

Monitor

Retail



VOLUME
311

TARIFF TURBULENCE

MERE SHIFT OR FULL APOCALYPSE?

Retail is in the midst of a structural spending shift, with e-commerce growing and brick-and-mortar slowing

AMERICA'S STORE PROBLEM

Many retailers have been right-sizing their store base, with closures seen in B and C level malls in particular

TARIFF QUESTIONS AND COUNTERMEASURES

Tariffs are impacting many companies; many have worked to pass along price increases or move production

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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 Recent sales results have been mixed, with some companies, such as those in the off-price sector, growing while others, particularly many mall-based stores, have struggled.
- 2 Tariffs continue to threaten profitability. Many companies have taken countermeasures such as moving production or passing on costs to customers.
- 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, and Amazon continues to be a dominant force in the sector.

Overview

Some say traditional brick-and-mortar retail is facing an apocalypse, while others say this is overblown. In either case, there has undoubtedly been a shift in how consumers spend in recent years.

The retail landscape continues to face a shift away from brick-and-mortar sales, with an increase in e-commerce. According to data from the U.S. Census Bureau, during the second quarter of 2019, retail spending via e-commerce totaled upwards of \$146 billion, and represented over 15% of retail sales excluding sales of automobiles, gasoline, and restaurants. Many retailers have tried to combat this by strengthening their online presence and offering more of an omni-channel experience. This has resulted in a blurring of the lines in how sales are reported. For example, many retailers allow customers to buy online and pick up in stores as opposed to having goods shipped to their home. Some retailers also fill orders from inventory either in their warehouses, or in their stores.

The e-commerce behemoth contributing to the retail shakeup continues to be Amazon. Amazon recently reported results for the third quarter ended September 30, 2019, during which it experienced a net sales increase of 24%, reaching \$70 billion. Recognizing the dominance of Amazon, retailers and wholesalers in the consumer products sector have taken different tactics to remain relevant. Some companies have opted to sell product directly to Amazon, or via Amazon's marketplace. The latter consists of companies 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 these methods.

The continued shift toward e-commerce, as well as competition from new forms of retail, such as rental and subscriptions models, has resulted in many mall-based retailers in particular right-sizing their store bases in recent years. In some instances, retailers have shuttered underperforming locations as leases expire, while other times, entire chains have been liquidated. There have also been several retailers driven to file for bankruptcy due to high levels of debt. While some emerge and continue to operate, others have liquidated entire chains. The majority of store closures have been seen in B and C level malls. So far in 2019, more than 7,300 retail store closures have been announced. Conversely, there continue to be certain sectors, such as off-price and dollar store retailers, that have been on a store-base expansion trajectory.

One major factor that retailers and wholesalers of consumer products have had to contend with over the past year has been tariffs. Beginning in the spring of 2018, the U.S. imposed unilateral Section 232 tariffs on imported steel and aluminum to combat "unfair trade practices." Tariffs have impacted a fluctuating list of countries, with exemptions typically granted in exchange for quotas, although the U.S. reached a deal with Canada and Mexico in May 2019 to lift tariffs without implementing quotas. The actions have led to retaliations on products that vary by country and include an escalating tariff war with China.

The U.S. currently maintains tariffs on \$550 billion of Chinese goods, representing virtually all goods imported from China. The extensive list of impacted products includes a variety of consumer goods such as footwear, sporting goods, apparel, appliances, electronics, toys, baby products, and others.

Overview

The tariffs have been coming into play in stages. A round of tariffs was put into place on September 24, 2018. These tariffs started at 10% and were increased to 25% in May 2019. The list of products included in this round was extensive, but examples include certain fabrics such as cotton, wool, cashmere, silk, rayon, polyester, nylon, lace, and corduroy; electronics such as air conditioners, refrigerators, television components, vacuum cleaners, air humidifiers or dehumidifiers, parts of shavers and hair clippers, and parts of microwaves; sporting goods such as baseball gloves, golf bags, batting gloves, ice hockey gloves, and sports bags; handbags, luggage, trunks, and suitcases; hats and headgear made of various materials; numerous food items; leather and raw hides; various types of paper; home improvement products such as vinyl flooring, carpets, assembled wood flooring panels, and wall or ceiling coverings; and more items.

