

INDUSTRY OVERVIEW

E-commerce continues to grow as a percentage of total retail sales, and companies in all sectors have been recognizing the importance of multi-channel retailing. Companies continue to evolve their e-commerce presence, trying to figure out how best to capture consumers' attention and drive sales. Recently, companies in a variety of sectors, from department stores to pet supply retailers, have been aiming to expand their e-commerce channels through acquiring smaller, established e-commerce business models, including personalized shopping operations, daily deal websites, and other operations. Mobile shopping via cell phones and tablets is also popular, and many retailers are marketing to customers via this channel.



TREND TRACKER

Three month NOLVs	Increasing ↑
Sales Trends	Mixed ⇅
Gross Margin	Decreasing ↓
Discounting	Increasing ↑

NOLVs: NOLVs have generally been increasing, by up to 3.0 percentage points. However, some multi-channel companies with declining sales have experienced declines in recovery values.

Sales Trends: Overall, e-commerce sales trends have been increasing, particularly in the direct segment of multi-channel retailers, driven by a continued focus on omni-channel efforts.

Gross Margin: Many companies have experienced declines in gross margin, as the industry is highly competitive and companies have tested different pricing strategies.

Discounting: Discounting continues to be an important tool to drive sales based on a competitive marketplace, as are free shipping promotions either during certain timeframes, or when customers reach a certain pricing threshold. Retailers have also been using websites to sell through aged or slow-moving inventory.

KEY INDUSTRY DRIVERS

- **Marketplace sales:** Marketplace sales, whereby a company will offer a product on its website, which will be fulfilled by another company, continue to expand. This tactic allows retailers to generate increased sales by offering a wider variety of merchandise, while avoiding the risk associated with a higher inventory position. Some wholesalers of consumer products have also taken the reverse tactic, by either offering their product for sale on Amazon's marketplace and fulfilling from their warehouses, or becoming involved with Amazon's Fulfillment by Amazon ("FBA") program. The FBA program allows companies to store product within Amazon's facilities, and once sold, Amazon ships it to customers. Products may be sold via Amazon.com. The FBA program allows companies' inventory to be eligible for Prime free-two day shipping for Amazon's Prime members.
- **Pricing:** Given the high level of competition online, many companies have been testing different pricing strategies in order to drive sales. Some websites change prices throughout the day on certain items, offering limited-time sales events, while others offer different pricing online than they do in the stores, in order to avoid too much margin erosion.
- **Leverage brick-and-mortar:** Many retailers have been working to leverage multi-channel business models, offering customers the convenience of ordering online, and then picking up the order at a store location. This tactic is highly popular in the supermarket industry, but recently, other major retailers, including Target and Macy's, have been promoting this option. This could prove popular during the holiday season, particularly as the shipping window shrinks, and orders placed online may not arrive in time, unless the customer pays for expedited shipping. In addition, many retailers have the ability to fulfill online orders from distribution centers as well as store inventory, or allowing customers to return purchases made online to store locations.

SALES TRENDS

The following table illustrates e-commerce sales as a percentage of total retail sales, as well as the year-over-year change in e-commerce sales dollars, as reported by The U.S. Commerce Department:

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
% of Retail Sales	6.4%	6.2%	6.0%	5.9%
Change Year Over Year	15.7%	15.5%	115.7%	17.6%

Source: www.census.gov/retail. Results are revised estimates, as outlined in the most recent press release for the second quarter of 2014.

OUTLOOK

During the holiday season, e-commerce is expected to be an extremely popular method of purchasing. In the coming years, e-commerce is expected to continue to grow as a percentage of retail sales, with some estimating that within the next three to four years, it could represent over 10% of U.S. retail sales.

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:

Lillian Vernon	Linens 'N Things	Circuit City	Tower Records
Bakers	Fashion Bug	Mervyns	Payless Shoe Source
Fortunoff	Borders	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:

- Several e-commerce and multi-channel retailers, as well as flash sale websites and auction websites. In particular, GA has appraised 73 of the top 500 e-commerce companies as reported by *Internet Retailer*.
- Direct marketers and multi-channel retailers in a variety of industries.
- 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.
- Leading book retailers, including one with over 700 store locations and sales of upwards of \$4.5 billion.
- Sporting goods retailers that specialize in a number of products, including those for outdoor sports, recreational ball sports, hunting, camping, and fishing, and a variety of other equipment for outdoor enthusiasts.
- Major regional grocery store chains including one with a store base of close to 400 and net sales of nearly \$8.0 billion, as well as smaller local grocery store retailers and pharmacies.

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

Appraisal & Valuation Team

BUSINESS DEVELOPMENT



Mike Marchlik
National Sales & Marketing Director
mmarchlik@greatamerican.com
(818) 746-9306



Ryan Mulcunry
Executive Vice President - Northeast Region, Canada & Europe
rmulcunry@greatamerican.com
(617) 692-8310



David Seiden
Executive Vice President, Southeast Region
dseiden@greatamerican.com
(770) 551-8114



Bill Soncini
Senior Vice President, Midwest Region
bsoncini@greatamerican.com
(312) 777-7945



Daniel J. Williams
Managing Director, New York Region
dwilliams@greatamerican.com
(646) 381-9221



Drew Jakubek
Managing Director, Southwest Region
djakubek@greatamerican.com
(972) 996-5632



Jennie Kim
Vice President, Western Region
jkim@greatamerican.com
(818) 746-9370



Gordon Tittle
Director of Valuations, GA Europe Valuations Limited
gtittle@gaeurope.co.uk
+44 (0) 20 7318-0574

OPERATIONS

John Bankert
President
jbankert@greatamerican.com
(781) 429-4054

David Triompo
Managing Director, Consumer Products
dtriompo@greatamerican.com
(781) 429-4067

Tracy Foohey
Associate Director
tfoohey@greatamerican.com
(781) 429-4059

Matthew Gins
Project Manager
mgins@greatamerican.com
(818) 746-9386

Nicole Hines
Project Manager
nhines@greatamerican.com
(781) 429-4072

Robert Vaughn
Associate Project Manager
rvaughn@greatamerican.com
(818) 746-9351

Kipp Visi
Associate Project Manager
kvisi@greatamerican.com
(312) 777-7957

Louise Shimazu
Associate Project Manager
lshimazu@greatamerican.com
(818) 746-9339

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.

Headquarters

21860 Burbank Blvd. Suite 300 South
Woodland Hills, CA 91367

800-45-GREAT

www.greatamerican.com