

Consumer Electronics

INDUSTRY OVERVIEW

The consumer electronics industry includes companies on opposite ends of the spectrum, from Apple, which continues to dominate, to RadioShack, which has filed for bankruptcy and is in the process of closing over 1,700 stores. Other companies are in more of a middle ground. Best Buy, following several quarters of comparable store sales declines, is showing signs of stabilizing. Amazon has not gained as much market share in recent years, as interconnectivity, expertise, and service components keep stores relevant. The industry lacks new technology and product categories to drive growth; sales of televisions and computers have been on the decline, and have only recently shown signs of stabilizing, while tablet sales were weak during the holidays. Many consumer electronics retailers have been expanding into other categories. Some offer wearable health technology, as well as fitness equipment, with others relying on appliances and mattresses to buoy sales.



TREND TRACKER

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

NOLVs: NOLVs have generally been decreasing by 1.0 percentage point, with some companies experiencing greater declines.

Sales Trends: Many consumer electronics retailers are experiencing declining sales due to decreased mall traffic, a competitive environment, and weak results in key categories. Some retailers that have expanded their product categories to include items like furniture, bedding, and appliances, have reported positive sales trends.

Gross Margin and Discounting: Results within the industry have varied, as some retailers have experienced declines in gross margin due to increased promotional activity needed to drive sales and sell through aged goods. Retailers reliant on smartphones have experienced margin declines, as these products typically generate lower margins. Conversely, retailers that have expanded product offerings into higher margin categories like bedding have seen gross margin results improve.

KEY INDUSTRY DRIVERS

- **Key product categories:** Consumer electronics retailers need to offer the hottest brands and the latest models and technology. Tablets had been gaining traction within the industry, but during the holiday season, sales fell off due to strong phablet sales and resurging PC sales. Smartphones continue to drive the industry, with Apple and Samsung leaders in the arena. Apple's iPhone 6 and 6 Plus drove sales in the fourth quarter.
- **Wearable technology:** Wearable technology, particularly those items geared toward health and fitness, continue to gain traction. Activity trackers allow consumers to wear a device that tracks their level of activity. These continue to be popular, with brands such as FitBit becoming extremely well-known. Apple will be unveiling its highly-anticipated Apple Watch this spring, which will be compatible with the iPhone and include simplified apps, allowing wearers to check messages, Facebook, and other notifications.
- **External competition:** This industry continues to face competition not only from traditional brick-and-mortar consumer electronics players, but also from online giants like Amazon, and players in other sectors such as office supply retailers and even some drug stores.

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	2.8%	3.2%	(2.0%)	(1.3%)
hhgregg	(6.3%)	(11.4%)	(10.2%)	(9.9%)
Conn's	1.7%	(0.4%)	11.8%	15.4%
RadioShack	(13.4%)	(20.0%)	(14.0%)	(19.0%)

Note(s): The most recent quarter for Best Buy and Conn's ended January 31, 2015; hhgregg ended December 31, 2014; RadioShack ended November 1, 2014.

OUTLOOK

Representatives from GA attended the Consumer Electronics Show ("CES") in Las Vegas, Nevada in January 2015. Trends to watch for in 2015 include curved screens, for cell phones and televisions alike. In addition, wearable tech will remain popular, particularly as the Apple Watch is released. The concept of a "smart home" is also popular, with consumers increasingly interested in controlling elements such as thermostats and security systems from a distance, via cell phones. Other newer technology items that retailers are hopeful will spark sales include 8K LED televisions, frameless televisions, see-through screens, Intel 3D photography, and smart cars. Retailers will face competition from a number of sources as they vie for consumers' dollars.

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:

- 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 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.
- 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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