Tiburon Research Group

Quick Note: Early Thoughts December 2011 Sales
January 5, 2012

Strong Top-Line – Yet, Sales Ex-Week #4 & Weak Margins Leave Much to be Desired

- Look for our updated EPS models later in the day. Our monthly *Sales Notes* will be published over the weekend. See attached for the full report and various 'stack' presentations.

- The theme for today is the large-scale downward EPS revisions. Do we need further proof that management teams are sometimes the worst forecasters of forward earnings? Companies materially lowering their EPS guidance today include: **AEO, BONT, JCP, KSS, PLCE,** and **TGT**.

- How much of today's materially lower EPS guidance relates to the earlier store openings on Black Friday (i.e. payroll de-leverage)?

- More than a few retailers are trying to blame unseasonably warm weather on their relatively weak top-line results in December 2011. Yet, let's not forget that retailers generally blamed snowstorms on post-Christmas weakness a year ago.

- Don't believe the hype. Fiscal week #4 in December 2011 <u>alone</u> saved the sector. If the relatively dismal sales trend for other four weeks of the month carries over into January 2012, look for a sharp sales deceleration in the coming months.

  The fact is that the retail industry received a material top-line boost via an optimal fiscal calendar in December 2011 (Christmas Eve landed on a Saturday this year). Week #4's relative strength has nothing to do with guests waiting "to shop for last-minute gifts" as **TGT** suggested today.

- A few retailers are patting themselves on the back for strong sales the week leading up to Christmas. Yet, fiscal week #4 in December 2011 benefitted from an advantageous calendar this year.

  Therefore, retailers attempting to thump their chest for strong sales the week prior to Christmas (e.g. **JCP**, **TGT,** and **WTSLA**) either (1) don't understand retail fiscal calendar dynamics, or (2) believe that savvy institutional investors that actively follow the sector are not smart enough to see through this particular red herring.

- In December 2011, retailers generally reported comp sales results that were +200 Bps to +400 Bps above November 2011. Again, the optimal fiscal calendar played a large part in this outcome. There was a similar result the last time the sector experienced an optimal fiscal calendar (December 2005).

  Therefore, keep an eye on retailers that reported worse comp sales in December 2011 versus November 2011 (e.g. **FRED, SKS, SMRT, TGT,** and **WTSLA**).

- Six retailers that report monthly sales numbers have negative 2-year 'stacks' in December 2011. These are: **FRED** (-0.2%), **BONT** (-0.6%), **CATO** (-1.0%), **SMRT** (-1.9%), **WTSLA** (-5.8%), and **GPS** (-6.0%). See attached table.

- **COST** reported that its Majors category produced +LSD to +MSD comp sales results in November 2011 versus LY. Yet, in December 2011, the Majors category delivered –HSD comp sales. Yikes!

  In December 2011, TV dollars were –Double Digits. Last month, COST bragged about its higher ASP's enabling the category to deliver +HSD comps. What a dramatic reversal. Additional concerns for investors in **BBY**?

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- **COST** suggests that weaker foreign currencies negatively impacted total company comp sales by -50 Bps. This compares to a -50 Bps in November 2011 and -25 Bps in October 2011.

  Keep an eye on retailers with FX exposure.

- **COST** suggests that Food/Sundry inflation was +MSD in December 2011 versus +LSD to +MSD in November 2011 and +LSD in October 2011. Interestingly, Food/Sundry inflation at COST in December 2010 was disclosed as +100 Bps to +200 Bps.

  In addition, COST disclosed that its Fresh Foods inflation was +MSD in December 2011 versus a similar +MSD result a year ago. When will runaway food inflation end?

- Gosh, so many (erroneously) jumped on the **AEO** bandwagon of late. Today's downward EPS guidance revision implies material merchandise margin degradation. This sales release continues to reinforce how competitive the teen space is today and is a precursor to another EPS 'miss' in Q4 2011 that we're forecasting at **ANF**.

