

INDUSTRY OVERVIEW

E-commerce continues to change the way consumers shop, and has steadily increased as a percentage of total retail sales over the past few years. It remained a popular shopping channel during the back-to-school season for many consumers. Retailers in most sectors continue to focus on omni-channel capabilities, working to target customers in stores, online, and via mobile apps on smartphones and tablets. While e-commerce growth can drive sales for retailers, it continues to contribute to the general decline in mall traffic that has been seen over the past few years.



TREND TRACKER

Three month NOLVs	Increasing ↑
Sales Trends	Increasing ↑
Gross Margin	Decreasing ↓
Discounting	Increasing ↑

NOLVs: NOLVs have generally continued to increase for multi-channel retailers appraised by GA, based on recent experience. In addition, depending on the amount of sales a company generates via e-commerce, GA has been adding an e-commerce sale to its liquidation strategy, which can increase values by up to 4.0 percentage points, depending on the penetration of e-commerce sales, as well as the associated expenses.

Sales Trends: Overall, e-commerce sales trends have been increasing, particularly in the direct segment of multi-channel retailers, driven by a continued focus on omni-channel efforts. In some cases, however, this has resulted in a decline in, or relatively flat, brick-and-mortar sales.

Gross Margin and Discounting: Many companies continue to experience declines in gross margin, albeit at a much slower rate, as the industry remains highly competitive. Companies continue to test different combinations of discounts and free shipping tools to identify the most effective and profitable tool to drive sales.

KEY INDUSTRY DRIVERS

- Competition:** Amazon remains the e-commerce industry leader, with some estimating that it is even set to surpass Macy's as the top U.S. clothing retailer in the next few years. Many companies are strategizing ways to compete. When Amazon promoted its "Prime Day," which touted deals akin to Black Friday doorbusters on July 15, 2015, Wal-Mart followed suit, announcing its own specials that day. Other companies strive to compete on an ongoing basis, thinking outside the box for ways to be able to offer same-day delivery or free shipping. New companies are also entering the arena, such as Jet.com, which has been described as the "Costco of the Internet."
- Marketplace sales:** Rather than trying to compete with Amazon, some companies have realized the better option is to sell their products through Amazon's marketplace, or participate in Amazon's Fulfillment by Amazon ("FBA") program. Marketplace sales allow a company to offer their product for sale on Amazon's website and fulfill from their own warehouses. The FBA program allows companies to store product within Amazon's facilities, and once sold, Amazon ships directly to customers. GA attended the Internet Retailer Conference and Expo in Chicago in June 2015, which included seminars regarding Amazon and its marketplace. This is a growing sector that GA has seen used by many companies appraised.
- Multi-channel:** In light of online competition from Amazon and new players like Jet.com, retailers continue to leverage multi-channel business models, offering customers the convenience of ordering online, and then picking up the order at a store location. In addition, many retailers have developed the ability to fulfill online orders from store inventory in addition to distribution centers, and many allow customers to return purchases made online to store locations.

SALES TRENDS

The following table illustrates e-commerce sales as a percentage of total retail sales, as well as the year-over-year change in e-commerce sales dollars, excluding auto and gasoline sales, based on information from the U.S. Commerce Department:

	Second Quarter 2015	First Quarter 2015	Fourth Quarter 2014	Third Quarter 2014
% of Retail Sales	10.5%	10.2%	10.1%	10.0%
Change Year Over Year	14.1%	14.8%	14.0%	15.6%

Source: www.census.gov/retail. Results are revised estimates, calculated using information in the most recent press release for the second quarter of 2015, excluding sales of automobile and gasoline.

OUTLOOK

Competition will remain fierce in the e-commerce sector throughout the 2015 holiday season, with companies looking to compete with Amazon's Prime option. Retailers will work to generate customer traffic both in stores and online through strategic promotions and convenience options such as same-day store pickup. Going forward, e-commerce sales will continue to be strong, and will likely follow similar trends as the first half of 2015, which saw e-commerce sales increase 12% over the prior year.

Monitor Information

GA's Retail Monitor highlights key industry drivers within the retail sector and how they relate to GA's valuation process and current trends in recovery values. As the retail industry is impacted by consumer spending patterns and various macro and microeconomic factors, timely and accurate information is essential. GA strives to contextualize important indicators to provide a curated perspective of the market for our clients' needs. Such indicators include general industry trends, comparable store sales trends, gross margin changes, and discounting activity. Any comparable store sales illustrated in this monitor reflect figures as they have been reported by public retailers. The methodology for calculating comparable store sales may vary by company.

GA welcomes the opportunity to make our expertise available to you in every possible way. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer using the contact information shown in this and all *Retail Monitor* issues.

GA's *Retail Monitor* provides a brief overview highlighting specific sectors of the retail industry. The information contained herein is based on a composite of GA's industry expertise, contact with industry personnel, liquidation and appraisal experience, and data compiled from a variety of well-respected sources believed to be reliable. GA does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this issue. Neither GA nor any of its representatives shall be liable for use of any of the information in this issue or any errors therein or omissions therefrom.

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:

- 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*.
- Direct marketers and multi-channel retailers in a variety of industries.
- 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.
- 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 upwards of 800 and net sales in excess of \$10.0 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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