

Tiburon Research Group

**Quick Note: Early Thoughts re: January 2012 Sales
February 2, 2012**

Dismal Top-Line Considering Favorable Weather Comparison – February Could Be Ugly

- 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.
- Big picture, comp sales in January 2012 should have been stronger. Why?

In January 2011, retailers unanimously suggested comp sales were negatively impacted by inclement weather (see comments below). Retailers should have received a nice lift in January 2012 due to the relative lack of store closures, etc. A retailer would prefer a warm winter (this year) versus a material number of store closures (last year).

It was a different story in February 2011. Sales in February 2011 rebounded as winter weather ‘normalized’ versus the prior month.

So, if retailers were unable to report stronger top-line results in January 2012 with a favorable weather comparison, what happens in February 2012 when the sector laps a good weather month?

Today, no one mentioned last year’s inclement weather. Let’s review some of the disclosures from retailers reporting monthly sales:

BIG

“We believe the last three weeks of January were impacted negatively by weather conditions in many of our major regions and markets.”

Ex-BJ

“Severe snow storms affecting the Northeast and Mid-Atlantic regions had a negative impact on merchandise comparable club sales of approximately 2.5%.”

COST

“For the reporting month, winter weather conditions had a negative impact in many regions with the US and Canada. We estimate that adverse weather conditions negatively impacted our reported January comp sales results by approximately 1.0% to 1.5%.”

FRED

“Poor weather and the inability of our customers to get early tax refunds in January were critical factors contributing to the sales shortfall.”

JCP

“Geographically, the Company’s best performing regions were the Southwest and Northwest, compared to the Northeast and Southeast regions where winter storms affected sales and traffic trends throughout the month of January.”

KSS

“The Northeast region being most affected by snowstorms during the month.”

M

“While sales in January were restrained by the series of snowstorms that caused widespread store closings along the East Coast and in the Southeast U.S....”

TJX

“We achieved these increases despite some of the worst winter storms in many years in the Northeast and Midwest, where we have a heavy concentration of stores.”

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- A couple retailers suggested that delayed tax refunds negatively impacted sales in January 2012 (e.g. **CATO**, **CTRN**).

The problem is that, in January 2011, many more retailers complained about delayed tax refund anticipation loans versus the prior year (e.g. **BIG**, **BONT**, **CTRN**, and **FRED**). Therefore, it's difficult to believe that delayed tax refunds negatively impacted sales (relative to LY) as much as **CATO** and **CTRN** are suggesting.

- In January 2012, retailers generally reported comp sales results that were -100 Bps to -300 Bps below December 2011 (see attached table).

Therefore, keep an eye on retailers that reported comp sales in January 2012 that were greater than -300 Bps below December 2011 (**CATO**, **DDS**, **JWN**, **M**, **ROST**, **SMRT**, and **WTSLA**).

- Five retailers that report monthly sales numbers have negative 2-year 'stacks' in January 2012. These are: **GPS** (-1.0%), **BONT** (-3.2%), **SMRT** (-5.1%), **WTSLA** (-6.8%), and **CATO** (-10.0%). See attached table.
- 4-year comp sales 'stacks' range from +30.0% at **LTD** to -25.2% at **WTSLA**. See attached table.
- Furniture continues to be mentioned as a relatively strong category, continuing the trend that has been reported over the past few months. Clearly, the category has been the worst performer over the past 5 years and the resurgence may have more to do with "replenishment" than anything else. But, an encouraging trend nonetheless.
- **COST** suggests that weaker foreign currencies negatively impacted total company comp sales by -75 Bps in January 2012. This compares to -50 Bps in December 2011, -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 +LSD to +MSD in January 2012 versus +MSD in December 2011, +LSD to +MSD in November 2011, and +LSD in October 2011. Interestingly, Food/Sundry inflation at **COST** in January 2011 was disclosed as "a little over" +100 Bps.

In addition, **COST** disclosed that its Fresh Foods inflation was +LSD to +MSD in January 2012 versus +MSD in December 2011. In January 2011, Fresh Foods category inflation was disclosed as +LSD. When will runaway food inflation end?

- While the lowered EPS guidance revision for Q4 2011 at **ANF** did not surprise us, the company is likely being too optimistic re: FY 2012 (\$3.50 to \$3.75 guidance range). We're well below \$3.00 for next year.
- **ANN** management AGAIN proves that it cannot forecast its GPM%. The company has 'missed' its quarterly GPM% guidance in 4 of the past 5 fiscal quarters.
- Last month, **JWN** management suggested that *The Rack's* relatively poor performance versus LY was a function of a **GroupOn** event in the prior year. What was this month's excuse? We're continuing to forecast an EPS 'miss' versus consensus expectations in Q4 2011.

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- **Looking Ahead by Looking Back... What happened in February 2011?**

Overall, comp sales in February 2011 were strong following a weather impacted January 2011.

While a few retailers attempted to suggest that weather negatively impacted sales in February, a couple of retailers mentioned that weather trends became much more favorable in the latter half of the month.

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

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

In February 2011, the Northeast and Mid-Atlantic were generally held to be the strongest comp sales regions. The Midwest was generally held to be the weakest comp sales region in February 2011.

