



DUFF & PHELPS

Protect, Restore and Maximize Value

Market Brief

Apparel, Footwear and Accessories Practice

Spring 2020

Market Brief

Spring 2020

While there are broader macroeconomic challenges presented by COVID-19, we recognize that you—as owners, CEOs and business leaders within the broader apparel market—are facing unique, industry-specific challenges. At Duff & Phelps, we will continue to address these challenges the only way we know how—through rigorous data analysis and market research. It is our desire to educate ourselves and others so that we may all come out of this stronger. To that end, we will endeavor to keep you informed of how COVID-19 is impacting various facets of the apparel industry and how certain apparel brands and retailers are navigating through this tumultuous period. This situation is extremely dynamic and we have included our latest observations of recurring themes that are materializing within the apparel sector.

As social distancing becomes a pivotal strategy to stem the spread of the virus, a majority of retail stores have announced temporary closures. Digital sales have become increasingly important to offset the inevitable decline brands will experience on the retail front. Consumer engagement remains a priority, with digital and telephonic now crucial mediums for brands to continue to connect with its customers. Moreover, despite various companies providing incentives such as free shipping, discounts and promotions, consumer purchasing behavior has changed dramatically as the gravity of economic uncertainty continues to percolate worldwide. Despite the challenging macroeconomic backdrop and numerous headwinds directly affecting apparel companies, leading brands across the globe have unified through the understanding that the only way out of this uncertainty is to place the utmost priority on employees, families and customers.

On a similar token, the Consumer and Apparel team at Duff & Phelps extends our best wishes to you, your business and your loved ones as we all navigate through uncharted territory. If there is anything our team can do to help you during these uncertain times, please do not hesitate to contact us.

Warm regards,

Brian Little
Managing Director, Consumer and Apparel M&A Advisory

Joshua Benn
Global Head of Consumer Corporate Finance and M&A

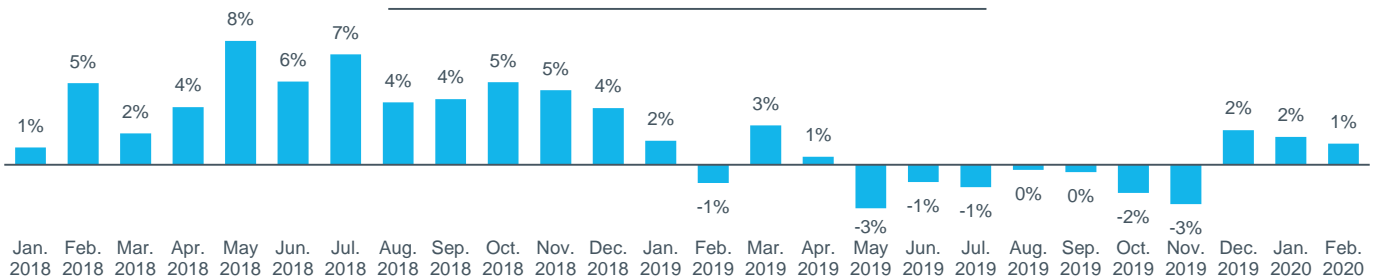
Select Observations | Apparel Market

1 Temporary Retail Store Closures

A growing list of major retailers across the U.S., including Macy's, Nordstrom and Nike, have voluntarily decided to close their stores until the end of March at the earliest. The vast majority of retailers will continue to pay their store employees for the hours that they were scheduled to work during this time. In the meantime they've encouraged customers to shop online instead. These decisions, while necessary for consumers, employees, and the community at large, will undoubtedly weigh heavily on the already stressed industry, with some estimates that this could result in a record year for permanent retail store closures totaling over 15,000.¹

Clothing store sales had experienced some weakness in 2019 and saw a few recent months of growth, but the industry is bracing for steep declines in March that are likely to persist through Q2.²

Clothing Store Sales (YoY Change)



