

Monitor

Textiles



VOLUME
244

COTTON SURGING?

A recent price upswing in cotton prices may continue through the year

SYNTHETICS DOWN

Despite improvements in certain sectors, stagnant pricing hurt margins

APPAREL HAMPERED

Revenues continue to decline as foreign competition continues to rise

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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.

Trend Tracker

INVENTORY

	Textiles	Apparel
NOLVs	Mixed \updownarrow	Mixed \updownarrow
Sales Trend	Mixed \updownarrow	Mixed \updownarrow
Gross Margin	Decreasing ∇	Decreasing ∇
Inventory	Decreasing ∇	Decreasing ∇
Pricing	Decreasing ∇	Decreasing ∇

	Market Prices	
	Three Months	Year
Cotton	Increasing \blacktriangle	Increasing \blacktriangle
Synthetics	Mixed \updownarrow	Mixed \updownarrow



- NOLVs:** NOLVs were mixed in the first half of the year due to offsetting factors. General gross margin softness has been offset in certain sectors with lower inventory levels and improved sales trends. However, company-specific factors had varying impacts on NOLVs; these factors included better inventory management and focus on premium products.
- Sales Trends:** Sales have been mixed. Falling volumes in the apparel market have been offset by recent increased demand in commercial and industrial fabrics.
- Gross Margin:** Gross margins for textiles have decreased due to a combination of rising input costs and a lag on price increases to customers. Competition has caused downward pressure on pricing. Gross margins for apparel have generally decreased due to continued softness in the retail market, combined with increased competition pressuring pricing.
- Inventory:** Inventory levels for both textiles and apparel have decreased due to seasonal factors, such as inventory management and retail trends.
- Pricing:** Pricing has generally decreased for textiles and apparel due to softness in demand and competitive pricing pressures.

Overview

The U.S. economy got off to a sluggish start in 2017, as the gross domestic product increased at just a 0.7% annual rate, the weakest pace in three years, according to the Commerce Department.

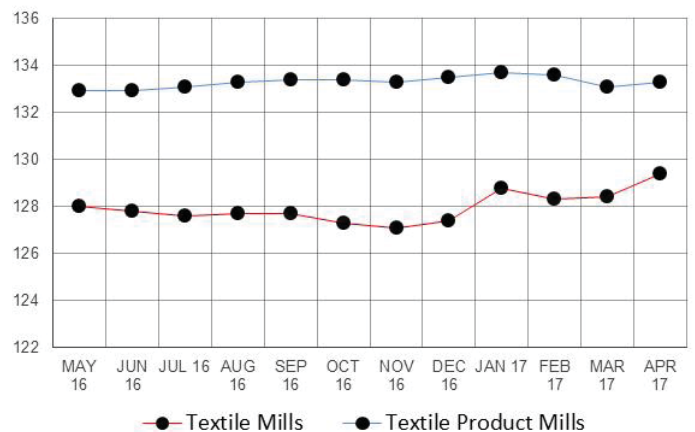
The pace falls well below industry forecasts, as economists polled by Reuters had predicted a GDP increase of 1.2% for the period. Experts remain cautiously optimistic, as the measurement not only represented the first such snapshot of the economy following the U.S. presidential election, but the labor market is near full employment, with consumer confidence remaining at high levels. Economic changes after an election can be volatile and difficult to predict, as new policies or other implications of political adjustment may have wide-ranging effects. Furthermore, the economy is often negatively impacted in the first quarter due to seasonal challenges related to winter.

While the economy overall has shown some early signs of difficulty, consumer spending also suffered, halting to just a 0.3% annualized improvement in the first quarter of 2017, the lowest such figure since the fourth quarter of 2009 and a substantial drop from the 3.5% growth in the fourth quarter of 2016. Despite the aforementioned obstacles, the retail market appears to remain solid. According to the National Retail Federation (“NRF”), retail sales in April increased 3.0% on an unadjusted basis over 2016. This follows increases in March and February. While positive, monthly retail sales have edged lower at an inconsistent pace, as April sales only increased 0.3% over March. On a three-month moving average, retail sales increased 2.6% year-over-year.

