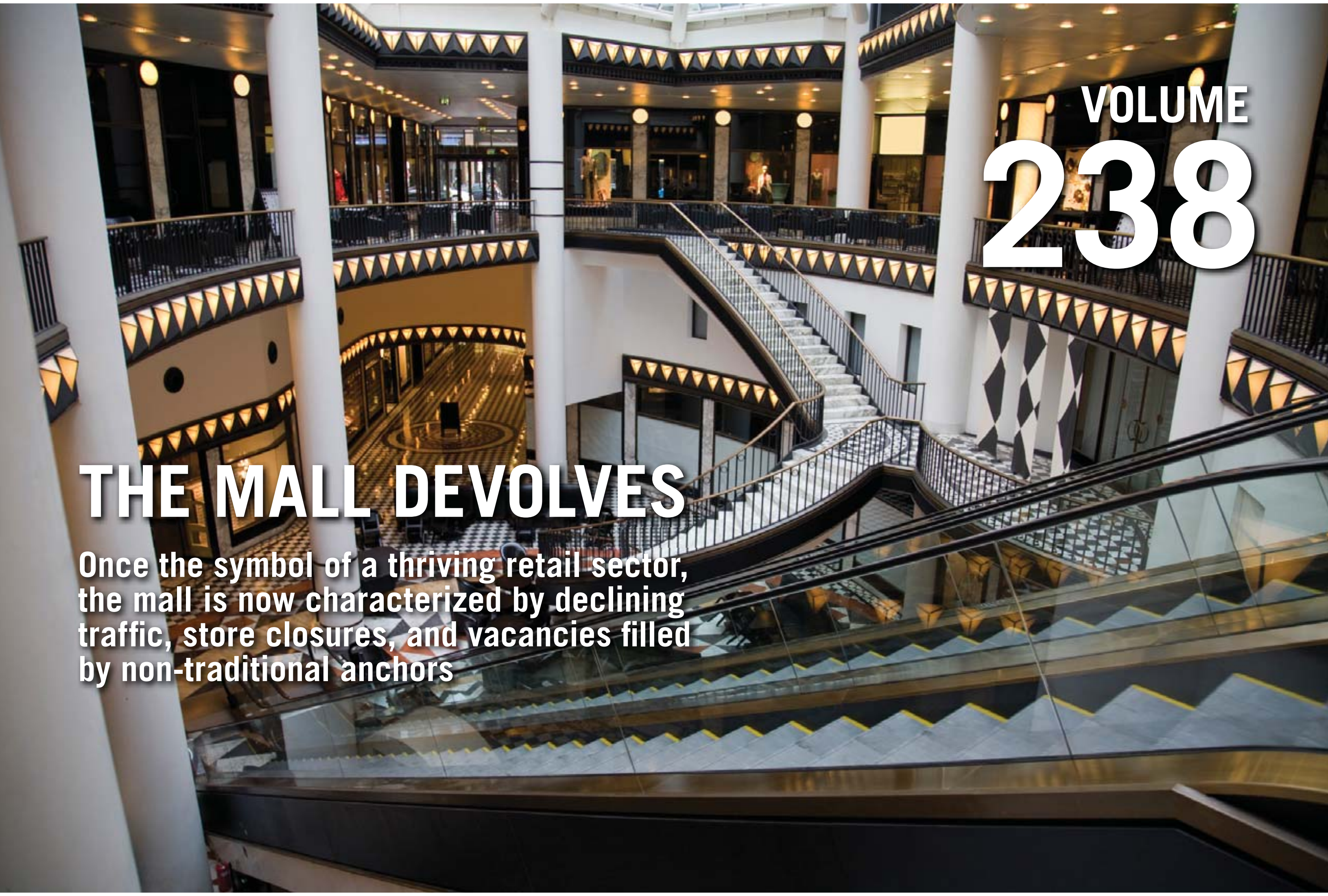
Great American Group

MARCH 2017

Monitor

Retail



VOLUME 238

THE MALL DEVOLVES

Once the symbol of a thriving retail sector, the mall is now characterized by declining traffic, store closures, and vacancies filled by non-traditional anchors

OMNI-VISION

E-commerce sales continue to thrive as retailers focus on omni-channel

NOTHING SPECIAL

Specialty apparel sector sees bankruptcies and liquidations

OFF THE CHARTS

Off-price retailers continue to experience sales gains

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RIGHT ON THE MONEY

Deals are a moving target. A constantly shifting mix of people, numbers, and timing. We're here to simplify this process for you. Our experts are dedicated to tracking down and flushing out the values you need, even on the most complex deals. So when the time comes to take your shot with Great American, you're always—right on the money.

