

Arts and Crafts

INDUSTRY OVERVIEW

Throughout the holiday season and in recent months, the arts and crafts retail industry has shown resilience. The industry is laden with competition; in addition to traditional brick-and-mortar arts and crafts stores, competition has been seen from big box retailers such as Wal-Mart and Target, as well as online players such as etsy.com. In order to gain market share, major retailers have been tailoring their product mixes, strategically utilizing discounting, and working to expand their e-commerce presence.



TREND TRACKER

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

NOLVs: NOLVs for companies appraised by GA have remained relatively consistent, or in some cases, have increased up to 1.0 percentage point. Increases have been driven by positive sales trends as well as positive trends in GA's recent liquidation experience.

Sales Trends: Most arts and crafts retailers have seen increasing sales trends in recent quarters.

Gross Margin and Discounting: Gross margin and average discount levels have remained relatively consistent. Given that the arts and crafts industry is highly competitive, retailers have faced an ongoing balancing act in their promotional strategies, wanting to use discounts to drive sales, without sacrificing gross margin. This trend continued during the holiday season and in recent months, with many retailers being almost surgical with their offers of promotions, discounting only certain categories, certain products within a category, or keeping the level of discounting moderate.

KEY INDUSTRY DRIVERS

- **Inventory mix:** Many retailers have worked to refine their inventory mix over the past year, selling through slower-moving items and focusing on keeping a lean inventory position. This has allowed retailers to capitalize on sales of key categories. For example, kids crafts continued to perform well during the holiday season and in recent months, with items such as the Rainbow Loom driving sales. Additionally, during the fourth quarter, many major retailers merchandised stores with seasonal product prominently displayed in the front sections of stores. This includes holiday décor related to key holidays such as Halloween, Thanksgiving, and Christmas. More recently, retailers have continued to showcase Valentine's Day, St. Patrick's Day, and Easter themed product to drive sales in the seasonal category.
- **Do-it-Yourself ("DIY"):** During the recession, DIY projects became popular as consumers looked to save money wherever possible. Even though the economy has been picking up speed, DIY projects remain popular. Many believe this is largely attributable to the continued expansion of social media. Consumers have increasingly been using the web as a resource for ideas. Pinterest's "DIY and Crafts" category in particular allows people to exchange ideas, instructions, and images for their projects.
- **E-commerce:** Major brick-and-mortar arts and crafts retailers have recognized the importance of maintaining an omni-channel presence. As such, several have worked to revamp their websites, adding/improving e-commerce capabilities, and in general making websites more user-friendly.

SALES TRENDS

The following table illustrates comparable store sales trends for major public craft retailers (Represents the most recent fiscal quarter sales reported by these companies):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Michaels	7.9%	(1.3%)	(0.7%)	1.7%
Hancock Fabrics	1.1%	(1.7%)	0.0%	1.4%

Note(s): The most recent quarter for Michaels ended November 2, 2013. The most recent quarter for Hancock Fabrics ended October 26, 2013.

OUTLOOK

Throughout 2014, homemade crafts will trend well while popular crafting pastimes come in and out of fashion. Already in recent years, scrapbooking has waned in popularity, while knitting and sewing remain stable and continue to evolve. "Arm knitting" allows crafters to make items such as scarfs using only yarn and their two hands—no knitting needles required. Trends such as these are made popular through social media, sending consumers to the stores and online to purchase the necessary supplies.

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:

Jo-Ann Fabrics	Linens 'N Things	Hancock Fabrics	Movie Gallery
Fortunoff	Fashion Bug	Mervyns	Payless Shoe Source
Circuit City	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:

- A number of craft retailers, including small and large regional players, as well as those focusing on fabric and a variety of other items.
- 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*.
- 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.
- 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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