

Consumer Electronics

INDUSTRY OVERVIEW

The holiday season was a mixed bag in the consumer electronics sector. Some of the major players experienced a promising start during the Black Friday weekend. Soon thereafter sales lost their momentum, promotions were heavy, and some retailers, such as Best Buy and hhgregg, experienced disappointing results as a whole for the season. RadioShack experienced significant sales declines during the holiday period, which it attributed to low customer traffic levels and a highly promotional environment. It subsequently announced plans to close upwards of 1,100 stores, reducing its store base by an estimated 20%. There continue to be varying results by product category, with tablets and smartphones continuing to perform well, and wearable health technology gaining traction. Televisions, while performing better than expected, did not experience significant gains across the board.



TREND TRACKER

Three month NOLVs	Decreasing ↓
Sales Trends	Mixed ⇅
Gross Margin	Mixed ⇅
Discounting	Mixed ⇅

NOLVs: NOLVs have generally been decreasing, down 1.0 to 4.0 percentage points.

Sales Trends: Retailers that have expanded their product categories to offset declining television sales have reported positive sales trends, while others continue to experience declines.

Gross Margin: Gross margin has increased for those retailers that have shifted to higher margin goods and increased average selling prices, while others have had to increase discounting, to the detriment of gross margin.

Discounting: Discounting levels have been mixed, as some retailers have had to use discounts to drive sales. The holiday season in particular was promotional for many retailers, who had to continue to use discounts to drive sales after the Black Friday shopping weekend.

KEY INDUSTRY DRIVERS

- **Cell phones:** Smartphones continue to gain market share, and as many consumer electronics retailers offer cell phones, having the most desirable phone models is key to driving sales. Apple's iPhone models and Samsung's highly popular Galaxy phone models dominate in market share. Consumers' preferences for Apple and Samsung's phones have taken market share away from BlackBerry, which once dominated the mobile phone industry.
- **Health technology:** One of the hottest electronics products this holiday season was wearable technology, particularly those items geared toward health and fitness. A number of activity trackers hit the market, which allow consumers to wear a device, often on the wrist or arm, which then keeps track of the level of activity in which the consumer engages throughout the day. As Americans become more health-conscious, devices such as these have experienced positive sales results. It has been rumored that Apple may be interested in developing a blood pressure/heart monitor.
- **Video games:** During the holiday season, the new Playstation 4 and Xbox One consoles were released, and were met with high demand. Conversely, Nintendo's Wii U console reportedly experienced disappointing results throughout 2013. In this highly competitive sector of the consumer electronics industry, rumors have been swirling that Amazon could delve into the sector, with some suspecting it could launch a console of its own in the future.

SALES TRENDS

The following table illustrates comparable store sales trends for major public consumer electronics retailers (Represents the most recent fiscal quarter sales reported):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Best Buy	(0.9%)	1.7%	(0.4%)	(1.1%)
hhgregg	(11.2%)	(6.2%)	0.8%	(9.8%)
Conn's	33.4%	35.1%	18.4%	16.5%
RadioShack	(19.0%)	(8.4%)	1.3%	(5.7%)
Amazon	20%	24%	22%	22%

Note(s): Best Buy represents domestic only; Amazon represents net sales. The most recent quarter for Best Buy represents holiday revenue for the nine weeks ended January 4, 2014; hhgregg, Amazon, and RadioShack ended December 31, 2013; Conn's ended January 31, 2014.

OUTLOOK

Going forward, wearable technology will continue to grow in popularity, particularly given the slowly expanding Google Glass product line. Google Glass is a wearable headset that allows users to take pictures, record video, receive answers, and view directions through voice commands. For those that are not quite ready for this wearable technology, newer models of smartphones, tablets, and health technology will remain popular. Consumer electronics retailers will work to offset stagnant television sales with these smaller categories, and with appliances and furniture.

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:

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

- Retailers of consumer electronics, including smaller, more localized chains, as well as regional, national, and international retailers with close to 4,500 store locations.
- 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.
- 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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