B | RILEY Advisory Services

APRIL 2021

Monitor
Retail

VOLUME
336

DEALING WITH DISRUPTION

ACCELERATED CHANGES
The pandemic sped up changes that were already taking shape between e-commerce and brick-and-mortar

BREAKS IN THE SUPPLY CHAIN
A container shortage and delays at ports have resulted in longer lead times and increased costs for many retailers

AN UNEVEN PLAYING FIELD
Stimulus checks spurred purchases for some categories, while others still struggle to attract customers

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Monitor Information

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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

1. The COVID-19 pandemic has resulted in some sectors benefiting from changing habits, with others adversely impacted.

2. E-commerce sales have remained strong, and convenience options such as buy online, pick up in store, curbside pickup, and last-mile delivery options have grown.

3. Bankruptcy filings and store closures have been seen in many sectors, especially department and specialty apparel stores.

4. Supply chain disruptions have been seen recently due to a container shortage and backups at the ports.

Overview

Following a tumultuous year in which the COVID-19 pandemic impacted nearly every facet of the retail sector, retailers have been looking for ways to deal with the disruption and find a way forward.

Overall, the COVID-19 pandemic resulted in an acceleration of trends that had already started to take hold over the past few years. The past decade had seen a gradual increase in e-commerce sales as a percentage of total retail sales, but government-mandated lockdowns exacerbated this trend. The second quarter of 2020 in particular saw e-commerce leap nearly 45% and represent more than 22% of total retail sales excluding gas and auto sales, as reported by data from the U.S. Census. This was due to the rash of temporary store closures implemented on non-essential retailers. Even as stores began phased re-openings throughout the country, e-commerce growth has in many cases outpaced traditional brick-and-mortar sales growth, as many consumers continued to practice social distancing. Buy online, pick up in store (BOPIS), which had previously been offered by some retailers, became common practice, with many retailers also implementing curbside pickup to stem sales declines. Even as consumers become increasingly more comfortable visiting physical store locations, the convenience of options such as these are likely to remain for the longer term.

On a categorical basis, e-commerce represents a higher percentage of total sales in some sectors than it does in others. For example, in recent quarters certain department store retailers have reported e-commerce sales representing over 50% of total sales. In other sectors, results are murkier. Within the grocery sector for example, a relatively low percentage of total sales has historically been attributed to e-commerce. While the percentage of total increased during the pandemic, in general consumers have favored a click and collect model as opposed to ordering groceries online and having them delivered.

While brick-and-mortar locations continue to have their place amidst the growth of e-commerce, there has been an ongoing effort by retailers over the years to right-size store bases. The pandemic intensified this trend, with numerous store closures announced. Moreover, bankruptcy filings and liquidations have played a major part in reshaping the retail landscape in this pandemic. Upwards of 160 consumer-facing businesses filed for bankruptcy in 2020, per Coresight Research. Some of these companies announced plans to close all or a portion of stores, while others focused on restructuring efforts, looked for buyers, and/or have since emerged from bankruptcy.

Within the retail sector the pandemic has undoubtedly resulted in an uneven playing field, with certain sectors benefiting from changes in consumers lifestyles and spending habits, while others have felt the brunt of the adverse impacts, as detailed below:

Positively Impacted by the Pandemic	Mixed or Neutral	Negatively Impacted by the Pandemic
E-commerce Mass Merchants Dollar Stores Grocery Stores Sporting Goods Furniture Arts & Crafts	Pharmacy Books Consumer Electronics Jewelry	Department Stores Specialty Apparel Off-price Footwear

*Note(s): B. Riley Advisory Services has deemed predominantly businesses that have experienced an uptick in demand due to changing consumer behavior during the pandemic as positively impacted.

In addition to certain sectors benefiting more than others, there has also been a variation in the types of brick-and-mortar stores that have been experiencing a resurgence in customer traffic levels sooner than other types. In general, consumers in many areas of the country seem to be favoring

Overview

outdoor lifestyle centers and outlet centers versus indoor malls. Some outdoor shopping outlets have even reported customer traffic levels returning to pre-pandemic levels. For example, Gap's Old Navy banner, which is often found outside of malls, has outperformed the Gap and Banana Republic stores, both of which are typically found in indoor malls. Similarly, L Brands has reported plans to close some of its Bath & Body Works locations and open more off-mall stores. In addition to the benefits of being outdoors, outlets have also been popular thanks to their low-cost structure. Mass merchants and dollar store retailers have also fared better than other retailers thanks to more consumers focusing on value.

Additionally, even within retailers' own store fleets, some have seen a distinct shift in where sales are weakest, as often city stores in urban locations have experienced more severe sales declines than stores in more rural areas. A compilation of factors could be working against city stores, as the pandemic has resulted in a reduction of tourism in general, and major metropolitan areas often rely on tourists for a portion of their business. As a large percentage of office workers have been working from home for most of the past year, there has been a reduction in consumers commuting into cities. Some major cities also saw an exodus of residents fleeing for the suburbs to find more space to accommodate working from home and remote learning.

Despite the turmoil faced by the retail sector throughout 2020 and into 2021, many retailers have been dealing with the disruption and finding new ways to move forward. Moreover, consumers have been spending, even if the economic recovery has been largely uneven. Based on data from the U.S. Census Bureau, for the full year, 2020 sales increased approximately 4.5% versus 2019 to total $3.9 trillion. During the holiday period in particular, November-December retail sales totaled $787.1 billion, representing year-over-year growth of 8.0% per calculations from the National Retail Federation ("NRF"). Positive results have continued into 2021, as the U.S. Census reported unadjusted retail sales in January 2021 totaled an estimated $320.2 billion, up 10.8% over January 2020. Sales were boosted by a new round of stimulus checks and a spike in consumer confidence following the start of COVID-19 vaccination rollouts.

