

# Monitor

## Retail

VOLUME  
**365**



## WALLET WOES

### COSTLY LIVING

From commodity items such as gas and groceries, to more discretionary purchases, prices have skyrocketed

### SUPPLY CHAIN KINKS

While supply chain issues have eased compared to 2020, issues remain, and shipping rates are elevated

### INVENTORY ISSUES

Supply chain challenges prompted some retailers to overbuy last year, resulting in excess goods to sell through this year

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# Monitor Information

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B. Riley Advisory Services' *Retail Monitor* highlights key industry drivers within the retail sector and how they relate to B. Riley Advisory Services' valuation process and current trends in recovery values. As the retail industry is impacted by consumer spending patterns and various macro and microeconomic factors, timely and accurate information is essential. B. Riley Advisory Services strives to contextualize important indicators to provide an informed perspective of the market for our clients' needs. Such indicators include general industry trends, comparable store sales trends, gross margin changes, and discounting activity. Any comparable store sales illustrated in this monitor reflect figures as they have been reported by public retailers. The methodology for calculating comparable store sales may vary by company.

B. Riley Advisory Services welcomes the opportunity to make our expertise available to you.

Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your B. Riley Advisory Services Business Development Officer using the contact information shown in all *Retail Monitor* issues.

B. Riley Advisory Services' *Retail Monitor* provides an overview highlighting specific sectors of the retail industry. The information contained herein is based on a composite of B. Riley Advisory Services' industry expertise, contact with industry personnel, liquidation and appraisal experience, and data compiled from a variety of well-respected sources believed to be reliable. B. Riley Advisory Services does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this issue. Neither B. Riley Advisory Services nor any of its representatives shall be liable for use of any of the information in this issue or any errors therein or omissions therefrom.

# Top Trends

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- 1 Macroeconomic issues such as rising product costs, labor shortages, and rising fuel costs plague most retail sectors.
- 2 Some companies have reported sales declines in recent quarters, as sales normalize to pre-pandemic levels.
- 3 Retailers continue to struggle to manage inventory levels amid supply chain kinks.
- 4 Some retailers have had to increase discounting to clear through excess inventory, to the detriment of gross margin.

# Overview

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In total, U.S. retail sales have been exhibiting strong growth year-over-year thus far in 2022; however, inflationary pressures and rising costs across the board are putting pressure on consumers' spending power.

Retail sales through September of 2022 in many cases were strong, buoyed by low unemployment rates, wage increases, and residual savings from the pandemic. While some retailers reported sales declines, it was often the result of sales normalizing to pre-pandemic levels. However, the second half of the year is immersed in uncertainty, as consumers deal with higher price tags for nearly every facet of living. The average price for a gallon of regular gasoline in the U.S. peaked in excess of \$5 per gallon in June 2022 according to the U.S. Energy Information Administration, and while prices have come down in subsequent months, the average remains well above \$3.

Sticker shock continues to plague many consumers at the grocery store as well, with the food-at-home price index up 13.0% for the 12 months ended September 2022 compared to the prior year, as reported by the Bureau of Labor Statistics, U.S. Labor Department. Prices for apparel, footwear, furniture, and a myriad of other items have also been on the rise, driven by rising material costs, higher labor costs to attract talent in the midst of a labor shortage, rising fuel costs, and continued supply chain disruptions. Much of these increases have trickled down to the consumer.

All of these factors have resulted in record-high inflation, with total annual U.S. inflation up 8.2% for the 12 months ended September 2022, as reported by the U.S. Department of Labor. In an effort to combat inflation, the Federal Reserve has been raising interest rates, making it more expensive to borrow. This has trickled down to the housing market, where things are beginning to cool off. Demand for homes has long outweighed supply, resulting in home prices reaching record-highs in many areas of the country over the past few years. More recently, the rising rates have priced out some

consumers, as mortgage rates have increased to over 7% for the first time in decades. Some areas of the country have seen homes sitting on the market for longer periods of time, with price reductions becoming more common than before.

Energy costs have also been on the rise, with risks for further increases during the winter. The conflict between Russia and Ukraine has already resulted in shortages of natural gas and exponential increases in natural gas prices in the U.K., which could be a bellwether sign of what is to come in the U.S. this winter. All of this poses a risk to retailers banking on a strong holiday season; as consumers are forced to spend more on essentials, it leaves less money in their wallets for non-discretionary purchases.

This uncertainty comes at a time when retailers' ability to manage inventory has already been somewhat of a tightrope walk. Supply chain challenges prompted many retailers to overbuy last year, and some were left with seasonal goods that arrived too late in the season. Some companies overpurchased this year, anticipating demand to remain strong, but have found themselves with excess inventory as demand has not met expectations. This has resulted in increased discounting or cancelled orders for some, while others have opted to pack away some seasonal items.

Going into the critical holiday period, it remains to be seen how rising prices will impact consumer shopping habits. Holiday sales have been forecasted to experience growth by as much as 7% or more compared to last year, but taking into account inflation, Bain & Co. is forecasting growth closer to 1% to 3%. Timing will also be a factor, with some consumers likely shopping earlier to avoid stock outs, and others waiting for later in the season in the hopes of snagging a better deal.

# E-Commerce

## KEY INDUSTRY DRIVERS

- Macroeconomic trends:** The e-commerce sector has faced rising product costs, freight costs, and other inflationary pressures. The record growth in e-commerce sales driven by the pandemic resulted in many companies increasing hiring and building inventory levels. However, recent normalized results have impacted profitability, leading some e-commerce-heavy companies to cut costs where possible, such as through headcount reductions or freezing corporate hiring. Going forward into the holiday season, retailers and consumers alike will have to grapple with higher fuel costs and rising shipping rates. The United States Postal Service, for example, already announced a planned price adjustment for certain packages during the holiday season.
- Sales normalize:** Following exponential growth in 2020 during the brunt of the pandemic, with further gains experienced in 2021 for many, some e-commerce sales are starting to exhibit declines in recent quarters as sales return to more normalized levels. Consumers in general have been increasingly returning to brick-and-mortar shopping, but e-commerce remains strong. The National Retail Federation has forecasted online sales to exceed \$1 trillion in 2022. Options such as buy online, pick up in store remain popular.
- Big data:** There continues to be various ways for consumers to shop online, including typical e-commerce, marketplace purchases, subscription services, as well as rentals. As such, companies are increasingly using data analytics to personalize shopping experiences and marketing methods for target customers. This is accomplished through paid searches, social media, review sites, and many other methods.
- Third-party technology:** Companies have leveraged third-party technology to drive sales, offering different payment options, such as Amazon Pay, Apple Pay, Google Pay,

## TREND TRACKER

NOLVs	Mixed	▲
Sales Trends	Decreasing	▼
Gross Margin	Mixed	▲
Discounting	Increasing	▲

Note: Represents results through the e-commerce channel for companies that are primarily e-commerce, or the e-commerce channel only of multi-channel retailers.

