

Arts and Crafts

INDUSTRY OVERVIEW

Overall, the arts and crafts industry continues to trend positively, as consumers continue to seek out do-it-yourself (“DIY”) home projects. In general, it seems consumers have an ongoing interest in crafting. However, the industry remains very competitive, with traditional brick-and-mortar arts and crafts stores such as Jo-Ann Fabrics, Michaels, and A.C. Moore facing competition from big box retailers such as Wal-Mart and Target, as well as online players such as etsy.com. The increased competition had caused many retailers to increase promotional activity to drive sales. While lower price points remain important for many consumers, many retailers have been recently focused on improving gross margin, and have been more strategic with the type and level of discounts offered.



TREND TRACKER

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

NOLVs: NOLVs for companies appraised by GA have remained relatively consistent, or in some cases, have increased up to 0.5 percentage points. 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 for retailers has been mixed, as some have not been able to push prices back up or reduce discounting, as consumer remain focused on price; however, more recently, companies have been focused on smarter discounting, to regain some of the margin erosion. Smarter discounting tactics include revising markdown cadences to maximize gross margin.

KEY INDUSTRY DRIVERS

- **Children’s crafts:** For many retailers, children’s crafts have been driving sales over the past year. In particular, the Rainbow Loom, as well as similar variations, spurred sales at many arts and crafts retailers last year. Products such as these remain popular with children. Going forward into the holiday season, sales at some retailers will be compared to elevated sales levels last year. It remains to be seen if the continued popularity of these items will allow sales growth to be maintained, or if another product will become the it-gift with children.
- **Seasonal decor:** Seasonal product continues to be prominently displayed in the front sections of many arts and crafts retail stores. In recent months, this has included seasonal decorations related to fall, as well as holiday décor related to Halloween, Thanksgiving, and Christmas.
- **Online presence:** Crafting, DIY projects, and other forms of homemade pastimes such as elaborately decorated baked goods continue to grow in popularity, largely as a result of the continued expansion of social media. Consumers have increasingly been using the web as a resource for ideas. Websites such as Pinterest and etsy.com allow people to exchange ideas, instructions, and images for their projects. Retailers have recognized this trend, with some aiming to capitalize by offering crafting blogs on their websites, as well as links to top projects, which have been trending on Pinterest boards. Many major brick-and-mortar arts and crafts retailers have also recognized the importance of maintaining an omni-channel presence, and have revamped their websites or improved e-commerce capabilities.

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	3.2%	3.8%	4.6%	7.9%
Hancock Fabrics	0.9%	(0.3%)	1.1%	(1.7%)

Note(s): The most recent quarter for Michaels ended August 2, 2014. The most recent quarter for Hancock Fabrics ended July 26, 2014.

OUTLOOK

Going forward into the holiday season, the industry will continue to follow recent trends. Prices will remain highly competitive and retailers will have to balance the use of discounts to drive sales of seasonal product and crafting items, without sacrificing too much margin.

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 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.
- 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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