Plummeting input prices cause instability in the textile market.
### Trend Tracker

#### Inventory

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Textiles</th>
<th>Apparel</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NOLVs</strong></td>
<td>Mixed ↓</td>
<td>Mixed ↓</td>
</tr>
<tr>
<td><strong>Sales Trends</strong></td>
<td>Increasing ↑</td>
<td>Increasing ↑</td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>Mixed ↓</td>
<td>Decreasing ↓</td>
</tr>
<tr>
<td><strong>Inventory</strong></td>
<td>Mixed ↓</td>
<td>Increasing ↑</td>
</tr>
<tr>
<td><strong>Pricing</strong></td>
<td>Decreasing ↓</td>
<td>Decreasing ↓</td>
</tr>
</tbody>
</table>

#### Market Prices

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Quarter</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cotton</strong></td>
<td>Decreasing ↓</td>
<td>Decreasing ↓</td>
</tr>
<tr>
<td><strong>Synthetics</strong></td>
<td>Decreasing ↓</td>
<td>Decreasing ↓</td>
</tr>
</tbody>
</table>

**NOLVs:** NOLVs were mixed in the fourth quarter based on company-specific factors, as declining input prices have not yet impacted downstream markets.

**Sales Trends:** Sales have increased based on stable health in construction, manufacturing, and retail markets and consumer confidence. However, certain company-specific factors have led to declines in some cases.

**Gross Margin**

**Textiles:** Textiles gross margins have been mixed based on company-specific factors, as input price changes have yet to significantly impact most operations.

**Apparel:** Gross margins have decreased based on shifts in product mixes and the sell-through of older or slower-moving product at discounts.

**Inventory**

**Textiles:** Textiles inventory has been mixed based on focuses on inventory management among companies, which has led to both increases and decreases based on specific situations.

**Apparel:** Inventory levels have increased based on seasonal factors.

**Pricing:** Pricing has been consistent for both textiles and apparel finished goods, but prices are likely primed for decreases once the impact of lower synthetic fiber and cotton prices reach downstream markets.
Overview

The textile industry is currently attempting to stabilize itself in the wake of eight straight months of declining cotton prices and six straight months of declining crude oil prices. The precipitous fall in cotton pricing has been catalyzed both by surplus domestic supplies and China’s evolving economy. The low prices have become a self-fulfilling prophecy of sorts, with domestic growers unwilling to sell until prices rise, perpetuating the giant surplus yet to hit the market, and manufacturers hesitant to buy in anticipation of further price declines once the surplus is released.

Since the prior Textiles Monitor, reports have surfaced regarding an additional 10 million metric tons of Chinese cotton yet to hit the market. To exacerbate the situation, China has expressed a desire to become less dependent upon imported fibers and yarns, leading to lower export demands among US growers and yarn producers. Chinese cotton imports in June 2014 fell to their lowest level in nearly a year. With cotton prices low, Chinese apparel manufacturers have become less reliant on external spinners, despite rising labor costs within the country.

In fact, China’s intent to become a more modernized economic power has influenced all facets of the domestic textile market. Sputtering downstream demand from Asia has resulted in declining or flat prices throughout the polyester and nylon supply chains. On the apparel side, rising labor costs in China, combined with a renewed emphasis on the cost of importation, has resulted in a major movement toward re-shoring apparel manufacturing.

On a more optimistic note, a generally healthy domestic economy has buoyed demand within the US. Retail demand remains adequate if not impressive, and consumer confidence continues to inch forward, despite a decline in November.

The figure below illustrates the producer price index, which denotes the selling prices received by domestic producers for their output, for textile mills versus textile product mills. Textile mills include a variety of processes such as yarn spinning; primary textile products manufacturing; intermediate yarn processes such as carding, combing, texturing, twisting; fabric and thread weaving and braiding; and production of nonwoven fabrics and textile finishing for both cotton and synthetic fibers. Textile product mills include carpet and rug mills; curtain and drapery mills; various household textile product mills; canvases; cordage mills; and other downstream textile processes and products.
Recent Appraisal Trends

TEXTILES

Even with input costs steadily declining, GA has yet to see any large, input price-drive movements in NOLVs. From a lending perspective, the biggest risk is for the manufacturers that carry large stocks of cotton or synthetic fibers on-hand. Depending on the costing method of the raw material inventory, there is potential for quick shifts in the NOLV, with risks of being over-advanced in certain situations. This risk is mitigated if the borrower utilizes average or actual costing or marks raw materials to market every month.

