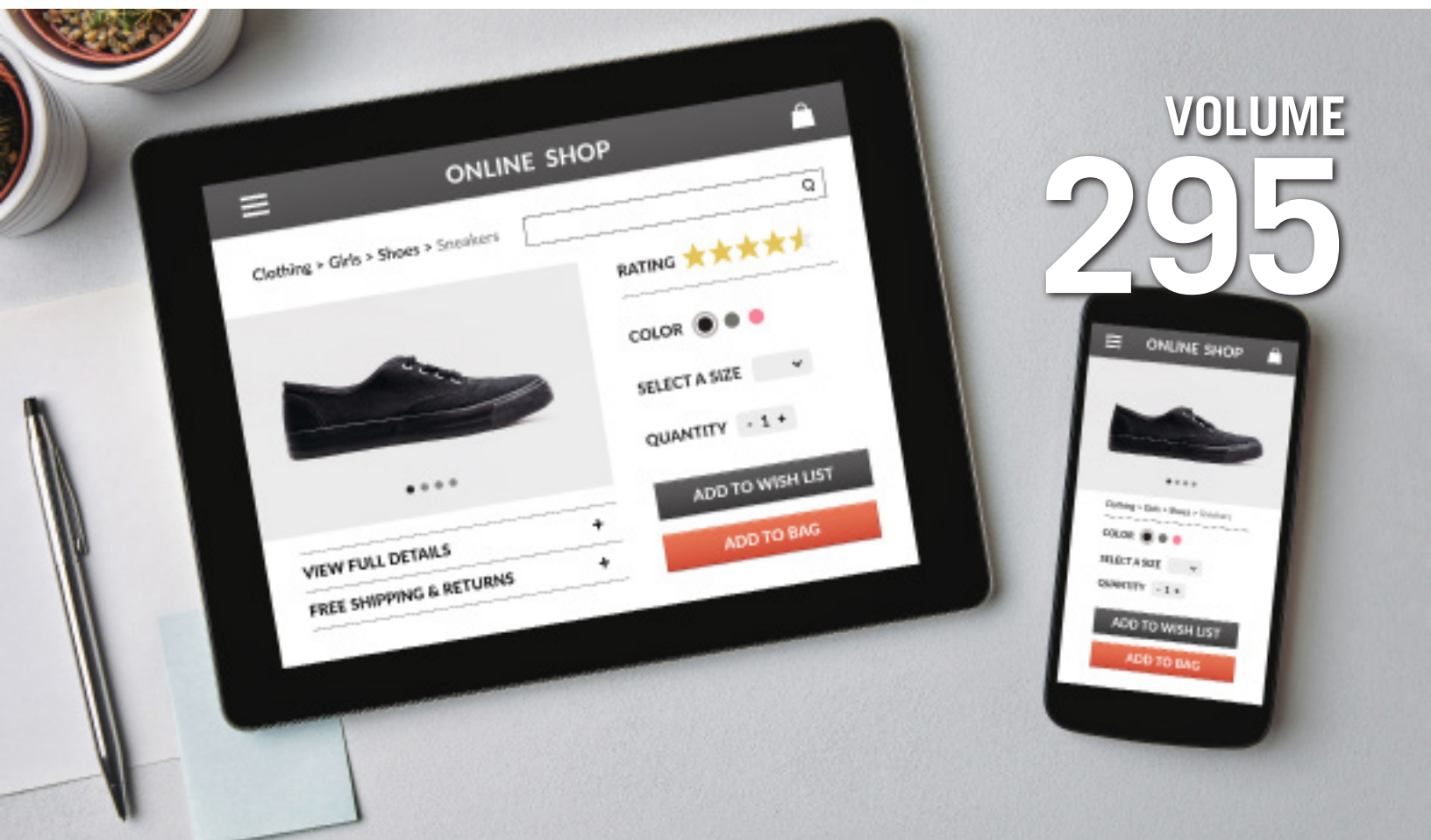


Monitor

Retail



VOLUME
295

YOUR PLACE OR MARKETPLACE?

MORE WAYS TO SELL ONLINE

Many companies have worked to grow online sales via their own websites, as well as by selling products on Amazon

ACQUISITIONS AND DOWNSIZING

The retail sector, especially department stores and specialty apparel retailers, has seen continued activity

CUSTOMER EXPERIENCES

Many retailers have focused on enhancing the customer experience to drive sales in stores and online

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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 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.

Top Trends

- 1** Fourth quarter sales results were mixed, with some companies capitalizing on omni-channel sales growth, and others left disappointed with results.
- 2** Many companies now sell on Amazon's marketplace, or have been expanding online offerings on their own websites in a marketplace format.
- 3** Bankruptcy filings, store closures, and acquisition activity have been seen in many sectors, especially department and specialty apparel stores.
- 4** E-commerce sales continue to grow, as Amazon continues to be a dominant force in the sector.