Going forward, many retailers are hopeful that the third round of stimulus checks that started being distributed in March will continue to positively impact spending. However, challenges remain in the form of container shortages and related increases in freight costs. Simply put, there has been a shortage of containers available to get inventory out of China and other countries. This is partially due to an uneven volume of trade, whereby China was sending more containers out to other countries than it was receiving back. The lack of available containers has increased lead times for companies waiting for their products. The ports in the U.S. in some cases have been so overwhelmed with arrivals that there is a long wait to unload. Many companies have therefore reported significant increases in both lead times and freight costs in recent months. It remains to be seen when this situation might start to see some resolution.

Issues such as lead times and freight costs will need to be weighed carefully by retailers that have been working to appropriately manage inventory levels amid changing consumer spending patterns. During 2020, many retailers cancelled or reduced orders to avoid being left with a glut of residual inventory. This year, many are being cautious with orders, hoping for a rebound during the third and fourth quarters, and being prepared to chase high-selling items if needed. In addition, many brands have also continued to place a focus on sustainability. While some of these initiatives have been placed on hold since the pandemic as companies focused on COVID-19 difficulties, for others, COVID-19 has thrown the importance of preserving the health of the planet into high-gear.

E-Commerce

KEY INDUSTRY DRIVERS

- **COVID-19 impact:** During 2020, e-commerce experienced exponential growth as a result of COVID-19, as consumers shifted away from brick-and-mortar shopping. Many retailers reported quarterly digital sales growing in excess of 100% or more during 2020, particularly during the second quarter. In addition, Shopify saw expansive growth in 2020, as many new online stores were created on the online platform. It reported revenue growth of 86% in 2020, including growth of 94% in the fourth quarter.

- **Convenience options:** The pandemic has resulted in many companies relying on more options for consumers to shop. While Amazon has dominated e-commerce in recent years, COVID-19 accelerated growth for the online portion of many retailers. There also continued to be a blurring of the lines on how consumers shop. While many retailers had already offered buy online, pick up in store options, this became greatly expanded during the pandemic. Curbside pickup also became increasingly popular, whereby a customer places an order online, drives to their local store, and a sales associate brings the order out and places it in their trunk.

- **Delivery:** Recognizing heightened demand for online orders to arrive as soon as possible, several retailers have partnered with services such as Shipt, Instacart, and Lyft for that last mile delivery option. Customers can place an order online, and a shopper will then go to the store, retrieve the items, and deliver them to the consumers' home, often within a matter of hours. In some cases, consumers are able to text with their shopper to request replacement items for goods that are not available, or add additional items to the order.

- **Shipping:** Shipping costs continue to increase, and during the holiday season in particular there were additional fees placed on some orders to account for the increase in demand. Amazon's Prime option remains the benchmark within the industry, whereby customers pay a yearly fee of $119 to receive free two-day shipping on purchases, with other retailers, such as Walmart, offering similar programs. Many retailers have thresholds to receive free shipping, which can vary widely, from as low as $25 to up to $150 or more.

TREND TRACKER

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

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

SALES TRENDS

	Fourth Quarter 2020	Third Quarter 2020	Second Quarter 2020	First Quarter 2020
% of Retail Sales	19.8%	20.0%	22.1%	16.5%
Change Year Over Year	32.1%	36.6%	44.5%	14.8%

Source: www.census.gov/retail. Results are revised estimates, calculated using information in the most recent press release for the fourth quarter of 2020, excluding sales of automobiles and gasoline.

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Amazon	44.0%	37.0%	40.0%	26.0%
Walmart U.S. E-commerce	69.0%	79.0%	97.0%	74.0%
Wayfair	44.9%	66.5%	83.7%	19.8%
Target Digital	118.0%	155.0%	195.0%	141.0%
Overstock	84.0%	111.0%	109.0%	(4.0%)

*Note(s): The most recent quarter reported for Amazon, Wayfair, and Overstock ended December 31, 2020 and represents total net sales/revenue. Walmart ended January 31, 2021 and represents U.S. e-commerce sales including grocery delivery. Target ended January 30, 2021 and represents digital sales.

Department Stores

KEY INDUSTRY DRIVERS

- **COVID-19 impact:** The COVID-19 pandemic accelerated changes that were already underway within the department store sector. For example, store closures, whether as a result of bankruptcy or not, intensified for many, particularly within malls. Additionally, e-commerce sales grew exponentially, with some department store retailers reporting digital sales representing close to, or in some cases more than, 50% of sales in recent quarters. Many continue to offer the buy online, pick up in store (BOPIS) option as well as curbside pickup. The sector also saw several bankruptcy filings; while some have emerged and continue to operate, such as Neiman Marcus, JC Penney, and Belk, others, such as Lord & Taylor and Stage Stores, have liquidated entire store fleets. Regionally, downtown and urban stores in many cases have fared worse than suburban shopping centers, due to the decline in tourism from other countries and a lack of workers commuting to cities, among other factors.

- **Expense reductions:** During the early stages of the pandemic, many department store retailers worked to restructure financially to reduce costs. Going forward, retailers will be transitioning out of conserving cash and look for ways to attract shoppers, while reducing debt.

