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Store Activity & Retailer Health Analysis

Speaker:
Dennis Cantalupo
Chief Operating Officer
Creditntell

Retail/Economic Indicators

Economic & Retail Related Indicators					
Indicator	Current	2013	2012	2011	2010
Unemployment %	**6.1%**	6.7%	7.8%	8.5%	9.3%
Consumer Sentiment (Thomson Reuters/University of Michigan)	**82.5**	82.5	73.8	75.0	74.2
% of Homeowners with Negative Equity in Home (Zillow)	**17.0%**	21.0%	27.5%	31.1%	N.A.
Stock Market (DJIA)	**16,987**	16,576	13,860	12,217	11,577
Online Sales as a % of Total Retail Sales	**6.4%**	5.8%	5.3%	4.7%	4.3%

- **Retail REIT Trends** *(Average amongst 27 publicly traded Retail REITS):*
  - Average Occupancy Rates have increased to 94.97% vs. 94.35% last year
  - Average Base Rent Per Sq Ft increased to $26.23 vs. $25.45 last year
  - Non-Grocery Tenant Sales Per Square Foot Increased to $478 vs. $468 last year
  - Same Store NOI up 2.5% in the 2Q

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Department Stores

Select Department Store Retailers	EBITDA Margin	Credit Rating	Store Count	Store Count% Change
Hudson's Bay	5.5%	D1	320	28.1%
Nordstrom	14.4%	B1	260	8.3%
Boscov's	6.1%	C2	43	4.9%
Stage Stores	6.5%	C1	883	2.2%
Neiman Marcus	10.3%	D1	79	1.3%
Kohl's	13.8%	B2	1,158	1.0%
Macy's	13.6%	B2	840	-0.1%
Bon-Ton	6.0%	E1	270	-0.7%
Belk	10.6%	B2	299	-0.7%
Dillard's	12.1%	B2	296	-2.0%
Beall's	3.8%	C2	501	-2.1%
J.C. Penney	-2.6%	E1	1,062	-3.9%
Sears Holdings	-2.9%	F1	2,302	-7.8%

❖ First half sales were tepid – weak store traffic – luxury still outperforming

❖ Gross margins were under pressure

❖ Very little store expansion except in the off-price subsector – Canadian expansion may be in the cards -especially if Sears Holdings disposes of Sears Canada

❖ Hudson's Bay completed the purchase of Saks at the end of 2013 but very little in the way of additional M&A activity expected

❖ The importance of social media and the internet continue to grow – every department store is now an "integrated retailer"

Key Points

SEARS HOLDINGS

- Unsustainable Operating Performance
  - Nearly $500 million in negative EBITDA in fiscal 2013 and results have deteriorated in the fist half of fiscal 2014
  - Gross margin now in the low 20's
  - $873 million in negative free cash flow in the first half of fiscal 2014
  - Comps have fallen for 30 straight quarters
- The Company continues to sell/spin off assets to plug its cash burn – raised $500 million from a dividend received after the spin off of Lands' End and another $165 million in real estate sales in the first of fiscal 2014 – looking at strategic alternatives for its 51% stake in Sears Canada and Sears Auto Centers
- Capex margin mostly at or less than 1% since 2005 Sears/ Kmart merger
- "Transformation" strategy - Integrated Retail and Member Centric: reduce footprint (closing approximately 130 stores in 2014) grow online and third party sales, personalized marketing
  - Online sales up 18% in the second quarter and 22% year-to-date – estimated to be approximately 5% of total revenues
  - Shop Your Way represented 73% of sales in the second quarter
- Plans to enhance "financial flexibility" - ***Announced $400 million short term financing on 9/16***
  - In the next 6-12 months will work with "lenders and others" to evaluate its capital structure to achieve more long-term flexibility
  - Large diverse unencumbered set of assets especially real estate – owns over 700 full-line Sears and Kmart stores plus some valuable leases - Lampert, "we see rental income as a growing revenue stream in the future"
  - Key Brands – Kenmore, Craftsman, DieHard (KCD IP, LLC)
- **Creditntell Downgrades Sears Holdings Credit Rating to F1 on 9/23/14**

