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FACTSET

INDUSTRY INSIGHT – RETAIL

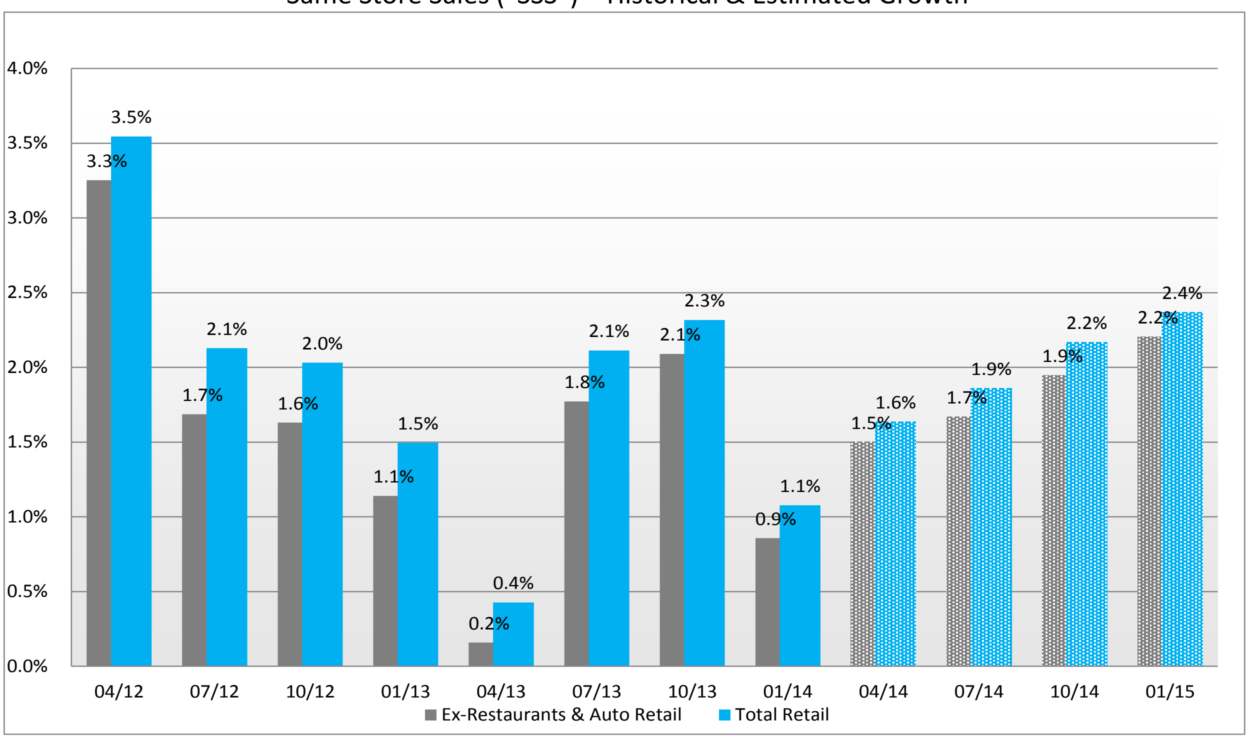
U.S. Retailers

April 11, 2014

Key Metrics

- **SSS Scorecard:** 175 of the 175 U.S. retailers tracked by FactSet have reported same store sales ("SSS") results for the fourth calendar quarter. Of these, 41.0% reported SSS above the mean estimate, 6.8% reported in-line with the estimate, and 52.2% reported below the estimate.
- **SSS Growth:** The year-over-year SSS growth for Q4 2013 was 1.1%, which was less than half the rate of Q3 2013. The Automotive Retail and Homefurnishing Retail sub-industries showed the strongest blended SSS growth (6.0% and 4.8%), while the General Merchandise Stores sub-industry reported the lowest growth rate (-1.8%).
- **SSS Revisions:** One month ago, the blended SSS growth rate for Q4 2013 was 1.1%. Though the overall rate is unchanged, many individual companies reported significant increases and decreases in SSS growth. The biggest SSS surprises over the last month included a positive surprise from Williams-Sonoma offset by negative surprises from Dollar General and GameStop.
- **SSS Guidance:** For Q1 2014, 20 retailers have issued negative SSS guidance and 9 have issued positive SSS guidance. For the annual period 2014, 31 have issued negative SSS guidance and 15 have issued positive SSS guidance.
- **Upcoming Releases:** In the month ahead, 61 retailers will join the fifteen that have already reported Q1 results. Notable companies include CVS, McDonald's, Starbucks, YUM!, Chipotle, Safeway, SUPERVALU, and a number of automobile retailers.