Overview

The retail sector continues its evolution away from its brick-and-mortar roots, to the omni-channel experience. Many retailers no longer distinguish between online and store sales when looking at performance.

There continues to be a lack of distinction in how sales are reported. Specifically, many retailers have implemented options for online customers to place an order on the website, but opt to pick it up at a local store as opposed to having it shipped to their home. Some retailers also fill orders from inventory either in their warehouses, or in their stores. Practices such as these have been going on for the past few years; however, retailers are becoming more savvy in how to offer these options, while maximizing profitability. For example, retailers often determine if an online order consisting of multiple items can be completely filled from a single location, and avoid shipping pieces from multiple locations if possible. Those retailers that have succeeded in offering a seamless omni-channel shopping experience have fared relatively well, though during the fourth quarter, some retailers struggled to generate sales during the critical holiday period.

Results in the fourth quarter were mixed. Mall-based retailers continue to face declining customer traffic and a lack of customer loyalty. Some reported sales that were weaker than expectations during the fourth quarter. Others, such as those in the off-price sector, achieved strong sales results and have plans for continued store growth and expansion.

E-commerce overall continued to grow, with the U.S. Census Bureau reporting that total 2018 e-commerce sales were up 14.2%, reaching over \$513 billion. Amazon reported a net sales increase of 20%, or \$72.4 billion during the fourth quarter, and had another banner year. Recognizing the dominance of Amazon, retailers and wholesalers in the consumer products sector have taken different tactics to vie for consumers' dollars. For wholesalers in particular, the relationship with Amazon can be complex. Companies may sell product directly to Amazon, as a wholesale customer,

but can also sell via Amazon's marketplace. The latter consists of listing their products for sale on Amazon's website, and fulfilling orders to end-users from their own facilities. Companies can also participate in the Fulfilled by Amazon ("FBA") program, whereby their inventory is sent to Amazon's facilities, to be sent to end-consumers once a sale is made. These types of relationships are not mutually exclusive, as companies can do business with Amazon in a combination of any of these methods.

Conversely, other companies have opted to strengthen their own websites. Many retailers also offer their own marketplace of sorts, listing product for sale from third-party vendors on their websites, which are then shipped directly from the vendor to the customer without the company taking the inventory risk of owning the product. The online marketplace has become so prevalent, that *Internet Retailer* reports that globally, online marketplaces generated upwards of \$1.8 trillion in sales in 2018, which represents an increase of 23% from 2017. Moreover, *Internet Retailer* reports that marketplaces represented more than half of global web sales last year.

The shift toward online spending continues to cannibalize brick-and-mortar sales. Adding to this delicate balance between maintaining a physical presence in harmony with a strong digital shopping environment is the fact that debt continues to weigh heavily on certain retailers. During 2018, the retail industry saw a number of bankruptcy filings, a trend that has continued into early 2019.

Examples of retailers filing for bankruptcy protection in 2018 include Sears, David's Bridal, Mattress Firm, Brookstone, Nine West, and Bon-Ton, among others.

Overview

While some retailers, like David's Bridal, did not close any stores as a result, others closed many or all stores. Bankruptcy filings seen in 2019 include Payless, Charlotte Russe, Gymboree, and Shopko, among others, and store closures have continued to be seen not only amongst retailers that have filed for bankruptcy, but also for retailers such as Gap, JC Penney, and Victoria's Secret, each announcing plans for impending store closures, which will collectively amount to hundreds of shuttered stores, with H&M announcing plans to close 160 stores globally this year as well.

As a result of the mixed sales, debt issues, and shifts in the retail environment, there has been some activity in recent months, including store closure, mergers, and acquisitions. For example, it has been announced that The Children's Place will acquire the Gymboree and Crazy 8 brands, while Gap has purchased Gymboree's Janie and Jack line. In 2018, Walmart made some strategic acquisitions, including Eloquii, Bare Necessities, and Art.com, among others, while other notable transactions included Michael Kors' acquisition of Versace and Rue La La's acquisition of Gilt.

The retail sector also continues to face uncertainty regarding the ongoing negotiations regarding trade between the U.S. and China. In 2018, the U.S. began imposing tariffs on goods imported from China, with the amount of goods impacted totaling over \$200 billion. Some of the tariffs were 25%, but the majority of these tariffs started at 10% and were originally slated to increase to 25% in January 2019. China also imposed tariffs of its own on U.S. goods. On December 1, 2018, the U.S. and China postponed the tariff escalation by 90 days to March 1, 2019, allowing more time to reach a longer-term agreement. That date has come and gone and so far, an agreement has not been met, despite Senior U.S. and Chinese officials meeting in Beijing on February 14, 2019 in hopes of negotiating a deal that would avert further increases.