- **Inventory:** Many department stores worked to appropriately manage inventory levels during the fourth quarter, having adjusted purchases earlier in the year and working to sell through excess and aged goods to end the year in a clean inventory position, with some reporting inventory levels down more than 20% compared to the same quarter in the prior year. However, some did report some late receipts during the fourth quarter, which they worked to sell through. Going forward, many department store retailers are focused on attracting customers through appealing product offerings. Examples included shop-in-shop formats at retailers like Kohl's, which is adding Sephora shops to certain locations, and Nordstrom, which recently announced adding Tonal shops to some stores. Some have also announced plans to grow online product offerings through both increased product lines as well as marketplace formats. In addition, on a categorical basis, home products have outperformed apparel in many cases, particularly dressier options as more workers work-from-home and events have been delayed or cancelled. Some department stores have shifted focus more toward athleisure apparel and more casual options. Going forward, some department stores are hopeful for a resurgence in apparel spending once the COVID-19 vaccine is more prevalent and consumers once again begin to attend functions.

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
Nordstrom	(19.0%)	(7.0%)	(58.0%)	(36.0%)
Macy's	(17.0%)	(21.0%)	(34.7%)	*
Dillard's	(17.0%)	(24.0%)	*	*
Kohl's	(10.1%)	(13.3%)	*	*

*Note(s): Asterisk (*) indicates that the company did not report comparable sales in that quarter due to COVID-19 and temporary store closures. The most recent quarter reported for all companies ended January 30, 2021. Some retailers report results including e-commerce sales; Kohl's' and Nordstrom's most recent quarter represents net sales.

Specialty Apparel Stores

KEY INDUSTRY DRIVERS

- **COVID-19 impact:** Similar to department stores, the specialty apparel store sector, which primarily consists of mall-based retailers, saw a number of bankruptcy filings during 2020, many as a result of COVID-19. Some of these retailers have emerged from proceedings after restructuring, such as Tailored Brands, J. Crew, and True Religion; some brands have been acquired, such as Brooks Brothers, Ann Taylor, LOFT, Lou & Grey, and Lane Bryant, the last four all formerly part of Ascena. Already in 2021 Christopher & Banks has filed for bankruptcy with plans to close all stores, but, similar to New York & Co., which closed its stores, the intellectual property of both of these brands, as well as Catherine's and Justice, has been purchased allowing for a potential future online only. The sector has also seen many store closures both as a result of bankruptcies as well as in an effort to right-size the business.

- **Store locations:** In general during the pandemic, it seems that specialty apparel retailers located within outdoor shopping centers have experienced higher levels of shopper traffic than indoor malls. This includes outlet centers as well as strip centers. For example, Gap's Old Navy banner, which is typically located outside of malls, has outperformed the mall-based Gap stores and Banana Republic in recent quarters.

- **E-commerce:** Many specialty apparel retailers have experienced increased sales through the e-commerce channel, and have highlighted the buy online, pick up in store (BOPIS) option. Some also offer curbside pickup.

- **Apparel trends:** During the pandemic, athleisure and more casual attire have outperformed dressier items, as evidenced by retailers such as Lululemon performing well. This is due to a plethora of factors, including the fact that the majority of office workers that were able to work from home started doing so in the spring, and many have not yet returned to the workplace. In addition, many major work-related events have been cancelled or moved to virtual settings in 2020, as in general in-person events with large crowds are avoided to slow the spread of the virus. Within the children's apparel sector, remote learning in many parts of the country reduced the need for new apparel items. Going forward, specialty apparel retailers are hopeful that there could be a resurgence in spending as the COVID-19 vaccine becomes more prevalent and life starts to resemble a degree of normalcy. Some are hoping there will be pent up demand for consumers that may not have purchased new attire in a meaningful way in over a year, or as events such as weddings and parties become more common. In addition, should students increasingly return to in-person learning, demand for children's as well as teen's apparel could increase.

- **Inventory:** Similar to department stores, many specialty apparel retailers worked to appropriately manage inventory levels during the fourth quarter, having adjusted purchases earlier in the year and working to sell through excess and aged goods to end the year in a clean inventory position. However, similar to other industries, issues with container shortages and backups at the ports could continue to plague specialty apparel retailers.

TREND TRACKER

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

Specialty Apparel Stores

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Family Specialty Apparel				
Urban Outfitters	(6.0%)	4.0%	(8.0%)	(24.0%)
Banana Republic	(22.0%)	(30.0%)	(27.0%)	(47.0%)
Gap	(6.0%)	(5.0%)	12.0%	(50.0%)
Old Navy	7.0%	17.0%	24.0%	(42.0%)
Women's Specialty Apparel				
White House/Black Market	(36.0%)	(28.7%)	*	*
Chicos	(34.4%)	(32.3%)	*	*
Christopher & Banks	Bankruptcy	(22.6%)	*	*
Express	(27.0%)	(30.0%)	(24.0%)	*
Anthropologie	(11.0%)	(9.0%)	(25.0%)	(33.0%)
Free People	6.0%	17.0%	11.0%	(19.0%)
Lululemon	21.0%	19.0%	*	*
Victoria's Secret	(3.0%)	(10.0%)	(10.0%)	(15.0%)
Soma	15.2%	10.5%	*	*
Men's Specialty Apparel				
DXL	(23.4%)	(20.5%)	*	*
Teen Specialty Apparel				
Abercrombie & Fitch	(5.0%)	(5.0%)	(17.0%)	(34.0%)
American Eagle	(1.0%)	(3.0%)	(15.0%)	(38.0%)
The Buckle	18.0%	12.0%	6.0%	(47.2%)
Zumiez	4.7%	8.1%	37.3%	*
Children's Specialty Apparel				
The Children's Place	(7.8%)	(19.0%)	(12.3%)	(38.1%)
Carter's/OshKosh Retail	(9.0%)	(3.5%)	N/A	(14.9%)

Note(s): Asterisk (*) indicates that the company did not report comparable sales in that quarter due to COVID-19 and temporary store closures; "Bankruptcy" indicates the company did not release results due to having filed for bankruptcy protection. Some retailers represent net sales. The most recent quarter reported for Carter's ended January 2, 2021 but two quarters ago ended June 27, 2020 it did not break out U.S. retail sales as the other quarters show; the most recent quarter for Urban Outfitters, Anthropologie, Free People, and Lululemon ended January 31, 2021; all other companies ended January 30, 2021, except those that did not report due to bankruptcy. Banana Republic, Gap, and Old Navy represent global sales.