Furthermore, manufacturing activity in the U.S. has remained steadfast, a positive indicator for the domestic textile industry. According to The Institute for Supply Management, manufacturing levels expanded in May 2017, registering a PMI of 54.9, an increase from 54.8 the prior month. A reading above 50 indicates an expansion in manufacturing, which

accounts for approximately 12% of the U.S. economy. The textile industry has benefitted from continued investments over the past year, particularly from foreign investors. According to Textile World, on May 10, 2017, the largest textile manufacturer in China invested \$410 million in a manufacturing facility located in Forrest City, Arkansas. The investment is expected to bring hundreds of new jobs to the area and may indicate a continued increase in foreign investments to the textile manufacturing infrastructure.

The figure below illustrates the producer price index, which denotes the selling prices received by domestic producers for their output, for textile mills versus textile product mills from May 2016 through April 2017. Textile mills include a variety of processes such as yarn spinning; primary textile products manufacturing; intermediate yarn processes; fabric and thread weaving and braiding; and production of nonwoven fabrics and textile finishing for both cotton and synthetic fibers. Textile product mills include carpet and rug mills; curtain and drapery mills; various household textile product mills; canvases; cordage mills; and other downstream textile processes and products.



Pricing Trends

COTTON

According to the Cotlook “A” Index, market prices for cotton have increased significantly in the early part of 2017, climbing consistently to start the year and maintaining well above year-ago levels. The Cotlook “A” Index calendar year average stood at \$0.83 per pound in 2014 despite a price decline late in the year.

Pricing fell to \$0.67 per pound by January 2015 and remained low through the year for a calendar year average of \$0.70 in 2015. After remaining stagnant in early 2016, pricing increased later in the year before steadying at a calendar year average of \$0.74. Through the first four months of 2017, pricing has increased in each consecutive month and through April sits at a calendar year average of \$0.85, returning to levels not seen in over two years. Cotton Inc. reports that pricing eased slightly in May 2017 but remained well above year-ago levels.

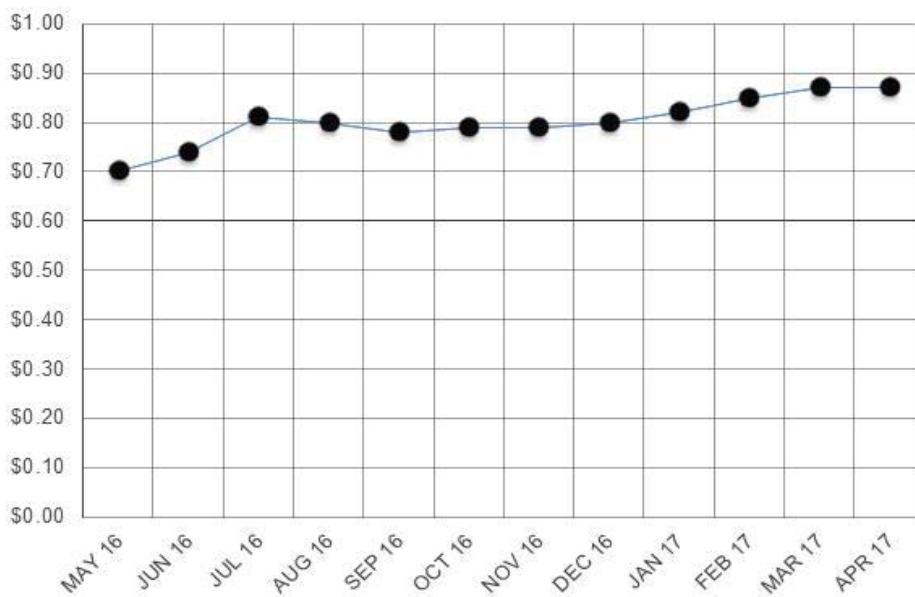
According to industry experts, in addition to other factors, the rise in pricing is largely due to the tightening of exportable

stocks from the 2016/17 growing season. As noted in the prior monitor, supply levels were negatively impacted last season by growing concerns in Pakistan and India, the world's second-largest exporter of cotton. As the region's growing has stabilized, supply levels have returned to normal. However, this likely means that pricing will level out in the coming months and may even decline.

According to the U.S. Department of Agriculture's (“USDA”) May 2017 report, forecasters expect that both world production and mill-use of cotton will increase in the 2017/18 crop season. Per the report, the global cotton harvest is expected to grow by 7% for the season to reach 113.2 million bales, while world mill-use is projected to increase by 2% for the season to 115.8 million bales. This would represent the third straight year where consumption outpaced production, albeit by a much smaller deficit than in the previous two years.