## SALES TRENDS

	Second Quarter 2022	First Quarter 2022	Fourth Quarter 2021	Third Quarter 2021
% of Retail Sales	21.2%	20.9%	20.8%	20.9%
Change Year Over Year	6.8%	6.8%	10.3%	9.6%

Source: [www.census.gov/retail](http://www.census.gov/retail). Results are revised estimates, calculated using information in the most recent press release for the second quarter of 2022, excluding sales of automobiles and gasoline.

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Amazon	15.0%	7.0%	7.0%	9.0%
Walmart U.S. E-commerce	12.0%	1.0%	1.0%	8.0%
Wayfair	(9.0%)	(14.9%)	(13.9%)	(11.4%)
Target Digital	9.0%	3.2%	9.2%	29.0%
Overstock	(33.0%)	(34.0%)	(19.0%)	(9.0%)

\*Note(s): The most recent quarter reported for Amazon, Wayfair, and Overstock ended September 30, 2022; these three companies represent total net sales/revenue. Walmart ended July 31, 2022 and represents U.S. e-commerce sales including grocery delivery. Target ended July 30, 2022 and represents digital sales.

Klarna, and Affirm. Other companies have partnered with Shopify, a software company that develops online platforms. Retailers also use services such as Shipt, Instacart, and Lyft for last mile delivery.



# Department Stores

## KEY INDUSTRY DRIVERS

- **Macroeconomic trends:** Department store retailers have been facing similar macroeconomic trends as seen throughout the retail sector. Issues include labor shortages and consequent wage increases to attract talent, higher shipping costs, and other issues. Many retailers have also seen rising product costs across the board, similar to most other sectors. While retailers have worked to pass price increases onto customers to protect gross margin, profitability has been at risk depending on where rising freight costs are captured.
- **Inventory issues:** Many department stores also have faced challenges managing inventory levels. In 2021, supply chain delays and heightened demand caused some department stores to overbuy. This resulted in a glut of inventory this year as sales for some failed to meet expectations. Some retailers have cancelled orders, discounted product to sell through, or opted to packaway basic merchandise for future seasons.
- **Mixed results:** The aforementioned macroeconomic issues have resulted in somewhat of a divide in the department store sector. Luxury retailers catering to a more affluent clientele have continued to perform well. Consumers with money to spend have been refreshing wardrobes with more tailored apparel and outfits for events throughout the year. Conversely, as stimulus checks have long-since been spent for many, and inflationary pressures hit lower-income consumers, retailers such as Kohl's and Macy's that cater to a more price-sensitive consumer have faced challenges.
- **Customer acquisition:** Some department stores have focused on attracting new customers, and, once obtained, have worked hard to retain them. Some have been focused on offering new or enhanced loyalty programs to keep customers shopping. Department stores also

## TREND TRACKER

NOLVs	Decreasing ▼
Sales Trends	Mixed ▲
Gross Margin	Decreasing ▼
Discounting	Increasing ▲

## SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Nordstrom	14.7%	23.5%	23.0%	14.7%
Macy's	(1.5%)	12.8%	28.3%	37.2%
Dillard's	0.0%	23.0%	37.0%	48.0%
Kohl's	(7.7%)	(5.2%)	5.8%	14.7%

\*Note(s): The most recent quarter reported for all companies ended July 30, 2022. Some retailers report results including e-commerce sales or change in net sales as opposed to comparable stores. Macy's represents sales on an owned basis.

continue to differentiate themselves from the competition in an effort to become a destination for shoppers. Some department stores have added more shops-in-shops, as well as cafes, restaurants, and other experiential elements to draw customers in.

- **Uncertain outlook:** Going into the critical holiday shopping season, department stores will have to successfully manage inventory levels and promotional activity. Consumers facing rising costs of everyday living will almost certainly be looking for deals, shopping early, and hoping to avoid out-of-stock situations.

# Specialty Apparel Stores

## KEY INDUSTRY DRIVERS

- **Macroeconomic trends:** Specialty apparel retailers have been faced with macroeconomic issues that have plagued many other retail sectors. Issues include labor shortages and consequent wage increases to attract talent, which have resulted in higher operating expenses. There are also inflationary pressures impacting consumer spending; as prices for food and gas take a larger piece of consumers' paychecks, spending on items such as apparel can wane.
- **Mixed results:** Sales for specialty apparel retailers have varied. Retailers offering predominantly tailored apparel and dressier options have exhibited gains in recent months, both due to comparisons to extremely low sales in 2020 and into 2021 due to stay-at-home orders and cancelled events, but also as consumers increasingly return to the office and dressier functions, resulting in the need to refresh their wardrobes. Conversely, loungewear and athletic apparel experienced heightened demand during the pandemic, and are now exhibiting signs of returning to more normalized levels.
- **Brick-and-mortar versus e-commerce:** During the brunt of the pandemic, e-commerce sales grew exponentially, while brick-and-mortar sales fell off. More recently, consumers have been returning to stores. Brick-and-mortar sales also continue to benefit from buy online, pick up in store options that exploded during the pandemic.
- **Merchandising concepts:** Several companies have been working to increase customer traffic to stores and websites. Recently, there has been a push by specialty apparel brands to have more of a concept or brand identity. For example, Old Navy touted a body positivity campaign, showcasing items in a broader range of sizes in its stores as well as online. This proved difficult to execute in stores, as offering such a variety of sizes

## TREND TRACKER

NOLVs	Decreasing ▼
Sales Trends	Mixed ▲
Gross Margin	Decreasing ▼
Discounting	Increasing ▲

resulted in a lack of depth of product and missed sales in some cases. Abercrombie & Fitch recently announced a new store concept, designed around the theme of a "getaway," and Express has been working with a direct-to-consumer brand, UpWest, to drive sales. Retailers overall continue to work to set trends. Sustainability also remains on the minds of many consumers, with some retailers touting resale options.

