Arts and Crafts

INDUSTRY OVERVIEW

The arts and crafts sector has held steady over the past few months. Continued popularity of do-it-yourself ("DIY") home projects have benefited sales; however, significant gains at many retailers have been offset by the general competitive nature of the industry. In addition, many retailers have faced somewhat weaker sales results in recent quarters, as comparable store sales are compared to elevated sales levels last year, when the Rainbow Loom and similar variations spurred sales above historical levels. Overall however, consumers have an ongoing interest in crafting.

TREND TRACKER

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

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 companies finding success through balancing markup and discounting cadences to maintain gross margin, while driving sales.

Sales Trends: Most arts and crafts retailers experienced increasing sales over the past 12 months; however, in the most recent quarter some companies have experienced declines.

Gross Margin and Discounting: Gross margin for retailers has been mixed, as companies continue to work toward a moving target for the right level of margin while driving sales. This has proven challenging for some companies given the highly competitive industry.

KEY INDUSTRY DRIVERS

- **Competition:** 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. Competition has led to increased discounting activity over the past few years to lure customers into stores. More recently, retailers continue to look for ways to improve gross margin without sacrificing sales. Tactics include offering more targeted promotions on certain products as opposed to an entire category, as well as reducing shrink, and asking for concessions from vendors. Retailers have also been managing cost structures, and closing underperforming locations as leases expire.
- **Online presence:** DIY projects, particularly those related to home décor, weddings, and parties, continue to grow in popularity, largely as a result of the continued expansion of social media. The Internet offers an infinite amount of ideas and inspiration. Pinterest and etsy.com are websites that highlight this trend, allowing users to exchange ideas, instructions, and images for their projects. Retailers have recognized this trend, and have started offering crafting blogs on their websites, as well as links to top projects that 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.
- **Children's crafts:** Children's crafts remain popular. While the Rainbow Loom, as well as similar variations, remain popular with children, more recently retailers have seen sales level off compared to elevated sales levels last year. There has not yet been a new trend to significantly boost sales in this category.

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	1.4%	(0.8%)	3.2%	3.8%
Hancock Fabrics	0.3%	0.9%	N/A	(0.3%)

Note(s): The most recent quarter for Michaels ended January 31, 2015. The most recent quarter for Hancock Fabrics ended October 25, 2014.

OUTLOOK

Going forward, this sector could continue to see store closures gradually, as increased competition as well as a growing online presence forces companies to right-size their businesses. Margin will continue to be challenged by a customer base that has become accustomed to promotions.

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:

Target Canada	Cache	Office Depot/Max	Circuit City
Macy's	Fashion Bug	Mervyns	Tower Records
Fortunoff	Frederick's of Hollywood	Eddie Bauer	RadioShack
Linens 'N Things	Naartjie	Whitehall Jewelers	Borders
Jo-Ann Fabrics	Boot Town	A&P	Movie Gallery

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 74 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

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