The figure below illustrates the Cotlook Index, which represents the average of the five cheapest quotations for principal upland cottons traded on the international market:

1 Monthly Average Cotlook “A” Index Pricing Trend



Pricing Trends

APPAREL

Consistent with the prior monitor, apparel sales results continue to be mixed in 2017. E-commerce continues to negatively impact department store sales, in addition to other traditional apparel retailers.

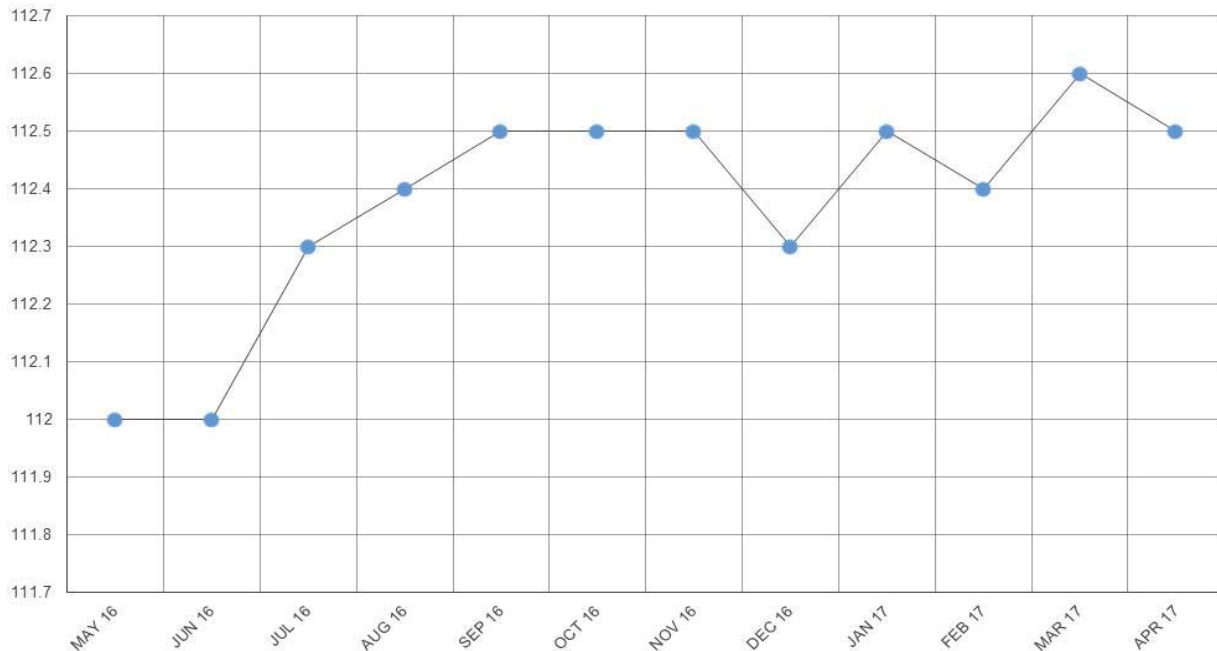
As a result of economic improvements in recent years relative to the recessionary period, the apparel wholesale industry has experienced somewhat stable growth over the past five years. According to IBISWorld, Inc. (“IBISWorld”), in 2017, U.S. men’s and boy’s apparel wholesaling is projected to generate \$49.8 billion in revenue, a 1.0% increase from 2016, while women’s and children’s is expected to accumulate revenue of \$73.8 billion, a 1.0% increase over the same period. While continued low manufacturing costs have contributed to the steady revenue growth for wholesalers, increasing levels of foreign imports and rising vertical integration among apparel retailers represent significant threats to the industry going forward. Meanwhile, domestic manufacturers have continued to

face challenges competing with the low prices of foreign operators. In 2017, revenue for men’s and boy’s apparel manufacturing is forecasted to decline 2.3%, while revenue for women’s, girls’, and infants’ apparel manufacturing is forecasted to decline 5.4% for the year.

As noted in the prior monitor, margins for domestic manufacturers benefit from low fiber costs, but high import competition remains a difficult obstacle for the industry. As such, analysts predict that margins will remain strong going forward but revenues will continue to decline. Investments in new plants, such as the previously mentioned \$410 million investment in Forrest City, Arkansas, in addition to improving technologies will continue to increase efficiencies and lower costs, but these factors will continue to be limited by the consistently lower labor costs available to manufacturers in developing countries.