Off-Price/Dollar Stores/Mass Merchants

KEY INDUSTRY DRIVERS

- **COVID-19 impact:** Industry results have been mixed depending on the subsector. Dollar stores have continued to thrive as lower price points aid shoppers on a budget. Stores have increasingly updated product offerings to include pantry items and more frozen and fresh foods, as well as household items. Customer traffic has waned in some stores, although average basket sizes have increased. Most dollar stores have also performed well due to their off-mall locations, as consumers have increasingly been shopping at outdoor shopping centers and outlets during the pandemic versus indoor malls. Dollar stores in rural and suburban areas have benefited the most as consumers move away from city living. Mass merchants have also been top performers. Sales have benefited from higher basket sizes despite some reduced store traffic, indicating that while consumers are limiting their number of trips to stores, they are purchasing more at one time. Electronics, home goods, wellness products, and grocery items have performed particularly well. E-commerce sales for these retailers have also been high. Target and Costco have received praise recently for raising minimum wages to upwards of $15/$16 per hour; Walmart also increased pay for many hourly employees. Conversely, many off-price players have struggled due to decreased traffic, with comparable store sales overall down. Additionally, many have either less-developed or non-substantial e-commerce operations. Home furnishings and décor have performed well, while apparel has been down. There could be a surge in apparel sales once COVID-19 vaccines are more widely administered.

- **Store activity:** While other sectors have been reducing store counts, off-price and dollar stores continue to expand. Ross Stores, Target, Dollar General, Burlington, and Five Below have all reported plans for store openings. Target is investing billions over the next few years to open and remodel stores, as well as speed up online fulfillment.

TREND TRACKER

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

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
TJX	(3.0%)	(5.0%)	(3.0%)	(52.5%)
Ross Stores	(6.0%)	(3.0%)	(12.0%)	*
Burlington Stores	0.0%	(11.0%)	*	*
Nordstrom Rack	(23.0%)	(32.0%)	(43.0%)	(45.0%)
Walmart	8.6%	6.4%	9.3%	10.0%
Target	6.9%	9.9%	10.9%	10.8%
Costco	12.6%	17.0%	13.6%	8.0%
Dollar General	12.7%	12.2%	18.8%	21.7%
Dollar Tree	2.4%	4.0%	3.1%	(0.9%)
Family Dollar	8.1%	6.4%	11.6%	15.5%
Five Below	13.8%	12.8%	6.0%	(51.8%)
Big Lots	7.9%	17.8%	31.3%	10.3%

*Note(s): Asterisk (*) indicates that the company did not report comparable sales in that quarter due to COVID-19 and temporary store closures. The most recent quarter reported for Costco ended February 14, 2021 and excludes fuel; Walmart and Dollar General ended January 29, 2021; all other companies ended January 30, 2021; Walmart excludes Sam's Club and fuel; Dollar Tree excludes Family Dollar; Family Dollar excludes Dollar Tree. Certain quarters for TJX, Ross, and Five Below reflects the period in which stores were reopened only as applicable. Nordstrom Rack represents net sales.

Sporting Goods

KEY INDUSTRY DRIVERS

- **COVID-19 impact:** Sporting goods retailers have emerged as winners during the COVID-19 pandemic. At the onset of the pandemic, many sports seasons, such as football, baseball, softball, lacrosse, and tennis, were canceled or postponed. However, demand for sporting goods was not lost, but rather delayed as demand returned as sports seasons resumed across the country. Sporting goods retailers reopened their brick-and-mortar storefronts with added safety guidelines and have welcomed pent-up demand from athletes. While in-person shopping has returned by and large, sporting goods retailers continue to attribute a notable portion of sales growth to online sales through e-commerce websites.

- **Products and participation:** With gyms and fitness centers being widely closed or operating at limited capacity, consumers have resorted to working out at home. Demand for at-home workout products such as stationary bikes, primarily smart bikes such as Peloton, and free weights remains high, often resulting in stock outs for these categories. Additionally, many consumers have opted to find refuge in the outdoors while spending more time at home, which has caused an increase in participation rates of outdoor activities. Individuals have particularly increased their participation in camping, hiking, fishing, and golfing.

- **Firearms and ammunition:** Demand for firearms continues to surge in the current environment. Consumers typically purchase firearms due to the political environment and fear for personal safety, both factors that have been volatile and prevalent within the last year. The pandemic, social unrest, a new Democratic president, and the recent disturbance at the Capitol in January catapulted demand for firearms in recent months. According to an analysis of federal gun background checks, more than two million firearms were purchased in the month of January 2021, an 80% year-over-year spike and the third-highest monthly total ever recorded. Demand has led to months-long backorders of firearms and has left bullet inventory to be almost non-existent. At the beginning of March, the Background Checks Expansion Act, as well as its other legislative counter parts, were reintroduced to Congress.

