

Specialty Apparel Stores

INDUSTRY OVERVIEW

Specialty retailers have faced challenges during holiday season and into 2014. A weak economic climate, severe weather in many parts of the country, and a continued frugal consumer mindset made it pertinent that retailers get the right product into their stores to compel customers to make purchases. Some succeeded, whereas others were not able to captivate their audiences. The specialty retail sector is also highly cyclical, with brands coming in and out of fashion. This has resulted in many retailers continually re-thinking their product mixes and merchandising strategies to drive sales.



TREND TRACKER

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

NOLVs: NOLVs have increased by up to 1.5 percentage points for companies that have experienced increased margin and inventory management, while companies with sales declines have not fared as well.

Sales Trends: Some companies have experienced positive sales trends recently, while the teen sector in particular continues to struggle for consumers' dollars.

Gross Margin and Discounting: Gross margin has improved for companies that have successfully managed inventory levels in line with sales. In the competitive teen retail sector, results have been more mixed, as some have had to increase discounting to drive sales, to the detriment of gross margin.

KEY INDUSTRY DRIVERS

- **Mall traffic:** Specialty retailers have been impacted by a general decline in mall traffic. As such, it is a highly competitive environment and challenging to get customers in the door. Teen retailers in particular have experienced depressed sales, as young adults have less brand loyalty.
- **Promotions:** Specialty retailers face steep competition from fast-fashion retailers and off-price players. During the holiday season, promotions were used to attract would-be buyers. Consumers have become conditioned to expect a consistent level of promotional activity, which has impacted profitability for many retailers.
- **E-commerce:** Specialty apparel retailers continue to recognize the strength of growing and developing online channels and using social media as a means to drive sales.

SALES TRENDS

The following tables illustrate comparable store sales trends for major public specialty apparel retailers (Represents the most recent fiscal quarter and month sales reported):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
American Eagle	(7.0%)	(5.0%)	(7.0%)	(5.0%)
Aeropostale	(15.0%)	(15.0%)	(15.0%)	(14.0%)
Abercrombie & Fitch	(8.0%)	(14.0%)	(10.0%)	(15.0%)
Ann Taylor	2.9%	3.7%	2.8%	(0.5%)
Wet Seal	(16.5%)	0.8%	3.7%	(2.9%)
New York & Co.	N/A	3.0%	2.1%	(2.0%)

Note(s): The most recent quarter reported for American Eagle, Aeropostale, Abercrombie & Fitch, Ann Taylor, and Wet Seal (includes Arden B.) ended February 1, 2014; New York & Co. ended November 2, 2013.

	Feb. '14	Jan. '14	Dec. '13	Nov. '13	Oct. '13	Sept. '13
Gap	(10.0%)	1.0%	1.0%	2.0%	5.0%	(3.0%)
Banana Republic	(7.0%)	(10.0%)	0.0%	(1.0%)	1.0%	(5.0%)
Old Navy	(6.0%)	4.0%	(2.0%)	3.0%	2.0%	(2.0%)
The Buckle	(1.4%)	(6.6%)	(2.8%)	(0.6%)	2.6%	(4.5%)
Cato	1.0%	(8.0%)	(4.0%)	0.0%	3.0%	(3.0%)
Zumiez	2.0%	(7.6%)	(2.4%)	1.7%	1.2%	(0.6%)
Victoria's Secret	2.0%	10.0%	3.0%	(3.0%)	10.0%	1.0%

OUTLOOK

Going forward, many specialty retailers aim to update or enhance product offerings to attract customers. Examples include expanding into yoga and athletic apparel, as well as offering complementary add-on items, such as footwear and accessories. Furthermore, some retailers recognize the market for special sizes, such as petite, plus-size, big & tall, and maternity, and continued growth through these categories will likely be seen.

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:

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

- 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.
- 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.
- 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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