

# Music and Video

## INDUSTRY OVERVIEW

Throughout 2013, sales of physical CDs continued to decline, as consumers' transition to digital downloads and streaming services cannibalized sales. The adjacent table illustrates physical CD album sales in units, per year, as well as the change versus the prior year, as reported by *Nielsen SoundScan*.

While it had seemed that declines in physical CD sales had bottomed out in recent years, 2013 showed even greater declines than those in 2012. Furthermore, while digital album sales had been on the upswing, trends in 2013 indicate that even digital sales may have reached a breaking point. For the first time since

iTunes was unveiled by Apple, 2013 sales of digital tracks and albums were down compared to the prior year.

DVD sales were sluggish; however, Blu-ray discs continue to perform relatively well. The Digital Entertainment Group ("DEG") reported that during 2013, spending on home entertainment increased. Growth was driven by electronic

purchases, streaming, and video on demand, while sales of packaged goods were reportedly down over 8% during the year. Spending on Blu-ray discs was up an estimated 5%, and a higher number of homes in the U.S. now have Blu-ray devices.

Year	CD Album Sales in Units	Change versus prior year
2008	360,617	(19.7%)
2009	294,924	(18.2%)
2010	236,956	(19.7%)
2011	223,507	(5.7%)
2012	193,378	(13.5%)
2013	165,407	(14.5%)
YTD February 23, 2014	19,206	(19.0%)



## TREND TRACKER

Three month NOLVs	Mixed ⬆️⬆️
Sales Trends	Mixed ⬆️⬆️
Gross Margin	Consistent
Discounting	Consistent

**NOLVs:** NOLVs have ranged from decreasing up to 0.5 percentage points, to increasing up to 0.5 percentage points.

**Sales Trends:** CD sales in the industry continue to experience declines driven by decreased demand; however, companies appraised by GA include wholesalers that have had some sales gains due to increased market share. Sales of DVDs declined 8% in the industry throughout 2013; however, Blu-ray sales increased 5% over the same time period.

**Gross Margin and Discounting:** Gross margin for CDs and DVDs has remained relatively consistent, as discounting levels have not materially changed at the store level.

## KEY INDUSTRY DRIVERS

- Exclusive album releases:** In 2014, iTunes could further impact sales of physical product if it continues to offer exclusive relationships with artists. In 2013, Beyoncé released an album, which was first offered exclusively through iTunes for one week. There had been no advance promotion, as retailers and radio stations alike were kept in the dark about the upcoming release. Certain retailers initially refused to carry the album once the one-week timeframe was up. Some analysts note that if other artists attempt to copy Beyoncé's tactic in 2014, it could result in reduced physical product available in stores for purchase, and cause a further deterioration in physical album sales.
- Streaming services:** The number of individuals using streaming services continues to grow. Initially, analysts were leery of labeling streaming services as too much of a threat to digital sales. However, now that the results for 2013 are in, facts cannot be ignored. *Nielsen SoundScan* reports that digital track sales and catalog album sales were down close to 6% and 4%, respectively during 2013 over the prior year. Conversely, music streaming was up over 30%.
- Electronic sell-throughs:** Physical DVD sales continue to decline; however, one segment of the entertainment industry that has seen gains is the electronic sell-through category. Many cable providers and digital rental services now offer a feature whereby customers have the option of purchasing a digital copy of a movie, instead of renting. While the cost of purchasing as opposed to renting is higher, customers are able to add the title to their digital library to be viewed any time, as opposed to solely within the rental period. This feature has been catching on, as DEG reports that electronic sell-through sales were up close to 50% in 2013.

## OUTLOOK

Going forward, while physical CD sales will continue to fall, Vinyl LPs, which represent a small percentage of total industry sales, may continue to experience significant growth. Sales were up 32.6% in 2013, compared to the prior year; however, *Billboard* reports that vinyl represents only 2% of U.S. album sales. This nostalgia category has been back in vogue and could see further gains in 2014.

# 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:

Movie Gallery	Musicland	Jo-Ann Fabrics	Fortunoff
Tower Records	Wherehouse Music	Mervyns	Payless Shoe Source
Circuit City	Ritz Camera	Whitehall Jewelers	A&P
Borders	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:

- Leading book, music, and movie retailers, including one with over 700 store locations and sales of upwards of \$4.5 billion.
- 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.
- 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

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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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