

Department Stores

INDUSTRY OVERVIEW

The department store sector has been faring well, as luxury department stores, such as Neiman Marcus, Nordstrom, and Saks have been experiencing positive sales trends in recent quarters, as have mid-tier players Macy's and Dillard's. Even J.C. Penney managed to turn its negative sales trends around within the last three quarters. Success for many has been driven by growth via e-commerce channels, as mall traffic continues to be on the decline. In addition to e-commerce driving sales for department stores, within the luxury sector, off-price counterparts such as Saks Off 5th and Nordstrom Rack have also thrived. On the lower end of the department store spectrum, Sears and Kohl's continue to face challenges, as these retailers cater to a customer base that is price-sensitive and has not experienced as much of a bounce back in discretionary funds as has the luxury sector. Both of these retailers are trying different tactics in order to boost sales.



TREND TRACKER

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

NOLVs: NOLVs have ranged from relatively consistent to trending up to 1.0 percentage point.

Sales Trends: Luxury department store sales continue to be positive. Mid-tier players have experienced modest growth, while lower-tier players continue to vie for consumers dollars, and results are more mixed.

Gross Margin and Discounting: Gross margin has been relatively consistent; however, discounting has been mixed. Companies have been increasing discounting when needed to drive sales, while managing margin through factors such as markup and vendor allowances.

KEY INDUSTRY DRIVERS

- **Online and Mobile sales:** Digital platforms have become of the utmost importance as many retailers aim to capture the perpetually-online Millennial demographic. Department stores that have done particularly well in offering an omni-channel presence, such as Macy's, Neiman Marcus, and Nordstrom, have gained market share in recent years. Some of these retailers have expanded their e-commerce offerings by acquiring smaller, existing online operations. For example, Neiman Marcus recently announced plans to acquire MyTheresa.com, which is a global, luxury website. Similarly, Nordstrom acquired Trunk Club, a personalized shopping service geared toward men.
- **Customer traffic:** Given the continued softness in mall traffic in recent years, department stores have been working to leverage store locations to capitalize on customers who walk through the doors. For example, Hudson's Bay and Lord & Taylor stores have integrated mobile-friendly features for in-store shoppers, sending customers targeted content to their mobile devices. Macy's allows customers to purchase products online, and then pick them up in the stores. This is in addition to its longer-standing policy of arranging for an item to be sent to a customer's home, in the event that their store did not have a desired style, color, or size during their shopping trip.

SALES TRENDS

The table below illustrates comparable store sales trends for major public department stores (Represents the most recent fiscal quarter sales reported):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Neiman Marcus	4.9%	5.9%	5.5%	5.7%
Saks	2.2%	2.6%	3.1%	N/A
Hudson's Bay/Lord & Taylor	1.1%	2.5%	(1.3%)	1.6%
Nordstrom	2.7%	3.3%	2.2%	(0.7%)
Macy's	3.4%	(1.6%)	1.4%	3.5%
Dillard's	1.0%	2.0%	2.0%	1.0%
J.C. Penney	6.0%	7.4%	2.0%	(4.8%)
Kohl's	(1.3%)	(3.4%)	(2.0%)	(1.6%)
Sears	0.1%	0.2%	(7.8%)	(4.0%)

Note(s): The most recent quarter reported for all companies ended August 2, 2014; Saks excludes Off 5th locations. Hudson's Bay Company reports collective consolidated same store sales for Hudson's Bay and Lord & Taylor stores for the most recent two quarters; prior includes Lord & Taylor only. Some retailers report results including e-commerce sales.

OUTLOOK

Department stores are hopeful that strong results in recent quarters will continue through the holiday season, and that they will be able to continue to gain market share by expanding e-commerce capabilities and an omni-channel presence.

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:

Macy's	Linens 'N Things	Circuit City	Tower Records
Mervyns	Fashion Bug	Jo-Ann Fabrics	Payless Shoe Source
Fortunoff	Borders	Whitehall Jewelers	A&P
Ritz Camera	Boot Town	Eddie Bauer	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:

- National and regional department store retailers that cater to luxury consumers, as well as mid and lower-tier department stores.
- Numerous retailers of apparel and accessories, including 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.
- 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*.
- 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.

Appraisal & Valuation Team

BUSINESS DEVELOPMENT



Mike Marchlik
National Sales & Marketing Director
mmarchlik@greatamerican.com
(818) 746-9306



Ryan Mulcunry
Executive Vice President - Northeast Region, Canada & Europe
rmulcunry@greatamerican.com
(617) 692-8310



David Seiden
Executive Vice President, Southeast Region
dseiden@greatamerican.com
(770) 551-8114



Bill Soncini
Senior Vice President, Midwest Region
bsoncini@greatamerican.com
(312) 777-7945



Daniel J. Williams
Managing Director, New York Region
dwilliams@greatamerican.com
(646) 381-9221



Drew Jakubek
Managing Director, Southwest Region
djakubek@greatamerican.com
(972) 996-5632



Jennie Kim
Vice President, Western Region
jkim@greatamerican.com
(818) 746-9370



Gordon Titley
Director of Valuations, GA Europe Valuations
gtitley@gaeurope.co.uk
+44 (0) 20 7318-0574

OPERATIONS

John Bankert
President
jbankert@greatamerican.com
(781) 429-4054

David Triompo
Managing Director, Consumer Products
dtriompo@greatamerican.com
(781) 429-4067

Tracy Foohey
Associate Director
tfoohey@greatamerican.com
(781) 429-4059

Matthew Gins
Project Manager
mgins@greatamerican.com
(818) 746-9386

Nicole Hines
Project Manager
nhines@greatamerican.com
(781) 429-4072

Robert Vaughn
Associate Project Manager
rvaughn@greatamerican.com
(818) 746-9351

Kipp Visi
Associate Project Manager
kvisi@greatamerican.com
(312) 777-7957

Leslie Ward
Senior Associate
lward@greatamerican.com
(781) 429-4065

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.

Headquarters

21860 Burbank Blvd. Suite 300 South
Woodland Hills, CA 91367

800-45-GREAT

www.greatamerican.com