- **GPS** again reported dismal comp sales results. Yet, CEO Glenn Murphy suggests that the company is "clear and focused on what needs to be fixed in order to improve" the sales trend in FY 2012.

  How many times has Mr. Murphy made this proclamation? How many times can you cry wolf?

- **PLCE** issues dramatically lower EPS guidance for Q4 2011. Yet, PLCE management places much of the blame on unseasonably warm weather.

  But, you have to chuckle when the company suggests that there has been a "positive consumer response" to the Spring 2012 product line. Note to PLCE management. When you dramatically markdown the product, you'll generally see a "positive consumer response."

- **Looking Ahead by Looking Back… What happened in January 2011?**

  Overall, comp sales in January 2011 were -100 Bps to -200 Bps less than December 2010. Generally, traffic levels were strong. Yet, average unit retail (AUR) results were weak (implied merchandise margin degradation).

  Retailers targeting a lower-end consumer reported relatively weaker sales results. Interestingly, a few lower-end retailers (e.g. **BIG, CTRN, FRED**) complained about the later timing of tax refunds and the inability of their customer to get refund anticipation loans.

  In January 2011, the strongest category performance was in food (inflation), men's apparel, jewelry, and shoes. Weak categories included electronics.

  In January 2011, weeks #1 and #4 were generally considered to be the strongest fiscal weeks from a comp sales perspective. Week #2 was generally held to be the weakest fiscal week in January 2011.

  In January 2011, the South and West were generally held to be the strongest comp sales regions. The Northeast was generally held to be the weakest comp sales region in January 2011.

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Compology: Monthly Reporters 2-Year Stacks December 2011

	December 2010		December 2011		2-Year Stack
Zumiez (ZUMZ)	9.2%	+	10.0%	=	19.2%
Saks (SKS)	11.8%	+	5.8%	=	17.6%
Nordstrom (JWN)	8.4%	+	8.7%	=	17.1%
The Buckle (BKE)	6.1%	+	8.9%	=	15.0%
Ross Stores (ROST)	4.0%	+	9.0%	=	13.0%
Limited (LTD)	5.0%	+	7.0%	=	12.0%
Costco (COST)	4.0%	+	7.0%	=	11.0%
Dillard's (DDS)	7.0%	+	4.0%	=	11.0%
Macy's (M)	3.9%	+	6.2%	=	10.1%
TJX Companies (TJX)	2.0%	+	8.0%	=	10.0%
J.C. Penney (JCP)	3.7%	+	0.3%	=	4.0%
Kohl's (KSS)	3.9%	+	**-0.1%**	=	3.8%
Stage Stores (SSI)	1.9%	+	1.2%	=	3.1%
Target (TGT)	0.9%	+	1.6%	=	2.5%
Fred's (FRED)	0.2%	+	**-0.4%**	=	-0.2%
Bon-Ton Stores (BONT)	0.1%	+	**-0.7%**	=	-0.6%
Cato (CATO)	0.0%	+	**-1.0%**	=	-1.0%
Stein Mart (SMRT)	-1.9%	+	0.0%	=	-1.9%
Wet Seal (WTSLA)	-2.1%	+	**-3.7%**	=	-5.8%
The Gap (GPS)	-2.0%	+	**-4.0%**	=	-6.0%

Note: BJ/COST comp numbers above exclude fuel (BJ, COST) and FX (COST).

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Compology: Monthly Reporters December 2011 vs. November 2011