- **Competitive landscape:** The specialty apparel sector faces competitive pressure in many forms. Not only are there online-only brands that have been vying for market share, but different ways of shopping, such as subscription models or rentals, remain in vogue. Moreover, off-price retailers and other lower-priced options have been sought out by some consumers as prices have been on the rise. Retailers have been moving in the direction of social media to drive sales, and working overall to have more modern apparel.
- **Store locations:** During the pandemic, specialty apparel retailers located within outdoor shopping centers experienced higher levels of shopper traffic than indoor malls. This includes outlet centers as well as strip centers. Many specialty apparel retailers have also been working in general to right-size store bases over the past few years.

# Specialty Apparel Stores

## SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Urban Outfitters	(9.0%)	1.0%	*	*
Banana Republic	8.0%	27.0%	*	28.0%
Gap	(7.0%)	(11.0%)	*	7.0%
Old Navy	(15.0%)	(22.0%)	*	(9.0%)
White House/Black Market	31.9%	64.8%	45.6%	33.4%
Chicos	29.7%	52.0%	33.2%	23.3%
Guess	(2.0%)	7.0%	28.1%	30.0%
Express	1.0%	31.0%	43.0%	46.0%
Anthropologie	7.0%	18.0%	*	*
Free People	8.0%	15.0%	*	*
Lululemon (North America)	28.0%	32.0%	21.0%	28.0%
Athleta	(8.0%)	(7.0%)	*	2.0%
Victoria's Secret	(8.0%)	(8.0%)	1.0%	*
Soma	(9.2%)	(1.4%)	9.5%	30.2%
DXL	6.1%	19.5%	41.5%	*
Abercrombie & Fitch	(7.0%)	4.0%	4.0%	10.0%
American Eagle	0.0%	2.0%	17.0%	24.0%
The Buckle	1.6%	3.7%	20.0%	27.3%
Zumiez	(18.1%)	(20.9%)	4.6%	6.8%
The Children's Place	(8.7%)	(16.9%)	13.3%	36.2%
Carter's/OshKosh Retail	(11.0%)	(8.0%)	(7.0%)	15.0%

Note(s): Asterisk (\*) indicates that the company did not report comparable sales in that quarter as they were deemed not meaningful comparisons to the prior year. Some retailers represent net sales if comparable store sales were not reported. The most recent quarter reported for Lululemon, Express, Urban Outfitters, Free People, and Anthropologie ended July 31, 2022; Lululemon represents North America net revenue; Carter's ended October 1, 2022 and represents U.S. retail comparable net sales including OshKosh; all other companies ended July 30, 2022. Banana Republic, Gap, and Old Navy represent global sales.



# Off-Price/Dollar Stores/Mass Merchants

## KEY INDUSTRY DRIVERS

- **Macroeconomic trends:** This sector has faced similar macroeconomic issues as others, with many raising prices to offset rising costs caused by supply chain and inflationary pressures. Dollar Tree raised prices to \$1.25 for most items. Dollar General is expanding its \$5 or less price point Popshelf store formats. TJX, Ross Stores, and Burlington have also raised prices, while Costco is working to update its membership fee program.
- **Mixed results:** The discount sector experienced some of the strongest retail growth during the onset and height of the COVID-19 pandemic. However, many discounters are now experiencing decreases in revenue compared to record-highs in prior quarters. Declines in customer traffic have only been partially offset by higher average transactions. Dollar stores and mass merchants have largely outperformed apparel discounters, as consumers continue to focus on essentials.
- **Inventory:** At the onset of supply chain issues, many companies intentionally increased purchasing to get in front of potential delays and make sure they had enough stock to meet demand. As the supply chain has started to normalize, however, many retailers are now over-inventoried, and have resorted to increasing promotional activity in order to sell through goods, especially if an item is seasonal in nature. This has largely impacted discounters like Walmart and Target.
- **Store activity:** Off-price and discount retailers continue to expand. Target, Ross Stores, Dollar General, Family Dollar, Dollar Tree, Burlington, TJX, Big Lots, and Five Below have all opened stores in 2022 so far. Stores have also been going through remodels. Retailers within the sector have subsequently been hiring to staff new stores and offset overall labor shortages within the retail industry. To attract workers, retailers have been offering increased wages, signing bonuses, and other incentives.

## TREND TRACKER

	Dollar Stores/ Mass Merchants	Off-price Retailers
<b>NOLVs</b>	Increasing ▲	Consistent —
<b>Sales Trends</b>	Mixed ▲	Decreasing ▼
<b>Gross Margin</b>	Mixed ▲	Mixed ▲
<b>Discounting</b>	Increasing ▲	Consistent —

## COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
<b>TJX</b>	(5.0%)	0.0%	13.0%	14.0%
<b>Ross Stores</b>	(7.0%)	(7.0%)	9.0%	14.0%
<b>Burlington Stores</b>	(17.0%)	(18.0%)	6.0%	16.0%
<b>Nordstrom Rack</b>	6.3%	10.3%	23.0%	35.0%
<b>Walmart</b>	6.5%	3.0%	5.6%	9.2%
<b>Target</b>	1.3%	3.4%	8.9%	9.7%
<b>Costco</b>	9.6%	10.7%	11.3%	9.9%
<b>Dollar General</b>	4.6%	(0.1%)	(1.4%)	(0.6%)
<b>Dollar Tree</b>	7.5%	11.2%	3.1%	0.6%
<b>Family Dollar</b>	2.0%	(2.8%)	1.7%	2.7%
<b>Five Below</b>	(5.8%)	(3.6%)	3.4%	14.8%
<b>Big Lots</b>	(9.2%)	(17.0%)	(2.3%)	(4.7%)

\*Note(s): The most recent quarter reported for Costco ended August 28, 2022 and represents U.S. only, excluding fuel; Walmart and Dollar General ended July 29, 2022; all other companies ended July 30, 2022; Walmart excludes Sam's Club and fuel; results two and three quarters ago for Ross Stores and Burlington are versus 2019.

