Provided Courtesy Of
URISH POPECK
accountants and consultants

WINTER 2012
WWW.BDO.COM

THE NEWSLETTER OF THE BDO RETAIL AND CONSUMER PRODUCTS PRACTICE

CONSUMER BUSINESS COMPASS

NEW YEAR OUTLOOK: RETAIL STRATEGY IN 2012

By Stephen Wyss

With the holiday season behind us, retailers are turning their attention to putting strategic plans into action for 2012. As retailers eye avenues for growth in the New Year, M&A will be a key area of interest and activity. Our recent survey of 100 retail CFOs found that 52 percent believe most M&A activity in 2012 would be on the strategic side. Opportunities for strategic buyouts – both domestic and international – are ripe, and with many retailers reporting better than expected 2011 holiday figures in the U.S. market, some companies may be well-positioned to move forward with acquisitions.

Many domestic retailers recognize that they are overstored in the U.S. and the international market presents the best opportunity for growth. As a result, we expect to see a continued focus on international expansion, particularly in the Asian markets, with U.S.-based companies pursuing deal opportunities, both foreign and domestic, and foreign companies looking to take advantage of opportunities in the U.S. market. Companies that hold the potential to increase consumer loyalty, improve or establish efficient distribution channels and provide enhanced global reach will be vied-for acquisition targets.

Read more on page 2

DID YOU KNOW...

According to the ***2012 BDO IPO Outlook Survey***, bankers predict a 6 percent increase in U.S. IPOs overall in 2012, but just 23 percent expect the number of IPOs in the retail industry to increase over 2011.

In Q4 2011, China's gross domestic product grew by 8.9 percent, the country's lowest growth rate in two years according to the ***National Bureau of Statistics***.

According to the ***International Franchising Association***, the number of franchise establishments will increase by 1.9 percent in 2012, from an estimated 735,571 units to 748,499.

A recent study by ***Colliers International*** reveals that dollar stores now outnumber drugstores in the United States.

Cotton prices are expected to ease in the second half of 2012 from a 2011 high of $2.15 per pound, according to a ***Dow Jones*** report.

Online retail spending for the 2011 holiday season increased 15 percent to a record-breaking $37.2 billion, according to ***comScore***.

▸CONTINUED FROM PAGE 1

NEW YEAR OUTLOOK

▸WHAT RETAILERS ARE LOOKING FOR IN DEALS

1. **Strength of Brand.** Strength of brand will be especially important to M&A deals in the coming year, particularly for strategic buyers. While we saw a lot of private equity buyouts in 2011, and there are indicators that private equity will continue to be very interested in the retail sector, we anticipate an uptick in strategic deals in 2012 as strong retailers look for opportunities to expand market share and enter into new markets. An ideal target will have an enthusiastic and loyal consumer following and present an opportunity for the acquirer to integrate and synergize existing brands with those that are acquired. While a strong brand identity can pose challenges for integration, retailers recognize the value of a loyal customer base in an economy where consumers are increasingly forced to make choices between brands and limit their spending.

2. **Quality of Distribution Channels, Including E-commerce, M-commerce.** With the U.S. market largely saturated, an attractive target for a strategic buyout will give retailers opportunities to distribute products in new markets, both domestically and internationally. Gaining an international distribution channel is a huge revenue opportunity for domestic retailers, but it's not the only important channel for growth. Our survey found that more than a quarter of CFOs (29%) say e-commerce and mobile commerce will be their primary objectives for growth in the next year, as these channels offer potential for broadening distribution at a comparatively low risk. With that in mind, retailers with developed online and mobile infrastructure and advanced technologies will be attractive targets.

3. **Strong Logistics Capabilities**. The economic downturn pushed retailers to be extremely diligent about cutting costs and improving supply chain efficiencies. This continues to be a key strategy to preserve margins and will be a considerable factor in M&A deals. Retailers will look for acquisition targets which can be easily incorporated into the company logistics infrastructure or which have strong existing logistics capabilities to meet and push forward internal efficiency goals. Thus, a strong target will have robust logistics capabilities and solid vendor and supplier relationships in markets where the acquirer sees a potential for growth.