The list of consumer products that are impacted by these tariffs is extensive. Based on the complete list released by the Office of the United States Trade Representative, many industries in the retail sector stand to be impacted by increased acquisition costs, including, but not limited to, the sporting goods, footwear, consumer electronics, apparel, and food industries.

During the fourth quarter of 2018, consumers did not experience too much of an impact with sticker prices while shopping, as many retailers had already purchased inventory for the holiday season when the tariffs started to take hold. Some companies also ramped up purchasing in anticipation of potential price increases.

Going forward, however, the real impact remains to be seen. There is still a lot of uncertainty regarding when the tariff increase will go into effect, if at all, or if a deal will be reached that will remove the existing tariffs. Should the tariffs remain in place, many companies intend to pass price increases onto customers. Others have looked into alternate countries from which to source product in an effort to reduce costs. The fact remains that most consumers shop with a frugality that took hold during the Recession and has yet to be fully shaken. Moreover, interest rates have been rising, making borrowing for consumers more expensive than previously. As such, significant increases in prices for consumer goods as a result of these tariffs could adversely impact sales at retailers, particularly those that sell non-essential items. Retailers will likely work to keep inventory levels lean, to avoid having to discount excessively if sales deteriorate.

E-Commerce

KEY INDUSTRY DRIVERS

- E-commerce sales growth:** E-commerce continues to increase as a percentage of total retail sales. Based on the most recent data from the U.S. Census, e-commerce represented 14.5% of total retail sales in the fourth quarter of 2018, and is showing no signs of slowing down.
- Competition:** Amazon continues to be the one to beat in the e-commerce sector. Many companies have accepted this and have either opted to sell products via Amazon's marketplace or via the Fulfilled By Amazon ("FBA") program. Some retailers, especially mass merchants, have been making plays to better compete with Amazon. Target recently announced plans to expand the product offered on its website by adding select third-party sellers in key categories such as toys, sporting goods, and electronics. Walmart already offers a marketplace, and in 2018 it added its offer of free two-day shipping for qualifying orders to many products offered by marketplace sellers. Walmart acquired a number of companies recently to strengthen its online presence.
- Shipping:** Shipping costs continue to increase, and retailers grapple as Amazon's Prime option remains the benchmark within the industry. Customers pay a yearly fee, which was increased from \$99 to \$119 in 2018, to receive free two-day shipping on purchases. Amazon reported that more people throughout the world signed up for Prime last year than in any prior years, though Prime may have reached a saturation point. Other retailers have tried to compete, but offering free shipping adversely impacts profitability. Walmart offers free two-day shipping with a minimum order requirement of \$35. Other retailers have higher thresholds to receive free shipping, such as \$99. Even Amazon recently announced a new option, whereby Prime customers can select a certain day of the week to receive their shipments, and can choose to receive one box or multiple shipments, reducing the amount of packages they might receive. Click and collect options offered by some companies allow customers to avoid shipping costs; some orders are ready within an hour.

TREND TRACKER

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

SALES TRENDS

	Fourth Quarter 2018	Third Quarter 2018	Second Quarter 2018	First Quarter 2018
% of Retail Sales	14.5%	14.2%	14.0%	13.7%
Change Year Over Year	12.1%	13.9%	14.9%	16.3%

Source: www.census.gov/retail. Results are revised estimates, calculated using information in the most recent press release for the fourth quarter of 2018, excluding sales of automobiles and gasoline.

- Mobile sales and technological enhancements:** Technology has become critical for retailers to drive web and mobile sales. As mobile sales, or those made via a smartphone or tablet, continue to grow, it has become critical for retailers to offer high-functioning apps or mobile websites. Many companies have implemented high-functioning mobile apps, more personalized, targeted marketing, and enhanced websites.

Department Stores

KEY INDUSTRY DRIVERS

- Mixed results:** Department stores experienced mixed results in the fourth quarter, with some reporting weaker than expected holiday sales. Promotional activity during the fourth quarter was high to drive customer traffic, and there continues to be an emphasis on omni-channel retailing, and a right-sizing of store bases, such as for JP Penney and Macy's. In addition to culling underperforming store locations, department stores continue to leverage real estate and other assets.
- Experiential retail:** Department stores often include e-commerce sales in their comparable sales calculations, capturing sales where possible. To further drive sales, department stores have been enhancing the customer experience both in stores and online. This includes offering pop-up shops showcasing new brands or product lines; shop-in-shop formats highlighting certain brands; enhanced features in dressing rooms; in-store events; as well as better features online such as live chats and virtual dressing rooms. Many have also added buy online, pick up in store, or return in store options for convenience.
- Customer loyalty programs:** Department stores have offered proprietary credit cards for many years to develop a loyal customer base. Recently, some have expanded into offering programs that allow customers to earn points whether or not they pay with their store card, such as Nordstrom's Nordy Club. Loyalty programs provide customer data that can then be used by the retailers to tailor marketing and drive future sales growth.
- Off-price and outlet formats:** Many department stores continue to focus on off-price counterparts and outlet formats. Nordstrom announced plans to open five new Nordstrom Rack stores in fiscal 2019, while Macy's, after adding over 100 Backstage locations within Macy's stores last year, plans to add an additional 45 this year, contrary to Last Call and Off 5th store base reductions.

