



Hall A3, Stand 015

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Barnes & Nobles Come back notches best comps in two years

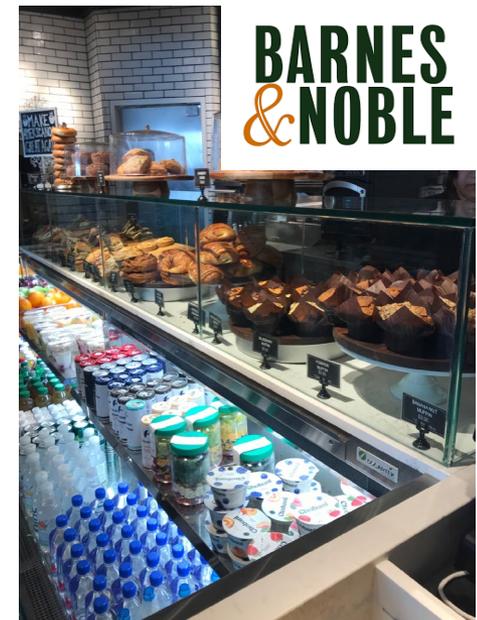
November 28, 2018; Barnes & Noble on Tuesday reported that second quarter total sales fell 2.5% year over year as store comps fell 1.4%, its best **quarterly performance since the fourth quarter of fiscal 2016**, according to a company press release.

There were improvements in other measures as well. Thanks to cost cuts, the retailer's consolidated operating loss in the quarter shrank to \$26.8 million from \$52.2 million in the year-ago quarter, and its loss in consolidated earnings before interest, tax, depreciation and amortization shrank significantly to \$2.3 million from last year's \$25 million loss.

The bookseller's consolidated net loss in the quarter reached \$27.4 million from last year's \$30.1 million loss as gross profit fell to \$225.3 million, with Nook gross profit undermining the retail side's gross profit rise

This holiday season could seal Barnes & Noble's fate as the bookseller considers selling itself, but now it may go private. Here's what happened.

Its sales have been in a decline for six years as the bookseller cedes market share to Amazon and



New Café design

consumers turn to their phones or portable tablets instead of books. There's been a revolving door in the retailer's C-suite, and activist investors have piled on. Now, Barnes & Noble is considering a sale of its business after receiving interest from a handful of parties, including its founder and executive chairman, Leonard Riggio, and reportedly, U.K. retailer W.H. Smith.

Barnes & Noble must prove it can deliver sales growth in its core book business this holiday season. The retail industry as a whole is expected to benefit from strong consumer spending, with the average American household expected to spend \$1,536 through the holidays, according to a survey by Deloitte. That's up 25 percent from a year ago. If Barnes & Noble can't grow sales against such a healthy, economic backdrop, the company could ultimately head down the same path as its former rival Borders, or shuttered Toys R Us or Sears, which is in bankruptcy court.

All things considered, Barnes & Noble still has high hopes ahead of the holidays.

"We've done a lot of things this year to try to put ourselves on the right track and to get our comp-store sales number to head in the positive direction," Riggio told CNBC. "And we are hoping that that comes — we are planning for it to come — during this holiday season."

Customers walk past a book display at a Barnes & Nobles store in New York Thursday, March 16, 2006. Barnes & Noble Inc., the world's biggest book retailer, had strong holiday book sales, leading fiscal fourth-quarter profit to top analyst estimates. Shares rose as much as 8.8 percent, their biggest gain in more than four years.

