

EXCERPTS OF RECENT MEDIA COVERAGE

RETAIL AND CONSUMER PRODUCTS PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q3 2013

► RETAIL LEADER

SHOPPING FOR GROWTH

By Ann Meyer

Public Offerings Offer Capital Strategy for Up-and-Comers

The low cost of capital has put a damper on public offerings in the food industry, despite a pickup in U.S. IPOs in general, as most growing retailers and CPG manufacturers rely on debt financing for expansion. But for fast-growing up-and-comers, or the shiny-star divisions locked inside large corporations, IPOs can provide a way to raise capital quickly by liquidating equity.

Overall, when looking at all industries, about two-thirds of capital markets executives expect an increase in U.S. initial public offerings in the second half of 2013, according to a new study by BDO USA. That compares with just 6 percent who foresee a decline in activity. The investment bankers predict a 7.7 percent increase in U.S. IPOs with an average size of \$265 million, the study says. But most of the IPOs will be in the technology, energy, health care, real estate and biotech industries...

A Last Resort

"A driver of the IPO market has to do with how quickly a company is looking to expand. If the debt markets are available to them, going public is generally a last resort



today," says **Al Ferrara, partner and director of national retail and consumer products at BDO USA.** But some companies use IPO capital to pay down existing debt or cash out

an owner, he says.

In the supermarket sector, New York-based Fairway Group Holdings, owner of Fairway Market, wanted capital to leapfrog the competition by opening new stores. "It allowed them to get some capital quickly so they can expand. Otherwise, what are you going to do, open up one or two stores a year?" Ferrara says...

Perhaps looking for a similar outcome, Phoenix, Ariz.-based Sprouts Farmers Market filed the paperwork for an IPO May 9 and announced in July that it would offer 18.5 million shares to the public for \$14 to \$16 a share. It expects to raise \$248 million to pay down debt and fund its expansion. "You're starting to see a lot of these boutiques cropping up that have a niche in organic. They're doing fairly well," Ferrara says.

Niche Players

While consumers like the small-format fresh foods concept, Ferrara says most can't grow fast enough on their own to compete with Austin, Texas-based Whole Foods Market. "You start from scratch and open up one



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or two stores and generate some capital, but the profits generated from those don't equal the capital you need to open up a new store," he says...

"If you have an untapped asset on your books that the market isn't giving you credit for, if you have a diamond in the rough, people don't see the diamond," Ferrara says. "A lot of companies do these spinoffs to unlock inherent value in the company."

► MEDIAPOST MARKETING DAILY

DIGITAL SHOPPING REWIRES BTS HABITS

By Sarah Mahoney

Back-to-school spending has long been a kind of Ouija board for retailers, who parse each week of August sales for clues about how consumers will spend right through to Boxing Day. But focusing on how much this year's spending may tick up or down is missing some of the bigger changes



retailers are facing, says **Ted Vaughan, a partner in BDO's retail and consumer product practice.**

For one thing, digital shopping is changing kids' expectations; for

another, department stores are making a comeback. He explains to Marketing Daily:

Q: So digital shopping -- especially tablets and mobile -- has been important for a few years now. What's different this year?

A: Retailers are usually talking about how these devices affect parents. But whether we are talking about college kids, high school, junior high school or even grade school, a bigger change is that kids are a much more important part of the process. They're browsing more at home, not just getting towed through the clothing racks by their mom. So the things they are looking for are a little more want-driven than in the past. These kids are growing up doing their comparison shopping online, and it's becoming ingrained in them...

Q: Okay -- back to forecasts, with the NRF predicting a small decline in average spending, and others forecasting increases. Is that some kind of harbinger about holiday sales?

A: I think back-to-school sales expectations are diverging from those surrounding the holiday season this year. People had been holding money back, and then last year there was a large catch-up, which is why there was such a big increase in spending last year. Some of those items don't need to be bought again, which is why this year's growth won't be as large. So that's a little different than the normal cycle, and tells us less about what we will see this holiday season.