# Sporting Goods

## KEY INDUSTRY DRIVERS

- **Macroeconomic factors:** Despite declines in comparable sales in recent quarters, most sporting goods retailers have reported sales remain above pre-pandemic levels, and have normalized versus strong growth during the brunt of the pandemic. However, most sporting goods retailers have cited inflation as impacting consumer spending.
- **Inventory levels:** Most sporting goods retailers have reported that inventory levels are higher than last year; however, inventory consists of a good mix of product.
- **Industry activity:** Peloton sales have suffered and the company has reduced its workforce and closed some store locations. To grow sales, Peloton has begun selling its products on Amazon as well as through some Dick's Sporting Goods locations and on its website. Peloton has also partnered with Hilton for a Peloton bike to be in every Hilton hotel gym. Dick's Sporting Goods has opened Dick's Sporting Goods Warehouse Sale stores. Many sporting goods retailers have announced they will likely return to historical promotion levels in the coming months as demand has slightly decreased and inventory levels are higher. While Olympia Sports has declared bankruptcy and has closed its remaining store locations, some retailers, including Dick's Sporting Goods and Academy Sports + Outdoors, are opening new store locations this year.
- **Products and participation:** Participation in sports and outdoor activities remains at strong levels. Team sports participation is on the rise as well; however, participation is not yet back to 2019 levels. Pickleball is the fastest growing sport in the U.S., while other outdoor activities remain popular such as golf, yoga, tennis, hiking, surfing, skateboarding, and running.
- **Firearms and ammunition:** Background checks and firearm sales have declined compared to the record

## TREND TRACKER

NOLVs	Decreasing ▼
Sales Trends	Decreasing ▼
Gross Margin	Decreasing ▼
Discounting	Increasing ▲

## COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Dick's	(5.1%)	(8.4%)	5.9%	12.2%
Big 5	(9.8%)	(22.3%)	(11.4%)	0.2%
Sportsman's Warehouse	(9.4%)	(11.6%)	(10.8%)	(1.5%)
Sturm, Ruger & Company	(21.8%)	(29.7%)	(9.7%)	(0.8%)
Peloton	(23.0%)	(28.0%)	(24.0%)	6.0%
Academy	(6.0%)	(7.5%)	13.1%	17.9%

\*Note(s): Results for Dick's include Dick's Sporting Goods stores, Golf Galaxy, and the e-commerce business. The most recent quarter for Dick's Sporting Goods, Sportsman's Warehouse, and Academy ended July 30, 2022; Big 5 ended October 2, 2022; Sturm Ruger & Company ended October 1, 2022; Peloton Interactive, Inc. ended September 30, 2022. Sturm, Ruger & Company and Peloton Interactive, Inc. represent total revenue growth versus the prior year.

years of 2020 and 2021; however, 2022 is still on track to be a strong year. Firearms continue to see heightened demand due to the social and political environment. Over the past few years, sales of firearms have been driven by the pandemic, social unrest, a Democratic president, and mass shootings. In recent months, the Bipartisan Safer Communities Act, which aims to reduce gun violence, has been signed into law. The shortage in supply of ammunition, which has been in strong demand, persisted into 2022 but has more recently shown signs of abating.

# Footwear

## KEY INDUSTRY DRIVERS

- Macroeconomic trends:** Footwear retailers have continued to be impacted by supply chain delays as vendors have had difficulties securing products and materials. Delays from vendors led to an influx of backorders, which led to retailers buying earlier for future purchases to avoid out-of-stocks. These factors led to higher inventory levels across the sector. Subsequently, gross margin has decreased alongside increased promotional activity to sell through inventory. Most companies have also experienced increased product and import costs, which are being partially offset by rising prices to customers; however, the elevated prices are now receding. For some companies, especially those dedicated to more athletic styles, recent sales have been down as results are being compared to the record-highs of 2021. Sales are also starting to slow as consumers face inflationary pressures and are again limiting their disposable spending.
- Consumer trends:** While comfort and athletic styles dominated the industry during the height of the pandemic, fashion shoes have been making a comeback as more people resume social activities, such as attending weddings and working in offices. According to The NPD Group, fashion shoes, sandals, and walking shoes saw the most growth based on sales revenue among any other footwear category within the second quarter of 2022. High heels have now gained market share over lower heels and casual styles. Sneakers and casual shoes, like Crocs, however, still remained popular with children for the back-to-school season.
- Industry activity:** The industry continues to see a variety of transactions and store activity. Designer Brands Inc. unveiled a new "warehouse reimagined" store format and acquired Shoes.com. Nike is testing a store model dedicated solely to its Jordan line and a new Nike Style store format. Foot Locker expanded its partnership with

## TREND TRACKER

NOLVs	Mixed	↕
Sales Trends	Increasing	▲
Gross Margin	Decreasing	▼
Discounting	Increasing	▲

## COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Designer Brands Inc.	6.2%	15.3%	36.9%	40.8%
Johnston & Murphy	17.0%	-	38.0%	77.0%
Foot Locker	(10.3%)	(1.9%)	0.8%	2.2%
Crocs (Americas)	18.2%	7.5%	16.6%	52.5%
Famous Footwear	(3.1%)	(4.0%)	15.2%	26.5%
Journeys	(8.0%)	-	1.0%	15.0%
Skechers	11.9%	4.3%	15.7%	30.3%
Deckers	38.2%	14.9%	19.3%	10.7%

\*Note(s): Designer Brands Inc. is formerly DSW. The most recent quarter for Crocs, Skechers, and Deckers ended September 30, 2022 and represent total DTC sales; all other companies ended July 30, 2022. Johnston & Murphy and Journeys did not report comparable sales for the prior quarter as a result of store closures in response to the COVID-19 pandemic during the first quarter of Fiscal 2022. The most recent and prior quarters for Crocs represents DTC comparable sales for the total Crocs Brands, versus previous reporting that was broken out by Americas only.

adidas. Allbirds partnered with Nordstrom to open pop-up locations, and has also expanded its presence within REI stores. Crocs is opening new locations under an updated store concept. In addition, traditional mall-based retailers are focusing more on off-mall and outlet locations.