Adam Rountree | Bloomberg | Getty Images

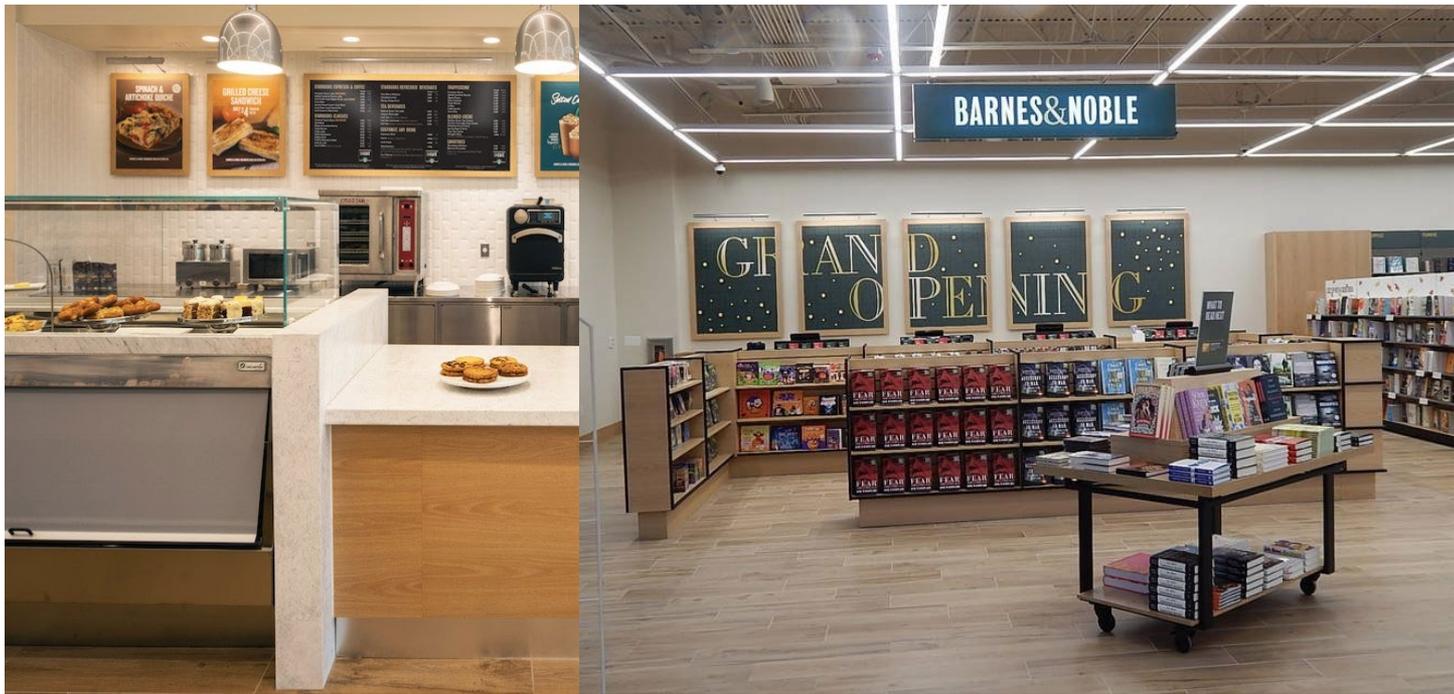
The company will report its fiscal second-quarter earnings on Nov. 20, where it could say more about expectations for its holiday quarter. In September, without giving a specific range, Barnes & Noble said it expected "improving sales trends, positive comps during the holiday period, better gross margins, and continued expense reductions" for the remainder of the year. Analysts surveyed by Refinitiv predict same-store sales for fiscal second quarter will be down 1.75 percent, but then moderate in the holiday quarter, its fiscal third quarter ending Jan. 19, to drop only 0.25 percent.

Last holiday season, the bookseller's sales tumbled more than 6 percent, with e-commerce sales also in the red. After the dismal results, the company slashed its staff.

Now, it has a new plan in place for this year. In a new ad campaign that's being rolled out this week in movie theaters and on cable television, Barnes & Noble touts its more than 20,000 current employees, along with their knowledge of books, as reasons why its stores are unique. "Nobody Knows Books Like We Do" is the message of the campaign, which will run through the middle of January.

Barnes & Noble also will be testing roughly 10 to 15 store layouts during the holidays, featuring different spreads of merchandise, to see what sticks.

"We have a lot of things out there in test form," Riggio said. "Retail is all about that. ... If you're smart, you conduct tests during the holiday season, and that informs you how to run the next holiday."



'We should be a private business'

Within just the past five years, Barnes & Noble has lost more than \$1 billion in market value. Its shares have fallen about 4 percent from a year ago, having spiked more recently on deal speculation, and now trade under \$7.

"To have a company with a small market cap is somewhat problematic," Riggio said. "Our market cap is an indicator that we should be a private business."

Riggio, who is still the retailer's biggest shareholder with a 19.2 percent stake, has tried to buy Barnes & Noble before, only to abort that effort. Even in 2013 — when Riggio was considering a plan to buy the retailer's stores but not its Nook business — Barnes & Noble's future was largely uncertain.

Amazon all the while has managed to take almost 50 percent of new book sales, according to Codex Group, a book audience research firm. While it doesn't break out Barnes & Noble's share, Codex says Walmart has about 4.2 percent of the new book market, tied with the category of independent booksellers, which after a period of decline are staging a comeback.

WHO INVENTED ROCKY ROAD ICE CREAM? IT'S COMPLICATED

By Alissa Greenberg November 1, 2018

Even to a skeptic, Fentons Creamery at dusk radiates charm, the light from its windows stretching into the evening like fingers. The Oakland, California institution flaunts its 120 years, with just-so red vinyl booths, a vintage-style soda fountain, and a rotating refrigerator showcasing sundaes slung with caramel and strawberry syrup.

At one table, a pale 30-something man eats a sundae alone, spoon in one hand and book in the other. Nearby, a group of teenagers huddle over shared bowls of ice cream, and a few tables down a woman in red lipstick and barrel braids helps a toddler gum a plate of chicken tenders. Maybe it's the twilight talking, but watching evening bloom here, it's easy to believe Fentons' version of the story.