The figure below illustrates the apparel producer price index, which denotes the selling prices received by domestic producers for their output:

2 Apparel Producer Price Index



Pricing Trends

SYNTHETIC FIBERS

After stable but modest improvements in polyester raw material prices in late 2016 and early 2017, costs began to reverse course in April and March. Prices have since moderated and in 2017 the synthetic fiber market has remained largely consistent with the prior monitor. Despite the moderate gains in certain markets, raw material costs remain low, particularly for both crude oil and natural gas, resulting in stagnant pricing for synthetics. While crude oil pricing has seen some improvement in recent months, it remains well below 2014 levels.

As noted in previous monitors, while there is not always an absolute correlation between crude oil pricing and polyester pricing, due to the many intermediary production stages of the synthetic fiber, there is generally a pricing relationship between them.

Pricing for certain parts of the polyester supply chain, specifically naphtha and paraxylene, have shown resilience early in the year but dropped off in recent weeks due to



increasing production availability in Asia. Polyester staple fibre pricing has increased in recent weeks and the market may be strengthening as China recovers from extreme overcapacity in 2015. Additionally, pricing for purified terephthalic acid, a major raw material of polyester, began to increase in late March 2017. Pricing may be lagging behind these increases, which may result in a slight increase in the near future.

Textiles and Apparel Reference Sheet

PRICING TREND CHANGES FOR APRIL 2017 VERSUS MARCH 2017 AND THE FIRST QUARTER OF 2017

Commodity	% Change	
	From March 2017	From Q1 2017 Average
Cotton	0.3%	2.7%
Synthetic Fiber Feedstocks		
Crude Oil	3.5%	(1.4%)
Natural Gas	7.6%	3.0%

Monitor Information

The *Textiles Monitor* relates information covering most textile and apparel products, including industry trends, market pricing, and their relation to our valuation process. GA provides our customer base with a concise document highlighting the textiles and apparel industry.

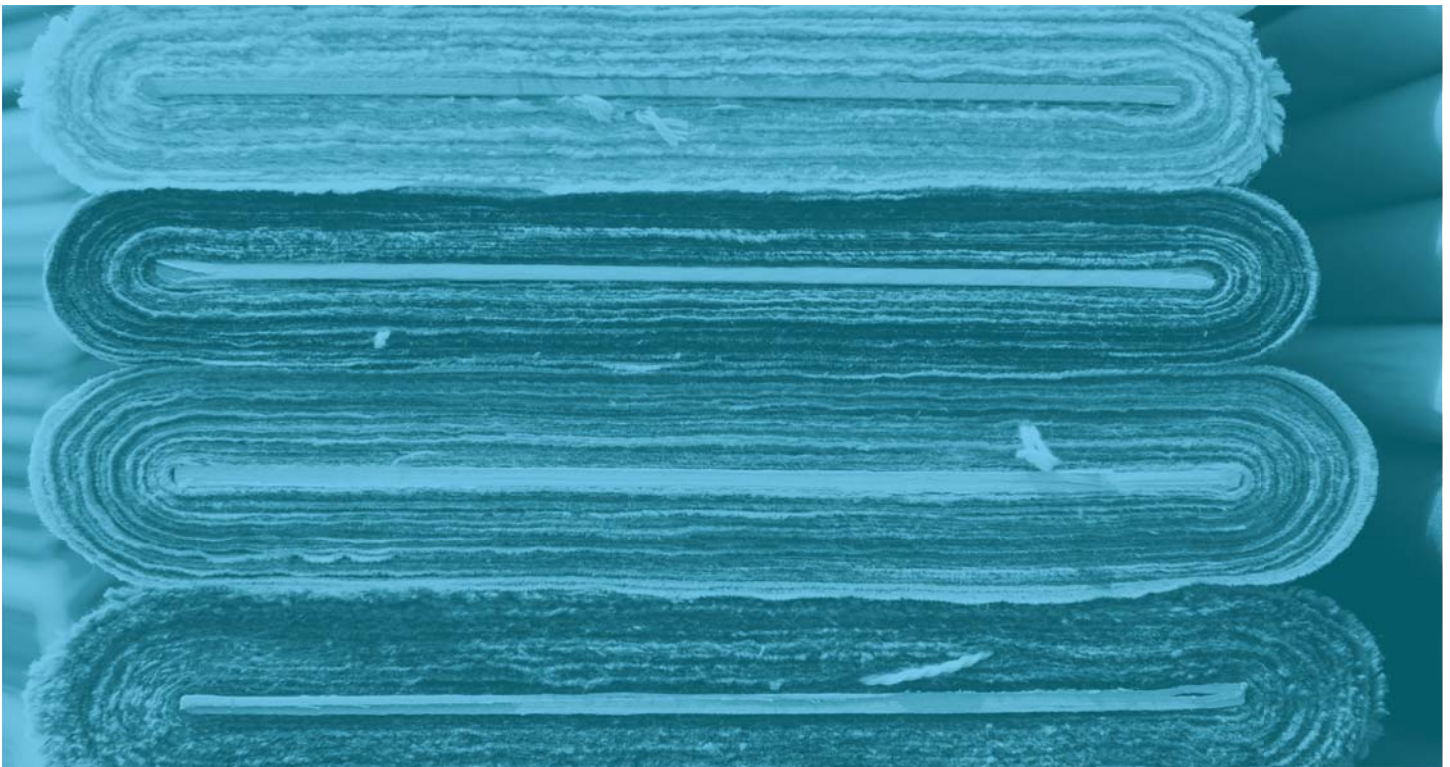
Due to the commodity nature of certain textile products, timely reporting is necessary to understand an ever-changing marketplace. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole.