# Consumer Electronics

## KEY INDUSTRY DRIVERS

- Macroeconomic issues:** The consumer electronics industry has experienced increasing costs as a result of macroeconomic issues, with major retailers reporting higher supply chain costs, such as fuel and freight costs, as well as generally increased product costs.
- Global chip shortage:** The consumer electronics industry has been impacted by an ongoing global chip shortage, which has been exacerbated in recent months by the Russian invasion and war with Ukraine. CNBC reports that both Russia and Ukraine are the largest exporters of krypton, which is a gas that is used in the manufacturing of semiconductors. In addition, neon is critical to the process, and also is largely produced in Ukraine. The chip shortage has driven up prices of products such as laptops, printers, and smartphones, among other items. In recent months, however, a general decline in consumer demand for certain consumer electronics has resulted in some companies having adequate or even surplus inventory levels of items such as smartphones. As such, there could be an end in sight for the issues companies have experienced in obtaining chips.
- Sales normalization:** In general, demand for technology remained strong during the pandemic as people spent more time at home, and consumer spending increased due to government stimulus payments. More recently, some retailers have reported sales declines compared to stronger results last year.
- Cell phones:** Major players in the smartphone arena continue to introduce new phone models. Samsung has focused on foldable phones, including the Samsung Galaxy Z Fold 4, as well as the Samsung Galaxy Z Flip 4. Samsung

## TREND TRACKER

NOLVs	Decreasing ▼
Sales Trends	Decreasing ▼
Gross Margin	Decreasing ▼
Discounting	Increasing ▲

## COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Best Buy	(12.7%)	(8.5%)	(2.1%)	2.0%
Conn's	(22.0%)	(9.5%)	15.3%	20.6%

\*Note(s): The most recent quarter for Best Buy ended July 30, 2022 and represents domestic sales, excluding installment billing; Conn's ended July 31, 2022.

has also invested in wearable smartwatches. Apple's latest iPhones, the iPhone 14 and iPhone 14 Plus became available in September 2022, with price points ranging from \$799 to in excess of \$1,000 depending on the model and storage capacity.





- Industry legislation:** In the summer of 2022, the European Union started to instill legislation for new electronic devices, such as smartphones, laptops, and tablets, to require the use of a common charging device by 2026. This is an effort to reduce waste and simplify life for consumers. While there have been calls for similar legislation in the U.S., no firm moves toward universal charging devices have been made.

# Grocery

## KEY INDUSTRY DRIVERS

- Sales hold steady:** Grocery sales skyrocketed in 2020 due to panic buying and the fact that more consumers were eating meals at home. In 2021, grocery retailers were up against tough sales comparisons to the pandemic-fueled increases of 2020, and many reported declines in comparable store sales compared to 2020. Sales then began to increase again in 2022 driven by continued healthy demand and price inflation, which boosted top line sales. Grocery shoppers have been surprisingly resilient and appear to be cutting back on discretionary purchases rather than groceries. Grocery stores have also been successful in investing in prepared foods, meal kits, and private label brands that consumers are seeking, while also focusing on omnichannel initiatives that make them better able to tailor promotions. However, the pandemic also boosted the sales of weaker players and it remains to be seen how they will grapple with the ongoing supply chain disruptions and cost pressure.
- Inflation pressures profits:** According to the USDA, food-at-home prices in September 2022 increased 13.0% compared to September 2021 and were up 10.1% year-to-date. Typically, grocery prices rise 2% to 3% per year. For the most part, grocery stores have been passing on cost increases to consumers. However, rising prices have made consumers increasingly turn to less expensive goods and private label products. Some consumers have been turning to dollar stores and other discount retailers to save money. With grocery prices making a significant dent in consumers' wallets, some grocers have been attempting to hold prices on key staples and promote extra savings, which is beginning to erode profits. High energy, labor, and transportation costs have also been a drag on profits.
- Mergers/acquisitions:** In October 2022, Kroger announced plans to acquire Albertsons for \$24.6 billion. This would

## TREND TRACKER

NOLVs	Consistent 
Sales Trends	Increasing 
Gross Margin	Consistent 
Discounting	Increasing 

## COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Kroger	5.8%	4.1%	4.0%	3.1%
Albertsons	7.4%	6.8%	7.5%	5.2%
Ahold Delhaize	6.4%	3.3%	4.8%	2.9%
Publix	7.6%	7.8%	11.7%	10.5%
Ingles	5.7%	10.1%	10.0%	N/A
Weis Markets	7.9%	6.0%	7.6%	6.9%

\*Note(s): All sales exclude fuel, except for Weis Markets. The most recent quarter for Kroger ended August 13, 2022; Albertsons ended September 10, 2022; Ahold Delhaize ended July 3, 2022; Publix and Weis Markets ended September 24, 2022; Ingles ended June 25, 2022; Ingles did not report comparable store sales for its fourth quarter.








create a national grocery chain with almost 5,000 stores in 48 states. The deal is expected to close in early 2024 and is subject to regulatory clearance. As part of the deal, the companies are expected to divest a portion of the stores. Current plans call for the creation of a new public company, SpinCo, which would include between 100 and 375 stores.