- **Industry activity:** The sporting goods sector continues to see activity; Sportsman's Warehouse entered an agreement to join privately-held Great American Outdoors Group, the parent company of Bass Pro Shops, Cabela's, White River Marine Group, and a collection of resorts. Dick's continues to expand, with plans to open six new stores and six concept stores in 2021.

TREND TRACKER

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

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Dick's	19.3%	23.2%	20.7%	(29.5%)
Big 5	10.5%	14.8%	(4.2%)	(10.8%)
Sportsman's Warehouse	57.7%	40.9%	61.0%	28.6%
Sturm, Ruger & Company	61.1%	53.4%	35.2%	8.4%
Peloton	128%	232%	172%	66%

*Note(s): Results for Dick's include Dick's Sporting Goods stores, Golf Galaxy, and the e-commerce business. The most recent quarter for Big 5 ended January 3, 2021; Sportsman's Warehouse and Dick's ended January 30, 2021; Sturm, Ruger & Co. represents total revenue growth versus the prior quarter; Peloton represents total revenue growth versus the prior year, with its most recent quarter ended December 31, 2020.

Footwear

KEY INDUSTRY DRIVERS

- **COVID-19 impact:** Footwear sales have continued to see mixed results amid the pandemic. Retailers and brands with more enhanced omnichannel services have performed well, while retailers without omnichannel capabilities have been more negatively impacted. The industry has seen increased online sales, BOPIS, and curbside pickup, as well as virtual showrooms and digital tradeshows. Companies have also placed a stronger emphasis on direct-to-consumer and drop ship sales.

- **Consumer preferences:** Footwear sales continue to be driven by fashion trends and consumer preferences. Sales of comfort and athletic styles have benefited as more people work from home and partake in outdoor activities; however, despite this fact the NPD Group reported that retail sales of athletic footwear declined in both dollars and units in 2020 compared to the prior year. Canceled events such as weddings, graduations, and business events led to sharp declines in fashion footwear sales for the year. However, once vaccines are fully rolled out and life returns to some normalcy, industry experts expect dress shoes sales to return.

- **Sustainability:** Several footwear brands, including Aldo, Vans, Adidas, Allbirds, Keds, Salvatore Ferragamo, Timberland, Merrell, and others, are prioritizing environmental and sustainability initiatives, including concepts with a focus on durability, recyclable or renewable materials, and biodegradability.

- **Sourcing:** Companies are diversifying sourcing away from China to other emerging economies such as Vietnam, India, Indonesia, Brazil, Ethiopia, and Ghana, among others. While this was happening prior to COVID-19 as a response to rising tariffs, the pandemic has amplified this trend as retailers were strapped with supply chain disruptions amid factory shutdowns.

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
Designer Brands Inc.	(21.0%)	(30.4%)	(42.7%)	(42.3%)
Johnston & Murphy	(34.0%)	(43.0%)	*	*
Foot Locker	(2.7%)	7.7%	18.6%	(42.8%)
Crocs (Americas)	54.4%	22.3%	18.2%	23.3%
Famous Footwear	(1.8%)	(9.1%)	14.7%	12.6%
Journeys	(4.0%)	(6.0%)	*	*
Skechers U.S.	(9.8%)	(20.4%)	(35.9%)	(4.7%)
Deckers	33.8%	86.2%	*	(3.7%)

*Note(s): Asterisk (*) indicates that the company did not report comparable sales in that quarter due to COVID-19 and temporary store closures. Designer Brands Inc. is formerly DSW. The most recent quarter for Skechers, Deckers, and Crocs ended December 31, 2020; Designer Brands Inc., Famous Footwear, and Foot Locker ended January 30, 2021; all other companies ended December 26, 2020.

- **Summer Olympics:** The delaying of the 2020 Summer Olympics has negatively impacted the industry, as the athletic footwear industry is normally heavily reliant on the Olympics for partnerships and sponsorships. The Olympics are currently scheduled for July 23, 2021, and athletic footwear retailers are expecting to benefit from the return.

Consumer Electronics

KEY INDUSTRY DRIVERS

- **COVID-19 impact:** The consumer electronics industry has experienced supply chain issues as a result of the COVID-19 pandemic. Factory shutdowns in China resulted in production delays for finished goods, and also caused delays in shipping for electronic components. Because of these disruptions, design decisions and new product launches are being delayed. The pandemic has also exacerbated a global shortage of computer chips, which factor heavily in both the consumer electronics and automotive industries.

- **New technologies:** CES, the annual consumer electronics trade show focusing on new products and technologies, was held this January 2021 in a completely virtual format due to COVID-19. At the event, new technologies for televisions, cell phones, and health products were showcased, among other categories. Highlights included LG releasing plans for a rollable cell phone that it aims to market in 2021. 5G technology has continued to be rolled out over the past several years. Samsung and TCL released new phones that allow for 5G technology at a more affordable price point than previous offerings. Television technology has continued to improve upon brightness and resolution, with releases of brighter OLED models and 8K images. Several health and wellness products were also showcased, including a high-tech N95 mask and an infrared light device for allergy sufferers.

- **Fitness and home health:** With gyms closed during the start of the pandemic and many people working remotely, the demand for in-home fitness equipment grew during the past year. Along with typical workout products such as weights, high-tech consumer electronics for fitness also became popular. Devices such as Peloton, a stationary bike with a built in screen that connects to live classes, as well as Tonal, an interactive screen with equipment attached, saw strong sales throughout the pandemic. Though gyms have begun to reopen, the convenience of digital classes and internet-enabled fitness devices have continued to increase the prevalence of home workouts.