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Results/Comments Disconnect

SEARS HOLDINGS

	Sales	EBITDA	Management comments
1Q13	-8.8%	($49)	"Our recent financial performance has not been acceptable, although we have seen some positive momentum as sales per member increased and our online business grew 20% in the quarter."
2Q13	-6.3%	($95)	"We made meaningful progress in the quarter in our transformation to a member-centric company. Shop Your Way members represented over 65% of our sales and they redeemed rewards points at a significantly higher rate than last year."
3Q13	-6.6%	($327)	"We are proactively transforming our business to a member-centric integrated retailer leveraging Shop Your Way to benefit from the changing retail landscape."
4Q13	-13.6%	($28)	"During 2013, we made progress in our continuing transformation into a member-centric retailer leveraging Shop Your Way and integrated retail, which we believe will position us for enchanced growth and profitability and create long-term shareholder value."
1Q14	-6.8%	($233)	"Sears is undergoing a significant transformation, and we fundamentally are channging the way we do business. Our performance in the first quarter highlights the challenges we are facing as well as the progress we are making in this transformation."
2Q14	-9.7%	($336)	"We have continued to show progress in our transformation, as demonstrated by our year-over-year increase in on-line and multi-channel sales, and with our member sales now representing 73% of eligible sales."

Sears' 2014 Cash Requirements

(in millions)	
Capital expenditures	$330
Interest expense	$358
Pension expense	$260
Total	$948

Potential Cash Burn

EBITDA ($500)	$1,448
EBITDA ($750)	$1,698
EBITDA ($1,000)	$1,948

* We believe EBITDA will fall in the negative $750 million to $1 billion range – under those circumstances Sears stated goal of raising $1 billion will still leave a liquidity crunch.

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Key Points

- Significantly Improved Operating Performance
  - Comps have increased for three consecutive quarters (up 6% in Q2) albeit against very easy comparisons
  - Year-to-gross margin expanded to 34.9% - historical gross margin is in the 39% to 40% range
  - Ended the second quarter with $1.93 billion in liquidity – management estimates that year-end liquidity will be approximately $2.10 billion
  - Most of the stores have been refurbished due to Johnson's initiatives – cap ex will be modest over the next couple of years
- The Company refinanced its credit facility in June adding a $500 million term loan and using the proceeds to pay down revolver borrowings (debt neutral) – ended the second quarter with no direct borrowings under the $2.25 billion revolver
- In September issued $400 million in new unsecured notes (8.125% interest rate is high in this environment) – using at least $300 of the proceeds to retire debt – modest debt maturities over the next several years
- Due to last year's debt issuance interest expense has soared to approximately $400 million – even with its modest capital expenditure budget cash requirements are $650 million
- Despite the comp improvement store traffic remains challenging
- Sales are down 35% from fiscal 2009
- It will be difficult to recapture much of those sales – EBITDA improvement will probably need to come from continued gross margin expansion
- Closed 33 stores but couldn't properly evaluate its store base last year- how many store closures in 2015?
- Ullman has done a admirable job pulling Penney's away from the abyss but the board believes he is not the person to take the Company to the next level – who will be the next CEO?

Sporting Goods

Select Sporting Good Retailers	EBITDA Margin	Credit Rating	Store Count	Store Count % Change
Sportsman's Warehouse, Inc.	10.10%	**D1**	54	17.00%
Cabela's Incorporated	12.40%	**B2**	59	3.51%
Academy Sports + Outdoors	Private	**C1**	176	7.32%
Dick's Sporting Goods, Inc.	10.70%	**B1**	651	8.68%
Dunham's Athleisure Corporation	N/A	**C2**	203	6.84%
Gander Mountain Company	Private	**C1**	131	10.08%
Hibbett Sports, Inc.	15.00%	**B1**	927	6.19%
Modell's Sporting Goods	Private	**D1**	154	0.65%
REI	10.50%	**B1**	132	3.94%
Big 5 Sporting Goods Corporation	6.10%	**C2**	425	2.66%
Sports Authority, Inc.	Private	**E1**	474	-0.60%
West Marine, Inc.	3.60%	**C1**	283	-4.39%
Sport Chalet, Inc.	0.20%	**F1**	51	-5.56%