Top Trends

1. Declining mall traffic hits department stores and specialty apparel hardest.

2. E-commerce sales reached $102.7 billion in the fourth quarter, representing 12% of retail sales, excluding gas and autos. Amazon's fourth quarter North America sales increased 22% to $26 billion.

3. The retail sector continues to see bankruptcies, liquidations, mergers, and acquisitions.

4. An increase in e-commerce sales drove total retail sales up 4% during the holidays.

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 an informed 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.

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 an 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.

Overview

The retail sector continues to change. Many retailers reported mixed fourth quarter results, with mall-based retailers suffering from declining customer traffic and weaker brick-and-mortar sales.

According to data from Prodco Retail Traffic Index and Fung Global Retail Tech, foot traffic was down approximately 10% during the first half of the holiday season, following an approximate 9% decline in the prior year. However, some retailers experienced an uptick in traffic during the last week before the holidays, when last-minute gift givers visited stores as opposed to websites.

Mall-based retailers, especially department stores, continue to right size store bases. Major players like Macy's, JC Penney, and Sears have all announced plans for store closures recently. Specialty apparel retailers have also been announcing store closures. BCBG will be closing close to 120 stores, and The Limited has closed all of its stores. Closings of traditional retailers have led some malls to replace stores with non-traditional options, such as fitness centers, grocery stores, and car dealerships.

Contrary to brick-and-mortar sales, in total, e-commerce sales continue to grow. During the fourth quarter, e-commerce sales represented 12.0% of total retail sales, excluding sales of automobiles and gasoline, reaching $102.8 billion, according to the U.S. Commerce Department. While there is a shift toward online purchasing, many retailers find that brick-and-mortar locations and online sales go hand-in- hand. Some retailers have found that online sales decline in markets in which a store closes, as consumers like to have the option of returning online purchases to a local store if needed.

Amazon continues to prove that a primarily online presence can take market share from traditional retailers. Amazon's Prime membership has left many consumers with the expectation of two-day shipping.

This has left many retailers struggling to figure out how to compete, while remaining profitable. Wal-Mart has been trying to take aim at Amazon. After scrapping its similar free-shipping membership program, it started offering free two-day shipping on orders of at least $35. Amazon countered by lowering its free-shipping threshold for non-Prime orders from $49 to $35. As the online channel continues to drive sales at many retailers, the brand value of retailers' intellectual property has risen. For example, Sycamore Partners reportedly submitted the winning bid of $26.8 million for The Limited's intellectual property, including its e-commerce business.

Outside of the mall, results have varied by sector. The sporting goods sector has seen consolidation. Conversely, within the off-price sector, major players have reported comparable store sales gains and store openings.

While the retail sector is shifting, retail sales in total have been on a positive trajectory, with total holiday sales up 4.0%, according to The National Retail Federation, and sales thus far in 2017 have also been positive. Going forward, the NRF is projecting 2017 retail sales to increase between 3.7% and 4.2% over 2016.

Retailers will be keeping an eye on the effects of the Trump Administration, which remain to be seen. While some companies could potentially see tax decreases, tariff increases could have an adverse impact on retailers. Regardless, the e-commerce and off-price sectors are expected to continue to perform well in 2017, while department stores and specialty apparel retailers could face further store closures, as businesses right-size.

Department Stores

KEY INDUSTRY DRIVERS

- **Customer traffic:** Department store traffic continues to decline due to a shift to online shopping, a decline in tourism in key markets, a highly promotional retail environment, and competition from off-price and fast-fashion retailers.

- **Store closures and activity:** Department stores continue to right-size their store base. Recent announcements include Macy's (68 stores), JC Penney (up to 140 stores), Sears (26 stores), and K-mart (78 stores). While talk of Hudson's Bay Company potentially acquiring Macy's has stalled, reports indicate HBC could acquire Neiman Marcus.

- **E-commerce/omni-channel initiatives:** For many department stores, e-commerce sales have been increasing, despite brick-and-mortar comparable store sales declines. Department stores continue to execute omni-channel strategies, such as allowing customers to order online, but pick up the items in stores.