- **Cell phones:** Smart phone sales in general declined in 2020 due to economic uncertainty and consumers spending less on nonessential items; however, the category did rebound slightly in the back half of the year compared to the first half. In 2020, Apple launched the new iPhone 12 lineup, which consists of four models equipped for 5G. More recently, in January 2021, Samsung released its new Galaxy S21 model. The model is 5G compatible and features a strong processor, but the most significant feature is its lower price point. The new phone begins at $800 as opposed to the $1,000 Galaxy S20.

TREND TRACKER

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

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Best Buy	12.4%	22.6%	5.0%	(5.7%)
Conn's	(7.5%)	(8.7%)	(10.9%)	(17.5%)

*Note(s): The most recent quarter for Best Buy ended January 30, 2021 and represents domestic sales, excluding installment billing; Conn's ended January 31, 2021 and represents product sales only.

B RILEY Advisory Services

Grocery

KEY INDUSTRY DRIVERS

- **Sales remain strong:** When retail sales plummeted in March and April 2020, grocery was the sole bright spot as consumers stocked their pantries to prepare for lockdowns. Sales have since moderated, but are still well above prior-year levels. Even with many restaurants now open, most Americans are still eating a majority of their meals at home, particularly given that many are working or learning from home. Strong demand has also enabled many retailers to pass on cost increases in the form of higher prices, something many had been unable to do in past years due to competition. In 2021, grocery retailers will face tough sales comparisons to the pandemic fueled-increases of 2020, and it is expected that comparable store sales will decline for most players once the impact from COVID-19 has been anniversaried, though sales levels will remain above those of 2019.

- **E-commerce investments:** COVID-19 caused online grocery sales to soar as consumers limited in-person trips. However, the pandemic has brought to the forefront all of the challenges associated with selling groceries online. It is expected that many retailers will reduce the selling space in the stores to expand their back rooms and stage online orders. Curbside pickup will also be a major focus. A Brick Meets Click survey found that more shoppers are opting for grocery pickup over delivery during the pandemic. To meet this need, grocery stores have been expanding designated pickup areas in store parking lots, adding drive-thru pickup areas, and using lockers and automated pickup towers. They have also been working to improve customer satisfaction by adding new features such as designated time slots for pickups, building standalone pickup kiosks, finding ways to reduce wait times, using new storage options to keep food items at an optimal temperature, and using temperature controlled carts during the picking process.

TREND TRACKER

NOLVs	Consistent/ Increasing	— ▲
Sales Trends	Increasing	▲
Gross Margin	Increasing	▲
Discounting	Decreasing	▼

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Kroger	10.6%	10.9%	14.6%	19.0%
Ahold Delhaize	11.2%	12.4%	20.6%	13.8%
Publix	13.4%	16.5%	19.9%	14.4%
Ingles	15.2%	N/A	23.1%	17.5%
Weis Markets	14.1%	14.8%	26.4%	12.9%

*Note(s): (1) All sales exclude fuel, except for Weis Markets. The most recent quarter for Kroger ended January 30, 2021; Ahold Delhaize ended January 3, 2021; Publix, Ingles, and Weis Markets ended December 26, 2020; Ingles did not report comparable store sales for its fourth quarter.

- **Inventory position improves:** At the beginning of the pandemic, grocers grappled with product shortages due to panic buying and supply chain disruptions. Supply has improved in most categories, though stock outs are still prevalent in areas such as cleaning products. Most grocers have been able to find substitute products, but inventory levels are still slightly lower than ideal for many in the industry.

B | RILEY Advisory Services

Pharmacy and Drug Stores

KEY INDUSTRY DRIVERS

- **Pharmacy sales hold steady:** After consumers filled their maintenance medications at the start of the pandemic, script volume began to fall off. Fearing COVID-19 exposure, individuals have put off medical appointments and procedures, causing a temporary decline in the number of new scripts being filled. Social distancing and mask wearing also led to a mild cold and flu season and fewer associated prescriptions, and many customers transitioned to 90-day refills in lieu of 30-day refills to limit trips to the pharmacy. However, some of these negative trends were offset by revenue generated from flu vaccinations and COVID-19 testing, as well as price inflation within branded drugs. Some retailers within the grocery industry in particular experienced an increase in pharmacy sales due to an overall increase in customer traffic.

- **Front-end sales remain lackluster:** Lower foot traffic continues to impact front-end sales. Discretionary categories like beauty have struggled, as has the OTC cough and cold category, though health and wellness products, such as vitamins, have performed well.

- **Amazon enters the pharmacy space:** In November 2020, Amazon unveiled a new business, Amazon Pharmacy. It is expected that customers will use Amazon Pharmacy primarily for maintenance medications versus acute prescriptions, similar to existing mail order services. It remains to be seen what impact this will have on the traditional drug store industry.

- **COVID-19 testing and vaccines:** Retail pharmacies have been at the forefront of the pandemic. As of March 2021, Walgreens had administered five million COVID-19 vaccines across long term care facilities and its stores. It is currently offering vaccines at its stores in 43 states. As of March 2021, CVS had administered 4.5 million vaccines within long term care facilities. CVS is currently administering vaccines within 12,000 stores across 29 states, with a capacity to administer 20 to 25 million shots per month. Rite Aid has administered over one million COVID-19 tests and is offering vaccines at its stores throughout seven states.