# Pharmacy and Drug Stores

## KEY INDUSTRY DRIVERS

- COVID tailwinds begin to subside:** In 2021 and early 2022, pharmacy sales and gross margin increased due to COVID-19 vaccinations, and front-end sales increased due to COVID-19 test kits and the increased foot traffic brought in by vaccine administration. More recently, vaccine demand has begun to wane, causing sales to soften. However, retailers are reporting strong demand for non-COVID-19 prescriptions such as acute and maintenance drugs. Although pharmacies expect to benefit from COVID-19 boosters this fall, the level of vaccines administered will likely be lower than last year. It remains to be seen whether the COVID-19 vaccine will be a recurring vaccine like the flu shot.
- Companies streamline operations:** In November 2021, CVS announced plans to close 900 stores (9% of its footprint) between 2022 and 2024, with an estimated 300 closures per year. In April 2022, Rite Aid announced plans to close 145 stores. Early in 2022, Walgreens indicated plans to sell its Boots international drugstore business, but has since decided to retain this business. Store closures could result in changes to the competitor profile for certain pharmacy locations, which could impact script values.
- Healthcare expansion:** The pandemic has reinforced the drug store as a key component of the healthcare system, and drug stores continue to try to position themselves as healthcare companies. The pandemic also accelerated the adoption of telehealth and hybrid care, and companies are seeking to take advantage of new opportunities in this space. Walgreens has been expanding its VillageMD primary care clinics and recently announced acquisitions of Shields Health Solutions and CareCentrix. CVS is growing its MinuteClinic and HealthHUB locations and announced plans to acquire Signify Health. Amazon, which remains a small player in the pharmacy market, announced plans to acquire One Medical, a primary care provider.

## TREND TRACKER

	Pharmacy	Front-End
<b>NOLVs</b>	Mixed 	Mixed 
<b>Sales Trends</b>	Increasing 	Mixed 
<b>Gross Margin</b>	Decreasing 	Mixed 
<b>Scripts</b>	Mixed 	

## COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
<b>Walgreens</b>				
Pharmacy	3.0%	2.0%	7.3%	6.8%
Front-End	(1.9%)	1.4%	15.7%	10.6%
Total	1.6%	1.8%	9.5%	7.9%
<b>CVS</b>				
Pharmacy	11.3%	7.6%	10.1%	11.8%
Front-End	5.1%	9.4%	13.2%	18.9%
Total	9.9%	8.0%	10.7%	13.4%
<b>Rite Aid</b>				
Pharmacy	8.0%	6.6%	10.7%	5.9%
Front-End	(0.3%)	(0.5%)	2.7%	0.4%
Total	5.6%	4.6%	8.3%	4.4%

\*Note(s): The most recent quarter for Walgreens ended August 31, 2022; CVS ended September 30, 2022; Rite Aid ended August 27, 2022.



# Furniture and Home Furnishings

## KEY INDUSTRY DRIVERS

- **Macroeconomic challenges:** Furniture and home furnishings benefited from consumers spending a significant amount of time at home working remotely and adhering to stay-at-home orders in 2020. While demand remains strong, the furniture and home furnishings industry has faced macroeconomic challenges, including effects of supply chain disruptions and labor shortages, as well as economic contraction as inflation and rising prices across the board impact consumer spending power.
- **Housing market:** Furniture sales are closely tied to the strength of the housing market, as furniture purchases often coincide with new home purchases and remodeling activity. Following several years of a hot housing market, things are beginning to cool off. Mortgage rates had been at extremely low levels for many years; however, in an effort to combat inflation, the Federal Reserve has been raising interest rates in recent quarters. This has impacted average mortgage rates, making it more expensive to borrow. Moreover, as demand for homes has outweighed supply, home prices have reached record-highs in many areas of the country. The rising rates have priced out some consumers. Some areas of the country have seen homes sitting on the market for longer periods of time, with price reductions becoming more common than they once had been. According to the National Association of Realtors, existing home sales in September 2022 were down over 23% versus the prior year, with single-family housing starts down close to 10%. Moreover, the National Association of Home Builders' Remodeling Market Index has shown signs of the remodeling market cooling in recent quarters. As a result, furniture sales could continue to trend downward in the coming months.
- **Technology:** During the early stages of the pandemic, e-commerce growth within the furniture and home furnishings sector was explosive, as many stores were temporarily closed and social distancing measures

## TREND TRACKER

NOLVs	Decreasing ▼
Sales Trends	Mixed ▲
Gross Margin	Decreasing ▼
Discounting	Increasing ▲

## COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Bed Bath & Beyond	(26.0%)	(23.0%)	(12.0%)	(7.0%)
HomeGoods	36.0%	40.0%	32.0%	34.0%
Williams-Sonoma	11.3%	9.5%	10.8%	16.9%
Kirkland's	(8.6%)	(15.8%)	(8.5%)	(0.7%)
La-Z-Boy	(15.0%)	(9.0%)	(1.0%)	(7.2%)
Wayfair	(9.0%)	(14.9%)	(13.9%)	(11.4%)

\*Note(s): The most recent quarter for Bed Bath & Beyond ended August 27, 2022 and represents total company; Wayfair ended September 30, 2022 and represents total net sales/revenue; Williams-Sonoma includes West Elm, Pottery Barn, Williams Sonoma, and Pottery Barn Kids and Teen, and ended July 31, 2022; Kirkland's, La-Z-Boy, and HomeGoods ended July 30, 2022; La-Z-Boy represents written same-store sales for company-owned La-Z-Boy Furniture Galleries. HomeGoods represents comparable sales for open stores only.

were put into place. As such, online retailers such as Wayfair reported strong sales throughout 2020 and into 2021, with sales in recent quarters exhibiting declines compared to record highs as sales normalize. Wayfair has also announced a 5% reduction in headcount. The pandemic accelerated the use of virtual and augmented reality into the furniture and home furnishings industry. Many companies have worked to enhance technology to allow customers to better view product and allow them to see how it might look in their homes.