Outdoor Sporting Goods

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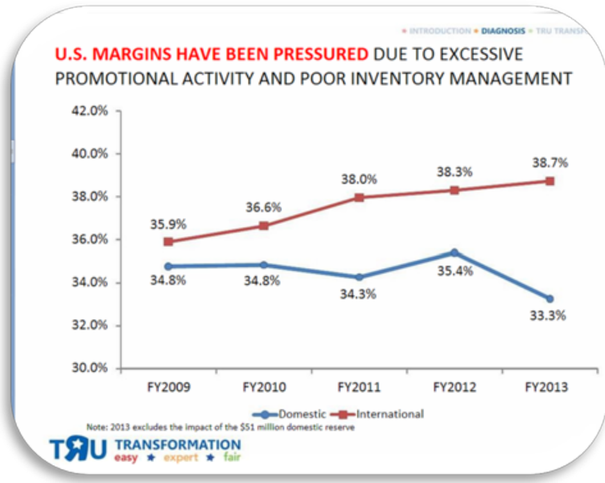
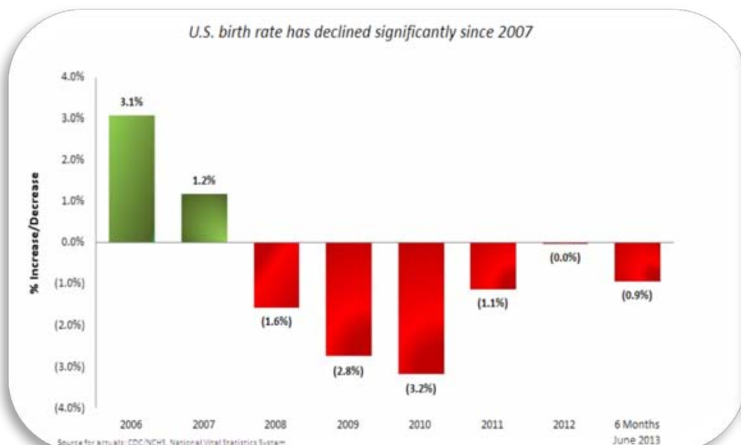
Specialty Retail

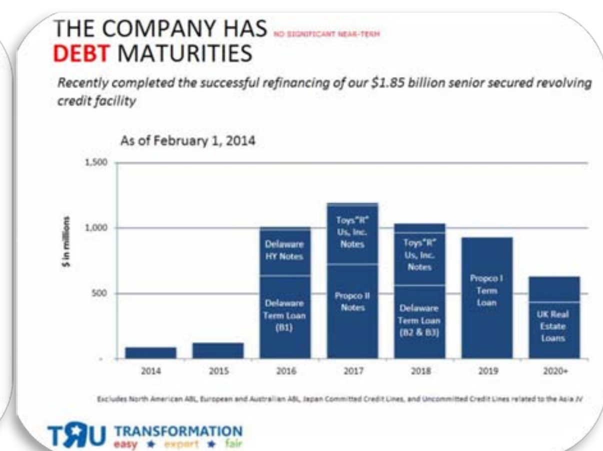
Selected Specialty Retailers	Credit Rating	EBITDA Margin (TTM)		Store Count		8 Quarter Avg
		Current	YOY % Δ	Current	YOY % Δ	Comp Store Sales
RadioShack Corporation	F1	-9.20%	-9.60%	4,228	-1.90%	-9.30%
Toys R Us, Inc.	E1	4.00%	-2.80%	1,779	4.10%	-3.70%
Books-A-Million, Inc.	D2	3.70%	-0.80%	253	0.00%	-5.10%
Trans World Entertainment	D1	3.10%	-0.60%	333	-5.70%	-3.10%
Container Store Group, Inc.	C2	8.00%	N.A.	66	10.00%	2.80%
hhgregg, Inc.	C2	1.50%	-2.20%	229	0.40%	-7.80%
Michaels Stores, Inc.	C2	16.10%	0.70%	1,147	2.50%	2.40%
Office Depot, Inc.	C2	2.80%	0.10%	2,013	63.40%	-3.90%
Pep Boys - Manny, Moe & Jack	C2	5.30%	-0.20%	763	0.00%	-1.40%
Barnes & Noble, Inc.	C1	4.90%	1.40%	1,363	-0.20%	-5.50%
Best Buy Co., Inc.	C1	4.50%	-0.40%	1,053	-0.20%	-1.80%
Conn's, Inc.	C1	15.10%	0.30%	79	12.90%	20.00%
Advance Auto Parts, Inc.	B2	13.10%	-0.20%	5,276	32.90%	-1.20%
AutoZone, Inc.	B2	21.80%	0.00%	5,279	3.30%	1.30%
PetSmart, Inc.	B2	13.50%	0.20%	1,352	3.90%	2.60%
Pier 1 Imports, Inc.	B2	12.50%	-1.40%	1,072	0.90%	6.50%
Staples, Inc.	B2	6.60%	-1.30%	2,053	-6.30%	-3.80%
Bed Bath & Beyond Inc.	B1	15.70%	-0.70%	1,015	0.70%	2.30%
Lowe's Companies, Inc.	B1	10.90%	0.50%	1,836	4.60%	2.80%
Mattress Firm Holding Corp.	B1	9.60%	-0.90%	1,365	24.50%	2.30%
Signet Jewelers Limited	B1	21.80%	5.20%	1,476	1.90%	4.70%
Home Depot, Inc. (The)	A2	14.00%	0.90%	2,263	0.30%	5.50%
Ulta Salon	A1	16.20%	-0.20%	696	20.80%	8.40%