Another round of 10% tariffs started September 1, 2019. This included items such as numerous fresh or frozen meat products; certain milk and cream products; many varieties of cheese; certain vegetables; certain coffees and spices; outerwear, such as coats and jackets; an extensive list of apparel items, such as suits, blazers, and dresses; blankets, bed linens, and various other household textiles; many different types of footwear; tableware such as stemware and drinkware; and parts of certain televisions and appliances, among many more items. Some products already tariffed at 25% were slated to increase to 30% in October, but this has been delayed. It has been reported that the U.S. and China have continued talks and reached some common ground; however, despite the delay of the October increase, there continues to be additional tariffs set to go into effect in December 2019.

Companies have been working to offset tariffs through various means. Some brought in higher-than-normal levels of inventory ahead of the tariffs going into effect.

Companies have also negotiated with vendors for price concessions or have leveraged currency exchange rates to offset the increased costs. Some companies have also had the option of moving production to other countries; however, this is easier if a company already has sourcing set up in different places, such as Vietnam or India. Many companies have also passed price increases on to customers.

Given the breadth of product impacted by the tariffs, it seems inevitable that consumers will face a hit to their wallets. According to the *Wall Street Journal*, which reported on data from the Federal Reserve Bank of New York, it has been estimated that the average U.S. household will have to spend over \$800 per year to cover the increase in pricing resulting from the tariffs. Going forward, however, the real impact remains to be seen. Some tariffs were intentionally delayed until December, in the hopes that consumer goods would not be impacted during the critical holiday season. In addition, talks between the U.S. and China continue, and there is still a lot of uncertainty regarding whether future tariff increases will go into effect, or if a deal will be reached that will remove the existing tariffs.

The fact remains that most consumers shop with a frugality that took hold during the Recession and has yet to be fully shaken off. Some analysts have noted that certain sectors could actually benefit from the tariffs, such as lower-priced options like off-price and dollar stores, should more affluent consumers elect to trade down if prices go up significantly.

Analysts point out that the store closures, tariffs, and shift toward e-commerce spending are all occurring during what is considered a growing economy. Should the economy dip into another recession, consumers' spending power would likely decrease, and retailers might feel the sting.

E-Commerce

KEY INDUSTRY DRIVERS

- **E-commerce sales growth:** E-commerce sales continue to grow. The second quarter of 2019 saw e-commerce sales increase 13.3% year-over-year to total an estimated \$146.2 billion on an adjusted basis, and represent 15.6% of retail sales, excluding sales of gas and autos.
- **Amazon:** Amazon is the major force in the e-commerce sector. Amazon recently reported results for the third quarter ended September 30, 2019, during which it experienced a net sales increase of 24%, reaching \$70 billion. While some retailers, such as Walmart and Target, continue to make plays to enhance their e-commerce sales channel to remain competitive, other retailers have not only focused on their own websites, but have also found ways to expand online via marketplace sales. This has been particularly true in the apparel sector. According to data from Coresight Research, Amazon has become the industry leader in apparel sales in the U.S., surpassing Walmart. Many retailers have implemented somewhat of a multi-platform business, whereby they aim to increase their brand awareness through offering product on Amazon's website. This can include selling directly to Amazon as a wholesale customer, fulfilling orders to customers by selling products via Amazon's marketplace, or via the FBA program. Often retailers are specific about which stock keeping units ("SKUs") are made available on Amazon, and in some instances, companies have decided to make specific collections to be sold on Amazon, to avoid cannibalizing their own sales.
- **Shipping:** Shipping costs continue to increase; UPS recently announced an estimated 4.9% increase in air and ground shipping rates in 2019. While faced with these increased costs, retailers also struggle as Amazon's Prime option remains the benchmark within the industry. Customers pay a yearly fee to receive free shipping on purchases, with orders now arriving in some cases within one day, down from the two-day shipping for which

TREND TRACKER

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

SALES TRENDS

	Second Quarter 2019	First Quarter 2019	Fourth Quarter 2018	Third Quarter 2018
% of Retail Sales	15.6%	15.2%	14.8%	14.6%
Change Year Over Year	13.3%	12.0%	11.1%	13.8%

Source: www.census.gov/retail. Results are revised estimates, calculated using information in the most recent press release for the second quarter of 2019, excluding sales of automobiles and gasoline.

