

Americas: Retail

Equity Research

Checking Our List: Takeaways from our annual Holiday store tour

Highlights from our Annual Holiday Store Tour in Paramus, NJ

We visited off-mall retailers Kohl's and Target, a Bloomingdale's outlet, and Abercrombie & Fitch, Aeropostale, American Eagle, Ann Taylor, Guess, Hollister, JC Penney, Lululemon, Nordstrom, Urban Outfitters at the Garden State Plaza Mall. Highlights include:

- (1) No slowdown in broad Black Friday momentum.** Traffic appeared solid and commentary was generally upbeat, suggesting that the strong sales trends on Black Friday weekend have continued into December.
- (2) Category callouts.** Accessories categories were called out as top performers — including footwear (particularly boots), watches and jewelry — as was cold weather apparel as weather has been accommodating.
- (3) Inventories in good shape.** We saw no evidence of excessive inventory, suggesting margins should remain intact if sales remain strong.
- (4) Value remains in vogue.** Consumers are still gravitating toward value pricing, with promos and low price callouts serving as key focal points.

Broadline picks into Holiday: KSS and M should outperform

We look for strong Holiday sales from KSS based on: (1) the company's initial 4Q plan called for December to outpace November SSS, which came in at +6.1%, (2) last year's website crash over Black Friday weekend provides incremental sales opportunity and (3) the lift from the company's e-commerce sales (+41% in 3Q) should increase, as online penetration increases during the Holiday period. As for Macy's, management's tone at our investor lunch on Monday suggests continued sales strength into December, with store checks affirming strong traffic trends.

Specialty picks into Holiday: ANF and LULU

Our store visits reinforced our near-term comfort level in Buy-rated LULU (where we saw further evidence of growing brand traction - more men were gift shopping than we remember from last year and a hot new item that was put out the night before was already virtually sold out) and CL-Buy ANF (where there was a line in the middle of the afternoon on Tuesday, partly helped by international shoppers who turned up with suitcases). We see both as compelling 2011 stories thanks to significant growth potential from new stores, on top of solid near-term sales momentum.

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Checking Our List: Takeaways from our annual Holiday store tour

We highlight the following takeaways from our Holiday store tours:

(1) No slowdown in Black Friday momentum. Traffic appeared solid at the mall and commentary was generally upbeat, suggesting strong sales trends on Black Friday weekend have continued into December.

(2) Category callouts. Accessories categories were called out as top performers — including footwear (particularly boots), watches and jewelry. Across apparel, cold weather goods had been strong since the cold snap at the start of November.

(3) Inventories in good shape, suggesting strong margin trends. We saw no evidence of broad-based inventory overages across department stores or specialty stores, suggesting margins should remain intact if the current pace of sales continues through year end.

(4) Value remains in vogue. Consumers are still gravitating toward value pricing, with promos and low price callouts serving as key focal points for in-store advertising. Examples include Target focusing end caps on price points below \$25 (Exhibit 1) and JCP calling out low individual price points rather than percentage discounts.

Company specific merchandising highlights

In addition to the pictures below, we highlight the following points of interest from our store tours:

Kohl's – Management was confident in its holiday outlook with momentum remaining strong since Black Friday. Key call outs included, men's gifts under \$30, jewelry with personalized charm trend, cookware, and bulked out spaces for holiday gifts and toys.

Exhibit 1: Gifting focus in men's...

Kohl's in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 2: Improved presentation in cookware

Kohl's in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 3: Prominent gift ideas
Kohl's in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 4: Personalized charm display
Kohl's in Paramus, NJ



Source: Goldman Sachs Research

Target – Company-specific sales initiatives seem to be driving trends, with strong 5% conversions. The holiday message of 'Save Merrily' is value-focused but the price pointing is less intense as compared to years past. Inventory is well positioned for a strong holiday season. CE trends were called out as TV sales were strong even on non-doorbuster items. Across apparel, cold weather merchandise has been strong. A launch of William Rast, a limited edition clothing line designed by Justin Timberlake, is set to launch on December 26th.