Same Store Sales ("SSS") – Historical & Estimated Growth



Q4 SSS Growth Finishes Low; Small Rebound Expected in Q1

Q4 Results Finished at 1.1%, with 2013 Results Closing at a Slightly Higher 1.5%

Reports from the final 55 retailers had little impact on the overall same store sales ("SSS") growth rate in Q4. The aggregate growth rate of 175 U.S. retailers remained at the same level (+1.1%) as the blended rate from last month. "Blended" growth rates are calculated with estimated results if actual results have not yet been released.

SSS growth for the fourth quarter finished at less than half the rate of Q3 2013 (+2.3%), and 40 basis points lower than that of the 2012 holiday season (+1.5%). For the full year 2013, SSS growth was slightly higher at 1.5%. This compares to growth of 2.6% in 2012 and 2.9% in 2011.

KR, COST, WAG, CVS, HD Support Q4 Results, but SHLD, TGT, WMT, SPLS, RSH Drag on Growth Rate

Overall results were most hurt this quarter by the harsh weather, Target's customer data leak, Wal-Mart's second consecutive quarter of SSS declines, and poor results from certain department stores (Sears and Kohl's), teen and young adult retailers (Abercrombie & Fitch and Aeropostale), office supply stores (Staples and Office Depot), and electronics stores (RadioShack and Best Buy).

Weakness in Q4 also stemmed from the fact that only three of thirteen sub-industries—Drug, Automotive, and Food Retail—had more than half of constituents reporting SSS growth above the mean estimate. All three of these sub-industries also reported SSS growth rates above the overall retail average, with Automotive Retail leading at 6.0%. But, six of thirteen sub-industries showed SSS declines. These groups were led by General Merchandise Stores (-1.8%), Department Stores (-1.4%), Specialty Stores (-1.3%), and Computer & Electronics Retail (-0.8%). In addition, the Department Stores, Computer & Electronics Retail, and Specialty Stores sub-industries reported the lowest SSS growth for calendar year 2013 (-1.4%, -0.6% and -0.2% respectively), and are again expected to be in the bottom third of results in 2014.

On the other end of the spectrum, the Drug Retail and Home Improvement Retail sub-industries, along with Kroger (+4.0%) and Costco (+3.0%), were the biggest positive contributors to SSS growth in Q4. Within Drug Retail, both Walgreen and CVS reported their strongest SSS growth rates (5.4% and 4.0%) of the year. In Home Improvement Retail, Home Depot and Lowe's reported lower results than prior quarters (4.4% and 3.9%), but their growth was still high for retailers of their size.

Results from the Trailing Month

WSM, VRA, SIG Beat Estimates; COH, DG, MW, BONT, RH Miss

Though the overall effect was negligible, a number of companies reported significant upside and downside SSS surprises over the course of the month. The biggest positive surprise over the trailing month originated from Williams-Sonoma, which reported SSS growth of 10.4% versus a mean expectation of 4.2%. Shares rose 9.8% on the day of the release. In addition, several luxury retailers, with the exception of Coach, beat expectations. Vera Bradley reported a SSS decline of 10.2% versus an expected decline of 14.1%, and its shares jumped 7.4% on the day. Signet Jewelers' shares also jumped close to 7% when it reported SSS results that handily beat estimates (4.3% vs. 3.4%).

Coach, on the other hand, reported a SSS decline of 13.6% versus an expected decline of 7.7%. Coach's shares fell 6.0% on the day, and the company is expected to report even lower growth (-14.1%) in Q1. Other negative surprises were reported by Dollar General, Bon-Ton Stores, Restoration Hardware, and Men's Warehouse, which worked to offset the positive impact from Williams-Sonoma, Vera Bradley, and Signet Jewelers. Dollar General reported SSS growth of 1.3% versus expectations of 3.9%. This is the second consecutive negative surprise, and the third consecutive quarter that SSS growth has slowed for the retailer. In addition, Bon-Ton Stores reported its third consecutive and largest SSS decline (-7.3%) since 2009, and its shares fell 9.8% on the day. Though Restoration Hardware reported the third largest

SSS growth (+17.0%) of all U.S. public retailers, it was expected to grow at a rate of 22.0%. Finally, Men's Warehouse reported SSS declines in each of its apparel brands in the wake of its definitive agreement to purchase Jos. A. Bank Clothiers.

Forward Projections: Durables Retailers to Continue to Lead in SSS Growth

Looking forward, overall SSS growth is expected to trend upwards at ever larger rates through Q4 2014. This is expected to be a product of acceleration in overall sales even as store counts are projected to decelerate.