Toys "R" Us

$ in millions	7/28/2012	8/3/2013	8/3/2014	Pct Change
EBITDA (TTM)	$ 1,031	$ 846	$ 499	-51.60%
Interest Expense (TTM)	$ 403	$ 465	$ 500	24.07%
Interest Coverage (TTM)	2.56	1.82	1.00	-60.94%



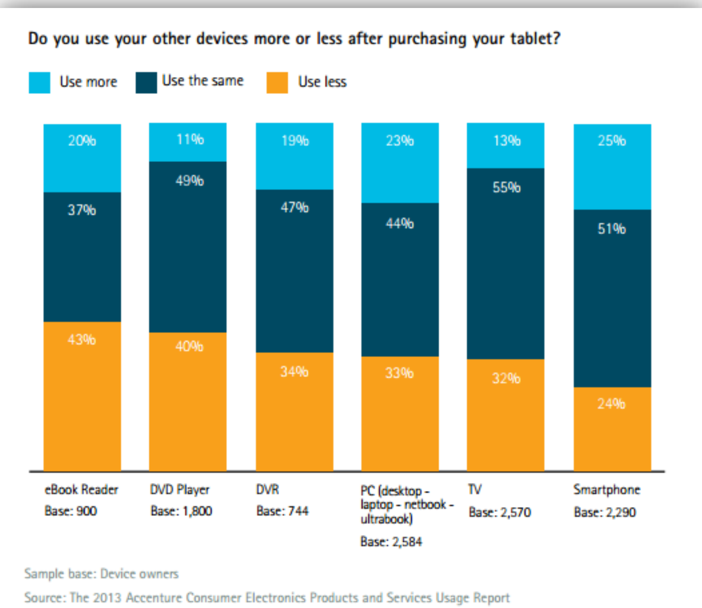


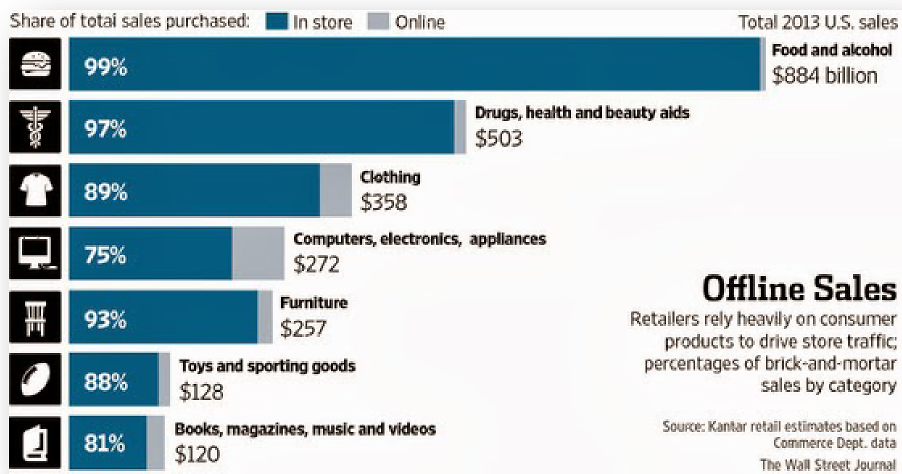


Best Buy

	FYE 1/28/2012	FYE 2/2/2013	FYE 2/1/2014	Pct Change
Sales	44,813,000	43,913,000	42,410,000	-5.40%
Comparable Store Sales	-2.10%	-3.50%	-0.80%	-6.40%
Store Count	1,103	1,056	1,055	-4.40%
EBITDA	3,073,000	2,389,000	1,887,000	-38.60%
EBITDA Margin	6.90%	5.40%	4.40%	-2.40%
Total Debt	2,211,000	1,694,000	1,657,000	-25.10%
TTM Free Cash Flow	2,398,000	802,000	620,000	-74.10%
Interest Coverage	40.97	26.54	25.85	-36.90%
Total Debt to TTM EBITDA	0.72	0.71	0.88	22.00%
Debt to Equity Ratio	0.52	0.65	0.42	-20.30%
Credit Rating	B2	C1	C1	N.A.

