JUNIOR'S APPAREL

CURRENT TRENDS

- With further bankruptcies and store closings in 2017, junior's apparel is still undergoing a right-sizing based on customer demand and changing trends
- U.S. retail sales for clothing and clothing accessories increased 1.1% in 2017 compared to 2016; however, some retailers in the junior's space have continued to struggle with negative same-store sales
- Holiday sales were varied with positive trends for some (American Eagle, Zumiez) but not others (Buckle, Victoria's Secret)
- The Consumer Price Index for total women's and girls' apparel was -2.3% for November 2017 over 2016 driven by declines in women's apparel (-2.5), suits and separates (-5.1), and girls' apparel (-1.5); the only positive was in the dress category, which was up 0.2% for the period

PROJECTED VALUES
(12-MONTH OUTLOOK)

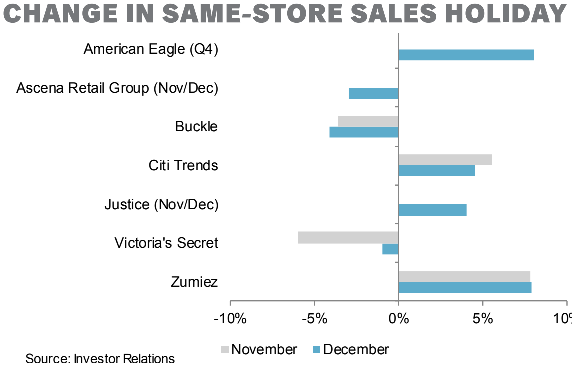
APPROXIMATE NET RECOVERY ON COST

80-90%
designer

80-100%
value-oriented

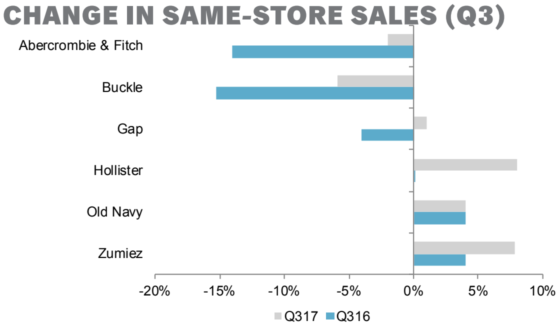
90-100+%
private-label designer

CHANGE IN SAME-STORE SALES HOLIDAY 2017



Source: Investor Relations

CHANGE IN SAME-STORE SALES (Q3)



Source: Investor Relations, Creditntell

Gordon Brothers
1903
GORDONBROTHERS.COM
+1.617.426.3233

BANKRUPTCIES AND LIQUIDATIONS CONTINUE: With a number of large scale bankruptcies and liquidations, 2015 and 2016 were a struggle for many retailers catering to the tween and junior market. Unfortunately, 2017 brought additional bankruptcy filings and store closings to an already battered subset of the apparel segment. A hyper-competitive environment, shifting consumer spending patterns, and increasing pressures from Amazon and other online retailers continue to take a toll on both the apparel and footwear sectors.

Following the 2016 high-profile bankruptcies of apparel chains Pacific Sunwear, American Apparel, and Aeropostale, youth market-focused retailers Wet Seal, The Limited, Rue21, and Charming Charlie all filed for bankruptcy protection in 2017. Once a major player in the youth apparel market, southern California-based Wet Seal closed all of its 170+ stores after filing bankruptcy for a second time in early 2017. Similarly, The Limited closed all 250 of its stores in the wake of a bankruptcy filing in January. A victim of rapid over-expansion, teen apparel retailer Papaya Clothing closed 30 of its stores after filing bankruptcy in June. In this case, the store closures afforded the company an opportunity to right-size its business as a going concern. Most recently, fashion jewelry chain Charming Charlie filed for Chapter 11 bankruptcy and entered into a restructuring agreement with lenders and equity sponsors in December.

As remaining youth-oriented apparel retailers continue to experience negative sales trends, decreasing margins, and eroding liquidity in credit lines, it is especially important for lenders in this space to ensure that they are appraising portfolio companies regularly to offset risks associated with declining recovery values. Partnering with an appraiser who understands the implications of declining net recovery values associated with a receding customer base, loss of vendor support, or increased normal-course discounting activity can help mitigate risk if the company ultimately files bankruptcy and begins liquidating stores.

FAST FASHION CONTINUES RISE: Full-price apparel retailers endured another year of increased competition, as fast fashion companies like H&M, Forever 21, and Zara continued expanding. The last few years have been disproportionately difficult for brick and mortar apparel retailers and for junior's-focused specialty retailers in particular. Overall women's apparel sales have been negatively impacted by decreased foot traffic, Amazon's gain in market share, and teen and tween purchasing patterns shifting from brick and mortar to omni-channel. Another major point of competitive pressure continues to come from low-price fast fashion chains. As electronics and cosmetics gain in importance to youth consumers, there is less disposable income to spend on clothing and accessories.

Some recent retail liquidations have been those of traditional mall-based retailers like Limited Stores and Wet Seal, whose businesses suffered significantly in light of fast fashion's growth. Discount superstores, including Walmart and Target, have also cut into revenues for specialty retailers unable to compete with their lower pricing and geographic reach.

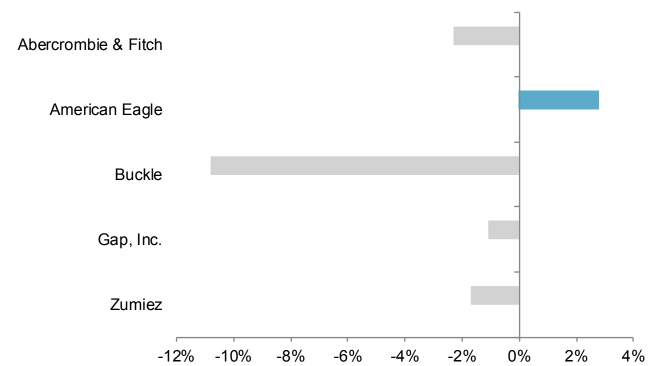
A handful of successful fast fashion retailers have filled in stores where their competitors have exited. International retailer H&M continues to expand aggressively with 475 new stores planned for fiscal 2017. The majority of the new stores will be under the H&M brand but approximately 70 to 80 will be comprised of other brands. Despite its continued global expansion, the company also plans to close 90 underperforming stores. For the year-to-date period ended August, the company opened 54 stores and closed six locations North America. In mid-2017, H&M also launched a new brand called "ARKET" with stores in London, Copenhagen, and Brussels.

Fast fashion success Forever 21 also expanded its footprint in 2017, opening more than 40 "F21 RED" retail locations across the U.S. to expand its reach and attract more trend-influenced teens to its concept stores.

Additionally, Abercrombie Kids recently launched an all-inclusive kids' line aimed at children of all genders. The "Everybody Collection" was created by the company based on customer feedback. Through this new line, the company is looking to create clothing that does not confine "every kind of kid" to a specific color or fashion style.

The need for traditional retailers to reinvent themselves, right-size store counts, and offer additional services to entice customers to their brand will remain a factor in 2018 as fast fashion retailers continue to appeal to younger consumers and gain market share.

CHANGE IN SAME-STORE SALES (8Q AVERAGE)



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