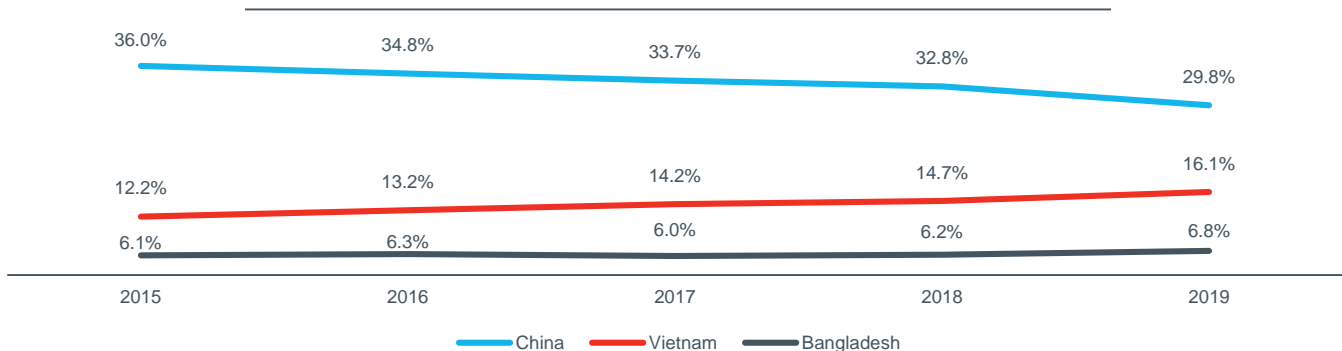
2 Supply Chain Disruption

China is slowly resuming certain manufacturing activities after several weeks of factory shutdowns, but the impact on apparel companies is likely to continue for the foreseeable future. A late February survey by the Cheung Kong Graduate School of Business in Beijing found that 45% of firms surveyed had no way to resume work, mostly due to labor shortages. With strict COVID-19 prevention measures in place across China, the resumption of production has been focused on "urgent market needs".

Although many apparel companies' supply chains have large exposure to China, some apparel companies have managed to limit the impact. Even before COVID-19 struck China, many businesses had begun shifting manufacturing to Vietnam, Cambodia and Bangladesh due to rising labor costs and uncertainty around the U.S.-China trade war. However, these countries rely heavily on China for raw materials. Once the additional stock imported from China in anticipation of factory shutdowns during the Lunar New Year holidays is depleted, the global apparel industry is expected to face the brunt of the supply disruption. For example, Vietnam imports nearly 60% of raw materials in the garment industry from China.³

Other countries such as India and Bangladesh have the entire value chain of textile production within their country, so apparel manufacturers may turn to these countries to make up for the shortfall in supply.

Market Share of Largest Apparel Exporters to the U.S.

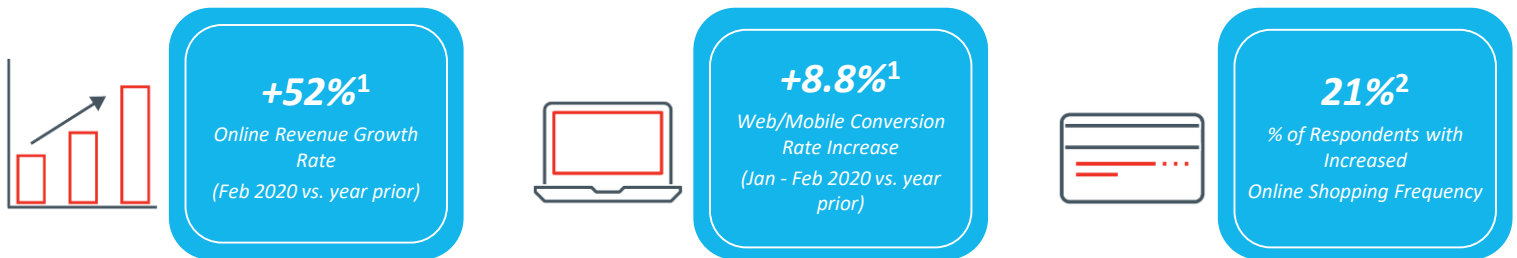


Sources: 1. Coresight Research. 2. U.S. Census 3. Vietnam Textile and Apparel Association 4. The Wall Street Journal