Prime had become known. Other retailers have tried to compete, but offering free shipping adversely impacts profitability. Some retailers have taken a hit to their bottom line to remain competitive, while other retailers have minimum order thresholds that must be met to receive free shipping, such as orders totaling \$99. Click-and-collect options offered by some companies allow customers to avoid shipping costs.

- **Technology:** Technology remains critical for retailers to drive web and mobile sales. Not only do retailers have to offer high-functioning apps or mobile websites, but many retailers are also now realizing the power behind harnessing customer information and using data analytics to provide more targeted marketing to customers and enhance the customer's online shopping experience.

Department Stores

KEY INDUSTRY DRIVERS

- Mixed results:** During the most recent quarters, many department store retailers reported declining comparable store sales, with some reporting flat sales or slight increases. According to data from the U.S. Census, unadjusted retail sales at U.S. department stores, excluding discount department stores, have been declining year-over-year for the majority of the past decade, and were down 10.7% during the first six months of 2019 compared to the same timeframe last year. The department store sector has faced many headwinds. In general, mall traffic is below levels seen years ago. Moreover, with the growth of e-commerce and development of many different retail channels, there are more ways for consumers to shop than ever. Not only are there traditional retailers, such as off-price and fast-fashion retailers offering products in brick-and-mortar stores at low prices, but there are also new channels such as online rental websites and subscription rental and purchasing programs. On top of that, department stores once relied on key brand names to drive customer traffic. However, brands have increasingly been going direct-to-consumers through their own websites and/or stores. This has reduced customer loyalty at many department stores.
- Industry activity:** The department store sector has seen many store closures as retailers right-size their business. In addition, Barneys New York, Inc. filed for bankruptcy in August 2019 and could sell its assets to Authentic Brands Group and B. Riley (parent company of GA). Hudson's Bay Company has also announced the potential sale of Lord & Taylor to Le Tote.
- Customer loyalty programs:** Department stores have offered proprietary credit cards for many years to develop a loyal customer base. Loyalty programs provide customer data that can then be used by the retailers to tailor marketing and drive future sales growth. Department

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	(1.5%)	0.7%	2.8%	2.3%
Saks	0.6%	2.4%	3.9%	7.3%
Nordstrom	(6.5%)	(5.1%)	(1.6%)	0.4%
Macy's	0.2%	0.6%	0.4%	3.1%
Dillard's	(2.0%)	0.0%	2.0%	2.0%
JC Penney	(9.0%)	(5.5%)	(4.0%)	(5.4%)
Kohl's	(2.9%)	(3.4%)	1.0%	2.5%

*Note(s): The most recent quarter reported for Neiman Marcus ended April 27, 2019; all other companies ended August 3, 2019. Some retailers report results including e-commerce sales.

stores have been tapping into this data to create repeat customers and keep them coming back to drive sales.

- Customer experience:** Department stores continue to work to enhance the customer experience, creating harmony between stores, websites, mobile sites, and marketing avenues.
- Off-price and outlet formats:** Many department stores continue to focus on off-price counterparts and outlet formats.

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 filed for bankruptcy in March 2019 and closed all locations by the end of April; however, new owners recently re-launched Charlotte Russe retail outlets, opening the first five of 100 potential locations in June; Charming Charlie declared bankruptcy in July 2019 and closed all 261 locations by the end of August; Avenue Stores filed for bankruptcy and announced an orderly wind-down of its 222 remaining physical locations, but its online division will continue to operate as the company seeks a buyer; Dressbarn announced it is winding down operations, including the closing of all 650 stores by the end of 2019; Destination Maternity filed for bankruptcy and will be closing 183 stores; and Forever 21 filed for bankruptcy and will close over 100 stores. In addition, J. Crew Group's Madewell brand announced it is splitting from the parent company, which has been struggling in recent years. 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 have online orders fulfilled from store inventory.
- Customer analytics:** In order to increase customer traffic in stores and drive sales, specialty apparel retailers have leveraged technology. Specialty apparel retailers have been working to tap into customer data and have tailored marketing tactics to reach the customer on an ongoing

TREND TRACKER

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

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.

- Rentals and subscription services:** In an effort to drive business in the specialty apparel sector, a trend that has emerged is an increase in retailers offering rental and subscription services. Once an uncommon business model, there are now over 2,000 consumer-focused subscription businesses on the market, and many retailers have been entering the arena with their own format in addition to their stores and e-commerce websites. Examples of specialty retailers that offer rental and/or subscription services include Vince, Ann Taylor, Express, and American Eagle, among others. These retailers allow customers to sign up, and for a fee (which varies by retailer), customers receive a certain amount of items out on rental. Customers receive new items once a rental item is returned.

