MEN'S APPAREL

CURRENT TRENDS

- Men's suiting and formalwear demand has plummeted as businesses become more casual, baby boomers retire and many continue to work from home amid ongoing pandemic restrictions.
- Athleisure trends are on the rise and fared well in 2020 across all categories.
- Major players Tailored Brands and Brooks Brothers filed for bankruptcy and closed stores in 2020.
- After falling in the prior five-year period, revenue for the U.S. men's clothing stores industry is forecast to rebound through 2025, increasing slightly at an annualized rate of 1.1%.

PROJECTED VALUES
(12-MONTH OUTLOOK)

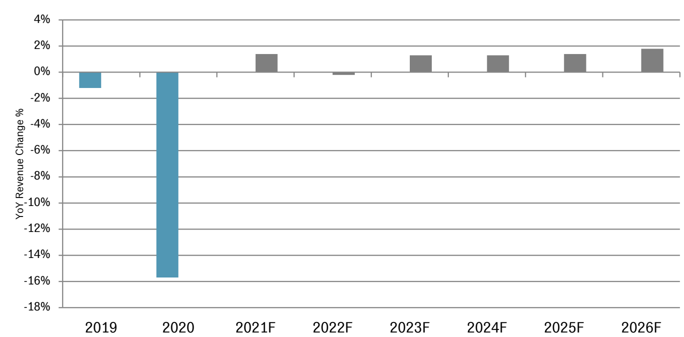
APPROXIMATE NET RECOVERY ON COST

85-100%
high-end designers

85-110%
private-label

65-85%
off-price

MEN'S APPAREL STORES IN THE U.S.
REVENUE AND FORECAST TRENDS



Source: IBISWorld

REFERENCE SOURCES: U.S. CENSUS BUREAU, BUSINESS INSIDER, DIGITAL COMMERCE 360, CBS NEWS, CREDITNTELL, IBISWORLD, NIKE, INC., CNBC, USA TODAY, BUSINESSWIRE, RETAIL DIVE, DESTINATION XL GROUP, INC., TARGET, INC., GRAND VIEW RESEARCH, LOUIS VUITTON, LEVI STRAUSS & CO

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DECREASING DEMAND FOR FORMALWEAR: Revenue for the men's apparel industry is expected to increase at an annualized rate of only 1.1% through 2025, according to research firm IBISWorld. Although expected to rebound from the economic effects of the COVID-19 pandemic, top industry brands suffered, and product demand shifted in 2020. These effects are expected to linger.

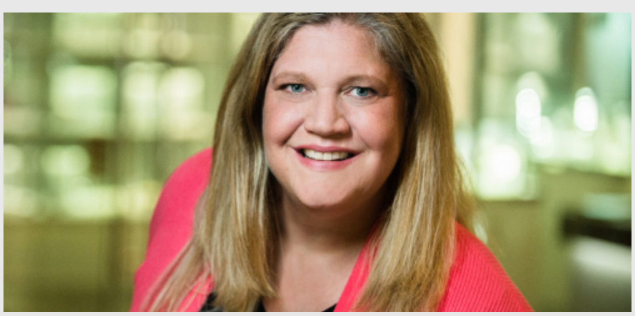
As businesses across the country shifted to work from home, sales of men's formal clothing fell 74% and men's "smart casual" wear fell 62% year over year from March to June 2020, according to analytics firm GlobalData. Demand is expected to remain low well into 2021 as unemployment levels remain high and many continue to work remotely. The pandemic accelerated a trend that began as a large portion of the baby boomers retired, which lead many companies to permit business casual or fully casual attire in offices since many individuals in the current workforce are Generation X and millennials. This demographic shift will continue to influence the industry's product mix as dress codes reflect a more casual work environment.