TREND TRACKER

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

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Neiman Marcus	0.7%	2.8%	2.3%	6.0%
Saks	7.3%	6.7%	6.0%	2.1%
Hudson's Bay/ Lord & Taylor	0.9%	(3.8%)	(0.6%)	(2.6%)
Nordstrom	(1.6%)	0.4%	4.1%	0.7%
Macy's	0.4%	3.1%	0.0%	3.9%
Dillard's	2.0%	3.0%	1.0%	2.0%
JC Penney	(4.0%)	(5.4%)	0.3%	0.2%
Kohl's	1.0%	2.5%	4.3%	3.6%

*Note(s): The most recent quarter reported for Neiman Marcus ended January 26, 2019; Saks and Hudson's Bay/Lord & Taylor ended November 3, 2018; all other companies ended February 2, 2019. Some retailers report results including e-commerce sales.

Specialty Apparel Stores

KEY INDUSTRY DRIVERS

- Market activity and transactions:** The specialty apparel sector was one of the hardest hit for bankruptcies and store closures in 2017. It then had a stemming of the tides during the first half of 2018, but during the end of 2018 and into 2019, renewed activity has been seen. For example, Charlotte Russe and Gymboree both filed for bankruptcy in the first quarter of 2019. Charlotte Russe attempted to find a buyer, but was unsuccessful and recently announced all of its stores will be closed. All Gymboree and Crazy 8 stores were closed, and The Children's Place will acquire these two brands, while Gap has purchased Gymboree's Janie and Jack line. Gap also recently announced plans to break Old Navy off into its own independent company, with its other brands falling under a company that has been referred to as NewCo thus far. Gap has also announced plans for a number of store closures going forward, including 50 in 2019. This is in line with similar plans for closures by Victoria's Secret (53 stores), H&M (160 stores globally), and Abercrombie & Fitch (up to 40 stores). Other specialty apparel retailers continue to right-size their store bases.
- Omni-channel:** Many specialty apparel retailers continue to enhance the customer experience and drive sales both in stores and online. Most at a minimum allow online purchases to be returned to stores, and some specialty apparel retailers have been working to offer other options to customers, such as buy online, pick up in stores, or fulfilling orders from store inventory.
- Marketing touch points and technology:** In order to increase customer traffic in stores and drive sales, specialty apparel retailers have leveraged technology. Examples include adding charging stations for customers' cell phones in stores, or equipping stores with iPads to be used for faster checkout. Specialty apparel retailers have also tailored marketing tactics to reach the customer

TREND TRACKER

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

on an ongoing basis and through various mediums. This includes using social media influencers to showcase product, as well as banner ads on other websites. Similar to department stores, specialty apparel retailers have been gathering as much customer data as possible to provide more personalized emails with products and discounts that are most likely to encourage the customer to make a purchase from whatever channel is easiest.

- Differentiation:** Recognizing that steep competition remains from fashion retailers and off-price retailers, as well as online players including Amazon, which was vying for the top spot in apparel sales in 2018, many specialty retailers work to differentiate themselves by expanding categories to attract a broader demographic. Examples include adding plus sizes to the merchandise assortment, as well as other special sizes. Some have also started offering custom clothing offerings. In general, companies are working to increase customer loyalty, including implementing loyalty programs and perks for customers. Some companies have found a niche in using pop-up shops to drive brick-and-mortar sales and attract new customers.