Specialty Apparel Stores

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Family Specialty Apparel				
J. Crew (excludes Madewell)	(4.0%)	(1.0%)	(6.0%)	(4.0%)
Banana Republic	(3.0%)	(3.0%)	(1.0%)	2.0%
Gap	(7.0%)	(10.0%)	(5.0%)	(7.0%)
Old Navy	(5.0%)	(1.0%)	0.0%	4.0%
Urban Outfitters	(5.0%)	0.0%	4.0%	7.0%
Women's Specialty Apparel				
White House/Black Market	(16.1%)	(10.0%)	(2.9%)	(5.1%)
Chicos	(5.6%)	(7.8%)	(7.9%)	(10.2%)
Christopher & Banks	(4.1%)	(3.6%)	0.0%	(7.5%)
Dress Barn	12.0%	(4.0%)	(1.0%)	(4.0%)
Lane Bryant	(3.0%)	(2.0%)	(8.0%)	(2.0%)
Ann Taylor	0.0%	5.0%	10.0%	7.0%
Guess	2.0%	4.0%	6.0%	3.0%
New York & Co.	(4.8%)	(5.3%)	(1.5%)	0.2%
Express	(6.0%)	(9.0%)	(6.0%)	0.0%
Anthropologie	(3.0%)	1.0%	2.0%	8.0%
Victoria's Secret	(1.0%)	0.0%	3.0%	4.0%
Soma	10.9%	3.4%	6.2%	2.4%
Men's Specialty Apparel				
Men's Wearhouse	(4.3%)	(4.5%)	(3.2%)	1.7%
Jos A. Bank	(3.3%)	(0.7%)	(0.5%)	3.8%
DXL	0.0%	(1.2%)	3.1%	3.4%
Teen Specialty Apparel				
Abercrombie & Fitch	0.0%	1.0%	3.0%	3.0%
American Eagle	2.0%	6.0%	6.0%	8.0%
The Buckle	1.8%	(1.3%)	(0.6%)	(1.4%)
Zumiez	3.6%	3.3%	3.9%	4.8%
Children's Specialty Apparel				
The Children's Place	(3.8%)	(4.6%)	(8.2%)	9.5%
Justice	(5.0%)	(5.0%)	2.0%	12.0%
Carter's/OshKosh Retail	(0.6%)	3.8%	(3.7%)	5.7%

Note(s): The most recent quarter reported for Anthropologie and Urban Outfitters ended July 31, 2019; Carter's ended September 28, 2019; all other companies ended August 3, 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. Ross Stores plans to open approximately 100 stores in 2019; Dollar General plans to open 975 new stores in 2019; and Five Below plans to open 145 to 150 stores in fiscal 2019. Other retailers, such as Walmart, have tailored store bases through revamps by adding customer-focused innovations. Target has opened its 100th smaller-format store, and recently completed its 500th store remodel. TJX also continues to open new stores, with the goal of eventually having 6,100 stores globally. Conversely, Dollar Tree is closing 390 Family Dollar stores in 2019, and converting approximately 200 more to the Dollar Tree banner.
- Tariffs:** Within this sector, several companies have updated financial expectations for the balance of 2019 due to tariffs. Some dollar stores have tested slightly higher price points, while others have cancelled some orders, modified specifications to reduce costs, or evolved product mixes to offset tariffs. Target has stated that it will not increase prices to consumers, nor accept higher prices from vendors. As tariff implications are so widespread, some discount players could actually benefit if consumers trade down to these retailers.
- Product mix:** Some dollar stores and mass merchants have revamped product mixes to drive sales, expanding into categories such as home furnishings, kitchenware, and party supplies.
- Partnerships:** Retailers in this sector continue to enter into partnerships and collaborations to increase sales and customer traffic. Examples include Kohl's partnering with Amazon and WW (rebranded Weight Watchers), as well as Target partnering with brands such as Casper, BarkBox, and Disney, among others.