Exhibit 5: "Save Merrily" at Target
Target in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 6: Seasonal department set for Holiday
Target in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 7: TVs performing well

Target in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 8: Clearance levels in good shape

Target in Paramus, NJ



Source: Goldman Sachs Research

Nordstrom – Strength cited across accessories and shoes. A new David Yurman boutique was installed which seized on strength in jewelry and watches. The wedding boutique test in 10 stores is in the process of rolling out to an additional 10 in 2011.

Exhibit 9: Jewelry merchandised within apparel...

Nordstrom in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 10: ... and stand alone

Nordstrom in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 11: Shoes remain strong at Nordstrom and across retail

Nordstrom in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 12: New David Yurman boutique

Nordstrom in Paramus, NJ



Source: Goldman Sachs Research

Bloomingdales outlet – We visited the one of four Bloomingdale’s outlets. Early reads are encouraged across all four with this store being the closest to a full line store and not driving any cannibalization. The 25,000 sq ft format was designed as an extension of the Bloomingdale’s brand with clear elements of the brand such as the b-way (black and white) flooring. The assortment targets a contemporary/fashion-minded consumer, with 20% of the merchandise from full-line Bloomingdale’s and no private label (as of yet). The offering is focused on women’s, men’s and children’s apparel as well as shoes and accessories – there is no home or cosmetics. Management is targeting the best outlet malls for 3-5 stores/year over the next 5 years.

Exhibit 13: Layout looks more upscale than most off-price and factory stores

Bloomingdales in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 14: Jewelry at 40% off

Bloomingdales in Paramus, NJ



Source: Goldman Sachs Research

JCP – “power buying” was a key buzzword in the men’s department. The idea is a more key item-focused assortment that JCP will own (and merchandise) in size. For example, core polos were merchandised across multiple tables, increasing the impact of the presentation. The company noted this merchandising strategy helped drive Father’s Day business, and they have implemented it for the Holidays, as well.

Exhibit 15: Category focused merchandising in the home appliances department
JC Penney in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 16: MNG by Mango
JC Penney in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 17: More impactful key item displays
JC Penney in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 18: T-shirt bar performing well
JC Penney in Paramus, NJ



Source: Goldman Sachs Research

Macy's – While Macy's was not on our tour, a visit showed a well-trafficked store with strong holiday momentum. There was a clear difference across promotional levels, with strong performers like INC not being promoted, to strong brands like Polo and Tommy Hilfiger, seeing modest 25-30% discounts, and weaker categories and brands like women's sportswear being discounted at 60%-75% off.

Exhibit 19: Promotions absent in INC...
Macy's in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 20: ...presentation appears clean
Macy's in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 21: Tommy promo at 25% off...
Macy's in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 22: ... with Polo at 30% off
Macy's in Paramus, NJ



Source: Goldman Sachs Research

Exhibit 23: Women's sportswear promoted at 60% off...
Macy's in Paramus, NJ



Source: Goldman Sachs Research

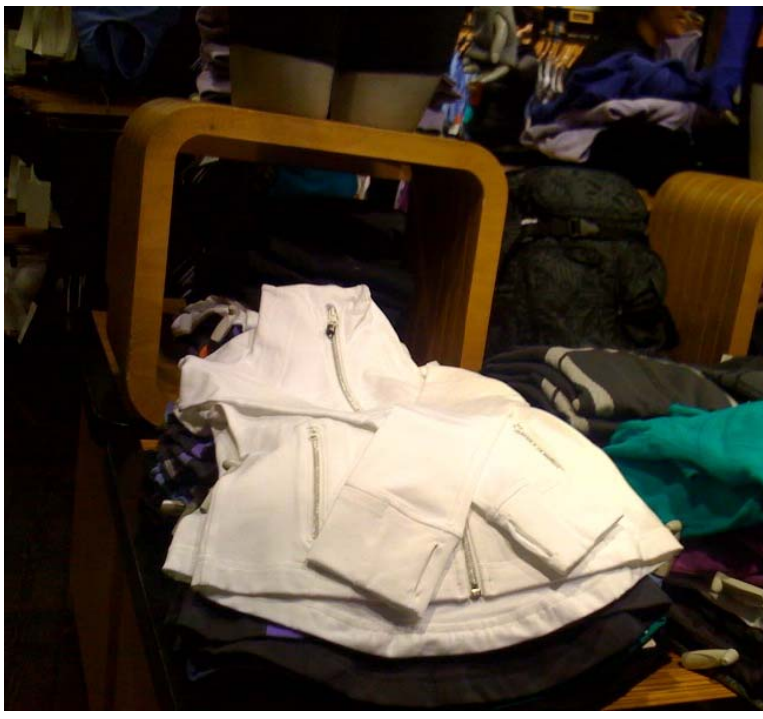
Exhibit 24: ... with some markdowns reaching 75%
Macy's in Paramus, NJ



