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SMALLER CONCEPT SPECIALTY RETAILERS FINDING THEIR MARK WITH FINANCIAL AND STRATEGIC INVESTORS

Over \$9 billion Invested in Last Three Years in Entrepreneurial Chains

MINNEAPOLIS, MN, January 16, 2008 – “Specialty” retailers may be one of the more exciting trends these days in retailing, suggests the January *Chronicle* report release by investment banking firm, The Mercanti Group. Mercanti reports that, in the last three years, over 50 of these emerging entrepreneurial chains have attracted investments by savvy strategic and financial investors in excess of \$9 billion.

Just a few of the exciting specialty retailers typical of this growing breed, reports the *Chronicle* are:

- Chromebones, whose slogan is “It’s a dog’s world”, offers “high fashion items with exceptional handcrafted excellence” products for dogs owned by individuals who indulge Fido with birthday and holiday presents, or otherwise pamper their pets.
- Blue Mercury, a personal care products retailer, which sells over 50 brands of personal care products, from make-up to skincare and fragrances, along with time efficient spa services like facials, peels, microdermabrasion and waxing by certified estheticians.
- New Frontiers, a natural foods grocery store founded in 1987, has cashed in on the “corporatization” of similar chains that have grown too large by remaining true to its own successful style, to the point of owning a 53-acre farm that grows 15% of the produce its stores sell.
- Rainbow Sandals, a 37 year old company that was a 1970s icon, has re-invented itself by taking its famous leather flip-flop sandals and offering them in various colors, along with sheepskin boots, jackets, fleece flip-flops and Swarovski embedded sandals and accessories.

These and other specialty retailers, says Mercanti Managing Director Jim D’Aquila, “achieve success with differentiated, compelling and scalable concepts.”

The report doesn’t downplay the difficulties of entering the specialty retail market. It notes that over 400,000 specialty retail stores ring up annual sales of \$350 billion annually. However, the report says, “given these market dynamics it is a tall order to create a retail concept that can compete head to head with retail giants, and stand out to consumers in the midst of such a crowded market.”

Those who have done so have tried different paths, like targeting the ultra-enthusiast consumer within a broader segment. “This niche is the most likely to be dissatisfied with the mass-focused product offering of the established retailers and is more aggressive in seeking new and unique alternatives,” says Mr. D’Aquila. Others, he

points out, have done so by tying a retail concept to a superior shopping experience, like Blue Mercury, or by taking advantage of its competition becoming more corporate, as New Frontiers has done.

“Understanding the customer’s likes and dislikes, and mapping products and services based on those criteria is paramount to a specialty retailer’s business,” the Mercanti report comments. “There are many success stories evolving today in the specialty retail channel for infant and toddler products, where the retailers have paid close attention to the changing faces of parents. Specialty retailer up-starts like Giggle (with five stores), Genius Jones (located in Miami, Florida) and Magic Beans (three stores in Massachusetts) have all shown a uniqueness that has translated into successful, viable businesses in a segment that is dominated by specialty retailers like Babies ‘R Us.”

“Breaking into the specialty retail markets is not an easy task, with many more companies failing than there are those that succeed,” Mercanti says. “But with the right concept and scalability, many companies find themselves at the interest of investors as well as both strategic and financial buyers.”

A copy of this report, which includes a comprehensive listing of recent transaction in the specialty retail sector, can be obtained at www.mercantigroup.com.

About The Mercanti Group

The Mercanti Group is a results-oriented boutique financial advisory firm that embraces a fierce commitment to client service and provides creative Merger & Acquisition, Capital Raising and Strategic Advisory solutions to small and middle market companies, private equity firms and individual business owners in the consumer, health care, technology, business services and manufacturing industries. Mercanti offers companies the expertise and capabilities of a large investment bank with the focus, attention and energy of a small entrepreneurial firm. Mercanti has offices in Minneapolis, Los Angeles and New York. Mercanti also is strategically affiliated with Marquette Financial Companies, a diversified financial services company which is a part of the Pohlad family holdings. If you would like more information on The Mercanti Group, please visit the Web at www.mercantigroup.com, or contact a Mercanti professional at 612.333.0130 (Minneapolis); 310.444.0130 (Los Angeles); or 212.883.0130 (New York).

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