2q14 YTD
- Comps down 2.3%
- EBITDA Margin up 20 bps
- Cash = $3 billion
- Debt = 1.64 billion





RadioShack

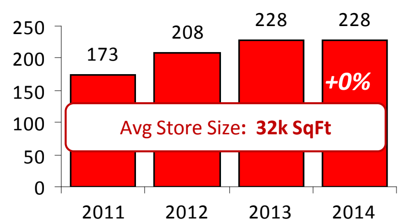
	2010	2011	2012	2013	Current
Comparable Store Sales	4.1%	-3.2%	-4.5%	-8.8%	-16.9%
EBITDA Margin	10.3%	7.0%	1.9%	-5.1%	-9.2%
Credit Rating	C1	C2	E1	E2	F1

- Quotes:
  - "In order to meet our expected cash needs for the next twelve months and over the longer term, we will be required to obtain additional liquidity sources, consolidate our store base and possibly restructure our debt and other obligations."
  - "We are actively exploring options for overhauling our balance sheet and are in advanced discussions with a number of parties. We are also working with our key financial stakeholders, including our existing lenders, bondholders, shareholders and landlords seeking to create a long-term solution. This may include a debt restructuring, a store base consolidation program, and other measures to make significant reductions in our cost structure. The details of a recapitalization have yet to be finalized, and we are reviewing several alternatives, some of which would require consent from our lenders. There is no pre-determined outcome to this work and, of course, we cannot be certain as to the outcome from the current discussions."
  - "If acceptable terms of a sale or partnership or out-of court restructuring cannot be accomplished, we may not have enough cash and working capital to fund our operations **beyond the very near term**, which raises substantial doubt about our ability to continue as a going concern. As a result, we may be required to seek to implement an in-court proceeding under Chapter 11 of the United States Bankruptcy Code. If we commence a voluntary Chapter 11 bankruptcy case, we will attempt to arrange a 'pre-packaged' or 'pre-arranged' bankruptcy filing."
  - "In the event the restructuring alternatives described above are not achievable, we would likely be required to liquidate under Chapter 7 of the Bankruptcy Code."

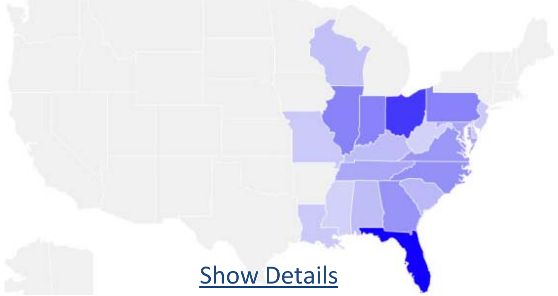
hhgregg appliances & electronics

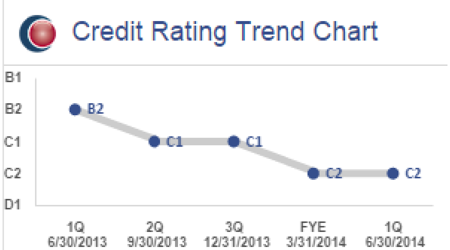
Analyst: Dennis Cantalupo Credit Rating: *C2*

Store Count



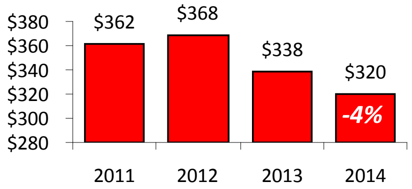
Store Locations



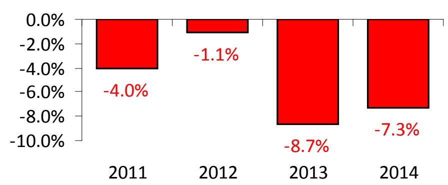


Most Recent Analysis

Sales Per Square Foot

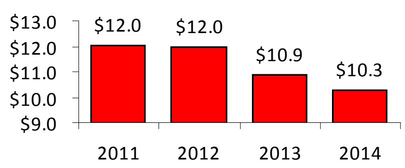


Comparable Store Sales



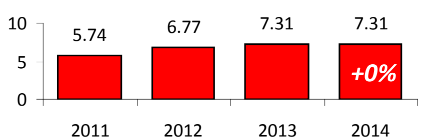
Average Sales Per Store

($ in millions)