Source: Goldman Sachs Research

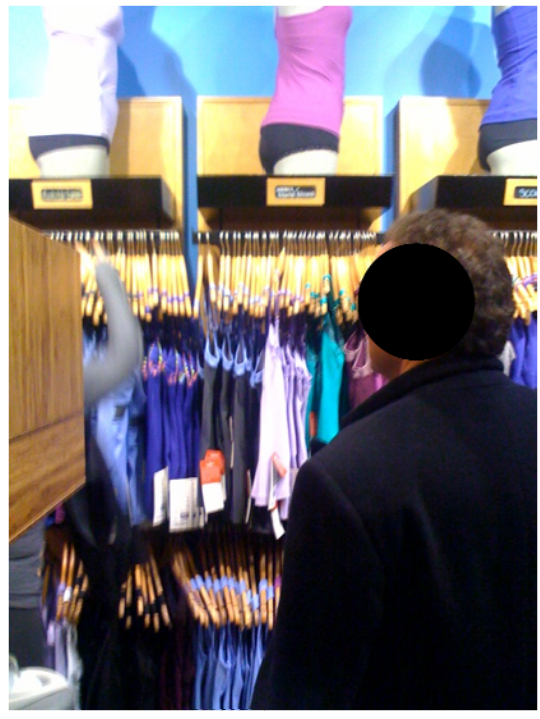
Lululemon - We saw further evidence of growing brand traction, with more men were gift shopping than we remember from last year and a hot new item that was put out the night before was already virtually sold out.

Exhibit 25: A new white lulu top hit that morning and only one size was left by the afternoon
lululemon in Garden State Plaza



Source: Goldman Sachs Research

Exhibit 26: There were lots of men gift shopping in lululemon during our visit
lululemon in Garden State Plaza



Source: Goldman Sachs Research

Abercrombie & Fitch - Traffic appears to remain strong with help from overseas visitors (many of whom had suitcases for their purchases). Assortments looked strong with trend right items like skinny cargos.

Exhibit 27: There was a line at Abercrombie midday
Abercrombie & Fitch in Garden State Plaza



Source: Goldman Sachs Research

Exhibit 28: New skinny cargos looked trend right at A&F
Abercrombie & Fitch in Garden State Plaza



Source: Goldman Sachs Research

Aeropostale – We visited a pilot store (one of only 12) where ARO is selectively testing higher prices and more sophisticated products. While certain categories like denim (where more premium new washes were ticked at \$55 before promotion) seemed to be trending, results seemed mixed overall with other items like \$29.50 graphics more challenged.

Exhibit 29: ARO's elevated denim presentation looked good with new, more sophisticated washes

Aeropostale in Garden State Plaza



Source: Goldman Sachs Research

Exhibit 30: ARO's cardigans and more sophisticated graphics at \$29.50 may be too much of a reach

Aeropostale in Garden State Plaza



Source: Goldman Sachs Research

Ann Taylor – Ann focused on gifting sweaters with an emphasis on cleaner, more basic styles across a wide range of color and prints in both its outlets (which we toured last week) and its full-line store at Garden State Plaza.

Exhibit 31: ANN focused on gifting items like sweaters in a broader ranges of color and print vs. LY

Ann Taylor in Garden State Plaza



Source: Goldman Sachs Research

Exhibit 32: Ann Taylor Factory also focused on key giftable sweaters this season

Ann Taylor Factory at Woodbury Commons



Source: Goldman Sachs Research

Guess – Guess noted a pick up in denim with strength in new styles/washes, as well as good reaction to non-denim areas of the assortment.

Exhibit 33: Guess noted an improvement in denim after widely noted softness in early back-to-school

Guess in Garden State Plaza



Source: Goldman Sachs Research

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