

## INDUSTRY OVERVIEW

In the past few years, the book industry has been characterized by surging e-book sales and plummeting physical books sales, particularly within adult fiction. However, the growth pace of e-books has slowed, showing that physical books and bookstores are still relevant, at least for the foreseeable future. Retailers continue to tightly manage book inventory and expand non-book departments like toys and games. Stores are also stepping up in-store events, particularly those geared toward children, in order to drive traffic.



## TREND TRACKER

Three month NOLVs	Consistent
Sales Trends	Decreasing ↓
Gross Margin	Consistent
Discounting	Consistent

**NOLVs:** NOLVs have been flat for most companies, with NOLVs for certain textbook publishers increasing up to 2.0 percentage points.

**Sales Trends:** Sales of physical books have been down due to tough comparisons to the prior year; however, declines were less severe in the fourth quarter. College textbook sales have also experienced declines, as rentals grow in popularity, while wholesale K-12 sales have started to rebound.

**Gross Margin:** Gross margin has been flat to slightly up for most companies.

**Discounting:** Discounting has remained relatively consistent.

## KEY INDUSTRY DRIVERS

- **Blockbuster books:** In 2012, both physical and e-book sales were driven by key blockbuster books including *50 Shades of Grey* and *Hunger Games*. The *Hunger Games* series was a particular boon for physical books. In 2013, there were no significant hot titles, which resulted in a decline in sales.
- **E-books and e-readers:** Although e-book sales continue to grow, the pace has cooled, making it unclear what the ultimate impact the transition to digital will have on remaining bookstores. Unlike music, consumers are not yet ready to completely give up hard copies in favor of digital. E-readers remain popular, but there has been a shift away from these one dimensional devices in favor of multi-function tablets. Amazon's Kindle Paperwhite continues to lose sales to the Kindle Fire devices, and Barnes and Noble has reported significant declines in sales of its NOOK devices.
- **Retail trends:** The industry's primary brick-and-mortar player, Barnes & Noble, has reported falling book sales at its stores, but has managed to turn a profit by focusing on expense reduction and margin. However, its NOOK subsidiary continues to lose money and it has made the strategic decision to exit the tablet business. The company has toyed with the idea of separating its retail and NOOK businesses, but has yet to make any moves. However, in February, a private investment firm offered to acquire a majority interest in the company, which could result in a separation if the offer is accepted.
- **Textbook trends:** In the higher education segment, textbook rentals continue to take sales away from new and used textbooks. Rental companies and most college bookstores continue to expand their rental business. The K-12 market, which had been struggling as states slashed school funding, began improving in 2013 and is poised for growth in 2014 and 2015. Pent up demand, coupled with new common core requirements, should translate to increased sales going forward. Conversely, e-textbooks and digital learning solutions have not gained much ground in either segment. In the K-12 arena in particular, digital options are cost prohibitive due to the lack of technology infrastructure within most schools.

## SALES TRENDS

The following table illustrates comparable store sales trends for major public book retailers (Represents the most recent fiscal quarter sales reported):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Barnes & Noble <sup>1</sup>	(0.5%)	(3.7%)	(7.2%)	(5.8%)
Books-A-Million	N/A	(8.5%)	(12.0%)	(6.8%)

*Note(s): Represents core comparable bookstore sales and excludes sales of NOOK products. The most recent quarter for Barnes & Noble ended January 25, 2014; Books-A-Million ended November 2, 2013.*

## OUTLOOK

Book retailers will continue to manage book inventory levels while also capitalizing on other categories, as well as use events to drive customer traffic. E-books will continue to grow, but at a slower pace, and retailers will refine their digital strategy to ensure profitability. This includes scaling back their focus on dedicated e-readers and looking for ways to sell physical books alongside e-books.

# Experience

GA is one of the largest liquidators of retail inventory and has been involved in a variety of liquidations, ranging from the disposition of excess inventory and the closing of underperforming stores, to full-scale liquidations of national retailers with hundreds of stores. GA has experience with full and partial liquidations of companies throughout a variety of retail sectors, some of which are detailed below:

Borders	Linens 'N Things	Circuit City	Tower Records
Movie Gallery	Fashion Bug	Mervyns	Payless Shoe Source
Jo-Ann Fabrics	Fortunoff	Whitehall Jewelers	A&P
Ritz Camera	Boot Town	Eddie Bauer	Macy's

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:

- Leading book retailers, including one with over 700 store locations and sales of upwards of \$4.5 billion.
- Two of the top textbook publishers within the K-12 segment, brick-and-mortar retailers of college textbooks, online renters and retailers of college textbooks, and textbook distributors.
- Several e-commerce and multi-channel retailers, as well as flash sale websites and auction websites. In particular, GA has appraised 71 of the top 500 e-commerce companies as reported by *Internet Retailer*.
- Numerous retailers of apparel and accessories, including major department store retailers and a variety of specialty retailers that are found in malls throughout the country.
- Leading off-price retailers of apparel and accessories, including major national and regional chains.
- 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.
- Major national and regional discount and dollar stores, including one of the country's largest chains, with over 10,000 stores.
- Sporting goods retailers that specialize in a number of products, including those for outdoor sports, recreational ball sports, hunting, camping, and fishing, and a variety of other equipment for outdoor enthusiasts.
- Major regional grocery store chains including one with a store base of close to 400 and net sales of nearly \$8.0 billion, as well as smaller local grocery store retailers and pharmacies.

**In addition to our internal personnel, GA maintains contacts within the retail industry that we utilize for insight and perspective on recovery values.**

# Appraisal & Valuation Team

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## About Great American Group

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. GA also offers the *UK Retail Monitor* via its subsidiary, GA Europe Valuations Limited.

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