# Arts and Crafts

## KEY INDUSTRY DRIVERS

- Macroeconomic trends:** The arts and crafts industry has faced recent headwinds from supply chain disruptions, staffing issues, and slowing sales compared to record highs in 2020 and 2021. Products received late to stores typically have to be sold at increased discounts to sell through, especially if an item is seasonal. This has been negatively impacting companies' gross margins, which has been partially offset by companies increasing prices. Most companies have reduced merchandise receipts. Some have also increased their levels of packaway goods compared to prior years in order to guarantee stores have the needed product at the right time. While sales have decreased overall, the sector is expected to see growth in the upcoming holiday seasons, although spending might be limited for some consumers as inflationary pressures has been limiting disposable income. Moreover, consumers are returning to pre-COVID ways of life and making up for lost time by partaking in fewer home activities such as crafting.
- Trends:** The arts and crafts industry is impacted by popular trends at any given time. Recent industry trends include stained glass art, tufting, crochet, dried flower arranging, and using polymer clay to create jewelry and home décor. Consumers have also shown interest in nature-inspired and vintage decorations, and colors and styles that evoke an uplifting, stress-free environment.
- Enhanced customer experience:** Michaels is in the process of launching an Etsy-like online marketplace, whereby brands and retailers will be able to sell their supplies and goods via the Michaels website. Michaels also recently updated its loyalty program and launched a new marketing strategy to improve audience engagement. Similarly, JOANN partnered with actor

## TREND TRACKER

NOLVs	Decreasing ▼
Sales Trends	Decreasing ▼
Gross Margin	Decreasing ▼
Discounting	Decreasing ▼

## COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
JOANN	(6.2%)	(12.9%)	(12.4%)	(14.2%)
Etsy	11.7%	10.6%	5.2%	16.2%

\*Note(s): The most recent quarter for JOANN ended July 30, 2022. The most recent quarter for Etsy ended September 30, 2022, and represents comparable revenue.

Sutton Foster to raise awareness on how crafting can improve mental health, and launched new programs and tutorials so crafters can access free wellness-focused crafting content.

- Store base:** Retailers Michaels, JOANN, and Hobby Lobby continue to open new store locations, as well as relocate or remodel others.
- Social media:** Crafting projects have continued to be driven by social media, including on Instagram, TikTok, and Pinterest.

# Office Supplies

## KEY INDUSTRY DRIVERS

- Contract sales rebound while comparable store sales decline:** Business closures, telecommuting, high unemployment, and remote schooling led to dramatic declines in demand for office supplies from businesses in 2020 and 2021. The transition to remote work particularly affected core office supply categories like paper, writing instruments, and toner, as well as breakroom categories. More recently, companies have seen sales slowly begin to improve as more businesses open up and return to in-person work. However, given that more businesses are embracing work from home as a permanent part of their operations, it is unclear whether sales of office supplies will ever return to historical levels. Moreover, companies have seen their profits squeezed by inflation and the additional cost of shipping smaller orders to residential addresses.

Throughout the second half of 2020 and most of 2021, office supply retailers benefited from the shift to remote work and remote learning. Products such as monitors, computer software, laptops, and webcams saw significant demand, along with office furniture and lighting, as consumers set up home offices. More recently, customer traffic has cooled now that workers have already invested in their home office set ups and some are returning to in-person working.

- The Staples/Office Depot deal falls apart again:** Staples and Office Depot have been attempting consolidation for some time due to the overall shrinking market for office supplies. In 2015, Staples initially announced its intent to acquire Office Depot. The deal was eventually rejected by the Federal Trade Commission in 2016 due to concerns over the two companies dominating the office supply market. In 2021, Staples tried again, making three offers

## TREND TRACKER

	Retail	Contract
<b>NOLVs</b>	Decreasing ▼	Decreasing ▼
<b>Sales Trends</b>	Decreasing ▼	Increasing ▲
<b>Gross Margin</b>	Increasing ▲	Increasing ▲
<b>Discounting</b>	Decreasing ▼	Decreasing ▼

## SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
<b>Office Depot NA Business Solutions</b>	9.0%	6.0%	9.0%	2.0%

\*Note(s): The most recent quarter for Office Depot ended September 24, 2022. The company did not report comparable store sales due to the impact of COVID-19 and store closure activity.

to purchase Office Depot in January, March, and June. Office Depot announced plans to separate its business into two independent, publicly-traded entities, which many believed was a sign that it would divest its retail division. However, in June 2022, Office Depot announced that it would not divest this division and no longer had plans to separate the business into two publicly-traded companies. All divisions will remain under common ownership. However, as part of its strategic review, the company engaged in an internal reorganization that will make the separation of the businesses easier, should market conditions change.

# Experience

B. Riley Advisory Services' affiliate, B. Riley Retail Solutions, 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 under-performing stores, to full-scale liquidations of national retailers with hundreds of stores. B. Riley Retail Solutions has experience with full and partial liquidations of companies throughout a variety of retail sectors, some of which are detailed below:

<b>Borders</b>	<b>Modell's Sporting Goods</b>	<b>JC Penney</b>	<b>Tuesday Morning</b>	<b>Kirkland's</b>	<b>Stein Mart</b>
<b>Bon-Ton</b>	<b>Payless</b>	<b>RTW Retailwinds (New York and Co.)</b>	<b>Target Canada</b>	<b>Sears Canada</b>	<b>Macy's</b>
<b>Gymboree</b>	<b>Toys "R" Us</b>	<b>Gap</b>	<b>Sur La Table</b>	<b>Hancock Fabrics</b>	<b>RadioShack</b>
<b>Gander Mountain</b>	<b>Linens 'N Things</b>	<b>Naartjie</b>	<b>Game Stop</b>	<b>Masters (Australia)</b>	<b>Barney's</b>

These experiences, in addition to numerous others, provide B. Riley Advisory Services 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, B. Riley Advisory Services has worked with and appraised numerous retailers, including industry leaders within each sector. While our clients remain confidential, B. Riley Advisory Services' 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.
- Several e-commerce and multi-channel retailers, as well as flash sale websites and auction websites.
- 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 U.S., 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.
- 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 upwards of 800 and net sales in excess of \$10.0 billion, as well as smaller local grocery store retailers and pharmacies.
- Several regional pharmacy retailers, pharmacy and service providers to long term care facilities, supermarkets with pharmacy operations, and wholesalers of pharmaceuticals, for which B. Riley Advisory Services valued both the pharmacy inventory and prescription lists ("scripts").

In addition to our internal personnel, B. Riley Advisory Services maintains contacts within the retail industry that we utilize for insight and perspective on recovery values.

