays. For the two-month period ended December 31, 2017, comparable store sales within the Americas increased 6.0%. The retailer reported increases within fashion jewelry, fine jewelry, watches, and its new home and accessories collections.

Trend Tracker

NOLVs	Mixed	▲▼
Sales Trends	Mixed	▲▼
Gross Margin	Consistent	—
Discounting	Consistent	—

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Kay Jewelers	(11.0%)	(7.2%)	2.9%	(13.5%)
Jared	(6.4%)	(5.1%)	0.8%	(10.3%)
Zale US	4.7%	(3.7%)	0.2%	(13.8%)
Tiffany & Co.	5.0%	1.0%	(1.0%)	(4.0%)

*Note(s): Kay, Jared, and Zale are all part of Signet Jewelers. The most recent quarter for all three ended February 3, 2018. Tiffany & Co. ended January 31, 2018 and represents the Americas region.

- **Pricing:** Although prices fluctuate, there were no major spikes or drops in the price of gold, silver, platinum, or diamonds that had a major impact on the industry. One trend seen in the mid-tier segment is consumers favoring pieces with multiple smaller diamonds versus larger stones, which has resulted in lower ticket prices in some categories.

Consumer Electronics

KEY INDUSTRY DRIVERS

- **Cell phones:** Over the past year, the newest models of cell phones have come with steep price tags. Samsung recently announced it would release the Galaxy S9 in March, for approximately $720. Apple's iPhone X debuted around $1,000, but Apple has been rumored to be considering lowering the price due to sluggish sales. As the cell phone industry has matured, with consumers increasingly slower to upgrade or replace existing phones, the marketplace for selling smartphones has become competitive. Not only can consumers purchase cell phones and plans at provider stores from Verizon, AT&T, and Sprint, but they can also purchase directly from companies like Apple. Best Buy recently announced it would close its 250 small-format mobile stores, which are mostly located in malls. In the coming years, demand for smartphones will likely be driven by 5G, a step above the 4G mobile networks used by most providers currently. AT&T announced that it would begin selling smartphones capable of using this technology in the coming year, with others expected to follow in 2019.

- **Mixed results:** The consumer electronics industry has experienced varying results. Last year, hhgregg and RadioShack filed for bankruptcy. hhgregg closed all of its stores; RadioShack has been closing hundreds of stores, with only a small store base left. Conn's has been experiencing several quarters of comparable store sales declines. Conversely, Best Buy's sales have been up; it reported that it benefited from competitors' issues, and sold more mobile phones, gaming products, and appliances during the holidays. Sales within the sector are impacted by key categories, such as the following:

  Televisions: For televisions, new technologies, such as 4K OLED and HDR, have been emerging. Samsung has been dabbling in a new type of screen: MicroLED, but OLED displays will continue to dominate over the foreseeable future.

  Smarthome technology: Amazon and Google have been working to incorporate their voice-activated assistants, Alexa and Google Home, with non-Amazon and Google products such as televisions, speakers, cars, and appliances, to further drive sales.

  Wearable technology: Wearable fitness trackers continue to develop within the industry, with more products released geared toward specific sports, such as cycling, golf, and fishing.

Trend Tracker

NOLVs	Mixed	▲▼
Sales Trends	Mixed	▲▼
Gross Margin	Consistent	—
Discounting	Consistent	—

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Best Buy	9.0%	4.4%	5.4%	1.6%
Conn's	(6.6%)	(15.0%)	(15.1%)	(9.3%)

*Note(s): The most recent quarter for Best Buy ended February 3, 2018 and represents domestic sales, excluding installment billing; Conn's ended October 31, 2017 and represents product sales only.