- **Off-price and outlet formats:** Department stores face steep competition from off-price and fast-fashion retailers. Even luxury department stores have seen a downturn in sales recently, as in the age of social media, high-end fashion is broadcast seconds after it hits the runway, with inexpensive knock-offs available soon after at fast-fashion retailers. By the time it reaches luxury department stores, demand has waned. In order to compete, many have worked to reduce lead times. Several department stores have shifted focus to off-price counterparts and outlets.

- **Customer traffic drivers:** Department stores have been focused on different product categories to drive customer traffic. Many have also introduced shop-in-shop formats to introduce new brands and products to attract customers.

Trend Tracker

NOLVs	Consistent Decreasing
Sales Trends	Decreasing
Gross Margin	Mixed
Discounting	Mixed

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Neiman Marcus	(6.8%)	(8.0%)	(4.1%)	(5.0%)
Saks	0.1%	(4.6%)	(1.3%)	(5.7%)
Hudson's Bay/Lord & Taylor	0.6%	(2.4%)	1.1%	2.3%
Nordstrom	(2.7%)	0.9%	(2.3%)	(4.3%)
Macy's	(2.7%)	(3.3%)	(2.6%)	(6.1%)
Dillard's	(6.0%)	(4.0%)	(5.0%)	(5.0%)
JC Penney	(0.7%)	(0.8%)	2.2%	(0.4%)
Kohl's	(2.2%)	(1.7%)	(1.8%)	(3.9%)
Sears	(12.3%)	(10.0%)	(7.0%)	(7.1%)

*Note(s): The most recent quarter reported for all companies ended January 28, 2017. Some retailers report results including e-commerce sales.

Specialty Apparel Stores

KEY INDUSTRY DRIVERS

- **Store closures/bankruptcies:** As has been seen over the past few years, bankruptcies and liquidations continue to be prevalent within the specialty retail sector. Most recently, The Limited, Wet Seal, and American Apparel have all declared bankruptcy. While some specialty retailers have closed all of their stores, others continue to right-size the business. For example, BCBG will be closing approximately 120 stores, and others close underperforming locations as leases expire.

- **Declining mall traffic:** Continued declines in mall traffic impact sales at specialty retailers. As department stores have suffered, so too have specialty retailers that historically benefited from customers stopping in on their way to an anchor store.

- **E-commerce:** Specialty apparel retailers have been leveraging omni-channel initiatives to offset brick-and-mortar sales declines with e-commerce growth.

- **Varying performance:** While retailers of teen and women's apparel in particular have struggled in recent quarters, retailers of children's apparel, as well as those catering to niche markets, such as plus-size, have fared better than other specialty retailers.

- **Competition:** The specialty apparel sector faces internal and external competition. In addition to vying for customers from other specialty retailers, there is competition from lower-priced options such as off-price retailers, highly promotional department stores, and fast fashion retailers offering the latest trends at low price points.

- **Lack of fashion:** There has been a lack of a "must-have" fashion trend to get customers into the stores.

Trend Tracker

NOLVs	Consistent / Decreasing
Sales Trends	Decreasing
Gross Margin	Mixed
Discounting	Mixed

Specialty Apparel Stores

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Family Specialty Apparel				
J. Crew	NA	(8.0%)	(8.0%)	(7.0%)
Banana Republic	(3.0%)	(8.0%)	(9.0%)	(11.0%)
Gap	0.0%	(8.0%)	(3.0%)	(3.0%)
Old Navy	5.0%	3.0%	0.0%	(6.0%)
Urban Outfitters	2.0%	5.2%	5.0%	2.0%
Women's Specialty Apparel				
White House/Black Market	(0.6%)	(5.5%)	(1.3%)	(3.8%)
Chicos	(4.8%)	(5.6%)	(5.1%)	(5.4%)
Christopher & Banks	(7.8%)	4.5%	(5.8%)	6.0%
Dress Barn	(3.0%)	(5.0%)	(7.0%)	(2.0%)
Lane Bryant	(5.0%)	(4.0%)	1.0%	(1.0%)
Ann Inc.	(9.0%)	(11.0%)	(6.0%)	(1.0%)
Guess	(7.0%)	(4.9%)	(2.0%)	(4.0%)
New York & Co.	(0.4%)	(0.7%)	0.3%	(2.3%)
Express	(13.0%)	(8.0%)	(8.0%)	(3.0%)
Anthropologie	(2.9%)	(2.7%)	(3.0%)	0.0%
Victoria's Secret	0.0%	2.0%	1.0%	1.0%
Soma	0.4%	0.4%	0.7%	0.5%
Men's Specialty Apparel				
Men's Wearhouse	(2.2%)	0.1%	2.9%	(3.5%)
Jos A. Bank	3.6%	(9.8%)	(16.3%)	(16.0%)
DXL	(1.0%)	2.3%	4.6%	5.8%
Teen Specialty Apparel				
Abercrombie & Fitch	(5.0%)	(6.0%)	(4.0%)	(4.0%)
American Eagle	0.4%	2.0%	3.0%	6.0%
The Buckle	(16.1%)	(15.3%)	(10.8%)	(11.1%)
Zumiez	5.1%	4.0%	(4.9%)	(7.5%)
Children's Specialty Apparel				
The Children's Place	6.9%	4.6%	2.4%	5.1%
Gymboree	(5.0%)	(5.0%)	(2.0%)	4.0%
Justice	(1.0%)	(1.0%)	(4.0%)	(11.0%)