	December 2011		November 2011		Change
Kohl's (KSS)	-0.1%	+	-6.2%	=	6.1%
Stein Mart (SMRT)	0.0%	+	-4.6%	=	4.6%
Bon-Ton Stores (BONT)	-0.7%	+	-4.9%	=	4.2%
Cato (CATO)	-1.0%	+	-5.0%	=	4.0%
TJX Companies (TJX)	8.0%	+	4.0%	=	4.0%
Ross Stores (ROST)	9.0%	+	5.0%	=	4.0%
Nordstrom (JWN)	8.7%	+	5.6%	=	3.1%
J.C. Penney (JCP)	0.3%	+	-2.0%	=	2.3%
The Buckle (BKE)	8.9%	+	6.9%	=	2.0%
Zumiez (ZUMZ)	10.0%	+	8.4%	=	1.6%
Macy's (M)	6.2%	+	4.8%	=	1.4%
The Gap (GPS)	-4.0%	+	-5.0%	=	1.0%
Dillard's (DDS)	4.0%	+	3.0%	=	1.0%
Limited (LTD)	7.0%	+	7.0%	=	0.0%
Target (TGT)	1.6%	+	1.8%	=	-0.2%
Wet Seal (WTSLA)	-3.7%	+	-3.1%	=	-0.6%
Stage Stores (SSI)	1.2%	+	2.3%	=	-1.1%
Fred's (FRED)	-0.4%	+	1.5%	=	-1.9%
Costco (COST)	7.0%	+	9.0%	=	-2.0%
Saks (SKS)	5.8%	+	9.3%	=	-3.5%

Note: BJ/COST comp numbers above exclude fuel (BJ, COST) and FX (COST).

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Compology: Monthly Reporters 4-Year Stacks December 2011

	December 2008		December 2009		December 2010		December 2011		4-Year Stack
The Buckle (BKE)	13.5%	+	6.6%	+	6.1%	+	8.9%	=	35.1%
Ross Stores (ROST)	0.0%	+	12.0%	+	4.0%	+	9.0%	=	25.0%
TJX Companies (TJX)	0.0%	+	14.0%	+	2.0%	+	8.0%	=	24.0%
Pier 1 (PIR)	-10.2%	+	8.6%	+	10.3%	+	11.3%	=	20.0%
Costco (COST)	4.0%	+	4.0%	+	4.0%	+	7.0%	=	19.0%
Nordstrom (JWN)	-10.6%	+	7.4%	+	8.4%	+	8.7%	=	13.9%
Saks (SKS)	-19.8%	+	9.9%	+	11.8%	+	5.8%	=	7.7%
Zumiez (ZUMZ)	-12.3%	+	0.3%	+	9.2%	+	10.0%	=	7.2%
Kohl's (KSS)	-1.4%	+	4.7%	+	3.9%	+	-0.1%	=	7.1%
Macy's (M)	-4.0%	+	1.0%	+	3.9%	+	6.2%	=	7.1%
Cato (CATO)	-2.0%	+	7.0%	+	0.0%	+	-1.0%	=	4.0%
Fred's (FRED)	0.0%	+	1.3%	+	0.2%	+	-0.4%	=	1.1%
Target (TGT)	-4.1%	+	1.8%	+	0.9%	+	1.6%	=	0.2%
Limited (LTD)	-10.0%	+	-2.0%	+	5.0%	+	7.0%	=	0.0%
Dillard's (DDS)	-5.0%	+	-7.0%	+	7.0%	+	4.0%	=	-1.0%
Best Buy (BBY)	-6.5%	+	8.2%	+	-4.0%	+	0.0%	=	-2.3%
Stage Stores (SSI)	-4.9%	+	-2.2%	+	1.9%	+	1.2%	=	-4.0%
J.C. Penney (JCP)	-8.1%	+	-3.8%	+	3.7%	+	0.3%	=	-7.9%
Bon-Ton Stores (BONT)	-5.8%	+	-2.6%	+	0.1%	+	-0.7%	=	-9.0%
Stein Mart (SMRT)	-8.5%	+	-2.0%	+	-1.9%	+	0.0%	=	-12.4%
The Gap (GPS)	-14.0%	+	2.0%	+	-2.0%	+	-4.0%	=	-18.0%
Wet Seal (WTSLA)	-12.5%	+	-4.6%	+	-2.1%	+	-3.7%	=	-22.9%

Note: BJ/COST comp numbers above exclude fuel (BJ, COST) and FX (COST).