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	2.0%	5.0%	6.0%	7.0%
Ross Stores	3.0%	2.0%	4.0%	3.0%
Burlington Stores	3.8%	0.1%	1.3%	4.4%
Saks Off 5th	3.4%	4.4%	(2.1%)	(2.3%)
Nordstrom Rack	(1.9%)	(0.6%)	4.0%	5.8%
Stein Mart	(3.6%)	(1.7%)	(3.5%)	1.4%
Walmart U.S.	2.8%	3.4%	4.2%	3.4%
Target	3.4%	4.8%	2.9%	3.2%
Costco U.S.	5.2%	5.5%	7.2%	8.3%
Dollar Tree	2.4%	2.5%	3.2%	2.3%
Dollar General	4.0%	3.8%	4.0%	2.8%

*Note(s): The most recent quarter reported for Costco ended September 1, 2019 and excludes fuel; Walmart ended July 26, 2019; Dollar General ended August 2, 2019; all other companies ended August 3, 2019; Walmart excludes Sam's Club and fuel; Dollar Tree excludes Family Dollar.



Footwear

KEY INDUSTRY DRIVERS

- **Omni-channel:** Footwear companies have been expanding omni-channel capabilities. Examples include companies like Nike and adidas selling directly to consumers both in stores and online, creating a higher level of competition for traditional footwear retailers. There has also been a push toward enhanced customer engagement via digital platforms. Retailers also continue to add options to buy online and pick up in the store, and Steve Madden acquired a direct-to-consumer sneaker upstart, Greats.
- **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, though moving production takes planning and time. Companies have also been negotiating with vendors or passing on part of the increase to customers. Some companies have noted that thus far, tariffs have been partially negated as exchange rates become more favorable due to the economic climate.
- **Style trends:** Footwear sales are heavily reliant on fashion trends and consumer preferences. Sport leisure styles, such as casual sneakers, are set to surpass fashion styles, such as boots and sandals, for the first time in 2019. Performance footwear sales have been trending down. There has also been a push for personalization in footwear, such as smart and customized footwear.
- **Customer focus:** Major footwear companies have been focused on customers. Nike made updates to its NikePlus platform, with special benefits for members and app

TREND TRACKER

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

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Designer Brands (formerly DSW)	(0.6%)	3.0%	5.4%	7.3%
Johnston & Murphy	1.0%	0.0%	4.0%	10.0%
Foot Locker	0.8%	4.6%	9.7%	2.9%
Crocs (Americas)	19.1%	17.6%	12.4%	13.4%
Famous Footwear	1.5%	(1.0%)	1.1%	2.8%
Journeys	4.0%	7.0%	7.0%	9.0%
Skechers U.S.	6.8%	4.2%	0.2%	0.4%
Steve Madden	5.1%	6.2%	6.3%	4.0%
Deckers	7.2%	16.2%	(0.5%)	1.4%

*Note(s): The most recent quarter for Skechers, Steve Madden, Crocs, and Deckers ended September 30, 2019; all other companies ended August 3, 2019. Some companies report retail results including e-commerce sales.

users. Reebok launched Unlocked, its first loyalty program. Customers can accrue points by buying and reviewing items. Famous Footwear revamped its loyalty program, and Foot Locker is trying to revamp its image in an effort to better identify with its target customers.

Consumer Electronics

KEY INDUSTRY DRIVERS

- Industry stagnation:** The consumer electronics industry has not seen any dramatic innovations or major changes in recent years. 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 has skyrocketed, placing the Internet of Things and smart home integration at the forefront of the industry.
- Cell phones:** The newest models of cell phones continue to feature steep price tags. In September 2019, Apple unveiled the iPhone 11 (\$699), the 11 Pro (\$999), and the 11 Pro Max (\$1,099). With the previous release of the X models, Apple seemed to reach the peak of price elasticity, and has taken a slight step back in price. The new phones do not look drastically different than prior models but feature better cameras and have a more powerful processor. These newest models also do not support 5G. Samsung released the Galaxy S10 and Galaxy Note 10 in 2019, which have been well-received. These devices have 5G capabilities and other attractive features.
- Service providers/5G:** Top carriers continue to vie for customers. The Sprint/T-Mobile merger was approved by the FCC in May 2019 but is still delayed and opposed by the attorneys general of several states. 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. A topic of conversation continues to be 5G and its availability. Huawei, a Chinese company that manufactures telecommunications equipment and consumer electronics such as smartphones, is the world's largest manufacturer of network infrastructure equipment. The company is also able to produce 5G wireless infrastructure, and the U.S. has alleged that its 5G equipment could be used for spying

TREND TRACKER

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

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Best Buy	1.9%	1.3%	3.0%	4.3%
Conn's	(2.1%)	(8.1%)	(1.4%)	(4.2%)

*Note(s): The most recent quarter for Best Buy ended August 3, 2019 and represents domestic sales, excluding installment billing; Conn's ended July 31, 2019 and represents product sales only.

because of Huawei's ties to the Chinese government. The U.S. has urged allies in Europe to avoid using Huawei for 5G equipment.