Note(s): The most recent quarter reported for Anthropologie, Urban Outfitters, and Free People ended January 31, 2017: J. Crew ended October 29, 2016; DXL represents holiday sales for the months of November and December only; all other companies ended January 28, 2017.

Off-Price/Dollar Stores/Mass Merchants

KEY INDUSTRY DRIVERS

- **Consumer preference:** Off-price retailers, dollar stores, and mass merchants continue to be top choices for consumers looking to save, as consumers increasingly seek to spend more money on experiences such as dining out, while saving on everyday needs and apparel.

- **Growing store counts:** While other sectors have been reducing store counts due to declining customer traffic, the off-price and dollar store sectors continue to expand. Examples include Dollar General, Marshalls, TJ Maxx, Burlington Stores, Nordstrom Rack, and Ross Stores, among others. Off-price retailers can benefit from bankruptcies and store closures of full price retailers, as more inventory becomes available in the marketplace for low prices, and there is the potential to gain market share.

- **E-commerce:** While dollar stores and many regional off-price stores are not major players in the e-commerce arena, more recently, Wal-Mart has been focused on growing its online sales as opposed to its brick-and-mortar store base. It has been making moves to compete with Amazon. TJX continues to grow its online sales, and Target has been working to have an omni-channel business model as well.

- **Grocery:** Dollar stores and mass merchants have been focused on expanding and improving grocery departments in order to drive sales in this category.

- **Profitability:** Within all sectors, retailers continually work to improve profitability. Lower-priced stores, especially in the dollar store sector, have reported that increases in minimum wages have been adversely impacting profitability.

Trend Tracker

NOLVs	Increasing	▲
Sales Trends	Increasing	▲
Gross Margin	Mixed	▲▼
Discounting	Mixed	▲▼

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
TJX	3.0%	5.0%	4.0%	7.0%
Ross Stores	4.0%	7.0%	4.0%	2.0%
Burlington Stores	4.6%	3.7%	5.4%	4.3%
Saks Off 5th	(5.9%)	(8.4%)	(11.4%)	(4.1%)
Nordstrom Rack	4.3%	3.9%	5.3%	4.6%
Stein Mart	(5.5%)	(4.6%)	(1.4%)	(3.4%)
Wal-Mart	1.8%	1.2%	1.6%	1.0%
Target	(1.5%)	(0.2%)	(1.1%)	1.2%
K-Mart	(8.0%)	(4.4%)	(3.3%)	(5.0%)
Costco	3.0%	1.0%	2.0%	3.0%
Dollar General	1.0%	(0.1%)	0.7%	2.2%
Dollar Tree	1.2%	1.7%	1.2%	2.2%

*Note(s): The most recent quarter reported for Wal-Mart ended January 27, 2017, includes Sam's Club and excludes fuel; Costco ended February 12, 2017 and excludes fuel; all other companies ended January 28, 2017.

E-commerce

KEY INDUSTRY DRIVERS

- **Shift away from stores:** E-commerce continues to grow, benefiting total retail sales, but also contributing to the general decline in mall traffic that has adversely impacted many retailers' comparable store sales. E-commerce represented 12.0% of total retail sales in the fourth quarter of 2016, excluding gas and automobile sales. Multi-channel retailers have found that stores and websites are not mutually exclusive; in markets in which a store closes, online sales dip, as consumers often like being able to return online purchases in stores if needed.

