

## Industry Report: Retail Footwear Stores

### Introduction

A nationwide economic slowdown and an overall softening of the retail market have created a formidable challenge to the footwear industry during the past year. Comparable store sales figures, which provide volume for stores open 12 months or longer, have decreased industry-wide over the first half of 2008. For example, DSW experienced same store sales decreases of 6.2% over the first 26 weeks of 2008 while Payless reported a first quarter 2008 comp. sales decline of 6.5%. Meanwhile, industry giant Foot Locker reported a 2.9% decrease over the first quarter of 2008. Based on these results, footwear chains have been conservative in their 12-month sales projections, with many companies expecting negative single-digit comp. sales in fiscal 2009. Amidst tightened consumer spending, overall sales growth in the footwear industry is likely to remain relatively flat over the coming year.

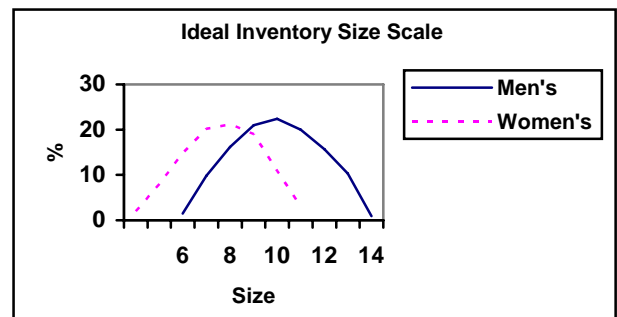
### Industry Outlook

The future success of shoe retailers will hinge primarily upon the integration of e-commerce, mergers and acquisitions and the fashion cycle. With annual online sales projected to eclipse \$5 billion by 2010, compared to \$954 million in 2002, Web-based retailers such as Zappos will have a growing impact on the industry. Additionally, major acquisitions such as Payless ShoeSource's purchase of the Stride Rite Corporation can be expected to increase over the next few years as companies aim to diversify inventory. Finally, declining sales figures over the past year can be partially attributed to the lack of new styles. In 2008 and beyond, "action sport" and "action leisure" models are likely to dictate the direction of footwear fashion. As workplace attire becomes more casual, athletic looks and comfortable feeling shoes are expected to be popular among men and women of all ages.

### Appraisal Factors

Based on recent liquidations and appraisal experience, Tiger Valuation offers the following factors for consideration when dealing with a footwear retailer.

- Inventory mix** - In a liquidation scenario, the most common sizes will sell through first. Store inventory mixes should be monitored during field exams, as broken size scales, aged inventory and mis-mates can impact the net overall liquidation value (NOLV). The graphic at the right shows the ideal size scale as a percentage of total inventory.
- Seasonality** - In athletic or sport categories, some seasons will achieve much higher recoveries than others. Seasonal products must be identified and recoveries adjusted for the different seasons (e.g. boots, sandals and flip-flops).
- Changing trends** - Footwear trends can change quickly, which may lead to excess inventory levels of obsolete or undesirable product. Companies must anticipate fashion trends to avoid being stuck with hard-to-sell merchandise.
- Branded product** - In a liquidation event, shoppers are more likely to purchase well-established, name brand footwear early in the sale. Consequently, a shortage of branded product and/or an overstock of private labels and lesser known brands could negatively impact recovery values.



### Conclusion

Decreased consumer spending and a lagging fashion cycle have stunted the annual growth of many shoe retailers. The success of footwear companies throughout the coming year will center on the ability to meet the demands of cost-conscious customers desirous of comfort-based, lifestyle footwear. The integration of e-commerce will continue to be a crucial source of revenue. Retailers must also proactively manage stock levels and make quick adjustments to merchandise in order to address the challenges of constantly evolving styles, sales trends and seasonality.