Select Observations | Apparel Market (cont'd)

3 Shift to E-Commerce

As the outbreak forces retailers to close their physical stores, there will inevitably be a greater shift towards online. According to data from retail analytics firm Quantum Metric, U.S.-based retailers with both brick-and-mortar and e-commerce channels experienced a +52% increase in online sales over the prior year during February 2020.¹ A recent consumer survey from First Insight also indicates that as a result of COVID-19, 21% of respondents say they are shopping online more frequently.² Companies with robust e-commerce offerings and well developed online infrastructure will be well-positioned to capture the influx of online shoppers. In particular, those with data-rich loyalty programs that are integrated with mobile apps and websites are best equipped to meet shoppers' demands and further increase online sales. Additionally, as some consumers are forced to turn to digital options to circumvent physical shopping environments, this change in behavior may have a significant longer term impact if brands are able to attract and retain customers who have historically not shopped online.

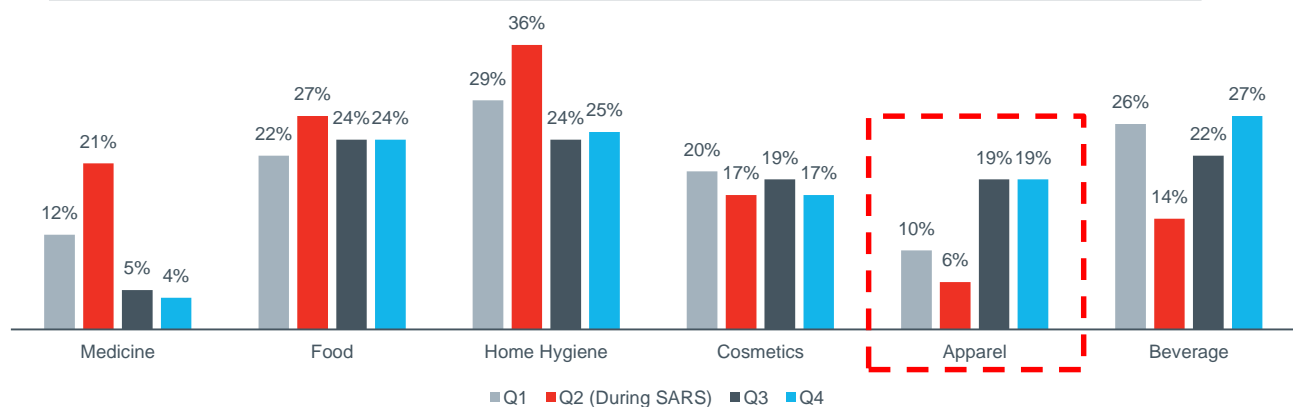


4 Looking Ahead to the Recovery

An analysis by Bain & Company that examined pre-crisis and post-crisis demand patterns across several consumer product categories during the SARS outbreak in China from 2002-2003 may offer some insights as to how consumers will react to the current COVID-19 pandemic.

While the impact of SARS was nowhere near that of COVID-19, it nevertheless resulted in a slowdown in growth during a time of rapid economic expansion in China. In particular, apparel sales grew at a much slower rate during the SARS epidemic and rebounded sharply thereafter.