Specialty Apparel Stores

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Family Specialty Apparel				
J. Crew	9.0%	8.0%	5.0%	1.0%
Banana Republic	(1.0%)	2.0%	2.0%	3.0%
Gap	(5.0%)	(7.0%)	(5.0%)	(4.0%)
Old Navy	0.0%	4.0%	5.0%	3.0%
Urban Outfitters	4.0%	7.0%	15.0%	8.0%
Women's Specialty Apparel				
White House/Black Market	(2.9%)	(5.1%)	(3.5%)	(6.6%)
Chicos	(7.9%)	(10.2%)	(3.8%)	(5.5%)
Christopher & Banks	0.0%	(7.5%)	0.8%	(2.6%)
Dress Barn	(1.0%)	(4.0%)	(5.0%)	(14.0%)
Lane Bryant	(8.0%)	(2.0%)	2.0%	(1.0%)
Ann Taylor	10.0%	7.0%	1.0%	(7.0%)
Guess	6.0%	3.0%	3.0%	2.0%
New York & Co.	(1.5%)	0.2%	0.6%	2.7%
Express	(6.0%)	0.0%	1.0%	1.0%
Anthropologie	2.0%	8.0%	11.0%	10.0%
Victoria's Secret	3.0%	4.0%	3.0%	3.0%
Soma	6.2%	2.4%	(0.9%)	(5.8%)
Men's Specialty Apparel				
Men's Wearhouse	(3.2%)	1.7%	1.0%	3.2%
Jos A. Bank	(0.5%)	3.8%	2.0%	1.2%
DXL	3.1%	3.4%	3.3%	2.2%
Teen Specialty Apparel				
Abercrombie & Fitch	3.0%	3.0%	3.0%	5.0%
American Eagle	6.0%	8.0%	9.0%	9.0%
The Buckle	(0.6%)	(1.4%)	1.4%	(3.1%)
Zumiez	3.9%	4.8%	6.3%	8.3%
Children's Specialty Apparel				
The Children's Place	(8.2%)	9.5%	13.2%	(1.8%)
Justice	2.0%	12.0%	15.0%	10.0%
Carter's/OshKosh Retail	5.7%	0.5%	0.9%	3.0%

Note(s): The most recent quarter reported for Anthropologie and Urban Outfitters ended January 31, 2019; Carter's ended December 29, 2018; all other companies ended February 2, 2019. Banana Republic, Gap, and Old Navy represent global sales.

Off-Price/Dollar Stores/Mass Merchants

KEY INDUSTRY DRIVERS

- Store activity:** While other sectors have been reducing store counts, the off-price and dollar store sectors continue to expand. Notably, TJX has added over 230 stores, and now operates more than 4,300 locations, with an overall goal of eventually having 6,100 stores globally. Other examples include Ross Stores (100 planned for 2019), Burlington Stores (50 in 2019), Costco (17 in 2019), Dollar General (975 in 2019), and Target (30 small-format stores), among others. Conversely, Family Dollar closed over 120 stores in 2018, with plans to close nearly 400 in 2019. Hudson's Bay Company plans to close 20 of its Saks Off 5th locations, contrary to Nordstrom Rack, which continues to expand.
- Pickup/delivery services:** Mass merchants in particular have been experimenting with pickup and delivery services. For example, Walmart has been expanding its online grocery delivery service, adding approximately 1,000 grocery pickup locations, and announced a partnership with Udelv to test grocery deliveries using custom, self-driving vans. Target expanded same-day delivery service Shipt to half of its locations by early 2018, and to the majority of stores in major markets by holiday 2018. It will continue to expand going forward.
- Customer base:** This industry has benefited from the fact that consumers largely remain focused on value. Even more affluent demographics have reported shopping at discount retailers, dollar stores, and off-price retailers. Millennials and Gen Z shoppers are also known to frequent these types of retailers.

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	6.0%	7.0%	6.0%	3.0%
Ross Stores	4.0%	3.0%	5.0%	3.0%
Burlington Stores	1.3%	4.4%	2.9%	4.8%
Saks Off 5th	(2.3%)	(7.6%)	(3.5%)	(7.6%)
Nordstrom Rack	4.0%	5.8%	4.0%	0.4%
Stein Mart	(3.5%)	1.4%	0.7%	(0.7%)
Walmart	4.2%	3.4%	4.5%	2.1%
Target	2.9%	3.2%	4.9%	1.9%
Kmart	N/A	6.1%	(3.7%)	(9.5%)
Costco	7.2%	11.0%	7.8%	7.7%
Dollar General	4.0%	2.8%	3.7%	2.1%
Dollar Tree	3.2%	2.3%	3.7%	4.0%

*Note(s): The most recent quarter reported for Costco ended February 17, 2019 and excludes fuel; Walmart ended January 25, 2019; Dollar General ended February 1, 2019; Saks Off 5th ended November 3, 2018; all other companies ended February 2, 2019; Walmart excludes Sam's Club and fuel; Dollar Tree excludes Family Dollar.

