

Renaissance Partners, L.L.C.

Performance is the only option!

THE STATE OF RETAILING

Turnaround and Performance Improvement

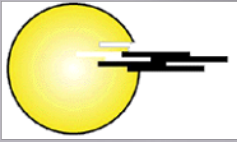
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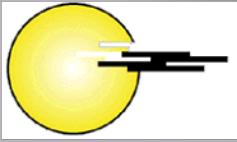


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- Big continue to get bigger; perhaps not better – advertising, brand, expense and supply chain leverage;
- Middle-market regional chains almost gone and mid-sized upscale nationals under liquidity attack;
- Discount and extreme value in favor;
- US consumer disadvantaged, trading down and savings vs. spending
- US facing economic, societal and psychographic change from a widespread group of factors – unemployment, aging population, smaller echo-boomer group with delayed economic impact; higher cost essentials such as utilities, gasoline, taxes, insurance and dramatic reduction in net worth from lower and less liquid real estate and depressed securities market valuations
- Retailer homogeneity no longer matters – its about price, availability of essential consumables and relative convenience (poor customer service, poor housekeeping standards have become accepted practice)
- House brands have become acceptable due to price albeit name brands often offer same or better value
- Some manufacturers extend their retail presence; some abandon retail for core business focus
- International players invade US consumer market, made possible by favorable currency values, declining strength of US retailers, still large US market and opportunity for differentiation through new brands

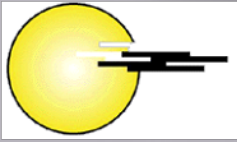


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- Defunct brands being resurrected by liquidators and private capital as means to legitimacy at shrinking number of mass merchandisers and as on-line retail opportunities (e.g., Circuit City, Polaroid – 2nd time around, Comp USA at Tiger Direct and others)
- Higher end retailers and middle-market still seek exclusivity, but for how long and for what benefit – will intellectual property values begin to fall?
- Convenience definition has changed and likely will change further due to higher cost of transportation – neighborhood stores, small stores, broader assortments offered by drugstore chains, extreme value chains (food, household goods, pharmacy items, auto items and basic apparel)
- Household income declining; higher cost consumer debt; lower consumer confidence
- Household mobility non-existent unless forced by foreclosure and job loss
- Casual workplace continues, and on accelerated basis through work-at-home and exportation of jobs to lower cost countries
- Accelerated stress at all levels of income and households as US employers “lean-out” management and workers at all levels of the organization structure
- Same-store sales growth no longer reasonable to expect and no longer a valid performance measurement
- Company consolidation continues; pursuit of global growth continues to expanding consumer markets fueled by US and global private capital; tempered by payoffs of politicians in many developing countries (price of entry and continuation)



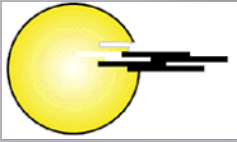
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What Steps Must Occur

- Focus on consumer and demographic-psychographic research
- Focus on defined core customer and core competency
- Stop or slow growth
- Liquidate, sell, abandon and write-off unproductive assets
- Manage for cashflow; pursue self-created liquidity
- Restructure; de-leverage the balance sheet; don't assume sustained bank financing and private capital investment
- Create the new vision, the new plan, the implementation team and timing, describe the vision
- Determine financial requirements and the rolling 13-week cashflow plan (TWCF)
- Implement and execute well
- Rally the stakeholders and keep them rallied through frequent and frank communications...only the truth even if it signals modification to the plan



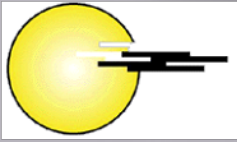
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Segment Domination

- Several years ago approximately two retailer players dominated every category or segment
- Today some segments have lost definition and fewer retailers dominate each remaining segment
- Revenue pressures in a down-economy have caused pure segment players to add merchandise categories to create impulse and convenience sales even if at lower than traditional margins to compete with extreme-value retailers (e.g., dollar stores and pharmacies expand food offerings)
- Malls, once focused on anchor tenants, full-price retailers, apparel and accessories have reinvented themselves by replacing defunct department store anchors with big-box retailers focused on sporting goods, electronics, grocery and non-retail (residential, office and commercial)
- Strip center and power strips are also in transition with some being bulldozed, converted to non-retail use (commercial, office, medical) and re-leased to a mix of retail and non-retail users
- The fact is that the retail landscape has changed and retailers and developers can no longer directly influence consumer behavior.....the customer is truly becoming king and queen...the consumers state of financial affairs is directing their behavior and retailers must react and adapt to survive and eventually to prosper



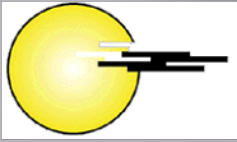
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Consumer Reality

- Higher unemployment
- Under-employment as employers lean-out organizations (corporate earnings recovery without job creation)
- Lower household income
- Lower net worth due to declining home values and reduced probability of unlocking equity in residences, if equity even exists
- Underwater home mortgages
- Tightened consumer credit
- Higher taxes in all forms
- Greater government regulation and bureaucracy – dampens entrepreneurial spirit, innovation and ability to finance innovation
- Political and financial uncertainty – banks, immigration, import/export, health-care, currency valuation
- Exportation of capital to more rapidly developing countries with greater consumption growth (India, China, South Korea)
- Lower consumer confidence, higher savings rates, reduced and redirected consumption toward life sustaining necessities
- Permanency of trends



