

Footwear

INDUSTRY OVERVIEW

Many major, public footwear retailers reported positive comparable store sales throughout much of 2013. Athletic shoes and western footwear continue to perform well in the industry, and the arctic winter weather experienced in many parts of the country benefited outdoor boots during the winter months and holiday season. Comfort footwear has been in strong demand in recent months, particularly among the Baby Boomer generation, who seek stylish, yet easy-to-wear footwear. Within the teen and casual footwear sector, results have been more mixed, with some retailers struggling to capture consumers' dollars during the pivotal holiday season.



TREND TRACKER

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

NOLVs: NOLVs have generally been increasing up 1.5 percentage points, driven by strong sales and margin results.

Sales Trends: Sales trends within the industry have remained relatively consistent for some companies, and increased for others. Performance has varied by category, with comfort, athletic, and western footwear performing well.

Gross Margin and Discounting: Some companies have been able to reduce discounting to the benefit of margin, while others have had to utilize discounts to drive sales, adversely impacting gross margin.

KEY INDUSTRY DRIVERS

- **Spring and summer footwear:** Post-holiday, footwear retailers shifted focus away from winter boots and shoes, and merchandised stores with fresh, warmer-weather footwear. Sandals are heavily prevalent in many footwear retailers' shelves, with major trends including wedges, and more natural colors such as beige and brown. There has also been a resurgence in thicker, chunkier heels, at a more moderate height of one-to-two inches.
- **Athletic footwear:** As consumers continue to strive to live healthier lifestyles, athletic footwear has been an area of growth within the footwear industry. Brightly colored sneakers, while not a new trend, continue to be present on sales floors, particularly for running and basketball sneakers. Lightweight sneakers continue to be marketed within this sector as well. Sales have also been driven by footwear technology designed to improve performance.
- **Omni-channel growth:** E-commerce continues to grow as a percentage of total retail sales, but within the footwear sector, the transition toward online shopping has been less prevalent than in other sectors. Fit is a priority for many consumers, who prefer to try on shoes before purchasing. Regardless, major players in the industry continue to strengthen mobile platforms and expand e-commerce to drive sales in an effort to compete with online retailers such as Zappos.com, which has grown in popularity over the past few years. Other companies have used the e-commerce platform as a way to promote customization, which has been touted by companies such as Nike. For certain sneakers, Nike will allow customers to select a certain style and customize the color and other elements, to drive sales through uniqueness. This also drives up the price points.

SALES TRENDS

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

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
DSW	0.0%	(0.7%)	4.4%	(2.4%)
Johnston & Murphy	11.0%	7.0%	7.0%	7.0%
Foot Locker	5.3%	4.1%	1.8%	5.2%
Famous Footwear	(1.8%)	4.9%	6.8%	1.1%
Journeys	0.0%	(2.0%)	(1.0%)	(2.0%)

Note(s): The most recent quarter for all companies listed above ended February 1, 2014.

OUTLOOK

Going forward into the spring and summer months, footwear sales will be driven by winter-weary consumers seeking out strappy sandals and other summer footwear as warmer weather approaches.

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:

Payless Shoe Source	Linens 'N Things	Circuit City	Tower Records
Bakers Footwear Group	Fashion Bug	Mervyns	Movie Gallery
Jo-Ann Fabrics	Borders	Whitehall Jewelers	Fortunoff
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 footwear retailers in the industry, including retailers of high style, casual, and athletic footwear. GA has also participated in the liquidation of over 100 Payless Shoe Source stores and 56 Bakers Footwear Group stores.
- 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.
- 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*.
- 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.
- 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.

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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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