Footwear

KEY INDUSTRY DRIVERS

- Marketing:** Major footwear companies continue to experiment with marketing tactics, with a recent emphasis on women and children, including Nike's "girl-power" focused ad narrated by Serena Williams, and Under Armour's Icon Curry 6, "United We Win," which were co-designed by NBA star Stephen Curry and a nine-year-old girl. Foot Locker made a \$3.0 million investment in Super Heroic, Inc., a company that inspires children to be more active. There were also a number of celebrity endorsements in 2018, including Kylie Jenner and adidas, Cardi B and Reebok, Kendrick Lamar and Nike, and Post Malone and Crocs, among others. Kanye West's YEEZY brand continues to be a draw for Nike. Many footwear companies market heavily via social media as well.
- Industry transactions:** The footwear industry continues to see bankruptcies, store closures, and consolidations, including Payless closing all of its 2,100 stores in the U.S., Foot Locker closing 110 stores in 2019, DSW and Authentic Brands Group acquiring Camuto Group, and Caleres acquiring Vionic Group, among other transactions.
- Omni-channel:** Footwear companies have been expanding omni-channel capabilities. Examples include buy online, pick up in store, or companies like Nike and adidas selling directly to consumers both in stores and online, bypassing wholesalers. Certain online players, such as M.Gemi and Allbirds, opened brick-and-mortar locations.
- Tariffs:** The vast majority of U.S. shoes are manufactured overseas, with nearly three-quarters of imports coming from China. As such, tariffs imposed by the U.S. on imports from China have been impacting the footwear industry. Many companies have taken steps to negate price increases, such as building up inventory levels in anticipation of the tariffs and shifting production out of China.

TREND TRACKER

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

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
DSW	5.4%	7.3%	9.7%	2.2%
Johnston & Murphy	4.0%	10.0%	8.0%	7.0%
Foot Locker	9.7%	2.9%	0.5%	(2.8%)
Crocs (Americas)	17.3%	19.9%	7.5%	10.9%
Famous Footwear	1.1%	2.8%	2.6%	(0.8%)
Journeys	7.0%	9.0%	10.0%	6.0%
Skechers U.S.	0.4%	3.0%	2.2%	7.0%
Steve Madden	4.0%	5.5%	1.6%	(1.2%)
Deckers	1.4%	4.8%	6.2%	7.0%

*Note(s): The most recent quarter for Skechers, Steve Madden, Crocs, and Deckers ended December 31, 2018; all other companies ended February 2, 2019.

Consumer Electronics

KEY INDUSTRY DRIVERS

- Industry stagnation:** Overall, the consumer electronics industry has not seen any major changes in recent years. Smart home integration and product diversification have been at the forefront, but traditionally innovative areas have become stagnant. Televisions and cell phones have not had any notable performance or technological improvements in recent years. The competitive landscape continues to be limited, as Best Buy and Conn's continue to be the main public consumer electronics retailers.
- Cell phones:** The newest models of cell phones and smartwatches continue to feature steep price tags. The most recent iPhones released, the XR, XS, and XS Max, featured starting prices over \$1,000. As Apple has moved into a more premium product, sales have slowed, and more affordable iPhones have not been released in several years. Samsung announced the Galaxy S10 in February, which mimics the design and capabilities of the Apple X phones released last year, featuring an all-glass surface. Samsung also debuted its concept of a folding phone with the Galaxy Fold. The phone, which is priced at nearly \$2,000, begins as a phone with a smaller screen that then opens into a larger one.
- Service providers/5G:** Top carriers continue to vie for customers. As the cell phone industry has matured, with consumers increasingly slower to upgrade or replace existing phones, the marketplace for selling smartphones has become competitive. Consumers have the option to purchase cell phones and plans at provider stores from Verizon, AT&T, and Sprint, as well as from companies like Apple. While the Sprint/T-Mobile merger is still under FCC review, proponents have argued that the merger would aid the U.S. in a global race to allow 5G wireless service. While the idea of 5G remains a topic of conversation, there have not yet been announcements of any products capable of utilizing it.

TREND TRACKER

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

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Best Buy	3.0%	4.3%	6.2%	7.1%
Conn's	(4.2%)	0.6%	(3.0%)	(7.2%)

*Note(s): The most recent quarter for Best Buy ended February 2, 2019 and represents domestic sales, excluding installment billing; Conn's ended October 31, 2018 and represents product sales only.

- Internet of Things:** While innovation in traditional consumer electronics categories, such as televisions and cell phones, has slowed over the past few years, the number of interconnected devices have skyrocketed. Devices such as the Amazon Alexa are compatible with a number of home products, including refrigerators and thermostats; at the most recent CES in January 2019, Google Assistant was advertised for a number of new compatibilities, including a language interpreter.

