

# Off-Price/Dollar Stores/Mass Merchants

## INDUSTRY OVERVIEW

Dollar stores and off-price retailers, particularly the larger players like Dollar General, TJX, and Ross Stores, continue to perform well as consumers remain frugal. These stores were popular destinations during the back-to-school season. Within the off-price sector in particular, many customers continue to choose off-price retailers over department store and specialty retailers, as they seek trend-right product at bargain prices. Conversely, Wal-Mart and Target have faced challenges recently. These retailers cater to low and middle-income consumers, who are more affected by economic factors. These retailers were hopeful for stronger results in the back-to-school season, which got out to somewhat of a slow start and was met with a highly promotional, competitive environment.



## TREND TRACKER

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

**NOLVs:** NOLVs have remained consistent or increased up to 1.5 percentage points due to reduced expenses and better inventory management.

**Sales Trends:** Comparable store sales have been more stable, with many companies exhibiting consistent to increasing sales trends.

**Gross Margin and Discounting:** Gross margin has either remained consistent, or has declined slightly due to the merchandise mix. Margin for some companies has also been impacted by increased discounting and promotional activity. Some retailers have tried to reduce promotions, while others have had to increase discounts to remain competitive, drive sales, or sell through slower-moving goods.

## KEY INDUSTRY DRIVERS

- **Dollar store market concentration:** The biggest news within the dollar store sector has been the potential for merger and acquisition activity, as Dollar Tree and Dollar General vie over the acquisition of Family Dollar. In mid-2014, Dollar Tree agreed to merge with Family Dollar; however, Dollar General has placed aggressive bids for Family Dollar, even taking the offer directly to shareholders, as Family Dollar has been unwilling to accept Dollar General's offer, citing concern over the ability to pass anti-competitive regulations from the FTC.
- **Store formats:** Wal-Mart and Target, which have experienced weaker sales results in recent quarters, have been working to evolve. Both have been focused on small-format store concepts.
- **E-commerce:** E-commerce has been a point of expansion within the off-price sector. TJX continues to grow and expand the products offered on the website it launched a year ago. In addition, some department stores have also begun to create an e-commerce presence for their off-price counterparts.
- **Canadian expansion:** Some retailers within this sector, such as Wal-Mart and Dollar Tree, have experienced positive results via their Canadian presence. On the other hand, Target's foray into Canada has been disappointing, largely due to merchandising and pricing issues.

## 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%	1.0%	3.0%	5.0%
Ross Stores	2.0%	1.0%	2.0%	2.0%
Stein Mart	1.3%	2.6%	3.1%	4.8%
Wal-Mart	0.0%	(0.2%)	(0.4%)	(0.1%)
Target	0.0%	(0.3%)	(2.5%)	0.9%
K-Mart	(1.7%)	(2.2%)	(5.1%)	(2.1%)
Costco	6.0%	6.0%	5.0%	4.0%
Dollar General	2.1%	1.5%	1.3%	4.4%
Family Dollar	0.3%	(1.8%)	(3.8%)	(2.8%)
Dollar Tree	4.5%	2.0%	1.2%	3.1%

*Note(s): The most recent quarter reported for TJX, Ross Stores, Stein Mart, Target, K-Mart, and Dollar Tree ended August 2, 2014; Wal-Mart ended July 31, 2014 and excludes fuel; Dollar General ended August 1, 2014; Family Dollar ended August 30, 2014; Costco ended August 31, 2014 and excludes fuel.*

## OUTLOOK

Going forward into the holiday season, off-price retailers are expected to continue to perform well. Those with a strong e-commerce presence in particular will likely reap the rewards, as e-commerce spending during the holiday season is expected to rise.

## 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 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 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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