- Health and wellness:** For the past few years, wearable technology has been increasing in popularity. Aside from offering the convenience of allowing users to check texts right from their wrists, these wearables double as health and fitness devices with the ability to track exercise, monitor heart rates, and track sleep, among other features. In September 2019, Apple released the Apple Watch Series 5. In addition, Peloton, an indoor cycling company that provides studio quality exercise bikes for use within the home, recently went public, and despite trending below its IPO price, the fitness brand has gained popularity in the past year.

Sporting Goods

KEY INDUSTRY DRIVERS

- Sales channels:** Sporting goods retailers continue to rationalize store bases, as many consolidate to reduce operational costs; however, some are expanding. Competition remains strong from online players, particularly Amazon, as well as mass merchants. There is also competition from key brands that have historically relied on retailers to market their products, opting instead to go direct-to-consumers via their own stores and websites. Sporting goods retailers continue to incorporate omni-channel platforms into their business. Retailers have been working to drive customer traffic through in-store experiences and concepts, such as workshops, fitness classes, high-tech simulators, and driving ranges.
- Firearms and ammunition:** Overall, the firearms and ammunition industry has experienced sales fluctuations in recent years, with sales surging leading up to the 2016 Presidential election, with sales then declining in 2017 and 2018. In 2019, sales have stabilized, and gains have been driven by government spending, while manufacturers and retailers that cater directly to consumers have been experiencing declines. Going forward, there is some pending legislation that could impact the industry. Examples include the Bipartisan Background Checks Act of 2019, which would require a background check on the purchase of nearly all firearms, and the Enhanced Background Checks Act, which would extend the initial background check review period to 10 days from three currently, among other proposals by House Democrats. Major retailers continue to take a stand against firearms, such as Walmart not selling certain types of ammunition, Dick's not selling firearms to anyone under 21, and retailers, such as CVS, Publix, Walgreens, and Kroger, no longer allowing open-carry.
- Tariffs:** The sporting goods sector was impacted by one of the early rounds of tariffs on Chinese imports; affected

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	3.2%	0.0%	(2.2%)	(3.9%)
Hibbett	0.3%	5.1%	3.8%	0.1%
Big 5	0.3%	0.7%	4.6%	1.1%
Sportsman's Warehouse	1.7%	(5.7%)	3.1%	(0.5%)

*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 September 29, 2019; all other companies ended August 3, 2019.

products include sports bags; gloves for baseball, softball, hockey, and skiing; apparel; vessels and rafts; headgear and hats; and other items. Many companies have moved production to other countries.








- Products:** Athleisure continues to be an industry driver for retailers. This particularly benefits high-end brands such as Lululemon. Brands continue to promote sustainable or purpose-driven values, while retailers focus on private label and exclusive products.
- Participation:** Sports participation in certain high school sports has recently seen declines, such as in football and basketball, sometimes due to concerns over injuries.