- **Amazon dominates:** Amazon continues to dominate the e-commerce sector, as its North American net sales increased 22% in the fourth quarter of 2016, with revenue reaching $26 billion.

- **Shipping:** Amazon's Prime membership has made the expectation for free two-day shipping commonplace, and has left other retailers striving to compete. Wal-Mart in particular, after scrapping its similar free-shipping membership program, started offering free two-day shipping on orders of at least $35. Amazon countered by lowering its free-shipping threshold for non-Prime orders from $49 to $35. Other retailers have found that offering free shipping adversely impacts profitability, and have been reducing the offer. Even LL Bean, a pioneer in offering free shipping, may be changing its policy.

- **Marketplace:** Amazon's marketplace continues to allow it to generate sales without taking the inventory risk. Some retailers have also been offering products on Amazon, and some use marketplaces to offer products from other companies on their websites. Others offer expanded assortments online, with products fulfilled directly from vendors.

Trend Tracker

NOLVs	Mixed	▲▼
Sales Trends	Consistent Increasing	▬ ▲
Gross Margin	Mixed	▲▼
Discounting	Increasing	▲

SALES TRENDS

	Fourth Quarter 2016	Third Quarter 2016	Second Quarter 2016	First Quarter 2016
% of Retail Sales	12.0%	11.9%	11.6%	11.2%
Change Year Over Year	14.3%	15.7%	15.8%	15.5%

Source: www.census.gov/retail. Results are revised estimates, calculated using information in the most recent press release for the fourth quarter of 2016, excluding sales of automobiles and gasoline.

- **Intellectual property:** As e-commerce continues to drive sales at many retailers, the intellectual property associated with a retailer has gained value. Sycamore Partners reportedly bid $26.8 million for The Limited's intellectual property, including its e-commerce business; Wet Seal's sold for $3.0 million to Gordon Brothers.

- **Technological enhancements:** Retailers have worked to drive web and mobile sales. This includes improved mobile websites, more personalized, targeted marketing, enhanced websites, and using tablets in stores. Others have focused on personalized service, and features such as Chatbots.

Footwear

KEY INDUSTRY DRIVERS

- **Varying results:** Within the footwear sector, results vary by product category. Athletic footwear had been performing well due to the athleisure trend; however, more recently sales have been adversely impacted by store closures within the sporting goods industry, particularly the loss of The Sports Authority. Conversely, leisure footwear has been performing well, as have retro or throwback styles, and celebrity-designed or endorsed lines.

- **Competition:** Major brands have increasingly been aiming to sell directly to consumers. Examples include Nike and Under Armour, which have been growing their store bases. This adds increased competition to traditional footwear retailers. In addition, Amazon is a formidable competitor within the footwear arena, as it owns Zappos. Traditional shoe stores have been challenged by competition from department stores, mass merchandisers, and off-price stores.

- **Omni-channel:** Retailers have been working to increase and revamp their online presence, as well as improve the overall experience for customers in stores and online. Many have been integrating technology into the shopping experience, such as by allowing customers to preselect items to try on in stores, or implementing touch screens in stores to request help. Some also allow customers and sales associates to view the store's entire selection and order additional styles online.

Trend Tracker

NOLVs	Consistent Decreasing
Sales Trends	Decreasing Mixed
Gross Margin	Mixed
Discounting	Mixed

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
DSW	(7.0%)	(2.0%)	(1.2%)	(1.6%)
Johnston & Murphy	(1.0%)	1.0%	3.0%	6.0%
Foot Locker	5.0%	4.7%	4.7%	2.9%
Finish Line	NA	0.7%	5.1%	1.5%
Famous Footwear	0.3%	2.1%	(1.1%)	1.0%
Journeys	(6.0%)	(8.0%)	(4.0%)	1.0%
Skechers	3.6%	3.2%	1.5%	9.8%
Steve Madden	1.1%	1.3%	5.4%	10.7%
Deckers	4.7%	(3.2%)	(7.3%)	2.6%
Crocs (Americas)	(5.6%)	(2.8%)	(2.5%)	2.9%

*Note(s): The most recent quarter for Finish Line ended November 26, 2016; Crocs, Steve Madden, Skechers, and Deckers ended December 31, 2016; all other companies ended January 28, 2017.