How Consumer Goods Recovered in China After SARS (YoY Change, 2003 vs. 2002)



Sources: 1. Quantum Metric 2. First Insight

How Retailers/Brands are Responding to COVID-19

1

Active Inventory Management and Cost Containment



"And finally, inventory. Our merchandise planning and allocation, global sourcing teams have been working tirelessly to cancel both spring and address fall on order... and as of today, have canceled over \$55 million of on-order for the balance of the next couple of months." – Harvey Kanter, CEO

EXPRESS

"...while people may be heavy in inventory given the coronavirus situation, we are very nimble and flexible at this point with our inventory levels. We can infuse newness into our assortment where a lot of people will probably be more cutting inventory and trying to liquidate what they have..." – Matthew Moellering, COO

2

Consumer Engagement via Digital Channels



"In the meantime, our digital business can pick up some of the slack. We haven't had that tool at our disposal in prior times when we have seen a demand shock. So we think that we can benefit from some of the pent-up demand that will come out of the other side." – Mimi Eckel Vaughn, CEO



"As over 90% of our business is transacted online...we're still offering our customers our full e-commerce and customer service experience. That said, we've seen a negative impact on customer demand over the past week as we expect our customers' attention is understandably elsewhere." – James Gooch, COO and CFO

3

Cancellation and/or Delay of Non-Critical Business Projects



"...in order to contain the financial impact of the coronavirus at an early stage, we're applying even stronger focus when it comes to tightly managing our cost base [including] cancellation or postponement of any projects that are not deemed business-critical, particularly in areas of administrative costs [and] new hirings." – Mark Alexander Langer, CEO

CALERES
★ 5 ★

"We are actively monitoring the leading indicators across the markets we serve... and reacting in real-time by managing our expenses accordingly, reducing our open-to-buy where necessary, evaluating our promotional cadence and being very disciplined in our management of inventory." – Diane Sullivan, CEO

4

Discounts and Flexible Return Policies



"In an effort to protect our communities, we have decided to close all of our global stores, and we are planning to reopen on March 28th... Due to global Urban Outfitters store closings, we will accept returns and exchanges outside of our normal return policy window." – Urban Outfitters team

FOREVER 21

"We are ensuring clean and safe packaging and shipping standards within our distribution center, lowered our Free Ship threshold to \$21 [and expanded] our return window to 60 days to account for any inconvenience caused by our limited store operations and if needed will continue to extend to ensure you can return your product in store or online as you choose." – Daniel Kulle, CEO

COVID-19: Mitigation Strategy and Considerations

As the COVID-19 pandemic continues to cause operational challenges for companies large and small, it has become important that businesses consider taking a methodical approach to mitigate the severity of economic disruption. Companies that effectively maneuver through this cycle will have an opportunity to truly differentiate themselves during the recovery period and beyond. Listed below are several considerations that may potentially help minimize the impact of this downturn:

Employee and Customer Communication

- Create a healthy and safe workplace for customers and employees by prioritizing health and well-being
- Maintain an ongoing, transparent dialogue with your team
- Stay engaged with customers through digital/telephonic mediums and communicate the company's COVID-19-related efforts

Sales and Marketing

- Identify all potential areas of sales disruptions and revise/create business plans to immediately implement
- Plan for a reduction in sales and conduct necessary mitigation strategies, such as discounts and promotions
- Reinforce relationships with customers through email and social media communication efforts and focus on an online sales and marketing strategy
- Maximize the direct-to-consumer channel to offset lost retail sales and focus on highlighting best inventory, i.e., "core" products

Finance

- Actively manage inventory and operational costs, prioritizing business-critical projects and minimizing/eliminating non-essential expenses and capital expenditures
- Prioritize cash flow over revenue as cash management will be critical for many small businesses in the near-term
- Keep good records of all extraordinary considerations, non-recurring expenses and "one time" items taking place due to the COVID-19 pandemic
- Carefully analyze the company's liquidity position, debt covenants and all potential bankruptcy/insolvency triggers

Operations

- Track all changes in inventory levels from what the business carried historically (e.g., trailing 12- month average) prior to the COVID-19 outbreak
- Communicate with your distribution partner(s) and understand what precautionary measures they are taking and their ability to fulfill orders
- If you do not have a crisis management plan, consider developing one in preparation for the future

