

Footwear

INDUSTRY OVERVIEW

Following unseasonably cold winter weather that lasted into the spring months, which benefited some and resulted in weaker results for others, many major, public footwear retailers have most recently reported positive comparable store sales. Results vary by category, but during the summer and beginning of the back-to-school season, many reported strong sales of basketball sneakers, casual canvas footwear, and contemporary fashion footwear. In addition, higher-end men's footwear, including designer sneakers, have been gaining traction in 2014. Retailers that have been well-inventoried in popular brands, such as Converse, Toms, UGGs, and Vans, performed well during the back-to-school season.



TREND TRACKER

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

NOLVs: NOLVs have generally been increasing by up to 1.0 percentage points due to increases in sales and margin. However, some companies experienced decreases of 1.5 percentage points or more, due to declines in gross margin.

Sales Trends: Sales trends within the industry have generally increased; however, some companies have experienced declines. Performance has varied by category.

Gross Margin and Discounting: Many companies have had to increase discounting to drive sales; however, some have managed to offset margin erosion through the sale of higher-margin products, higher average prices, and an increase in sales through e-commerce versus lower-margin channels.

KEY INDUSTRY DRIVERS

- **Store-within-a-store:** In order to increase brand awareness and capitalize on sales, some footwear companies have been working to leverage store-within-a-store locations. Examples include Finish Line stores within Macy's, as well as "The a Standard" adidas section that has been introduced in select Foot Locker stores, which features the latest styles and performance footwear available from adidas.
- **Key categories:** Footwear retailers have been working to carry the most in-demand brands, categories, and footwear trends. Athletic footwear continues to be a hot category, and many retailers have been focusing on basketball and running footwear in particular. Sales have also been driven by footwear technology designed to improve performance. In addition, within the dress shoes category, suede has been a growing trend, as have shoes that rise to the ankle.
- **E-commerce:** Footwear retailers continue to develop an omni-channel presence. The transition toward online shopping has been less prevalent in footwear than in other sectors, as many consumers prefer to try on shoes before purchasing. As such, some retailers, like DSW, have been leveraging multi-channel capabilities, offering to order a size, color, or style of a shoe unavailable in a store for customers, and have it sent to their home through its e-commerce division. Major players in the industry continue to strengthen mobile platforms and expand e-commerce to compete with online retailers such as Zappos.com and Amazon.com.

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	0.8%	(3.7%)	0.0%	(0.7%)
Johnston & Murphy	2.0%	(1.0%)	11.0%	7.0%
Foot Locker	7.0%	7.6%	5.3%	4.1%
Finish Line	1.5%	5.0%	6.3%	7.1%
Famous Footwear	1.6%	1.3%	(1.8%)	4.9%
Journeys	5.0%	1.0%	0.0%	(2.0%)
Crocs (Americas)	(6.2%)	(5.0%)	(7.9%)	(8.3%)

Note(s): The most recent quarter for Foot Locker, DSW, Famous Footwear, Journeys, and Johnston & Murphy ended August 2, 2014; Finish Line ended August 30, 2014; Crocs ended June 30, 2014. Journeys and Johnston & Murphy include direct sales.

OUTLOOK

Going forward into the holiday season, sales results of products that are weather driven will be contingent upon Mother Nature's cooperation. Footwear retailers will continue to work to be in stock with in-demand styles, and will aim to grow sales via e-commerce channels.

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 73 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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