GA internally tracks recovery ranges for cotton fabrics and apparel, greige goods, specialty textiles, synthetic fibers such as nylon and polyester, and a wide variety of apparel in all price points, but we are mindful to adhere to your request for a simple reference document.

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.

GA's *Textiles Monitor* provides market value and industry trend information for a variety of textile products. The information contained herein is based on a composite of GA's industry expertise, contact with industry personnel, industry publications, liquidation and appraisal experience, and data compiled from a variety of well-respected sources believed to be reliable.

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Experience

LIQUIDATIONS

GA has been involved in the liquidation of select industrial manufacturers and wholesalers such as Atlas Textiles, Garment Services, Seatco, and Textile Alliance, store locations for Jo-Ann Fabrics, Hancock Fabrics, and A.C. Moore, and numerous apparel retail stores such as Love Culture, Fashion Bug, Target Canada, Jones New York Canada, Kids Mart, Clothestime, Mervyns, and Eddie Bauer. Other industrial machinery and equipment liquidations include Alfani Shirts, Barth & Dreyfus, Belding Hausman, Linens & Things, Rock and Republic Jeans, Teddi of California, and Textile Alliance.

APPRAISALS

In addition, GA has worked with and appraised numerous manufacturers and distributors within the textiles and apparel industries. While our appraisal clients remain confidential, GA's extensive list of appraisal experience includes the following sampling of companies:

- One of the largest integrated producers of synthetic fibers worldwide, with annual net sales exceeding \$3.0 billion.
- One of the largest manufacturers of performance synthetic fabrics, offering over 480 styles of synthetic fabric with varying weights, textures, and other technical functions.
- A wholesale distributor of imprintable apparel, including t-shirts, fleece apparel, sports shirts, headwear, and athletic wear, with net sales exceeding \$700 million annually.
- An industry leader in textile and chemical products, which include denim, dyed fabrics, and flame retardant fabrics used in apparel and home furnishings.
- One of the U.S.'s foremost producers of retail fabrics, specialty fabrics, and craft products, manufacturing goods in a variety of synthetic fibers.
- A manufacturer of cotton-nylon greige fabrics used in the design of military and fire retardant apparel.

- A designer and manufacturer of various home textiles, including linens, sheets, towels, aprons, uniforms, curtains, and pillows, among many others.
- Producers of various apparel types, including headwear, sweaters, and sporting apparel.
- A manufacturer of tufted carpets from synthetic fibers serving residential and commercial applications.

GA additionally maintains appraisal experience involving more regionalized and specialized companies, allowing for the utmost depth in our valuations:

- Textile spinning mills producing fabric for the apparel, automotive, and home textile industries.
- Distributors of fabrics for furniture, apparel, and other textile applications.
- Manufacturers and distributors of apparel, rugs, and other woven fabric products.
- Manufacturers and distributors of cotton, polyester, nylon, and acrylic fibers and specialty fabrics for various industries.
- Spinners of cotton yarn.
- Manufacturers of performance synthetic fabrics.
- Retailers of textile products and apparel.

In addition to our vast liquidation and appraisal experience, GA maintains contacts within the textile and apparel 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. In addition to the *Textiles Monitor*, GA also provides clients with industry expertise in the form of monitors for the chemicals and plastics, metals, food, and paper and packaging sectors, among many others. For more information, please visit www.greatamerican.com.

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