Contractual Obligations and Resource Utilization

- Consult with legal, financial, accounting and tax advisors as soon as possible
- Review legal contracts, licenses and lease agreements and assess contractual rights and obligations such as "force majeure" clauses that may provide flexibility for nonperformance
- Negotiate rent abatements and other potential payment extensions as needed
- Ascertain cancellation and return rights of purchase orders
- Document any changes to your employment practices resulting from the outbreak
- Keep abreast of disaster-relief and alternative COVID-19 support programs at the federal, state, local and private levels (see page 7 for select small business loan/grant resources)

COVID-19: Small Business Loan/Grant Resources

In an effort to provide immediate assistance to small businesses that are undergoing capital and liquidity issues, various relief programs have been put in place at the federal, state, local and private levels. Noted below are several potential resources for small businesses to consider should immediate capital be required to assist through this market volatility. Many commercial banks, cities and/or states may also offer special emergency loan programs.

Federal: U.S. Small Business Administration (SBA) Economic Injury Disaster Loans (EIDL)

- The SBA can provide up to \$2 million to help meet financial obligations and operating expenses that could have been met had the disaster not occurred
- SBA offers loans with long-term repayments in order to keep payments affordable, up to a maximum of 30 years. Terms are determined on a case-by-case basis, based upon each borrower's ability to repay
- For questions, please contact the SBA disaster assistance customer service center at 1-800-659-2955 or email disastercustomerservice@sba.gov

Federal: Small Business Paycheck Protection Program (PPP)

- As part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, PPP will offer cash-flow assistance with a 100% federally guaranteed loan to employers who maintain their payroll during this emergency
- Funds are provided in the form of loans that will be fully forgiven with loan payments deferred for six months and no collateral or personal guarantee requirements
- You can apply through any existing SBA lender or through any federally insured depository institution and credit union. A list of participating lenders and additional information can be found at www.sba.gov

State: California Capital Access Program (CalCAP)

- CalCAP is a loan loss reserve program which may provide up to 100% coverage on losses as a result of certain loan defaults
- Individual borrowers are limited to a maximum of \$2.5 million enrolled over a 3-year period
- Contact the California State Treasurer's Office at CalCAP@Treasurer.ca.gov

City: Los Angeles City Small Business Emergency Microloans

- The Economic and Workforce Development Department will provide \$11 million in no-fee microloans of \$5,000 to \$20,000, which may be used to cover working capital
- Since cash flow is critical at this time, the program will offer relaxed underwriting with no credit score minimum and a generous allowance to meet debt service
- For additional information, please visit www.lamayor.org/loan

Private: Facebook Grants

- Facebook is offering \$100 million in cash grants and ad credits for up to 30,000 eligible small businesses in over 30 countries where they operate
- Grant recipients can use the funds to assist small businesses with rent, marketing costs, payroll and other operational expenses
- The platform will be taking grant applications during the coming weeks and has introduced a business resource hub www.facebook.com/business/boost/resource#

About Duff & Phelps

Duff & Phelps' Consumer group is among the most active middle-market advisors, providing sell-side, buy-side and capital-raising services for clients worldwide. With expertise in the consumer, food, restaurant, apparel and retail sectors, our professionals have executed more than 100 transactions over the past 10 years.

The Duff & Phelps platform provides in-depth coverage of the apparel, footwear and accessories industry through dedicated, bicoastal consumer teams and 70 international offices. Duff & Phelps is a trade name for Duff & Phelps, LLC, and its affiliates. Read more at www.duffandphelps.com.