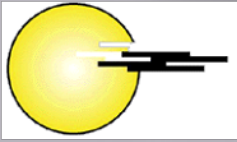
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The Future

- Retailers may need to broaden their customer focus to sustain break-even or better revenue levels (or better defined as gross margin dollars)
- Invest in technology to cut operating cost and simultaneously capture more customer loyalty and purchasing velocity
- Reduce fixed overhead through fewer store and smaller stores
- Pursue international growth opportunities
- Go out on the limb to support initiatives (economic and political) that benefit US economy and consumers vs. benefit politicians and their personal agenda
- Invest in people - employees and consumers. Social interaction people to people (vs. electronic) may be a distinguishing and positive business initiative
- Offer credit options that may revert to past economic practices - layaway, big-ticket credit plans with reduced minimum payment terms
- Better integrate online and store-based business practices to enhance the consumer experience and use of their valuable time
- Search for and consult with customers to determine what they want...and give it to them
- Assume that the FUTURE WILL NOT BET BETTER and run your business accordingly



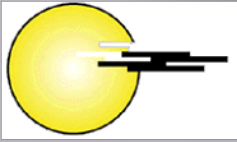
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Problems Plaguing Retailers

- Fixed overhead too high – too much sq. ft., too many under-performing stores
- Reduced “real” gross margin dollars
- Increased competition in all segments as segment differentiation is disappearing
- Management is “silo” trained and is blind to consumer behavior and motivations (training programs were long-ago slashed to save opex)
- Investment in technology has been to cut labor vs. to enhance customer experience and loyalty
- Balance sheets too debt heavy and subject to lower collateral asset valuations
- Fewer re-financing and sale options at reasonably attractive valuations
- Subject to new competition from US retailers expanding assortments and categories and euro-driven non-US retailers willing to play in the US due to its still large consumer spending
- Business landscape uncertainty – taxes on business and consumers, trade policy, health care, banking and lending policies and practices, collateral valuations



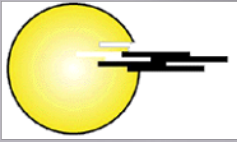
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Lessons Learned

- Nothing is forever
- Study competitors and retailers in other segments in the US and beyond
- Study consumer behavior...management is too often not the consumer that counts
- Perform consumer research; thoroughly and consistently
- Be objective – do not let personal bias affect business decisions
- Watch political and governmental tax and regulations initiatives and use business and personal clout to do what's right vs. what is politically expedient; and direct your business activities accordingly
- Practice conservatism – capital structure, liquidity, growth, investment
- Practice people – invest in and nurture culture, training, development that customers see and welcome
- Practice populating boards with talent that contributes vs. rubber-stamps CEO wishes



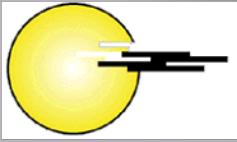
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Avoidance Actions

- Avoid being influenced by investment bankers' insistence on growth at all cost and related leveraging of the balance sheet
- Avoid can't miss opportunities presented by real estate developers offering free capex - nothing in life and business is free
- Avoid growth using a business model that is outside the historical winning formula
- Avoid growth by acquisition or new brand creation if its unaffordable or takes management's attention away from a successful core business
- Avoid growing your way out of a financial problem - it rarely if ever works
- Avoid retaining stores that fail to contribute 4-wall profit materially less than corporate SGA load
- Avoid continuing SGA levels that do not fit your company's and your industry's financial model
- Avoid baby-step corrections
- Avoid retention of management that is not with the culture, with the team, and with the game plan.....politicians and talking-heads are rarely committed to change vs. committed to job retention



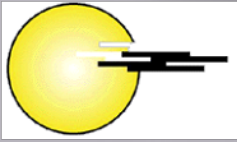
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Distressed Retailer Actions

- Comprehensive, objective business and financial assessment
- Determine personal and business objectives of management and ownership
- Determine if placing more skin in the game is possible and desired
- Define alternative actions
- If alternative action chosen is to fix the business, start now
- Set forth detailed business reorganization plan and timing/action calendar
- Communicate, lead, and encourage committed participation
- Determine who's on board and who's not
- Select teammates
- Define specific responsibilities
- Act
- Measure
- Adjust
- Communicate often, consistently and honestly, admit mistakes, define direction and change, celebrate wins and congratulate teammates for top performance
- Win



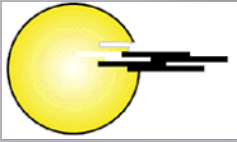
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Case Studies

See “Overview Case Studies” on Renaissance website www.renaissancelc.com



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Team Renaissance – Committed to Performance Improvement

- Turnaround and Restructuring – cash and financial management, liquidity creation, strategic planning, planning and business assessment, operations, distribution, real estate, competitive assessment, re-engineering support functionality
- Performance Improvement – inventory and assortment planning, allocation, distribution, supply chain logistics, merchandising, marketing and sales promotion, field/store operations, information technology and consumer research
- Valuation Gains – in any market performance drives valuation. Team Renaissance has established and widespread network of strategic and financial entities with an appetite for distressed, turnaround and emerging growth opportunities in consumer and consumer related businesses

With over 350 combined years of senior management experience in restructuring situations, Team Renaissance is uniquely qualified to add and create value for your company. We stand ready to move quickly, grasp thorough understanding of client's businesses and partner with management, ownership and other stakeholders to effect creative, affordable solutions.