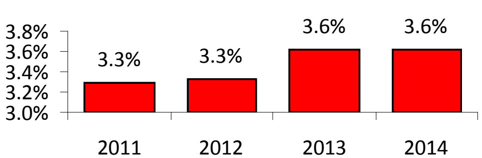


Total Square Footage

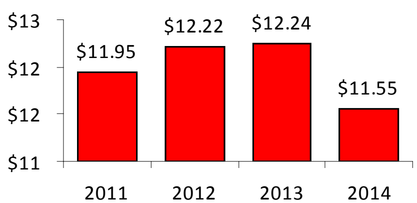
(in millions)



Rent Expense/Sales



Rent Expense/Retail Sq Footage



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Financial Snapshot

BARNES & NOBLE

	13 Weeks Ended 8/2/2014	13 Weeks Ended 7/27/2013	% Change/ Difference	Trailing 12 Months
	(Dollars in Millions)			
Operating Performance:				
Sales	$ 1,236.4	$ 1,329.5	-7.0%	$ 6,288.3
Store Count	1,363	1,366	-0.2%	N.A.
Comp Store Sales (% Change) [1]	-5.1%	-9.1%		N.A.
Gross Margins [2]	29.9%	27.7%	2.2%	29.5%
SG&A Margin	28.6%	28.4%	0.2%	24.6%
EBITDA [2]	$ 16.6	$ (8.9)	N.M.	$ 306.6
EBITDA Margin	1.3%	-0.7%	2.0%	4.9%
Op. Income (Loss)	$ (33.7)	$ (63.9)	47.3%	$ 88.5
Int. Exp. (Income)	$ 5.9	$ 7.6	-21.6%	$ 27.9
Net Income (Loss)	$ (28.4)	$ (87.0)	67.3%	$ 11.3
Interest Coverage	2.80	(1.18)	N.M.	11.00
Return on equity for period	Neg.	Neg.	--	

Sales	2012	2013	2014	Change Since '12
B&N Retail	$ 4,853	$ 4,568	$ 4,295	-11.5%
B&N College	$ 1,744	$ 1,763	$ 1,748	0.2%
Nook	$ 933	$ 776	$ 506	-45.8%
EBITDA	**2012**	**2013**	**2014**	
B&N Retail	$ 332	$ 376	$ 354	6.7%
B&N College	$ 116	$ 112	$ 115	-1.2%
Nook	$ (262)	$ (475)	$ (218)	-83.1%
EBITDA Margin	**2012**	**2013**	**2014**	
B&N Retail	6.8%	8.2%	8.2%	20.5%
B&N College	6.7%	6.3%	6.6%	-1.4%
Nook	-28.1%	-61.2%	-43.0%	53.2%

	Period Ended 8/2/2014	Period Ended 7/27/2013	% Change/ Difference
	(Dollars in Millions)		
Working Capital & Liquidity Indicators:			
Cash and Equivalents	$ 180.2	$ 80.0	125.2%
Accounts Receivable	$ 120.3	$ 150.8	-20.2%
Inventory	$ 1,683.6	$ 1,747.7	-3.7%
% Inventory financed by vendors	65.4%	68.4%	-3.0%
Inventory turnover (annualized)	2.98	2.88	3.3%
Accounts Payable	$ 1,101.1	$ 1,196.2	-7.9%
Days Payable Outstanding	114.34	111.99	2.1%
Working capital	$ 235.7	$ 233.7	0.8%
Cash ratio	0.09	0.04	132.9%
Current ratio	1.12	1.11	0.4%
Debt & Leverage Ratios:			
Total Debt [3]	$ 127.3	$ 134.8	-5.6%
Stockholders' Equity	$ 613.6	$ 622.9	-1.5%
Tangible Net Worth	$ (404.0)	$ (416.2)	2.9%
Total debt to equity ratio	0.21	0.22	-4.2%
Total liabilities to equity ratio	5.11	5.30	-3.7%
Total debt to TTM EBITDA	0.42	0.58	-28.2%

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Thank You for Attending!

Dennis Cantalupo *(Speaker)*
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