**No. 1 U.S. and global
fairness opinion
provider 2019¹**

**No. 4 middle-market
M&A advisor over the
past five years²**

Proven Execution

100+ Consumer M&A and capital raise transactions over the past 10 years

Deep Sector Expertise

Category focus drives thought leadership and builds invaluable relationships with buyers and investors alike

Customized Approach

Successful track record of premium value transactions driven by hands-on execution and creativity

Experienced Team

Over 30 bankers dedicated exclusively to the consumer sector within the U.S. alone

Global Platform

Over 4,000 employees across 70+ offices in 25 countries, with an extensive presence in the United States, Europe and Asia

Global Leadership Team



Bob Bartell

Global Head of Corporate Finance
+1 312 697 4654
bob.bartell@duffandphelps.com



Steve Burt

Global Head of M&A Advisory
+1 312 697 4600
steve.burt@duffandphelps.com



Joshua Benn

Global Head of Consumer Corporate Finance and M&A
+1 212 450 2840
joshua.benn@duffandphelps.com



Brian Little

Managing Director, Consumer and Apparel M&A Advisory
+1 310 598 4358
brian.little@duffandphelps.com



Henry Wells

Head of U.K. M&A Advisory Products – Valuation Advisory Services
+44 (0)20 7089 4876
henry.wells@duffandphelps.com



David Lu

Head of China M&A Advisory
+86 21 6032 0608
david.lu@duffandphelps.com



Howard Johnson

Managing Director, Consumer M&A Advisory
+1 416 597 4500
howard.johnson@duffandphelps.com



Andreas Stoecklin

Head of Germany M&A Advisory
+49 697 191 8466
andreas.stoecklin@duffandphelps.com



Robin Kim

Vice President, Consumer and Apparel M&A Advisory
+1 424 363 0016
robin.kim@duffandphelps.com

Restructuring Advisory



Brian Cullen

Head of U.S. Restructuring
+1 424 249 1650
brian.cullen@duffandphelps.com

Valuation Services



Myron Marcinkowski

Managing Director, Consumer M&A Advisory Services
+1 678 916 2525
myron.marcinkowski@duffandphelps.com

Transaction Advisory Services



Jacques Giard

Head of France Transaction Advisory
+33 1 40 06 40 70
jacques.giard@duffandphelps.com

Duff & Phelps is the global advisor that protects, restores and maximizes value for clients in the areas of valuation, corporate finance, disputes and investigations, cyber security, claims administration and regulatory issues. We work with clients across diverse sectors on matters of good governance and transparency. With Kroll, the leading global provider of risk solutions, and Prime Clerk, the leader in complex business services and claims administration, our firm has nearly 4,000 professionals in 25 countries around the world. For more information, visit www.duffandphelps.com.

M&A advisory, capital raising and secondary market advisory services in the United States are provided by Duff & Phelps Securities, LLC. Member FINRA/SIPC. Pagemill Partners is a Division of Duff & Phelps Securities, LLC. M&A advisory, capital raising and secondary market advisory services in the United Kingdom are provided by Duff & Phelps Securities Ltd. (DPSL), which is authorized and regulated by the Financial Conduct Authority. M&A advisory and capital raising services in Germany are provided by Duff & Phelps GmbH, which is a Tied Agent of DPSL. Valuation Advisory Services in India are provided by Duff & Phelps India Private Limited under a category 1 merchant banker license issued by the Securities and Exchange Board of India.

The material in this report is for information purposes only and is not intended to be relied upon as financial, accounting, tax, legal or other professional advice. This report does not constitute, and should not be construed as soliciting or offering any investment or other transaction, identifying securities for you to purchase or offer to purchase, or recommending the acquisition or disposition of any investment. Duff & Phelps does not guarantee the accuracy or reliability of any data provided from third party resources. Although we endeavor to provide accurate information from third party sources, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future.

1. Source: "Mergers & Acquisitions Review - Full Year 2019." Thomson Reuters.
2. Source: Thomson Financial Securities Data (U.S. deals \$15M < \$170M, including deals without a disclosed value). Full years 2010 through 2019.