

Off-Price/Dollar Stores/Mass Merchants

INDUSTRY OVERVIEW

Within the off-price sector, TJX and Ross Stores continue to dominate. The smaller, regional players are all but extinct, with the likes of Loehmann's, Daffy's, and Filene's Basement unable to cope in the changing marketplace and shuttering their doors.

The mass merchants Wal-Mart and Target have faced challenges recently, driven by a weak consumer climate, severe winter weather, and in the case of Target in particular, shattered consumer confidence resulting from a data breach. These retailers employed several tactics during the holiday season to drive sales, including extended store hours and ongoing promotions, but results were still disappointing.



TREND TRACKER

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

NOLVs: NOLVs have increased between 0.5 and 3.0 percentage points, largely driven by expense savings.

Sales Trends: Comparable store sales have been more stable, with more companies exhibiting consistent to increasing sales trends; however, others continue to struggle.

Gross Margin and Discounting: Many companies have reported flat to slightly decreasing gross margin results. Some companies have worked to keep discounting levels consistent in order to preserve gross margin, while others have had to discount in light of weaker sales.

KEY INDUSTRY DRIVERS

- Market concentration:** Most of the smaller regional off-price chains have struggled to compete, as in the past few years retailers have been surgically managing inventory levels, reducing the opportunistic buys on which many of these smaller players had thrived. In the constricted buying arena, many were unable to compete with the buying power of TJX and Ross. As these smaller options have gone by the wayside, those remaining are left to capitalize on consumer demand for bargain apparel, accessories, and housewares. As such, major off-price retailers continue to expand their footprints, as have department stores with off-price banners.
- E-commerce:** Recognizing the growth potential of e-commerce, some of the major players, like TJX and Saks Off 5th, have delved into e-commerce, and have been working to find the right mix of product to offer online.
- Store formats:** The major discount giants, faced with sluggish sales recently, look for ways to evolve their business. Target and Wal-Mart have been touting small-format store concepts: TargetExpress and Wal-Mart Express, which cater to urban communities.
- Expansion:** Many of the major dollar store players have been continuing to grow their store bases. Some have also been expanding product lines to include items such as tobacco, wine, and beer, to increase sales and gain market share.

SALES TRENDS

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

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
TJX	3.0%	5.0%	4.0%	2.0%
Ross Stores	2.0%	2.0%	4.0%	3.0%
Stein Mart	3.1%	4.0%	6.4%	1.2%
Wal-Mart	(0.4%)	(0.3%)	(0.3%)	(1.4%)
Target	(2.5%)	0.9%	1.2%	(0.6%)
K-Mart	(5.1%)	(2.1%)	(2.1%)	(4.6%)
Costco	5.0%	4.0%	5.0%	7.0%
Dollar General	1.3%	4.4%	5.2%	2.6%
Family Dollar	N/A	(2.8%)	0.0%	2.9%
Dollar Tree	1.2%	3.1%	3.7%	2.1%

Note(s): The most recent quarter reported for TJX, Ross Stores, Stein Mart, Target, K-Mart, and Dollar Tree ended February 1, 2014; Wal-Mart and Dollar General ended January 31, 2014 and excludes fuel; Family Dollar ended November 30, 2013; Costco ended February 16, 2014 and excludes fuel.

OUTLOOK

Going forward, off-price retailers will continue to benefit from consumers seeking out affordable fashion. Discount and dollar stores will reduce expenses where possible, such as by cutting overhead, to streamline operations and improve profitability.

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:

Fashion Bug	Linens 'N Things	Circuit City	Tower Records
Mervyns	Movie Gallery	Fortunoff	Payless Shoe Source
Jo-Ann Fabrics	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:

- 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. Recently, GA performed an appraisal for a well-known retailer of children's apparel and accessories, with nearly 1,000 stores nationwide.
- 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 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.
- 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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