Pharmacy and Drug Stores

KEY INDUSTRY DRIVERS

- Consolidation:** In late 2018, Shopko sold 42 script files to Kroger and 22 script files to Hy-Vee. Shopko filed for bankruptcy in January 2019 and commenced liquidating all of its stores. As part of the closure, Walgreens acquired 63 pharmacies, CVS acquired 13, Albertsons acquired seven, and Rite Aid acquired 10, with the balance sold to a mix of other companies. In August 2019, Walgreens announced plans to close 200 stores. Fred's announced 158 store closures in June/July 2019 only to eventually file for bankruptcy in September 2019. It then commenced liquidating its 80 remaining stores. In mid-September, Walgreens paid Fred's \$9.4 million for nearly all of Fred's pharmacy assets including script files and pharmacy inventory. In a separate deal, ExpressRx paid \$7 million for script files, inventory, and other assets such as furniture and fixtures. ExpressRx will take over the leases of four Fred's pharmacies.
- Reimbursement rates and DIR fees:** All major players have been reporting continued pressure on reimbursement rates from payors as well as increases in DIR fees, which have squeezed gross margin. DIR fees represent post-sale compensation paid to PBMs and Medicare Part D plan sponsors that are often pay-for-performance fees based on the pharmacy meeting certain criteria. Pharmacies have long complained about the lack of transparency associated with these fees. According to CMS, DIR fees have increased 45,000% since 2010.
- CBD products:** Many drug stores and pharmacies are now offering cannabidiol ("CBD") products. CBD is derived directly from the hemp plant, which is a cousin of the marijuana plant. The 2018 Farm Bill legalized the production and sale of hemp and its extracts. Hemp, by federal law, cannot contain more than 0.3% THC. Any product with a higher level of THC is classified as marijuana and is considered a schedule 1 drug by the Drug Enforcement Administration. CBD is legal at

TREND TRACKER

	Pharmacy	Front-End
NOLVs	Consistent Decreasing 	Consistent 
Sales Trends	Mixed 	Mixed 
Gross Margin	Mixed 	Mixed 
Scripts	Consistent 	

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Walgreens				
Pharmacy	5.4%	6.0%	1.9%	2.8%
Front-End	(1.2%)	(1.1%)	(3.8%)	(3.2%)
Total	N/A	N/A	N/A	N/A
CVS				
Pharmacy	4.7%	4.9%	7.4%	8.7%
Front-End	2.9%	0.4%	0.5%	0.8%
Total	4.2%	3.8%	5.7%	6.7%
Rite Aid				
Pharmacy	1.5%	2.3%	2.1%	3.1%
Front-End	(1.8%)	(0.3%)	(1.9%)	(1.5%)
Total	0.4%	1.4%	0.7%	1.6%

*Note(s): The most recent quarter for Walgreens ended August 31, 2019; CVS ended June 30, 2019; and Rite Aid ended August 31, 2019.

the federal level, but each state can impose its own restrictions. Currently, there are no special licensing requirements to sell CBD products and there are no discounting restrictions.

Office Supplies

KEY INDUSTRY DRIVERS

- Acquisition activity:** Staples acquired office supply distributor Essendant in January 2019. There is some concern this could have undesirable implications for smaller players. Specifically, many purchase a significant amount of their inventory from Essendant, and Essendant has detailed knowledge about their supply chain, pricing, and operations, information that could theoretically be shared with Staples. The FTC has imposed strict firewall requirements between Essendant and Staples to prevent this from occurring, but many companies remain skeptical of its enforceability, and there is a risk they could transition their business to other providers, such as S.P. Richards. The fate of S.P. Richards also remains in flux. S.P. Richards is owned by Genuine Parts and in 2018, prior to Staples acquiring Essendant, Genuine Parts announced plans to spin off S.P. Richards and merge the business with Essendant. However, Essendant terminated the agreement to move forward with the Staples deal.

- Retail versus contract:** Both Staples and Office Depot/OfficeMax continue to close stores and downsize their store footprints. However, the pace of this has slowed compared to prior years. Office Depot/OfficeMax indicated it planned to close 50 stores by the end of 2019. To boost traffic to the stores, retailers have been adding co-working spaces, technology discovery zones, pen bars, and other interactive components. For example, in late 2018 Staples unveiled a new store concept in Canada that it plans to roll out to additional stores.

Office supplies sold through contract or commercial divisions have fared better, and top players have been focusing more of their efforts on this channel. Although total revenue continues to be impacted by waning demand for paper and print products, the improving economy and upward trajectory of corporate profits has enabled businesses to spend more money on office equipment.

TREND TRACKER

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

COMPARABLE SALES TRENDS

		Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Office Depot	N.A. Retail	(4.0%)	(4.0%)	(5.0%)	(5.0%)
	N.A. Business Solutions	2.0%	1.0%	3.0%	6.0%

*Note(s): The most recent quarter for Office Depot ended June 29, 2019.

Moreover, lower unemployment rates means there are more people working in offices who require basic office products.