Of course, there are gross margin implications that come with declining input prices, but these vary based on exact position of the specific company within the industry. On the whole, NOLVs remained largely consistent, with swings plus or minus two points. Sales were mostly positive or flat, with some customers reporting strong demand and a general improvement in the economy. Distributors have seemed to fare particularly well. Again, the reduction of input pricing has yet to have an effect across the board on companies’ gross margin. Rather, GA observed margins to be mixed based on sales mix and manufacturing issues as opposed to pricing changes.

As always, even in relatively stable markets, individual companies have occurrences and shifts unique to them, which can have a meaningful impact on NOLVs. The age of a company’s inventory, the levels of slow-moving inventory, or overall mix can shift quickly, and these metrics should continue to be monitored.

APPAREL

GA has witnessed fairly modest shifts in NOLVs within the apparel industry, with most stabilizing within a point or two of the prior appraisal, with the exception of a couple outliers who had some very specific issues such as facility closures or an actual change in eligible collateral.

However, while no company pointed to a real contraction in selling prices as a part of industry wide movements, GA did see many instances of gross margin declines, with the most common explanation being a shift in product mix or the sell-through of older or excess inventory at reduced margins. Overall sales trends were flat to slightly up, as some companies had success with introductions of new product lines or growth in certain sectors; however, sales of some well-known brands through typical retail customers were stagnant.

On the whole, inventory levels seem to have increased for most distributors of apparel, some of which is driven by the seasonal nature of the current period. As is always the case, the health of certain distributors’ underlying inventory is tied to the retail results of the holiday season now upon us. Segmented advance rates based on the velocity of inventory and frequent monitoring are paramount currently.
Pricing Trends

COTTON

According to the Cotlook “A” Index, market prices for cotton rose in the first several months of 2014 but have declined steadily since March. The index began the year at $0.91 per pound in January and rose to $0.97 per pound in March 2014. However, pricing has since declined, falling to $0.72 per pound in August, before continuing their downward trajectory in September and October. The Cotlook A Index began October at a low point of $0.69 per pound, but climbed to a high of $0.71 per pound in mid-month.

The Cotlook index represents the average of the five cheapest quotations for principal upland cottons traded on the international market:

SYNTHETIC FIBERS

Synthetic fiber pricing has declined based on decreases in crude oil pricing. Pricing for polyester has declined steadily since mid-summer, as crude oil inventories continue to grow in the US.

Prices for major inputs such as paraxylene and purified terephthalic acid have declined in lockstep with crude oil. With crude oil supplies at a high and downstream markets flattening out, market fundamentals have struggled to remain buoyant. In general, pricing has been higher in Asia compared to North America and Europe.

Nylon market sentiment has mirrored the polyester market, with prices for nylon filament yarn declining or remaining flat for the entire year. Subdued demand has continued to prevail throughout the market. Prices for inputs such as benzene and caprolactam have ridden a downward trend since late summer.
Pricing Trends

APPAREL

With the economy continuing its string of healthy yet underwhelming results, retail apparel sales have followed suit. Clothing and accessories stores have experienced year-over-year sales growth in each month thus far in 2014, with the exception of March 2014; however, sales rebounded in April, and this trend can be attributed to the shift in the Easter holiday from March last year to April this year.

While analysts are optimistic about the 2014 holiday season based on the recent strength of retail sales, employment, and housing data, uncertainty remains as the overall economic recovery is still lagging and families remain price sensitive. As such, consumers will continue to look for bargains and wait for promotions during the holiday season.

Historically, increases in gross domestic product have resulted in near-lockstep advances in textile and apparel demand. However, improvements do not always correlate to better demand for domestic apparel manufacturing. Despite a major push for reshoring, imports have actually increased, with year-to-date shipments up 4% through October.

The figure below illustrates the apparel producer price index, which denotes the selling prices received by domestic producers for their output. As is demonstrated in the graph below, US customers continue to pay a premium for American-made apparel. In addition, decreasing material costs have not yet impacted the price of apparel received by domestic manufacturers.