▸LUXURY & MID-TIER SECTORS PRIME FOR M&A

Following a banner 2011, the luxury category will continue to see a lot of interest and deal activity. Luxury has outperformed despite the economic woes that have impacted consumer spending, and many brands are at a premium. Both retailers and wholesalers are looking for an entry point into the category, and we expect acquisitions to remain high in 2012. However, one of the significant challenges with luxury brands is the ability to maintain the elite status of the brand, while at the same time offering extensions of the brand into lower tiered price points to maximize the brand's potential. Over time, an over-saturation or poor performance of the lower tiered offerings can diminish or even tarnish the overall status of the brand.

There may also be more opportunities among mid-tier companies whose holiday performance impacted their market position. Several niche and specialty retailers were under a tremendous amount of pressure this holiday season, and those who show an overall underperformance after holiday sales wind down will be prime candidates for deals in 2012.

▸GLOBAL ECONOMY STILL POSES A THREAT

Despite growing interest in capitalizing on the international market, retail is not immune to the continued global economic crises. Those who have been enjoying the fruits of international expansion will see challenges from the economy in 2012, and there remain substantial risks for those looking to grow internationally.

While the U.S. market saw a slightly improved holiday season after last-minute and post-holiday sales rushes, some European retailers, such as Next, the U.K.'s second largest clothing retailer, saw disappointing holiday sales. This global environment represents

both an opportunity and a risk for retailers looking to expand internationally, as foreign companies may be more open to strategic deals but international markets remain mercurial.

In addition to unpredictable markets on a global scale, a significant risk for companies looking towards international expansion in 2012 will be valuation. While valuations in the marketplace have stabilized, retailers still face challenges as they aim to get good pricing for acquisitions in the face of a volatile global economy.

Overall, we can expect to see significant changes in the retail landscape during 2012, both domestically and internationally. Already, as the holiday season results are being finalized and announced, we have seen a slew of executive changes as retailers look to adjust their strategies, expand into new markets and take advantage of opportunities. We expect M&A activity to start early in the new year, picking up momentum throughout the year as both strategic buyers and private equity firms look to take advantage of remaining opportunities before they disappear.

This article was originally published on ChainStoreAge.com on Jan. 13 and will be featured in the February/March issue of the publication.

Stephen Wyss is a partner in the Retail and Consumer Products practice at BDO USA, LLP.

2012 CALENDAR

The following is a list of upcoming conferences and seminars of interest for retail and consumer product executives:

JANUARY 2012

Jan. 29-31
Food Marketing Institute Midwinter Executive Conference
Hilton Bonnet Creek
Orlando, Fla.

FEBRUARY 2012

Feb. 5-7
NACDS Regional Chain Conference
The Ritz-Carlton
Naples, Fla.

Feb. 11-14
Annual International Franchising Association Convention
World Center Marriott
Orlando, Fla.

Feb. 12-15
National Grocers Association Show
The Mirage Hotel
Las Vegas, Nev.

Feb. 19-22
Retail Supply Chain Conference – Logistics 2012
Gaylord Texan Resort & Conference Center
Dallas, Texas

MARCH 2012

March 4-7
Chain Store Age SPECS 2012
Gaylord Palms Resort
Kissimmee, Fla.

March 14-15
RetailWeek Conference 2012
London Hilton Metropole
London, UK

March 20-22
MPA/MACS Spring Convention & Trade Show
De Vos Place
Grand Rapids, Mich.

CONTACT:

DAVID BERLINER, New York
212-885-8347
dberliner@bdo.com

AL FERRARA, New York
212-885-8000
aferrara@bdo.com

RANDY FRISCHER, New York
212-885-8445
rfrischer@bdo.com

STEVE FERRARA, Chicago
312-856-9100
sferrara@bdo.com

DOUGLAS HART, San Francisco
415-397-7900
dhart@bdo.com

ISSY KOTTON, Los Angeles
310-557-0300
ikotton@bdo.com

ALAN SELLITTI, New York
212-885-8599
asellitti@bdo.com

TED VAUGHAN, Dallas
214-969-7007
tvaughan@bdo.com

STEPHEN WYSS, New York
212-885-7480
swyss@bdo.com

BDO RETAIL AND CONSUMER PRODUCTS PRACTICE

BDO has been a valued business advisor to retail and consumer product companies for 100 years. The firm works with a wide variety of retail clients, ranging from multinational Fortune 500 corporations to more entrepreneurial businesses, on myriad accounting, tax and other financial issues.

ABOUT BDO

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 40 offices and more than 400 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multinational clients through a global network of 1,118 offices in 135 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information, please visit: www.bdo.com.