- Shifting focus:** Companies continue to shift away from traditional paper-related goods like ink and toner, while expanding categories like break room and janitorial supplies. Industry players are also focused on their service offerings, such as tech support, web design, packaging/shipping, and cloud storage, as a way to offset declines in other areas and forge stronger relationships with their customers.

Arts and Crafts

KEY INDUSTRY DRIVERS

- Product offerings:** Several arts and crafts retailers have increased product offerings to drive customer traffic and increase sales. For example, seasonal goods continue to gain shelf space at many retailers, despite Jo-Ann Stores pulling back on this category. Other key categories include toys and children’s products. Overall, however, the industry has faced a lack of explosive product trends. Companies have been working to create more prominent product displays and arranging stores to make them easier to shop.
- Tariffs:** Similar to other industries, many arts and crafts companies have been taking measures to combat newly imposed and impending tariffs. Some retailers have increased prices on top-selling items, while other retailers have been working with vendors to negotiate lower prices. Some retailers have found that despite the price increases resulting from tariffs, it is still less expensive to source product from China than domestically.
- Channels:** The arts and crafts industry’s major players have been embracing new channels. A.C. Moore has launched a marketplace for handmade goods. Michaels continues to focus on omni-channel capabilities, including offering options to buy online and pick up in store. Additionally, Michaels’ mobile app allows customers to look up items and locate them within stores; the app also allows customers to manage coupons.
- New store openings:** Major retailers in the arts and crafts sector have been expanding their store bases. Michaels is planning to open 20 new stores, including rebranding and reopening up to 12 former Pat Catan’s stores.

TREND TRACKER

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

COMPARABLE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Michaels	0.3%	(2.9%)	(0.4%)	3.8%
Etsy	36.8%	40.1%	46.8%	41.3%

*Note(s): The most recent quarter for Michaels ended August 3, 2019 and represents comparable store sales; the most recent quarter for Etsy ended June 30, 2019 and represents comparable revenue.

- Competition:** Brick-and-mortar arts and crafts retailers face competition from online players, as well as from mass merchants. In addition, the industry has seen some companies arise that offer more of a subscription model, with new crafts sent to subscribers on an ongoing basis.
- 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.

Pet Supplies

KEY INDUSTRY DRIVERS

- **Pet spending:** According to a report from the American Pet Products Association (“APPA”), in 2018, spending on pets by Americans exceeded \$72 billion, compared to \$69.5 billion in 2017, or an approximate 4% increase. APPA data indicates that spending on pets has gradually increased over the majority of the past 10 years, and is anticipated to increase in 2019. Pets are very often viewed as members of the family, and owners are increasingly willing to spend money to keep pets healthy and happy.

Pet food continues to represent the category of the highest expenditures, followed by vet care. Spending on pet food increased over 4.0% in 2018 versus the prior year, and is forecast to increase an additional 4.5% in 2019, according to Supermarket News. In general, the pet supplies and pet food industry has benefited in recent years as pet ownership has been on the rise. The APPA’s 2019-2020 National Pet Owners survey found that 67% of households in the U.S., or upwards of 84.9 million homes, had a pet. Out of the 84.9 million households that own a pet, approximately 63.4 million, 42.7 million, and 11.5 million own a dog, cat, or freshwater fish, respectively.

- **Competition:** PetSmart and Petco are big-box pet supplies retailers with over 1,000 store locations. These large players face competition from a number of places, including smaller, local pet stores, as well as mass merchants Walmart and Target. These retailers offer a variety of pet food, treats, toys, and other supplies. There are also subscription offerings for pet products, such as BarkBox. Target has been in a partnership with BarkBox for the past couple of years, offering BarkBox products in its stores.

TREND TRACKER

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

Furthermore, Supermarket News recently reported that total e-commerce sales of pet products equate to upwards of \$4.5 billion and have been growing significantly. Amazon in particular was said to have sold more than \$1 billion of pet food in 2018, according to data from Edge by Ascential. The industry faces competition from the off-price sector as well, with retailers such as TJX and Tuesday Morning increasing offerings of pet products at discounted prices.

- **Services:** Recognizing that steep competition remains from various sources, many pet supplies retailers have worked to offer a variety of services in stores to attract customer traffic. Examples include in-store grooming and veterinary services, as well as pet prescription businesses. Some stores also offer pet training classes, doggie daycare, and pet boarding. Some also partner with local shelters and rescue groups to offer in-store adoption events.

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	Z Gallerie	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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