![Apparel Producer Price Index](image)

Textiles and Apparel Reference Sheet

Pricing trend changes for October 2014 versus September 2014 and the third quarter of 2014 are as follows:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>% Change From September 2014</th>
<th>% Change From Q3 2014 Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton</td>
<td>(4%)</td>
<td>(9%)</td>
</tr>
<tr>
<td>Synthetic Fiber Feedstocks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude Oil</td>
<td>(9%)</td>
<td>(14%)</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>(4%)</td>
<td>(5%)</td>
</tr>
</tbody>
</table>
Experience

GA has been involved in the liquidation of select industrial manufacturers and wholesalers such as Atlas Textiles, Garment Services, Seatco, and Textile Alliance, store locations for Jo-Ann Fabrics, Hancock Fabrics, and A.C. Moore, and numerous apparel retail stores such as Kids Mart, Clothestime, Mervyns, and Eddie Bauer. Other industrial machinery and equipment liquidations include Alfani Shirts, Barth & Dreyfus, Belding Hausman, Linens & Things, Rock and Republic Jeans, Teddi of California, and Textile Alliance. GA has worked with and appraised numerous companies within the apparel and textiles industry, including industry leaders within each category. While our appraisal clients remain confidential, GA’s extensive list of appraisal experience includes:

- One of the world’s largest integrated producers of synthetic fibers, with annual net sales exceeding $3.0 billion.
- One of the largest manufacturers of performance synthetic fabrics, offering over 480 styles of synthetic fabric with varying weights, textures, and technical functions.
- A wholesale distributor of imprintable apparel, including t-shirts, fleece apparel, sports shirts, headwear, and athletic wear, with net sales exceeding $700 million annually.
- An industry leader in textile and chemical products, which include denim, dyed fabrics, and flame retardant fabrics for use in apparel and home furnishings.
- One of the US’s foremost producers of retail fabrics, specialty fabrics, and craft products, manufacturing goods in a wide variety of synthetic fibers.
- A manufacturer of cotton-nylon greige fabrics used in the design of military and fire retardant apparel.
- One of the world’s leading manufacturers of performance synthetic fabrics, offering over 480 styles of synthetic fabric in varying weights and textures.
- A designer and manufacturer of various home textiles, including linens, sheets, towels, aprons, uniforms, curtains, and pillows, among many others.
- Producers of various apparel types, including headwear, sweaters, and sporting apparel.
- A manufacturer of tufted carpets from synthetic fibers serving residential and commercial applications.

GA also maintains appraisal experience involving more regionalized and specialized companies, allowing for the utmost depth in our valuations:

- Textile spinning mills producing fabric for the apparel, automotive, and home textile industries.
- Distributors of fabrics for furniture, apparel, and other applications.
- Manufacturers and distributors of apparel, rugs, and other woven fabric products.
- Manufacturers and distributors of cotton, polyester, nylon, and acrylic fibers and specialty fabrics for various industries.
- Spinners of cotton yarn.
- Manufacturers of performance synthetic fabrics.
- Retailers of textile products and apparel.

GA has also conducted a wide variety of appraisals of textile machinery. Some of the most recent appraisals included a large producer of polyester and nylon yarns; several non-woven textile manufacturers from a variety of industrial sectors; carpet manufacturers; and manufacturers of apparel and other fibers and fabrics.

In addition to our vast liquidation and appraisal experience, GA maintains contacts within the Textile and Apparel industry that we utilize for insight and perspective on recovery values.
The Textiles Monitor relates information covering most textile and apparel products, including industry trends, market pricing, and their relation to the valuation process. GA provides our customer base with a concise document highlighting the textiles and apparel industry. Due to the commodity nature of certain textile products, as well as the commodity nature of inputs used in synthetic fiber production, timely reporting is necessary to understand an ever-changing marketplace. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole. GA internally tracks recovery ranges for cotton fabrics and apparel, greige goods, specialty textiles, synthetic fibers such as nylon and polyester, and a wide variety of apparel in all price points, but we are mindful to adhere to your request for a simple reference document. GA welcomes the opportunity to make our expertise available to you in every possible way. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer using the contact information shown in this and all Textiles Monitor issues.

GA’s Textiles Monitor provides market value and industry trend information for a variety of textile and apparel products. The information contained herein is based on a composite of GA’s industry expertise, contact with industry personnel, liquidation and appraisal experience, and data compiled from a variety of well-respected sources believed to be reliable. We do not guarantee the completeness of such information or make any representation as to its accuracy.
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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. In addition to the Textiles Monitor, GA also provides clients with industry expertise in the form of monitors for the U.S. chemicals and plastics; metals; building materials and woodworking equipment; food; automotive; and wine and spirits industries, among others.

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