

Off-Price/Dollar Stores/Mass Merchants

INDUSTRY OVERVIEW

Most discount retailers experienced positive sales during the 2014 holiday season, particularly as consumers remain price-conscious despite an improving economy. Lower fuel prices also boosted sales at discount retailers, as customers had more discretionary dollars. However, similar to the prior year, sales gains were at the expense of heightened promotional activity in order to boost customer traffic. Off-price retailers performed very well throughout 2014. Sales have continued to trend positively, as consumers that have the discretionary funds prefer to shop at off-price retailers, such as TJX and Ross Stores, rather than at lower-tier department stores, specialty stores, or mass merchants.



TREND TRACKER

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

NOLVs: NOLVs have been generally increasing by 0.5 to 1.5 percentage points, due to gross margin improvements, higher sales, reduced expenses, and better inventory management.

Sales Trends: Most companies within this sector have experienced positive sales results, particularly during the holiday season.

Gross Margin and Discounting: Gross margin has either remained consistent, or has declined slightly due to the merchandise mix, or increased discounting and promotional activity. Some retailers have tried to reduce promotions, while others have had to increase discounts to remain competitive, drive sales, or sell through slower-moving goods.

KEY INDUSTRY DRIVERS

- **Canadian market:** Expansion into the Canadian market had been a focus in this sector, and some retailers, such as Wal-Mart and Dollar Tree, have experienced positive results via their Canadian presence. On the other hand, Target's foray into Canada was disappointing, largely due to merchandising and pricing issues, and it has ultimately decided to exit this region. GA is currently managing a portion of these store closures.
- **Payroll expenses:** Within this sector, several companies could see increases in payroll expenses in the coming years. In 2015, two major retailers, Wal-Mart and TJX, have announced plans to increase minimum hourly wages to \$9 per hour over the next couple of months, and reach \$10 per hour by 2016, and others may follow suit. These retailers have realized that they need to invest in their workers in order to retain their employees. The benefit of increasing the minimum wage often outweighs the cost associated with having to perpetually hire and train new associates due to high turnover.
- **E-commerce:** E-commerce has been a point of expansion within the off-price and mass merchant sector. TJX continues to expand its online offerings, and Target is focused on online and mobile shoppers, which it views as particularly lucrative.
- **Store formats:** Small-format stores continue to be a major trend within the discount marketplace, particularly for big-box retailers Wal-Mart and Target. Target in particular has been focusing on its smaller-format Express stores by optimizing merchandise selections and localizing assortments.

SALES TRENDS

The following table illustrates comparable store sales trends for major discount and dollar store retailers (Represents the most recent fiscal quarter sales reported):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
TJX	4.0%	2.0%	3.0%	1.0%
Ross Stores	6.0%	4.0%	2.0%	1.0%
Burlington Coat Factory	6.7%	5.2%	4.7%	2.7%
Stein Mart	5.6%	3.1%	1.3%	2.6%
Wal-Mart	1.6%	0.5%	0.0%	(0.2%)
Target	3.8%	1.2%	0.0%	(0.3%)
K-Mart	(2.0%)	0.5%	(1.7%)	(2.2%)
Costco	8.0%	7.0%	6.0%	6.0%
Dollar General	4.9%	2.8%	2.1%	1.5%
Family Dollar	(0.4%)	0.3%	(1.8%)	(3.8%)
Dollar Tree	5.6%	5.9%	4.5%	2.0%

Note(s): The most recent quarter reported for TJX, Ross Stores, Burlington Coat Factory, Target, K-Mart, Stein Mart, and Dollar Tree ended January 31, 2015; Wal-Mart ended January 30, 2015 and excludes fuel; Dollar General ended January 30, 2015; Family Dollar ended November 29, 2014; Costco ended February 15, 2015 and excludes fuel.

OUTLOOK

Off-price retailers are expected to continue to perform well, but competition may increase, as Macy's is reportedly starting an off-price banner to compete with TJX.

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:

- 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. Recently, GA performed an appraisal for a well-known retailer of children's apparel and accessories, with nearly 1,000 stores nationwide.
- 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 74 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.
- Leading book retailers, including one with over 700 store locations and sales of upwards of \$4.5 billion.
- 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

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

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

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Headquarters

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

800-45-GREAT

www.greatamerican.com