Books

KEY INDUSTRY DRIVERS

- **Physical over digital:** Unit sales of print books increased 1.9% in 2017, the fourth year in a row sales increased. This comes even as the year lacked big blockbuster titles. Sales via mass merchants (Walmart and Costco) dropped 6.7%, the fourth year in a row sales have dropped. Sales through retail and club (chain bookstores, Amazon, and independents) increased 3.5%. It is suspected that much of the growth in the retail and club channel is coming from Amazon, given that Barnes & Noble continues to report sales declines. Sales through independent bookstores are also rising. In 2017, sales at independent book stores increased 2.6% and the channel has achieved a compound annual growth rate of 5.4% over the past five years. Sales of e-books published by the major publishers continue to decline as sharply priced physical books have greater appeal amongst consumers. Self-published e-books, which are not tracked by the major reporting agencies, are likely still growing. This portion of e-books is estimated at between 10% and 20% of the market.

- **Retail sales trends:** Barnes & Noble's comparable store sales declined 6.4% during the holiday season, with online sales down 4.5%. The retailer blamed the decline on low customer traffic and noted that half of the decline was driven by non-book categories. The retailer had seen some improvement in book sales during 2017 and was optimistic about the holidays, but results were disappointing. In recent years, brick-and-mortar players like Barnes & Noble tried to differentiate themselves from Amazon by expanding non-book categories. However, the recent results caused the retailer to change direction and renew its focus on its core book category and scale back non-book offerings. On the heels of its disappointing holiday results, the retailer announced it would be laying off 1,800 store employees as it moves to a new labor model. It is rumored that these are mostly full-time employees and some in the industry worry that the company's customer service will suffer and drive more consumers to Amazon or independents.

- **Textbook sales:** College textbook sales have been challenged by the popularity of rentals, which generate lower sales dollars. The industry is also experiencing a shortage of used textbooks, which has impacted revenue for many wholesale companies. Some within the industry have been growing via acquisition. In 2017, Barnes & Noble Education acquired MBS Textbook Exchange and Nebraska Book Company acquired Campus Book Rentals. Sales in the K-12 market were relatively stagnant in 2016 due to the cyclical nature of the adoption schedule. However, demand should be significantly higher in 2019, 2020, and 2021.

Trend Tracker

NOLVs	Decreasing ▼
Sales Trends	Decreasing ▼
Gross Margin	Consistent —
Discounting	Consistent —

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Barnes & Noble	(5.8%)	(6.3%)	(4.9%)	(6.3%)

*Note(s): The most recent quarter for Barnes & Noble ended January 27, 2018.

Sporting Goods

KEY INDUSTRY DRIVERS

- **Firearms and ammunition:** Firearms and ammunition are major categories for many sporting goods retailers, demand for which has been driven by two major factors in recent years: fear of changes in legislation, and fear for personal safety. Since Trump took office, fears of legislative changes waned, and gun and ammunition sales have declined. However, following the most recent mass shootings and backlash from the public, some retailers have taken measures into their own hands. Walmart and Dick's Sporting Goods both announced they will no longer sell guns or ammunition to anyone under the age of 21. Dick's also will no longer sell assault-style rifles or high-capacity magazines in any of its stores. Walmart removed assault-style weapons in 2015. Taking it one step further, REI announced it would cease orders from Vista Outdoor, not even purchasing Bell helmets or Camelbak products, as Vista also owns a maker of semi-automatic rifles.

- **Channels:** Competition remains not only from other sporting goods retailers, but also from e-commerce players such as Amazon, as well as mass merchants. E-commerce remains a focus within the sporting goods industry, and many retailers aim to offer an omni-channel presence.

- **Consolidation/store growth:** Following numerous bankruptcies, liquidations, mergers, and acquisitions in 2016 and 2017, which included store closures for Sports Authority Stores, Sport Chalet, City Sports, MC Sports, and Gander Mountain, activity has calmed down in the sporting goods retail sector. However, some wholesalers continue to face issues; Maurice Sporting Goods filed for bankruptcy. Remaining players had expected to gain market share and experience sales growth. However, in recent quarters, several of the major players have reported flat or declining comparable store sales. Retailers have been strategically and conservatively opening stores, with several slowing the pace of new store openings compared to prior years.