TREND TRACKER

	Pharmacy	Front-End
NOLVs	Consistent —	Consistent —
Sales Trends	Mixed ▲▼	Mixed ▲▼
Gross Margin	Mixed ▲▼	Mixed ▲▼
Scripts	Consistent —	

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Walgreens				
Pharmacy	4.5%	5.0%	3.2%	3.5%
Front-End	(3.5%)	0.4%	4.7%	1.9%
Total	2.0%	3.7%	3.6%	3.0%
CVS				
Pharmacy	7.5%	6.7%	4.6%	9.3%
Front-End	(1.8%)	2.2%	(4.5%)	8.0%
Total	5.3%	5.7%	2.4%	9.0%
Rite Aid				
Pharmacy	6.1%	2.3%	2.2%	1.6%
Front-End	(0.7%)	4.6%	16.0%	0.1%
Total	4.3%	3.5%	6.6%	1.6%

*Note(s): The most recent quarter for Walgreens ended February 28, 2021; CVS ended December 31, 2020; Rite Aid ended November 28, 2020.

Furniture and Home Furnishings

KEY INDUSTRY DRIVERS

- **COVID-19 impact:** 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. Some retailers and furniture companies have reported that while written sales have been strong, the pandemic has had a significant impact on production and the supply chain, resulting in a delay in inventory receipts. Industry-wide supply chain issues have resulted in increased costs for many retailers. Because of the uncertainty surrounding the timeline of the supply issues and how long these cost increases will last, retailers have struggled to find the balance of whether or not to increase prices to consumers. While some retailers implement price increases quickly to offset costs, there is concern that if other retailers do not take the same actions the higher priced retailers will lose sales. Overall, sales for 2021 are expected to increase, driven by increased consumer confidence and economic improvement after the initial effects of the pandemic, as well as a strong housing market.

- **Freight costs:** Due to high demand for furniture and home furnishings products in the wake of the COVID-19 pandemic, shipping demand greatly increased, resulting in increased shipping costs, container shortages, and delivery hurdles that have led to industry-wide supply chain disruptions. As demand has remained high and orders are beginning to be fulfilled, warehouse workers and delivery staff have faced challenges when it comes to ensuring product makes it to customers, including ensuring safety and sanitization procedures are followed.

- **Technology:** Furniture retailers have been focusing on technological improvements to improve shopping experiences for customers, such as allowing customers to virtually see how product would look in their room. While many retailers maintain websites and e-commerce, the sites were designed to encourage consumers to visit brick-and-mortar showrooms. However, customers now desire to make the purchase online directly, so retailers are finding ways to present products to customers in an online setting.

- **Housing market:** Existing home sales have climbed throughout 2020; single-family housing starts were up during the second half of the year. Low mortgage rates and a high number of buyers are expected to keep sales growing. Increased home purchases spur sales of furniture and home furnishings.

TREND TRACKER

NOLVs	Consistent/ Increasing	— ▲
Sales Trends	Increasing	▲
Gross Margin	Mixed	▲▼
Discounting	Mixed	▲▼

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Bed Bath & Beyond	2.0%	6.0%	*	(10.0%)
HomeGoods	12.0%	15.0%	20.0%	*
Williams-Sonoma	25.7%	24.4%	10.5%	2.6%
Kirkland's	1.8%	8.9%	10.2%	*
La-Z-Boy	6.3%	34.0%	14.8%	(35.0%)

*Note(s): Asterisk (*) indicates that the company did not report comparable sales in that quarter due to COVID-19 and temporary store closures. The most recent quarter for Bed Bath & Beyond ended November 28, 2020; Williams-Sonoma ended January 31, 2021; Kirkland's and HomeGoods ended January 30, 2021; La-Z-Boy ended January 23, 2021.

Arts and Crafts

KEY INDUSTRY DRIVERS

- **COVID-19 impact:** Many people have rediscovered or have taken up new hobbies and crafts during the pandemic due to spending more time at home. For example, sewing was driven by demand for face coverings, and children's art and education products, such as tie dye, have benefited as kids also spent more time at home. In addition, the industry has seen increased interest in jewelry making, yarn crafts, and terrarium making, among other projects. The resurgence of crafting has continued to be driven by social media, including on Instagram and TikTok, which have given crafters new audiences. Viewers have often turned into YouTube subscribers and eventually customers for small arts and craft businesses/ Etsy sellers. Similar to other industries, many craft retailers expanded BOPIS and curbside pickup offerings. Moreover, e-commerce sales have been strong for some. For example, Michaels' reported e-commerce growth in excess of 100% in its third quarter.

- **Industry transactions:** The industry has seen some notable transactions recently. For example, Joann is filing for an IPO, noting demand for fabrics was strong due to COVID-19. It will be listing shares on NASDAQ under the symbol: JOAN. The company also benefited from streamlined BOPIS and curbside pickup options. Sales reportedly increased around 20% during 2020 and are expected to continue to rise into 2021, though a return to pre-COVID consumer habits and the eventual wind down in mask needs could ultimately curb sales. In addition, it was announced in March 2021 that Michaels had entered into an acquisition agreement with private equity firm Apollo Global Management Inc. The transaction is expected to close in the first half of Michaels' fiscal year.

TREND TRACKER

NOLVs	Consistent	—
Sales Trends	Increasing	▲
Gross Margin	Mixed	▲▼
Discounting	Increasing	▲

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Michaels	12.9%	16.3%	12.0%	(27.6%)
Etsy	128.7%	128.1%	136.7%	34.7%

*Note(s): The most recent quarter for Michaels ended January 30, 2021; the most recent quarter for Etsy ended December 31, 2020, and represents comparable revenue.

