

Retail Geeks – Weekly Spin Cycle

February 20, 2012

Welcome to the *Weekly Spin Cycle*. Each week, we'll deliver some news and commentary about the retail industry. We'll pay close attention to the "managerial spin" and will on occasion offer a contrarian view. You are encouraged to provide any feedback to info@RetailGeeks.com.

PFCB Delivers 6th Year of Comp Sales Declines at Core Chain – Takes Victory Lap for Weather Boost

It must be a misprint! On **P.F. Chang's (PFCB - \$37.74)** Q4 2011 earnings press release this week, the company's CEO, Rick Federico commented that the company was "*Pleased with our progress on the top-line.*"

Huh! He's kidding, right? The core *Bistro* chain has just reported 6 STRAIGHT YEARS of negative comp store sales. Essentially, every restaurant has enjoyed an improved top-line via weather versus the prior year over the past 2 months. Yet, Mr. Federico has the gall to suggest that "progress" is being made.

Here is an exchange on the quarterly conference call when an analyst questioned the company's victory lap:

Destin Tompkins - Morgan, Keegan - Analyst

As you guys talked about the early sales trends in 2012 being improved, do you have a sense on weather benefit? I think there has been a lot of discussion about favorable weather trends in certain areas of the country. As you look at your markets outside of maybe weather-affected areas and weather-affected areas, can you kind of help us understand how much of the trend you think is really driven by the initiatives and how much may be favorable weather?

Mark Mumford - P.F. Chang's China Bistro, Inc. - CFO

We are seeing strength across all of our systems. So from markets that had weather last year and markets that didn't, we are seeing strength across the entire system. When we look at how Bistro is running this year, it is important to also note that it is really a two-year basis that we are seeing positive comps. So last year in January were positive and we are seeing it positive as well. So a two-year comp trend.

The reality is that if we take away PFCB's \$7.5M benefit in FY 2011 via a performance share compensation reversal, the company essentially reported an annual 3.6% EBIT margin (ex-Items)... well below even that of perennial underperformer Ruby Tuesday (RT) over the trailing 4-quarters (we calculate RT at a 4.10% EBIT margin, ex-Items). Yikes!

It gets better, if you allocate even \$15.6M to *Pei Wei's* P&L (roughly 20% of PFCB's normalized G&A Expense of \$78M), and an argument could be made that the chain is dangerously close to break-even. Yet, PFCB management wants to build +12 to +16 new *Pei Wei* restaurants in FY 2012. Why add to what a reasonable/rational investor would suggest is an un-proven concept?

In our view, this is an underperforming management team that should have been fired long ago. Six years of negative comps is unheard of. Yet, the management team at PFCB wanting to take a victory lap for a modestly positive comp store sales trend in an era when essentially all restaurants are experiencing a stronger top-line trend of late takes the cake (pun intended).

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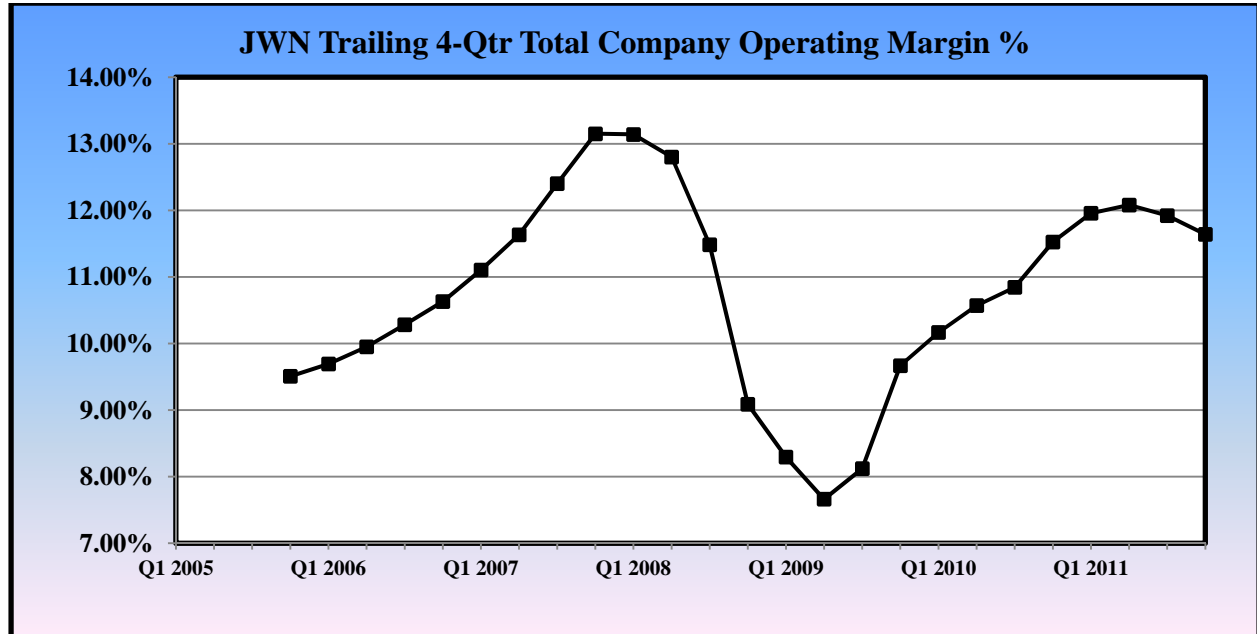
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Despite Strong Sales – JWN Management Expects a 3rd Straight Year of Retail SG&A De-Leverage

This week, **Nordstrom (JWN - \$51.14)** lowered EPS expectations for FY 2012. Many were seemingly ok with the company “investing” in online growth. But, the fact is that the company reported Retail SG&A Expense de-leverage in BOTH FY 2010 and FY 2011, despite incredibly strong sales growth.

While it’s convenient/clever for JWN management to attempt to shift investor focus to FY 2012, in our view, the lack of Retail SG&A Expense leverage over the past 2 years only highlights the potential to a bottom-line free fall if sales were to slow.



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