Trend Tracker

NOLVs	Decreasing ▼
Sales Trends	Decreasing ▼
Gross Margin	Decreasing ▼
Discounting	Increasing ▲

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Dick's	(2.0%)	(0.9%)	0.1%	2.4%
Hibbett	1.6%	(1.3%)	(11.7%)	(4.9%)
Big 5	(9.4%)	(2.9%)	0.8%	7.9%
Sportsman's Warehouse	(7.0%)	(9.0%)	(6.9%)	(5.2%)

*Note(s): Results for Dick's include Dick's Sporting Goods stores, Golf Galaxy, and the e-commerce business. The most recent quarter for Dick's and Hibbett ended February 3, 2018; Sportsman's Warehouse ended October 28, 2017; Big 5 ended December 31, 2017.

- **Products:** Several sporting goods retailers have expended the offerings of, and promotions on, private label brands, in an attempt to gain customer loyalty.

Arts and Crafts

KEY INDUSTRY DRIVERS

- **Product sales:** Sales at arts and crafts retailers continue to be driven by trend-right products. In recent years, retailers had benefited from products such as the Rainbow Loom, adult coloring books, and other kids crafts items. However, recently there has been no new major trend to drive sales. During the holiday season, retailers used targeted merchandise displays to drive sales of trends, such as make-your-own slime for kids.

- **Product offerings:** Several major retailers have increased product offerings, particularly seasonal items, to drive traffic and sales. Some retailers have added more low-priced promotional items, while others have expanded. For example, Michaels' Lamrite division introduced fabric.

- **Marketing/digital focus:** The arts and crafts sector has increased focus on marketing, particularly digital marketing. For example, Michaels improved its digital experience via its app and its Michaels Marketplace, which focuses on handmade items made with Michaels products. A.C. Moore's parent company acquired Blitsy, a leading online retailer of crafts, particularly paper crafts.

- **Consolidation:** The industry has seen some consolidation in distribution channels. Examples include CSS Industries, a leading provider of seasonal, celebrations, and crafts products, acquiring Simplicity Creative Group. Simplicity focuses on sewing items, sold to mass-market retailers, specialty retailers, and wholesale distributors. In addition, American Crafts acquired BoBunny Press, a scrapbook wholesaler. This was American Crafts' third acquisition in 2017, following Core'dinations and DCWV's paper division.

Trend Tracker

NOLVs	Consistent Decreasing ▼
Sales Trends	Consistent Decreasing ▼
Gross Margin	Consistent
Discounting	Consistent

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Michaels	1.0%	0.6%	(1.2%)	(1.0%)
Etsy	23.6%	21.5%	19.1%	18.4%

*Note(s): The most recent quarter for Michaels ended October 28, 2017; the most recent quarter for Etsy ended December 31, 2017, and represents comparable revenue.

- **DIY:** Despite mixed results at some arts and crafts retailers, the industry as a whole has benefited as DIY projects remain popular, having originally taken off during the 2007 to 2009 recession. Crafts often relate to home décor, weddings, and parties. Fashion and jewelry projects (particularly bracelets) also remain popular, as does crochet, knitting, quilting, and sewing.

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 under-performing 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	MC Sports	Office Depot/Max	Circuit City	Macy's	Fashion Bug
Mervyns	Payless	Gap	Frederick's of Hollywood	Sears Canada	RadioShack
Linens 'N Things	Naartjie	Whitehall Jewelers	Borders	Hancock Fabrics	Boot Town
A&P	Tower Records	Gordmans	Love Culture	Orchard Supply Hardware	Eddie Bauer

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:

- 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.
- Several e-commerce and multi-channel retailers, as well as flash sale websites and auction websites. In particular, GA has appraised approximately 75 of the top 500 e-commerce companies as reported by Internet Retailer.
- 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.
- 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 upwards of 800 and net sales in excess of $10.0 billion, as well as smaller local grocery store retailers and pharmacies.
- Several regional pharmacy retailers, pharmacy and service providers to long term care facilities, supermarkets with pharmacy operations, and wholesalers of pharmaceuticals, for which GA valued both the pharmacy inventory and prescription lists ("scripts").

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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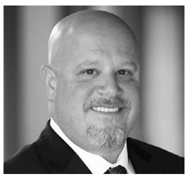

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About Great American Group

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. For more information, please visit **www.greatamerican.com**.

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