Sporting Goods

KEY INDUSTRY DRIVERS

- Channels:** Retailers continue to rationalize their store bases, and competition from e-commerce players such as Amazon as well as mass merchants remains strong. Sporting goods retailers continue to incorporate omni-channel platforms to their business. Retailers are trying to bring customers back into stores by offering buy online, pick up in stores, as well as creating experiences and store concepts, such as workshops, fitness classes, putting greens, high-tech simulators, and driving ranges.
- Firearms and ammunition:** Wholesale firearms sales have been on the rise due to increased demand from the military, though sales to and at retailers remain stymied. Sales throughout the firearms market were flat to down in 2018, which is anticipated to continue into 2019 in part due to what has been referred to as the “Trump Slump” that has been felt across the industry. However, pending legislation could cause consumer fear of stricter gun control. For example, states continue to amend laws surrounding the purchase of firearms, such as raising the age on certain types from 18 to 21. On a federal level, two pieces of legislation have been passed by the House, but have yet to be considered by the Senate. One would require a background check for the purchase of nearly all firearms, including Internet sales. Current law dictates only federally licensed gun dealers are required to perform background checks. The other would extend the initial background check review period from three days to 10. The volatility of the market has resulted in companies making changes; Vista Outdoors is still trying to get out of the firearms business, though plans to continue selling ammunition. Dick's Sporting Goods continues to cut back on gun sales, recently announcing it would stop selling firearms at 125 stores.
- Tariffs:** The sporting goods sector is one of the industries most impacted by the tariffs on Chinese

TREND TRACKER

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

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Dick's	(2.2%)	(3.9%)	(4.0%)	(2.5%)
Hibbett	3.8%	0.1%	4.1%	(0.3%)
Big 5	1.1%	(2.0%)	(2.1%)	(7.5%)
Sportsman's Warehouse	(0.5%)	0.2%	3.4%	(4.5%)

*Note(s): Results for Dick's include Dick's Sporting Goods stores, Golf Galaxy, and the e-commerce business. The most recent quarter for Big 5 ended December 30, 2018; Sportsman's Warehouse ended November 3, 2018; all other companies ended February 2, 2019.

imports. Products that stand to be affected are sports bags; gloves for baseball, softball, hockey, and skiing; apparel; vessels and rafts; headgear and hats; and other items. Companies that already manufacture product in other countries, such as Vietnam, have been shifting production; however, there is some concern that this could result in delays or impact the quality of items. There is also a question as to whether production will move closer to the U.S. and make American production more critical, and if prices to consumers will rise.

Books

KEY INDUSTRY DRIVERS

- Print prevails:** According to NPD BookScan, unit sales of print books increased 1.3% in 2018, the fifth year in a row sales have increased. It is suspected that much of the growth is coming from Amazon. However, sales through independent bookstores are also rising. The American Booksellers Association reports that sales through independent bookstores increased 5% in 2018. While print sales are up, e-book sales have declined. It has been unclear whether readers are transitioning back to print, moving toward services like Amazon's Kindle Unlimited service, gravitating toward less expensive self-published e-books (a category not included in BookScan data), or switching to audiobooks, a category that has been growing. Likely, it is a combination of all four. However, data limitations make it difficult to determine if e-books are actually falling out of favor with consumers.
- Retail trends:** Barnes & Noble has been plagued by reduced customer traffic, stiff competition from Amazon, and management turmoil, including five chief executive officers since 2013. In October 2018, the company announced it was considering a sale after receiving interest from several parties. However, Barnes & Noble had a successful holiday season, with comparable store sales up 1.3% during the holiday period, driven partly by promotional efforts. It also reported positive comparable store sales for the most recent quarter, its best performance in years.

Brick-and-mortar players continue to expand non-book categories. Toys and games have been a key area of focus, especially since Toys "R" Us met its demise. However, this means book stores are also competing with discounters such as Target and Walmart. A new player is also entering the market. Canadian book retailer Indigo Books and Music, which operates 85 superstores and 121 small-format stores in Canada, opened its first U.S. store in New Jersey in October 2018.

TREND TRACKER

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

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Barnes & Noble	1.1%	(1.4%)	(6.1%)	(4.1%)

*Note(s): The most recent quarter for Barnes & Noble ended January 26, 2019.

- Textbook sales:** The years 2018 through 2022 are expected to be large adoption years for K-12. The new adoption market is projected to total \$1.0 billion in 2019 compared to \$0.4 billion in 2016. In the college segment, top-line textbook sales continue to be challenged by rentals, which generate lower sales dollars. While textbook sales have not been significantly affected by digital, this category continues to slowly gain traction. In February 2019, Barnes & Noble Education announced an expanded partnership with Macmillan Learning to offer digital content, courseware, and e-books nationwide. Moreover, publishers continue to bundle physical and digital products. Open (free) resources are also gaining in popularity, though still represent a small segment of the industry.