Sporting Goods

KEY INDUSTRY DRIVERS

- **Consolidation:** Following some large-scale liquidations over the past year and a half, including the 463 Sports Authority Stores (mid-2016), 47 Sport Chalet stores (mid-2016), and 26 City Sports stores (late 2015), the industry continues to see some activity, such as 66 MC Sports stores closing (early 2017). The parent company of Eastern Mountain Sports filed for bankruptcy, and Gander Mountain is closing 32 of 162 stores. Consolidation results in opportunities for remaining retailers to gain market share. Some retailers have reported that during the Sports Authority liquidation, sales dipped, but since the stores have closed, comparable store sales have benefited.

- **Industry activity:** In addition to store closures, the industry has also seen other types of activity. For example, Finish Line recently sold its specialty running store chain JackRabbit to a private investment firm. It remains to be seen whether Bass Pro Shops' proposed acquisition of Cabela's will go through.

- **Firearms and ammunition:** For many sporting goods retailers, firearms and ammunition are major categories. Demand for firearms and ammunition remains strong; however, following increases leading up to the election, there has not been a rush to arms. President Trump is not anticipated to make gun purchasing difficult. Some retailers reported weaker gun sales recently, as sales are compared to spikes following the San Bernardino shooting in late 2015.

- **Varying results by product:** In general, sales of sporting goods have been challenged at many retailers, except in markets in which competitors have closed. Wholesalers have noted challenging sales due to recent store closures. Golf in particular continues to be a challenging category.

Trend Tracker

NOLVs	Mixed	▲▼
Sales Trends	Mixed	▲▼
Gross Margin	Consistent	—
Discounting	Consistent	—

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Dick's	5.0%	5.2%	2.8%	0.5%
Cabela's	(6.5%)	(2.3%)	1.5%	(4.3%)
Hibbett	(2.2%)	0.7%	0.8%	1.1%
Big 5	3.1%	6.8%	(1.7%)	(1.9%)
Sportsman's Warehouse	NA	2.1%	2.9%	(2.2%)

*Note(s): Results for Dick's include Dick's Sporting Goods stores, Golf Galaxy, and the e-commerce business; Cabela's represents consolidated comparable store sales including Canada. The most recent quarter for Dick's and Hibbett ended January 28, 2017; Cabela's ended December 31, 2016; Big 5 ended January 1, 2017; Sportsman's Warehouse ended October 29, 2016.

- **Channels:** E-commerce remains a focus within the sporting goods industry, and many retailers aim to offer an omni-channel presence. In addition, retailers have faced competition, as more wholesalers aim to sell directly to the consumer.

Consumer Electronics

KEY INDUSTRY DRIVERS

- **Major categories:** Demand for products in major categories has been somewhat weak, as detailed below:
  - **Televisions:** There is a lack of newness in the television category. While 4K televisions, ultra-high-definition models, and OLED televisions have been expected to sell well, models in 2017 are similar to those offered in 2016.
  - **Cell phones:** While consumers have been slower to upgrade to new models in recent years, in 2017, anticipated releases include the Samsung Galaxy S8, which has been delayed, as well as the newest iPhone. The iPhone in particular is anxiously awaited, as it is the 10th anniversary of the phone.

- **Emerging technologies:** Demand for certain emerging technologies has varied by item:
  - **Voice-activated assistants:** A popular gift during the 2016 holiday season, these devices are electronic hubs able to perform tasks such as turning on lights and controlling appliances through voice commands. Google's Home device and Amazon's Echo devices both reportedly sold millions of units during the holiday season.
  - **Wearable technology:** Items such as fitness trackers and smartwatches had been gaining traction; however, recent sales stagnated.
  - **Smart home technology:** Internet-connected appliances and devices have been gaining traction, though some consumers opt to wait for an extensive remodel before implementing.
  - **Virtual reality headsets:** There have been some major virtual reality headsets released, notably the Oculus Rift, HTC Vive, and the PlayStation VR set. Those with more affordable price points performed better than higher ticket options.

Trend Tracker

NOLVs	Decreasing	▼
Sales Trends	Decreasing	▼
Gross Margin	Mixed	▲▼
Discounting	Mixed	▲▼

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Best Buy	(0.9%)	1.8%	0.8%	(0.1%)
hhgregg	(22.2%)	(6.4%)	(3.9%)	(9.3%)
Conn's	(10.1%)	(5.5%)	(4.0%)	(2.0%)

*Note(s): The most recent quarter for Best Buy ended January 28, 2017 and represents domestic sales, excluding installment billing; hhgregg ended December 31, 2016; Conn's ended October 31, 2016 and represents product sales only.

