

Office Supplies

INDUSTRY OVERVIEW

The office supplies industry has been on a downward trajectory in recent years, as major players have experienced sales declines stemming from increased competition from lower priced retailers and online options, and a reduced need for paper in the digital age. Given the ongoing decline in demand for paper in the office supplies industry, some companies have been expanding their product mix to offset sales declines. Office furniture, break room supplies, janitorial items, and other categories have become a larger percentage of inventory. Certain categories have experienced fluctuating results, with some retailers reporting that technology sales in particular were weaker than anticipated during the holiday season.



TREND TRACKER

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

NOLVs: NOLVs have declined primarily due to declining sales trends.

Sales Trends: As competition remains fierce, sales performance has continued to slip for many of the industry's major players.

Gross Margin: Gross margin has generally remained consistent, and in some cases has even increased. Increases have been driven by increased sales of higher margin products, reduced sales of lower-margin categories like computers and peripherals, and a general decline in promotional messages.

Discounting: Discounting activity was mixed, as some companies attempted to scale back promotional activity to avoid margin erosion, while others have had to promote categories that have experienced weaker sales.

KEY INDUSTRY DRIVERS

- **Competition:** Competition remains fierce in the office supplies sector, as the major players have lost market share to mass merchants such as Wal-Mart and Target, as well as online retailer Amazon, all of which offer staple products such as paper, office supplies, technology, and office equipment. In November 2013, Office Depot and OfficeMax finalized their merger, joining forces to compete with Staples; however, the most recent reports from the combined entity indicate that revenue was down in 2013, and further declines are expected this year. On the bright side, revised forecasts of resulting economies of scale resulting from the merger are on the higher end of initial estimates. Staples has been promoting its online presence, and will close 225 stores.
- **Smaller footprint:** Many major office supply retailers have been opting for smaller retail stores, maintaining inventory in their distribution centers to service their business-to-business segments.
- **Shifting focus:** While sales trends in general have been negative, some companies have seen positive results in business-to-business sales, as businesses hire and become more willing to spend money on office supplies. Recognizing the competitive nature of the industry, Staples has recently worked to reinvent itself with its new "What the L" marketing campaign. In general, its goal is to continually add more and more SKUs to its product offering, making it appealing to a number of business fields, including medical, hospitality, and other business sectors.

SALES TRENDS

The following table illustrates comparable store sales trends for major public office supply retailers (Represents the most recent fiscal quarter sales reported):

		Most Recent	Prior	Two	Three
Staples	Retail/E-commerce	(3.0%)	(3.0%)	(2.0%)	(5.0%)
	Delivery	0.7%	1.3%	1.7%	7.2% ¹
Office Depot	Retail	(4.0%)	(2.0%)	(4.0%)	(5.0%)
	Contract	(1.7%)	(2.0%)	(2.0%)	(1.0%)
OfficeMax	Retail	N/A	(2.8%)	(3.7%)	(5.7%)
	Contract	N/A	(3.6%)	(2.5%)	(3.5%)

Note(s): OfficeMax sales represent US only. Office Depot and Staples are for North America only. The most recent quarter for Staples represents the three months ended November 2, 2013. The most recent quarter for Office Depot represents the three months ended December 28, 2013 and excludes the addition of OfficeMax locations following the merger, which were not reported.

OUTLOOK

Office supply retailers will continue to evolve their business strategies, including transitioning from big box to smaller formats, as well as increasing e-commerce. Retailers will continue to refine their product mixes to best generate sales.

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:

Office Max	Linens 'N Things	Circuit City	Tower Records
Fortunoff	Fashion Bug	Mervyns	Payless Shoe Source
Jo-Ann Fabrics	Borders	Whitehall Jewelers	A&P
Ritz Camera	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:

- Retailers and business-to-business suppliers of office products, including major players in the marketplace, as well as smaller, more regional companies.
- 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.
- 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.

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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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