

Office Supplies

INDUSTRY OVERVIEW

The office supplies industry continues to face macro challenges from a general decline in purchases of core products, namely paper, as offices become more digitized and less reliant on paper printouts. In addition, major players face continued competition from mass merchants, club warehouses, and online retailers that offer similar products for less. As such, many companies have revamped their product offerings to offset sales declines.



TREND TRACKER

Three month NOLVs	Mixed ↕
Sales Trends	Decreasing ↓
Gross Margin	Mixed ↕
Discounting	Mixed ↕

NOLVs: NOLVs have been mixed as ongoing sales declines have been offset by improvements in gross margin, the closure of underperforming store locations, and growth of e-commerce.

Sales Trends: Generally, retailers in the industry have experienced ongoing sales declines due to reduced spending on core products; however, key growth areas include break room and janitorial supplies. In addition, some regional players have experienced increases in sales due to continued expansion.

Gross Margin and Discounting: Gross margin within retail stores has been mixed as companies continue to offer promotions, albeit more rationalized, to spark sales, which has been offset by improvements in gross margin due to the product mix. Additionally, some companies have seen improvements in contract gross margin due to better pricing and sourcing.

KEY INDUSTRY DRIVERS

- **Competition and acquisition activity:** In order to effectively compete with more nimble e-commerce companies, such as Amazon, office supply retailers have worked to leverage economies of scale. As such, merger and acquisition activity in the industry has increased. Office Depot and OfficeMax merged in late 2013. Most recently, Staples announced it planned to acquire Office Depot for \$6.3 billion, pending FTC approval.
- **Store closures:** As a result of the continued decline in customer traffic and a shift away from paper-related items, office supply retailers are rationalizing store bases and transitioning from big-box to small-format store concepts. Staples closed approximately 170 stores in 2014 and plans to close additional stores in 2015. After exiting its Canadian retail business in mid-2014, Office Depot plans to close at least 400 stores by 2016. More store closures are expected if the Staples acquisition of Office Depot is approved. GA has been involved in many store closures within this sector.
- **E-commerce:** Recognizing the decline in sales and subsequent store closures of many brick-and-mortar locations, many office supplies retailers have been expanding their e-commerce business. Staples reported that its e-commerce segment achieved growth of 8% in its most recent quarter reported.
- **Product mix:** As offices continue to reduce their paper usage in favor of digital technologies, office supply companies are expanding their product offerings in order to become one-stop shopping destinations for all office needs. Although sales of core product categories have declined, growth areas include break room and janitorial supplies. Major players, such as Staples and Office Depot, have also added new specialty products, including those related to healthcare and education, to capture additional sales.

SALES TRENDS

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

		Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Staples	N.A. Stores	(4.0%)	(4.0%)	(5.0%)	(4.0%)
	Commercial	5.0%	3.0%	2.6%	0.7%
Office Depot	Retail	(2.0%)	(3.0%)	(3.0%)	(3.0%)
	Contract	(1.0%)	(1.0%)	(1.0%)	(2.0%)

Note(s): The most recent quarter for Staples ended January 31, 2015 (N.A. stores exclude e-commerce and represent comparable store sales only); the most recent quarter for Office Depot ended December 27, 2014. Office Depot includes OfficeMax.

OUTLOOK

Retailers within the office supplies sector will continue to evolve their business strategies to remain competitive. This includes leveraging economies of scale, streamlining operations, increasing e-commerce operations, and in general relying on a fewer number of smaller-format store locations. Retailers will also continue to refine and expand product assortments to drive 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:

Target Canada	Cache	Office Depot/Max	Circuit City
Macy's	Fashion Bug	Mervyns	Tower Records
Fortunoff	Frederick's of Hollywood	Eddie Bauer	RadioShack
Linens 'N Things	Naartjie	Whitehall Jewelers	Borders
Jo-Ann Fabrics	Boot Town	A&P	Movie Gallery

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:

- Retailers and business-to-business suppliers of office products, including major players in the marketplace, as well as smaller, more regional companies.
- Several e-commerce and multi-channel retailers, as well as flash sale websites and auction websites. In particular, GA has appraised 74 of the top 500 e-commerce companies as reported by *Internet Retailer*.
- 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 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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