# Meet The Team

## APPRAISAL & VALUATION TEAM

### BUSINESS DEVELOPMENT TEAM



**Bill Soncini**  
National Marketing Manager  
Managing Director  
Midwest Region  
(773) 495-4534  
[bsoncini@brileyfin.com](mailto:bsoncini@brileyfin.com)



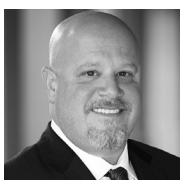
**Ryan Mulcunry**  
Managing Director  
Northeast Region  
(617) 951-6996  
[rmulcunry@brileyfin.com](mailto:rmulcunry@brileyfin.com)



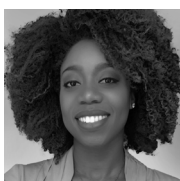
**Nick Disimile**  
Director, Business Development  
Southwest Region  
(516) 707-7040  
[ndisimile@brileyfin.com](mailto:ndisimile@brileyfin.com)



**Jennie Kim**  
Managing Director  
Western Region  
(818) 974-0602  
[jkim@brileyfin.com](mailto:jkim@brileyfin.com)



**David Seiden**  
Managing Director  
Mid-Atlantic / Southeast Regions  
(404) 242-0683  
[dseiden@brileyfin.com](mailto:dseiden@brileyfin.com)



**Akilah Moore**  
Director, Business Management  
Midwest Region  
(312) 777-7956  
[anmoore@brileyfin.com](mailto:anmoore@brileyfin.com)

### OPERATIONS TEAM

**John Bankert**  
Executive Managing Director  
(781) 429-4054  
[jbankert@brileyfin.com](mailto:jbankert@brileyfin.com)

**David Triompo**  
Managing Director  
(781) 429-4067  
[dtriompo@brileyfin.com](mailto:dtriompo@brileyfin.com)

**Tracy Foohey**  
Associate Director  
(781) 429-4059  
[tfoohey@brileyfin.com](mailto:tfoohey@brileyfin.com)

**Robert Vaughn**  
Senior Project Manager  
(818) 746-9351  
[rvaughn@brileyfin.com](mailto:rvaughn@brileyfin.com)

**Louise Shimazu**  
Project Manager  
(818) 746-9339  
[lshimazu@brileyfin.com](mailto:lshimazu@brileyfin.com)

**Kelly Chapman**  
Project Manager  
(312) 596-5752  
[kchapman@brileyfin.com](mailto:kchapman@brileyfin.com)

**Leslie Ward**  
Project Manager  
(781) 429-4065  
[lward@brileyfin.com](mailto:lward@brileyfin.com)

**Chad P. Yutka, ASA**  
Executive Managing Director  
Corporate Advisory Valuation Services  
(312) 909-6078  
[cyutka@brileyfin.com](mailto:cyutka@brileyfin.com)

**Kerryn Kostecki**  
Editorial Manager  
(781) 429-4063  
[kkostecki@brileyfin.com](mailto:kkostecki@brileyfin.com)

**Anne Kelly**  
Senior Managing Writer  
(781) 429-4061  
[akelly@brileyfin.com](mailto:akelly@brileyfin.com)

## ASSET DISPOSITION TEAM

**Scott Carpenter**  
CEO  
B. Riley Retail Solutions  
(818) 746-9365  
[scarpenter@brileyfin.com](mailto:scarpenter@brileyfin.com)

**Paul Brown**  
Vice President  
GA Global Partners  
(203) 292-8111  
[pbrown@gaglobl.com](mailto:pbrown@gaglobl.com)

# About B. Riley Advisory Services

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B. Riley Advisory Services works with lenders, law firms, private equity sponsors and companies of all types. Our Advisory Services are a unique mix of Valuation and Appraisal Services including asset-based lending (ABL) Valuations; Restructuring and Turnaround Management; Forensic Accounting and Litigation Support; Operations Management; Compliance, Risk & Resilience Services; and Transaction Support Services including Due Diligence and Quality of Earnings Reviews. B. Riley Advisory Services is the trade name for GlassRatner Advisory & Capital Group, LLC, B. Riley Advisory & Valuation Services, LLC, Great American Group Machinery & Equipment, LLC, and Great American Group Intellectual Property, LLC.



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[BRILEYFIN.COM](http://BRILEYFIN.COM)  
NOVEMBER 2022  
800-454-7328

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#### LOS ANGELES (HQ)

30870 Russell Ranch Road  
Suite 250  
Westlake Village, CA 91362  
T 818.884.3737

#### ATLANTA

3445 Peachtree Road  
Suite 1225  
Atlanta, GA 30326  
T 470.346.6800

#### BOSTON

300 First Avenue  
Suite 201  
Needham, MA 02494  
T 781.444.1400

#### CHICAGO

200 West Madison Street  
Suite 2950  
Chicago, IL 60606  
T 312.368.8880  
F 312.368.8883

#### DALLAS

400 Chisholm Pl.  
Suite 100  
Plano, TX 75075  
T 972.996.5630

#### HOUSTON

4400 Post Oak Parkway  
Suite 1400  
Houston, TX 77027  
T 713.226.4700

#### NEW YORK

299 Park Avenue  
21st Floor  
New York, NY 10171  
T 212.457.3300

#### WEST PALM BEACH

1400 Centrepark Boulevard  
Suite 860  
West Palm Beach, FL 33401  
T 561.657.4896

#### AUSTRALIA

Level 29, Chifley Tower  
2 Chifley Square  
Sydney, NSW 2000  
Australia

#### GERMANY

Prinzregentenstr 18  
5th Floor  
80538 Munchen, Germany



# Capitalize On The B. Riley Difference

B. Riley Financial (“B. Riley”) provides collaborative solutions tailored to fit the capital raising and business advisory needs of its clients and partners. B. Riley operates through several subsidiaries that offer a diverse range of complementary end-to-end capabilities.

B. Riley recently announced the acquisition of FocalPoint Securities, LLC, a leading middle market M&A advisory investment bank. FocalPoint, now a division of B. Riley Securities, Inc. significantly enhances B. Riley’s debt capital markets and financial restructuring.



RANK  
2

B. Riley Financial ranked No. 2 on FORTUNE 100 Fastest Growing Companies 2021 list based on revenue growth rate, EPS growth rate, and three-year annualized total return for the period ended June 30, 2021. Fortune. © 2021 Fortune Media IP Limited All rights reserved.

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