- **Uncertainty going forward:** While the industry is currently seeing a resurgence in sales, the future is still unsettled. Industry sales increases are expected to continue for the time being, though questions remain as to how long gains will last. Increased vaccine rollouts and the elimination of mask mandates may curb sales going forward as consumers will be returning to pre-COVID ways of life and partaking in less home activities such as crafting.

Books

KEY INDUSTRY DRIVERS

- **Book sales surge:** According to NPD BookScan, unit sales of print books were up 8.2% in 2020 to 751 million units, following a decline in 2019. Given COVID-19, many people turned to books to pass the time or learn a new skill/hobby. Parents also found themselves educating children at home, leading to a sharp increase in the juvenile category. Many libraries were also closed, which drove customers to purchase books online. Amazon continues to dominate the book category while its chief bookstore rival, Barnes & Noble, has struggled. Independent bookstores had been experiencing a resurgence prior to COVID-19, but the pandemic has adversely impacted these players. Mass merchants like Walmart and Target, who were deemed essential businesses, have reported strong books sales.

  ebook sales also increased in 2020. According to data from NPD BookScan, 191 million units of ebooks were sold in 2020, up 12.6% versus 2019. ebooks were readily available during times when stores were closed and became a popular choice. Adult fiction and adult nonfiction were the categories said to have experienced the largest increases in sales. Growth in ebooks comes after a few years of flat sales or even declines, as ebook sales were reportedly down 4.9% in 2019.

- **Retail trends:** Prior to the pandemic, Barnes & Noble was plagued by reduced customer traffic, stiff competition from Amazon, and management turmoil, issues made worse by COVID-19 store closures and social distancing guidelines. In 2019, the company was acquired by Elliott Advisors Limited, which owns Waterstones, the largest bookseller in the UK. Since then, the retailer has been in the midst of a transformation. In June 2020, it closed its store on New York's upper east side and reduced its headcount at the corporate office. It also used the temporary store closures to remodel stores and is realigning its store size and merchandise to cater more specifically to the surrounding community.

- **Textbook sales:** Within the college segment, textbook sales were hurt by widespread campus store closures and a shift toward online classes. Purchases are also being impacted by a decline in enrollment. According to preliminary data from the National Student Clearinghouse Research Center, undergraduate enrollment for fall 2020 was down 2.5% compared to the prior year. However, the drop was much higher for community colleges, where enrollment declined 7.5%. Textbook wholesalers have been impacted by a lack of supply in the market, as campus/store closures prevented them from acquiring books during buyback events. This has forced companies to acquire books from other sources, often at a higher cost.

  Within K-12, many schools delayed purchases in the spring of 2020 as schools closed and administrators worked to transition students online. The COVID-19 pandemic and shift to remote or hybrid leaning models has forced districts to accelerate the slow but steady shift from print to digital. As a result, educational publishers have seen sales of their digital products soar.

TREND TRACKER

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

Jewelry

KEY INDUSTRY DRIVERS

- **COVID-19 impact:** Jewelry sales were adversely impacted at the onset of the pandemic as consumers stayed away from stores; many like to see jewelry in person before they make a big-ticket purchase. Yet, consumers' behavior began to shift towards online platforms and sales picked up for retailers who had the proper e-commerce capabilities in place. As stores reopened, many companies experienced an increase in sales due to pent up demand from consumers and increased disposable income from saving costs while not traveling, dining out, or commuting. Many of those who purchased items were purchasing for themselves. However, the pandemic also caused many to cancel or postpone their weddings, which hindered the purchasing of wedding-related pieces.

- **Spending shifts:** COVID-19 impacted the timing of when consumers purchased jewelry for the holidays. Many jewelry retailers reported an early rush in holiday gift demand, with many citing Black Friday, which has historically not been a busy day for buying fine jewelry, as a driving factor in sales. Additionally, some retailers have allowed customers in their stores by appointment only, which has brought in serious shoppers who are dedicated to making a purchase.

- **Acquisitions:** The pandemic interrupted acquisition activity. In November 2019, French luxury good giant LVMH announced it would be acquiring U.S. jeweler Tiffany & Co. However, the pandemic resulted in dismal comparable store sales for Tiffany's, which triggered a dispute between the entities on the closing deadline and price of the acquisition, ultimately causing LVMH to pull out of the deal. The two entities eventually came to an agreement, bringing the price tag of the acquisition to $15.8 billion, down $425 million from the original price.

TREND TRACKER

NOLVs	Mixed	▲▼
Sales Trends	Consistent/ Increasing	▬ ▲
Gross Margin	Consistent	▬
Discounting	Increasing	▲

COMPARABLE STORE SALES TRENDS

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Signet	10.4%	15.8%	(30.6%)	(39.0%)
Tiffany & Co.	(15.0%)	(44.0%)	(45.0%)	3.0%

*Note(s): The most recent quarter for Signet edned January 30, 2021 and represents North American comparable store sales and includes the Kay Jewelers, Jared, Zales, and Piercing Pagoda banners; Tiffany & Co. ended October 31, 2020 and represents North American comparable store sales.

- **Bridal products:** Bridal products, such as engagement rings and wedding bands, comprise the largest share of industry revenue. The pandemic had mixed impact on bridal products, as weddings were delayed. Diamond sales also suffered in the first half of 2020 due to COVID-19; however, recently trends have shown signs of bouncing back. Diamond alternatives have been growing in popularity and widening the audience for fine jewelry, but have not yet significantly impacted sales of authentic diamonds.

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:

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

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.

Capitalize On The B. Riley Difference

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