► CHAIN STORE AGE

RETAIL IPO ACTIVITY TO SLOW, BUT 2013 TO REMAIN A STRONG YEAR OVERALL

By **Ted Vaughan**

The year 2012 was the best year for retail IPOs since 2002 — S&P Capital IQ reported seven offerings for the year — and when we released our 2013 IPO Outlook Study earlier this year, 30% of capital markets executives expected initial public offerings (IPOs) in the retail and consumer products space to continue to grow in 2013. Now that we're well into the second half of the year, how have those expectations fared?...

The second half of the year is not likely to be quite as busy on the IPO front. In July, we released our IPO Halftime Report exploring capital market executives' assessment of the first half of the year, and their projections for the second half. This time, 28% of executives surveyed expect an increase in retail IPOs for the rest of the year, and in many ways, this is unsurprising. The third and fourth quarters of the year are times of heavy promotional activity and end-of-year planning for retailers as they ramp up their back-to-school and holiday shopping activities, pushing IPO planning to the back burner. At the same time, the restaurant and food & beverage sectors, which are less influenced by the holiday

calendar, may proceed as planned with IPOs. A few additional offerings over the next six months puts 2013 on track to meet or exceed 2012's numbers, rounding out a solid year for retailers looking to go public.

If your company is considering entering the public markets in the next year, providing a promising value proposition to potential investors should be a top priority. You should be able to demonstrate steady annual growth, as well as the ability to both predict quarterly earnings in the next year and to hit those targets. Many of this year's IPOs came on the heels on strong earnings results and future projections. You should also carefully track investor appetites. Neiman's planned IPO comes on the heels of a relatively strong stretch of growth for the luxury retail sector, as high-income consumers have weathered the economic storm over the past year.

Finally, you should clearly outline the ultimate goal of the IPO. How you use your proceeds, in many ways, will determine whether shareholders will see value in investing... Any IPO must be rooted in solid financials and a clear path forward, both for your own company and for potential shareholders.

► WALL STREET JOURNAL CFO JOURNAL

THE INSIDE/OUTSIDE PAY GAP

By Maxwell Murphy

Loyalty doesn't necessarily pay for executives looking to rise to chief financial officer and to earn top dollar when they do.

Compensation consultants and executive recruiters say internally promoted CFOs commonly get a much smaller pay package initially than outsiders hired for the same post, often landing them in the bottom 25% among their peers...

Such was the case at J.C. Penney Co., which is undergoing a major overhaul under new Chief Executive Ron Johnson, former head of Apple Inc.'s retail stores. In January 2011, the retailer promoted

Michael Dastugue to CFO and gave the then 20-year company veteran a base salary of \$575,000, well below the \$711,250 salary former CFO Robert Cavanaugh got in 2010. As a retention bonus, it gave Mr. Dastugue restricted stock in November, helping to push his reported 2011 compensation to roughly \$4.3 million...

Corporate boards are so risk averse, they sometimes feel that spending more to attract top outside talent is a safer bet than hiring from within, says **Randy Ramirez, a compensation consultant with BDO USA LLP.** "What boards have to do is a flip-flop," and consider internal candidates more thoughtfully, he says...



Though the pay gap between internally and externally hired CFOs remains, there is anecdotal evidence that a similar gap between inside and outside CEO hires is shrinking, says Mr. Ramirez. He says some recently promoted CEOs have received packages that are much closer to what other, externally hired CEOs have gotten. Take Apple's Tim Cook, for example. When he was named CEO last year, he was granted a million restricted shares that will vest in equal parts on his fifth and 10th anniversary in the post. If vested and sold now, the grant would be worth nearly \$700 million.

► NEWSDAY
BLOOMINGDALE'S AT WALT WHITMAN UNVEILS "PLAYFUL" MAKEOVER

By Keiko Morris

Bloomingdale's in Huntington Station has unveiled its first major makeover, aiming for a "playful" shopping experience, company officials said.

The department store, located in the Walt Whitman mall, is celebrating its completed renovation with promotions and store events such as fashion demonstrations and trunk shows that start Wednesday and run through Sept. 22...

Industry experts say remodeling stores is necessary to keep customers engaged. "What the look was five to ten years ago is not what may be the look of today," said **Al Ferrara, national director of retail for BDO USA,** a consulting firm. "You have to do something that is more exciting, something that keeps their interest."

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