

# Specialty Apparel Stores

## INDUSTRY OVERVIEW

The specialty retail sector has been negatively impacted by the decline in mall traffic, in part due to increased e-commerce spending. As a result, this sector has seen a market correction, with many companies closing all or part of their store base. Fashion trends, particularly teen fashion, have changed over the past several years away from major brands to fast-fashion retailers. Sales of logo-centric brands have suffered as teens and young adults prefer to personalize fashion with a variety of branded and non-branded apparel and accessories.



## TREND TRACKER

Three month NOLVs	Mixed ↕
Sales Trends	Mixed/ Decreasing ↓
Gross Margin	Mixed ↕
Discounting	Mixed ↕

**NOLVs:** For Teen and Kid retailers, NOLVs have decreased for some companies due to lower margins and decreased sales, but have increased for other companies as lower recovering divisions are closed and inventory is better managed.

For Women's and Men's retailers, some NOLVs have increased as a result of gross margin improvements, while some have decreased due to a decline in sales.

**Sales Trends:** Most companies have negative sales trends over the last 12 months due to declines in customer traffic; however, some companies experienced gains during the holiday period.

**Gross Margin and Discounting:** Gross margin decreased due to promotional pricing to sell through slow-moving inventory. However, margins have improved for some retailers in recent months as companies begin to better manage their inventory levels and improve promotional strategies.

## KEY INDUSTRY DRIVERS

- **Bankruptcies and store closures:** There has been a spate of bankruptcies and liquidations in the past several months, including Dots (359 stores) in early 2014, and Delia's (92 stores), Wet Seal (340 stores), Body Central (265 stores), Deb Shops (300 stores), and Canadian-based Mexx (95 stores) in late 2014 and early 2015. While some have gone out of business entirely, others are restructuring. Wet Seal was recently acquired by an affiliate of Versa Capital Management. Some specialty retailers have closed underperforming stores to right-size the business. Aéropostale is closing over 100 of its P.S. stores, closed 75 Aéropostale stores in 2014, and may close up to 75 more in 2015. Gap is exiting its Piperlime brand, and Abercrombie exited its Gilly Hicks brand. Given all of the recent activity within this sector, GA's liquidation division has been actively involved with the bidding processes and liquidations. Most recently, GA has been involved in the bidding, auctions, and store closures for Cache, Naartjie Kids, Frederick's of Hollywood, and several others, after being involved in closures of Love Culture and Fashion Bug last year.
- **Declining mall traffic/e-commerce growth:** The general decline in mall traffic continues to impact sales at specialty retailers. Specialty apparel retailers have worked to offset declines in brick-and-mortar locations by offering a wide assortment of products on their e-commerce websites, as well as incorporating social media tools, and enhancing their omni-channel presence. In addition, retailers have worked to leverage store locations, such as by offering site-to-store shipping.
- **Competition/promotional activity:** Due to extremely high competition in the marketplace, specialty apparel retailers continue to be hyper-promotional to lure in customers who have been conditioned to expect constant and deep promotions. This has impacted profitability. Others have tried to change their pricing strategies in order to drive sales, such as by offering more targeted promotions on certain items.

## OUTLOOK

Going forward, specialty apparel retailers will continue to work to best identify with customers, particularly as they face the impact of continued softness in mall traffic. Offering trend-right product and remaining competitive will be key to driving sales. Retailers that are unable to establish a strong e-commerce presence and compete within this sector will likely struggle.

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## SALES TRENDS

The following tables illustrate comparable store sales trends for major public specialty apparel retailers (Represents the most recent fiscal quarter reported):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
<b>Family Specialty Apparel</b>				
J. Crew	(3.0%)	4.0%	(1.0%)	5.0%
Banana Republic	2.0%	(2.0%)	0.0%	(1.0%)
Gap	(6.0%)	(5.0%)	(5.0%)	(5.0%)
Old Navy	11.0%	0.0%	4.0%	1.0%
<b>Women's Specialty Apparel</b>				
White House/Black Market	5.4%	(1.4%)	1.4%	0.4%
Chicos	1.2%	(1.6%)	(1.9%)	(8.6%)
Christopher & Banks	(7.6%)	2.6%	(0.2%)	(1.4%)
Ann Taylor	1.0%	(4.3%)	(2.3%)	(1.8%)
New York & Co.	(0.9%)	(3.4%)	2.3%	(2.2%)
Victoria's Secret	4.0%	3.0%	3.0%	2.0%
<b>Men's Specialty Apparel</b>				
Men's Wearhouse	6.8%	2.2%	4.4%	2.9%
Jos A. Bank	(6.6%)	(8.1%)	1.0%	8.4%
<b>Teen Specialty Apparel</b>				
Abercrombie & Fitch	(10.0%)	(10.0%)	(5.0%)	(4.0%)
Aeropostale	(9.0%)	(11.0%)	(13.0%)	(13.0%)
American Eagle	0.0%	(5.0%)	(7.0%)	(10.0%)
Wet Seal	(14.5%)	(12.4%)	(16.9%)	(16.5%)
The Buckle	1.1%	(0.3%)	(0.5%)	(0.9%)
Zumiez	8.3%	3.7%	3.4%	1.8%
<b>Children's Specialty Apparel</b>				
The Children's Place	3.7%	0.2%	0.8%	(3.6%)
Gymboree	1.0%	(10.0%)	(10.0%)	(9.0%)
Carters Retail	(0.1%)	(1.4%)	(0.9%)	(4.7%)
OshKosh B'gosh Retail	4.0%	3.0%	5.0%	3.0%

Note(s): The most recent quarter reported for Wet Seal, Christopher & Banks, and Gymboree ended November 1, 2014; Carter's and OshKosh ended January 3, 2015; all other companies ended January 31, 2015.

## 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.
- 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.
- 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

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