- **Store closures:** Some consumer electronics retailers have struggled recently. hhgregg is reportedly closing 88 stores, has filed for bankruptcy, and has received an anonymous offer for purchase. RadioShack has also filed for bankruptcy for the second time in two years and is closing close to 200 stores.

- **Shift in focus:** Given the lack of demand for major categories, some consumer electronics retailers have been shifting focus to other categories, such as furniture and appliances.

Jewelry

KEY INDUSTRY DRIVERS

- **Sales trends:** According to the Bureau of Economic Analysis, sales of jewelry and watches combined totaled $80.9 billion in 2016, an increase of 4.8%. Jewelry sales increased 4.8% to $71.4 billion, while watch sales grew 5.3% to $9.5 billion. Although sales increased in 2016, the industry is facing several challenges. Even with an improving economy, consumers continue to look for bargains and are gravitating toward less expensive jewelry pieces and fashion-driven costume jewelry. Millennial shopping habits are also affecting the industry. Recent studies have shown Millennials to be less interested in fine jewelry, favoring lower-priced fashion jewelry. And, similar to trends seen within apparel, Millennial shoppers are directing more of their spending toward experiences and electronics versus jewelry.

- **Big players report disappointing holiday results:** Luxury retailer Tiffany struggled this holiday season as its U.S.-based stores suffered declining sales. The decline was driven by a drop in tourism given the strength of the U.S. dollar, as well as a 14% decline in sales at the Company's flagship store in New York. The store's proximity to Trump Tower affected foot traffic, given all the recent protests. In February 2017, the retailer announced that its Chief Executive Officer was stepping down. To appeal to a younger customer base, the company has been working to step up its online presence by partnering with Net-A-Porter. Mid-tier leader Signet did not perform as well as expected this holiday season and plans to close up to 170 stores. Its stores rely heavily on mall traffic to drive sales, and mall traffic continues to decline. Moreover, despite efforts to boost its omni-channel shopping experience, technical difficulties with the company's e-commerce platform disrupted sales during the key holiday season.

Trend Tracker

NOLVs	Decreasing	▼
Sales Trends	Mixed	▲▼
Gross Margin	Increasing	▲
Discounting	Consistent	—

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Signet/Sterling	(4.9%)	(3.8%)	(3.1%)	2.3%
Zale US	(4.9%)	(1.5%)	(2.2%)	2.4%
Tiffany & Co.	(2.0%)	(2.0%)	(9.0%)	(10.0%)
Blue Nile	(4.4%)	0.0%	(3.2%)	(4.8%)

*Note(s): The most recent quarter for Signet ended January 28, 2017. Tiffany & Co. ended January 31, 2017. Signet/Sterling represents Kay and Jared. Zale US is owned by Signet. Blue Nile ended October 2, 2016 and represents net sales. Blue Nile was acquired by Bain Capital in February 2017.

- **Commodity pricing:** Although prices fluctuate, gold prices are currently lower than the highs seen a few years ago. In addition, diamond prices in 2016 were down 5%. These pricing trends have allowed consumers the ability to buy higher-quality gold and diamond jewelry products compared to a few years ago, when such items were too expensive.

Books

KEY INDUSTRY DRIVERS

- **Let's get physical:** Unit sales of print books increased again in 2016 by 3.3%, the third year in a row that sales increased. Sales via mass merchants (such as Wal-Mart and Costco) dropped 5.3%. Sales through retail and club (chain bookstores, Amazon, and independents) increased 5.0%. However, much of the growth in the retail and club channel is coming from Amazon, where unit sales of print books increased by 35 million, or 15% in 2016. This is as Barnes & Noble sold 10 million less than 2015. Experts attribute Amazon's continued dominance not only to the ongoing shift toward online purchasing, but Amazon's strategy of discounting print titles after the agency pricing model prevented the retailer from discounting e-books.

- **E-book sales:** e-books declined for the second year in a row. Nielsen, which tracks e-book sales from 30 traditional publishers, reported that unit sales of e-books declined 16% in 2016. E-book sales continue to be impacted by the return to the agency pricing model, which effectively raised the average price of e-books by $3 to $8. In comparison, self-published e-books average $3 and are not tracked by Nielsen. This portion of e-books, estimated at between 10% and 20% of the market, is still growing. A recent study estimated Amazon's e-book sales grew 4% in 2016.