As a result of these trends several major menswear retailers struggled in 2020, including men's fashion retailer Brooks Brothers that filed for Chapter 11 bankruptcy in July 2020 before permanently closing 51 stores. Tailored Brands, parent company of Men's Wearhouse and Jos. A. Bank, filed for Chapter 11 bankruptcy in August 2020 after announcing plans to permanently close up to 500 stores and cut its corporate workforce by 20% to focus on its go-forward next-gen stores and e-commerce business. For the first half of 2020, Men's Wearhouse, which leans heavily toward suiting and business wear, was down 65% while Jos. A. Bank's sales decreased 78% for the same period. Once reopening fulfillment centers at the end of March, the company's e-commerce sales, which include formal wear rental service sales, dropped 32% in the first quarter versus last year, reflecting the impact and lifestyle shift brought on by the pandemic.

Omni-channel Destination XL, a men's big and tall apparel retailer, reported a soft holiday 2020 performance, with total sales decreasing approximately 24% to $78.4 million for the nine-week sales period ended January 2, 2021, compared to $103.1 million for the comparable period in 2019. Similarly, the company's comparable store sales decreased 38.1%; however, there was an upside as e-commerce holiday sales increased 28.4%.

As the men's category continues to shift away from suiting and formal wear, gross recovery values for those categories may be challenged to the extent inventory levels exceed demand. Alternatively, casual and athleisure wear categories in both apparel and footwear continue to outperform dress categories for most menswear retailers.

The Expert: Becky Goldfarb



Bringing over 15 years of experience in the disposition and valuation of retail and consumer products, Becky Goldfarb oversees all aspects of retail asset valuations. Prior to joining valuations, Becky was responsible for the financial analysis of retail dispositions across all industry sectors. Read her full bio [here.]

ATHLEISURE PREVAILS: Prior to the onset of the pandemic consumers were becoming more health conscious and engaging in athletic activities, driving up demand for athleisure wear. The shift to working from home accelerated this trend beginning in early 2020. The U.S. athleisure category grew approximately 140% from 2010 through 2020. Globally the athleisure market was valued at $300 billion in 2018, with expectations to grow to approximately $517 billion by 2025, based on information from market intelligence firm Grand View Research.

Active clothing accounted for 28% of total apparel dollars spent for the 12 months ended May 2020, up 4% from the year before according to data from the industry analysis firm NPD Group. Sales of active shorts and sweatpants were up 3% and 2%, respectively, from March through July 2020 compared to the prior year. Sales of suits, dress shirts, dress pants and dresses were down more than 50% for the same period.

Old Navy, a Gap subsidiary, offered 55% more activewear during the third quarter of 2020 helping to drive global net sales for the brand, which increased 15%. Old Navy global comparable sales were up 17% for the same period, continuing the strong performance of the brand.

Other dominant athleisure players, such as Lululemon and Nike, have reported stronger sales growth than other apparel retailers during the pandemic. Lululemon reported third quarter 2020 sales for its men's collection increased 14% over 2019. In guidance issued in January 2021, Lululemon expected a growth rate in net revenue to be at the high end of its mid-to-high teens expectation for the fourth quarter of fiscal 2020 over 2019. The company also announced plans to open 30 to 35 stores, and acquired Mirror, an at-home fitness gym, in June 2020.

Nike's revenue grew 9% year over year reaching $11.2 billion as of December 2020, up from $10.3 billion in 2019, while digital sales for its namesake brand were up 84% for the three months ended November 2020, compared to an increase of 38% in 2019.

Other retailers are attempting to capitalize on the athleisure trend, with stores like The North Face, Levi's and Louis Vuitton introducing new products incorporating stretch fabrics for comfort and athletics for both men and women. Additionally, Target debuted a new workout label called All in Motion in January 2020, which generated $1 billion in annual sales in its first year. Kohl's is following up with the launch its own active apparel brand, called FLX, in early 2021.

Given the ongoing expansion and success in the space, Euromonitor and Coresight Research predict the athleisure market in the U.S. will grow about 6.5% annually through 2023.

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