Jewelry

KEY INDUSTRY DRIVERS

- Holiday sales:** The holidays are a key season for jewelry retailers. According to Mastercard SpendingPulse, holiday jewelry sales increased 3.7% in 2018. However, holiday sales results were disappointing for major jewelry retailers. Mid-tier player Signet Jewelers reported comparable store sales declines of 0.8% for Kay Jewelers and 8.0% for Jared the Galleria of Jewelry, but a 2.9% increase for Zales. Figures for all banners were below expectations and drove Signet to slash its fourth quarter guidance. The retailer reported lower than anticipated customer traffic and hinted that store closures could be on the horizon. It also announced a “Voluntary Transition Program” whereby eligible employees can leave the company in exchange for transition assistance to avoid an involuntary reduction in force. Another mid-tier player, Samuel's Jewelers, closed all of its 112 stores in early 2019. On the luxury side, Tiffany reported flat sales in its Americas segment during the holidays, also below expectations. Like most other industries, growth in e-commerce is coming at the expense of in-store sales. According to IBISWorld, online jewelry and watch sales reached \$7.5 billion in 2018, an increase of 4.0% compared to 2017.
- Commodity pricing:** Although prices fluctuate, there were no major spikes or drops in the price of gold, silver, platinum, or diamonds that had a major impact on the industry. However, in late 2018, De Beers reduced pricing for its low-end diamonds by approximately 10% due to an oversupply in the market.
- Watch sales:** Many luxury watch brands struggled over the past few years, as consumers gravitated towards less expensive styles and trends. However, according to the Federation of the Swiss Watch Industry, the value of exports for the 11 months ended November 2018 increased 7.1% from the previous period, with exports to the U.S. rising 14%. However, the traditional watch

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
Kay Jewelers	0.7%	(2.1%)	(1.9%)	(11.0%)
Jared	0.0%	1.2%	(7.8%)	(6.4%)
Zales	2.8%	7.1%	8.9%	4.7%
Tiffany & Co.	5.0%	8.0%	9.0%	5.0%

*Note(s): Kay, Jared, and Zales are all part of Signet Jewelers. The most recent quarter for all three ended November 3, 2018. Tiffany & Co. ended October 31, 2018 and represents the Americas region.

segment continues to experience competition from smartwatches. According to the NPD Group, for the 12 months ended November 2018 versus the prior year, smartwatch sales reached \$5 billion, up 51%. Approximately 16% of U.S. adults own a smartwatch, with penetration reaching 23% in the 18-34 demographic. However, some luxury players have noted that the use of smartwatches by younger generations has brought a renewed interest in wearing timepieces, something it believes has benefitted the industry as these consumers may eventually trade up to more upscale pieces.

Arts and Crafts

KEY INDUSTRY DRIVERS

- Tech-focused:** Several retailers have been trying to modernize stores and adapt to technology-oriented consumers, mainly those that are younger, while facing declines in foot traffic. Jo-Ann Stores' new store concept, for example, includes touch-screen kiosks that detail personalized craft projects, as well as a tech-based fabric cutting bar that allows customers to track fabric orders from phones and receive texts when ready.
- Product offerings:** Several industry players have increased product offerings to help drive traffic and increase sales. Seasonal goods, for example, have been gaining shelf space, as have toys and children's products. Examples include make-your-own slime, which remains popular. Retailers are trying to capture market share left behind from the closure of Toys "R" Us. Otherwise, the industry has suffered from an overall lack of explosive product trends. While knitting and general crafting supplies have gained popularity as younger generations take up crafting, this has not been enough to drive major traffic or sales.
- Tariffs:** Similar to other industries, many arts and crafts companies have been taking measures to combat newly imposed and impending tariffs. This includes building up inventory levels in anticipation of price increases, shifting production out of China, and if needed, raising their own product prices. Given the uncertainty surrounding the tariffs, the full impact on the industry has yet to be seen.
- DIY:** The arts and crafts industry as a whole continues to benefit 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 do crocheting, knitting, quilting, and sewing.

TREND TRACKER

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

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Michaels	(0.4%)	3.8%	(0.4%)	0.4%
Etsy	46.8%	41.3%	30.2%	24.8%

*Note(s): The most recent quarter for Michaels ended February 2, 2019; the most recent quarter for Etsy ended December 31, 2018, and represents comparable revenue.

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 under-performing 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:

Toys "R" Us	Bon-Ton	Target Canada	Office Depot/Max	Macy's	MC Sports
Gander Mountain	Payless	Gap	Masters (Australia)	Sears Canada	RadioShack
Linens 'N Things	Naartjie	Whitehall Jewelers	Borders	Hancock Fabrics	Boot Town
A&P	hhgregg	Gordmans	Love Culture	Orchard Supply Hardware	Gymboree

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 approximately 75 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.
- Several regional pharmacy retailers, pharmacy and service providers to long term care facilities, supermarkets with pharmacy operations, and wholesalers of pharmaceuticals, for which GA valued both the pharmacy inventory and prescription lists ("scripts").

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

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