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Compology: Monthly Reporters 2-Year Stacks January 2012

	January 2011		January 2012		2-Year Stack
Limited (LTD)	24.0%	+	9.0%	=	33.0%
Zumiez (ZUMZ)	15.3%	+	10.8%	=	26.1%
Saks (SKS)	4.4%	+	10.5%	=	14.9%
Costco (COST)	6.0%	+	8.0%	=	14.0%
The Buckle (BKE)	4.3%	+	7.4%	=	11.7%
Nordstrom (JWN)	4.8%	+	5.0%	=	9.8%
TJX Companies (TJX)	2.0%	+	7.0%	=	9.0%
Ross Stores (ROST)	3.0%	+	5.0%	=	8.0%
Dillard's (DDS)	6.0%	+	0.0%	=	6.0%
Target (TGT)	1.7%	+	4.3%	=	6.0%
Macy's (M)	2.6%	+	2.4%	=	5.0%
Stage Stores (SSI)	5.1%	+	-0.1%	=	5.0%
Kohl's (KSS)	1.4%	+	0.6%	=	2.0%
Fred's (FRED)	2.1%	+	-0.8%	=	1.3%
The Gap (GPS)	3.0%	+	-4.0%	=	-1.0%
J.C. Penney (JCP)	-1.2%	+	0.0%	=	-1.2%
Bon-Ton Stores (BONT)	0.3%	+	-3.5%	=	-3.2%
Stein Mart (SMRT)	-1.2%	+	-3.9%	=	-5.1%
Wet Seal (WTSLA)	6.2%	+	-13.0%	=	-6.8%
Cato (CATO)	-4.0%	+	-6.0%	=	-10.0%

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

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Compology: Monthly Reporters January 2012 vs. December 2011

	January 2012		December 2011		Change
Saks (SKS)	10.5%	+	5.8%	=	4.7%
Target (TGT)	4.3%	+	1.6%	=	2.7%
Limited (LTD)	9.0%	+	7.0%	=	2.0%
Costco (COST)	8.0%	+	7.0%	=	1.0%
Zumiez (ZUMZ)	10.8%	+	10.0%	=	0.8%
Kohl's (KSS)	0.6%	+	-0.1%	=	0.7%
The Gap (GPS)	-4.0%	+	-4.0%	=	0.0%
J.C. Penney (JCP)	0.0%	+	0.3%	=	-0.3%
Fred's (FRED)	-0.8%	+	-0.4%	=	-0.4%
TJX Companies (TJX)	7.0%	+	8.0%	=	-1.0%
Stage Stores (SSI)	-0.1%	+	1.2%	=	-1.3%
The Buckle (BKE)	7.4%	+	8.9%	=	-1.5%
Bon-Ton Stores (BONT)	-3.5%	+	-0.7%	=	-2.8%
Nordstrom (JWN)	5.0%	+	8.7%	=	-3.7%
Macy's (M)	2.4%	+	6.2%	=	-3.8%
Stein Mart (SMRT)	-3.9%	+	0.0%	=	-3.9%
Ross Stores (ROST)	5.0%	+	9.0%	=	-4.0%
Dillard's (DDS)	0.0%	+	4.0%	=	-4.0%
Cato (CATO)	-6.0%	+	-1.0%	=	-5.0%
Wet Seal (WTSLA)	-13.0%	+	-3.7%	=	-9.3%

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Compology: Monthly Reporters 4-Year Stacks January 2012

	January 2009		January 2010		January 2011		January 2012		4-Year Stack
Limited (LTD)	-9.0%	+	6.0%	+	24.0%	+	9.0%	=	30.0%
The Buckle (BKE)	14.7%	+	-1.2%	+	4.3%	+	7.4%	=	25.2%
Costco (COST)	5.0%	+	2.0%	+	6.0%	+	8.0%	=	21.0%
TJX Companies (TJX)	-4.0%	+	12.0%	+	2.0%	+	7.0%	=	17.0%
Ross Stores (ROST)	-2.0%	+	8.0%	+	3.0%	+	5.0%	=	14.0%
Zumiez (ZUMZ)	-14.8%	+	1.8%	+	15.3%	+	10.8%	=	13.1%
Nordstrom (JWN)	-11.4%	+	14.0%	+	4.8%	+	5.0%	=	12.4%
Macy's (M)	-4.5%	+	3.4%	+	2.6%	+	2.4%	=	3.9%
Target (TGT)	-3.3%	+	0.5%	+	1.7%	+	4.3%	=	3.2%
Saks (SKS)	-23.7%	+	7.0%	+	4.4%	+	10.5%	=	-1.8%
Fred's (FRED)	-1.9%	+	-2.0%	+	2.1%	+	-0.8%	=	-2.6%
Kohl's (KSS)	-13.4%	+	6.5%	+	1.4%	+	0.6%	=	-4.9%
Bon-Ton Stores (BONT)	-8.2%	+	5.3%	+	0.3%	+	-3.5%	=	-6.1%
Dillard's (DDS)	-12.0%	+	-5.0%	+	6.0%	+	0.0%	=	-11.0%
Stage Stores (SSI)	-13.1%	+	-11.3%	+	5.1%	+	-0.1%	=	-19.4%
The Gap (GPS)	-23.0%	+	5.0%	+	1.0%	+	-4.0%	=	-21.0%
J.C. Penney (JCP)	-16.4%	+	-4.6%	+	-1.2%	+	0.0%	=	-22.2%
Cato (CATO)	-10.0%	+	-4.0%	+	-4.0%	+	-6.0%	=	-24.0%
Stein Mart (SMRT)	-16.7%	+	-2.5%	+	-1.2%	+	-3.9%	=	-24.3%
Wet Seal (WTSLA)	-14.7%	+	-3.7%	+	6.2%	+	-13.0%	=	-25.2%

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