- **Retail trends:** Brick-and-mortar players continue to expand non-book categories and in-store events to drive traffic. However, the industry is still grappling with falling customer traffic. Barnes & Noble reported comparable store sales during the nine-week holiday period declined 9.1%, due primarily to lower traffic and comparisons to last year's strong sales of adult coloring books and Adele's CD. Barnes & Noble expects comparable store sales to decline 7% in fiscal 2017.

Trend Tracker

NOLVs	Decreasing	▼
Sales Trends	Decreasing	▼
Gross Margin	Consistent	—
Discounting	Consistent	—

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Barnes & Noble	(8.3%)	(3.2%)	(6.0%)	(0.8%)

*Note(s): The most recent quarter for Barnes & Noble ended January 28, 2017.Represents core comparable bookstore sales and excludes sales of NOOK products and textbooks.

Amazon continues to expand its store base, but these locations are more like showrooms that not only feature books, but also give customers a glimpse of other Amazon products, like Kindles, Fire tablets, and Echo.

- **Textbooks:** College textbook sales have been challenged by declining student enrollment and growth in rentals. In addition, Amazon continues to slowly penetrate the college market. To expand its customer base, Barnes & Noble Education acquired MBS Textbook Exchange in February 2017. Together, the combined entity will operate over 1,490 physical and virtual bookstores and serve more than six million students.

Arts and Crafts

KEY INDUSTRY DRIVERS

- **Product sales:** The arts and crafts industry is driven by trend-right products. In recent years, retailers benefited from products such as the Rainbow Loom, adult coloring books, and other kids crafts items. However, recently there has been no new major trend to drive sales, and several retailers have experienced declines in comparable store sales as a result. While children's crafts and activities remain a solid seller, the popularity of other categories, such as scrapbooking, has waned.

- **Competition:** In addition to there being no hot product to drive sales, arts and crafts retailers face competition from a variety of sources. Mass merchants such as Wal-Mart and Target, as well as online-giant Amazon, have taken some market share from typical arts and crafts retail stores. Recently, the industry has seen consolidation, as Hancock Fabrics liquidated its 185 stores in 2016.

- **Online influence:** The industry continues to be influenced by social media and online trends. Pinterest's popularity, for example, continues to increase as crafters use the site to share crafting ideas, inspiration, instructions, and images. Users now have the option to easily buy certain pinned items directly from the platform. In addition, Etsy has also continued to encourage the growth of DIY as the site allows crafters to sell their arts and crafts products online. More recently, Etsy announced Etsy Studio, which will allow users to search for and purchase craft supplies based on specific needs, such as size, color, material, shape, and use. The new concept could further challenge traditional retailers.

Trend Tracker

NOLVs	Mixed	▲▼
Sales Trends	Decreasing	▼
Gross Margin	Consistent	—
Discounting	Consistent	—

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Michaels	(1.0%)	(2.0%)	0.7%	0.9%
Etsy	25.4%	33.0%	39.1%	39.8%

*Note(s): The most recent quarter for Michaels ended January 27, 2017; the most recent quarter for Etsy ended December 31, 2016, and represents comparable revenue.

- **DIY:** Despite mixed results at some arts and crafts retailers, the industry as a whole has benefited as DIY projects remain popular, having originally taken off during the 2007 to 2009 recession. Crafts often relate to home décor, weddings, and parties. Fashion and jewelry projects (particularly bracelets) also remain popular, as does crochet, knitting, quilting, and sewing.

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	MC Sports	Office Depot/Max	Circuit City	Macy's	Fashion Bug
Mervyns	Family Christian Stores	Gap	Frederick's of Hollywood	Fortunoff	RadioShack
Linens 'N Things	Naartjie	Whitehall Jewelers	Borders	Hancock Fabrics	Boot Town
A&P	Tower Records	Gordmans	Love Culture	Orchard Supply Hardware	Eddie Bauer

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.
- 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.
  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.
- 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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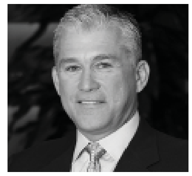

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About Great American Group

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. For more information, please visit **www.greatamerican.com.**

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