According to company lore, Melvin Fenton, grandson of Fentons founder Elbridge Seth (E.S.) Fenton, was the first person to invent rocky road ice cream. A more detailed version, outlined in old Fentons marketing materials (and referenced in simplified form on the current Fentons menu), tells it like this:

“George Farren, candymaker at Fentons Creamery, was making a Rocky Road candy bar at Fentons and decided to blend it into an ice cream flavor. At the time, he was good friends with William Dreyer and Joseph Edy, who had an ice cream shop on Grand Avenue in Oakland. As the story goes, Dreyer soon began making Farren’s recipe for Rocky Road to serve his customers, using almonds instead of the English walnuts.”

That Grand Avenue ice cream shop would go on to become Dreyer’s Ice Cream, also known as Edy’s in eastern states. And hidden in these two sentences is the nut, so to speak, in rocky road’s origin story—Dreyer’s claims to have invented the flavor, too. “People were bummed [in 1929],” the company says on its website. “Dreyer’s wanted to help. So we created a flavor with a name everybody could relate to: rocky road.”



A blend of chocolate ice cream, nuts, and marshmallows, rocky road was among the first ice cream flavors to include “mix-in” materials, a symbol of the modern indulgence made possible by refrigeration technology. Over the years, various companies would try to add their own twists—rocky road with pecan, strawberry rocky road, pineapple rocky road—but the original version remains among the most popular ice cream flavors. Today, Fentons is still a flourishing local business, while Dreyer’s is part of multinational conglomerate Nestle. It might seem on the surface like a classic underdog tale. But the story of rocky road, and the evolution of the two companies that claim it, is just a bit stickier.

The rocky road to rocky road

Fentons wears its history on its walls, in a series of black-and-white photos that span more than a century. In one shot, E.S. Fenton sits with his brother in the horse-drawn

wagon they used to deliver cream at the original Fentons Creamery location, not long after its 1894 founding. In another, an old-fashioned truck idles by one of Fentons’ barns at the start of the area’s dairy renaissance. Next to that, the Fentons entranceway sports what was rumored to be Oakland’s first neon sign.

Dreyer’s story began around the same time as Fentons’. As founder William Dreier liked to tell it, the year was 1906; he was 18 years old, working on a steamer traveling to New York from his native Germany. One day, Dreier was asked to make a frozen dessert for the boat’s captain. He served up water ice—similar to ice cream and a trendy dish at the time—and received such positive feedback that he decided to make ice cream his life’s work.

Dreyer (née Dreier) eventually settled in California, where he worked for a series of ice cream shops before meeting candymaker Joseph Edy in 1926. The first of Edy’s six Character Candies Shops had debuted a year earlier, and the two soon became partners. They opened Edy’s Grand Ice Cream in Oakland’s Grand Lake neighborhood, a fashionable district crowned by an extravagant vaudeville theater—about a mile from Fentons.



Both Fentons and Dreyer’s are indisputable ice cream innovators. Perennial flavor favorite Cookies ‘n Cream was developed in the 1980s by Dreyer’s taster John Harrison, whose taste buds were famously insured for a million dollars. Fentons’ current owner, Scott Whidden, cooked up Cream Caramel Almond Crunch as a 75th birthday present to neighboring California College of the Arts, with which the flavor shares its initials. Over the decades, both companies have pioneered a raft of new confections, most of whose genesis has gone uncontested. Among them, rocky road is the exception.

The flavor takes its name from a popular candy whose origins are similarly hazy. In the early 1900s, when E.S. Fenton was just beginning to provide milk and cream for much of Oakland, a rocky road candy bar featuring nuts and marshmallow was gaining

popularity. Bay Area-based Annabelle Candy first made its fortune selling a version of the confection out of a Mission Street candy shop, and other stores hurried to follow suit. Advertisements of the day highlight the candy's pervasiveness. Take HC Capwell Company, one of Oakland's Grand Dame department stores, which ran an ad in a 1918 issue of the Oakland Tribune—(next to one for equally trendy “Milanese shorty bloomers” (\$3.45)—that hawked “a marshmallow, chocolate, and walnut confection freshly made for Saturday. Special, 59c lb.”

At the time, most ice cream came only in Neapolitan flavors—chocolate, vanilla, and strawberry—which made the birth of rocky road all the more remarkable. It was also arguably the first time someone thought to combine candy and ice cream. John Thomason, who joined Dreyer's in 1970 and worked in several high-level positions, including as vice president of manufacturing, says that “someone” was William Dreyer.

The story Thomason learned when he worked at the company was as follows: On the eve of the stock market crash in 1929, William Dreyer—struck by some creative dairy spark—got the materials together to mix chocolate ice cream with nuts and marshmallows, but immediately encountered a problem. The marshmallows were too big. So that afternoon, Thomason says, Dreyer “took his wife's pinking shears, cut the big craft marshmallows into four pieces, and put them into the chocolate ice cream.” **Rocky road was born.**



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