Q1 2014 Growth & Guidance: Acceleration of SSS due to Fewer Companies Expecting Declines

SSS growth of 1.6% (down from 1.8% in March) is expected for Q1 2014, with expectations that the Home Improvement and Automotive Retail sub-industries will lead all retailers (5.5% and 4.2%, respectively) for the second quarter of the last three. The main difference between Q1 2014 and Q4 2013 is at the bottom of the growth spectrum. Only two sub-industries are expected to decline in Q1 2014—Specialty Stores (-1.5%) and Computer & Electronics Retail (-0.1%)—which compares to six declining sub-industries in Q4 2013. But continued weakness of Cabela's (-19.9% expected for Q1), Barnes & Noble (-4.9%), and Coach (-14.1%) are again expected to hurt results in the first quarter.

In terms of SSS guidance, 5.2% of companies issued positive guidance and 11.6% issued negative guidance for Q1. The only sub-industry that reported more positive guidance than negative guidance was Specialty Stores. There, Five Below, Signet Jewelers, and Ulta Salon, Cosmetics & Fragrance all issued positive guidance. On the other end of the spectrum, General Merchandise Stores contained three retailers with mean guidance below the mean estimate—Dollar General, Fred's Stores, and Burlington Stores—without any companies issuing positive guidance. On an individual company-level, Pacific Sunwear issued the highest positive guidance relative to the mean estimate (mean guidance of 2.5% versus 0.3% mean estimate), and Pier 1 Imports issued the lowest negative guidance relative to the mean estimate (guidance of -5.0% versus 0.5% mean estimate).

Full Year 2014 Growth & Guidance: Growth to Accelerate from 2013

For the full year 2014, the three durables retail sub-industries—Automotive, Home Improvement, and Homefurnishing—are expected to lead all groups in SSS growth (4.7%, 4.5%, and 3.9%, respectively) for the second consecutive year, albeit with Automotive and Home Improvement Retail at slower rates of growth than in 2013 (7.4% and 6.1%). However, the overall growth rate for 2014 is expected to be higher than that of 2013 (2.0% versus 1.5%) because all sub-industries are projected to show growth in SSS. For 2013, the Department Stores, Computer & Electronics Retail and Specialty Stores sub-industries showed SSS declines. In 2014, only the Specialty Stores sub-industry is expected to have SSS growth of less than 1% (+0.1%). Here, growth is expected to lag other sub-industries due to Cabela's (-3.7% SSS projected), Office Depot (-3.6%), Staples (-3.4%), and Barnes & Noble (-1.4%).

In terms of annual SSS guidance, 8.8% of companies issued positive guidance and 18.2% issued negative guidance for 2014. The only two sub-industries that issued more positive guidance than negative were Homefurnishing Retail and Computer & Electronics Retail. In Homefurnishing Retail, Bed Bath & Beyond, Kirkland's, and Williams-Sonoma issued positive guidance, with no companies issuing negative guidance. On the other end of the spectrum, Food Retail contained six retailers with mean guidance below the mean estimate—Whole Food's Market, Sprout's Farmers Market, Roundy's, Fresh Market, and Natural Grocers by Vitamin Cottage—without any companies issuing positive guidance. On an individual company-level, Kirkland's issued the highest positive guidance relative to the mean estimate (mean guidance of 3.5% versus 2.2% mean estimate), and Cato Corporation issued the lowest negative guidance relative to the mean estimate (guidance of -1.0% versus 1.0% mean estimate).

Operating Margins and P/E Valuations: S&P 1500 Retailing P/E Premium Reaches New High

Operating (EBITDA) margins relative to long-term averages vary widely by sub-industry. The Restaurants and Apparel Accessories & Luxury Goods groups, however, are showing trailing-twelve month ("TTM") margins that are more than two points above the ten-year average, while the Internet and Computer & Electronics Retail sub-industries are showing TTM margins greater than one point below ten-year averages.

In terms of valuations, the forward price-to-earnings ("P/E") ratio of the S&P 1500 Retailing index neared its highest premium over the overall S&P 1500 in over ten years. The Retailing group is trading at a 5.2 point premium to the total S&P 1500 (P/E of 20.8 versus 15.6), which compares to a median premium of 2.4 points over ten years. On the sub-industry level, ten of fifteen retail sub-industries have P/E ratios that are above ten-year median ratios. The Internet Retail group is leading all groups with a forward P/E ratio that is near a thirteen point premium to its ten-year median value. However, the sub-industry's P/E ratio has fallen over one month due to poor performance—the S&P 1500 Internet Retail index is down 12% over this time. On the other hand, only five sub-industries are at lower valuations relative to ten-year median P/E ratios. The sub-industries trading at the largest discounts are Computer & Electronics (-2.0 points) and Homefurnishing Retail (-1.6 points).

Companies to Report in Forward Month

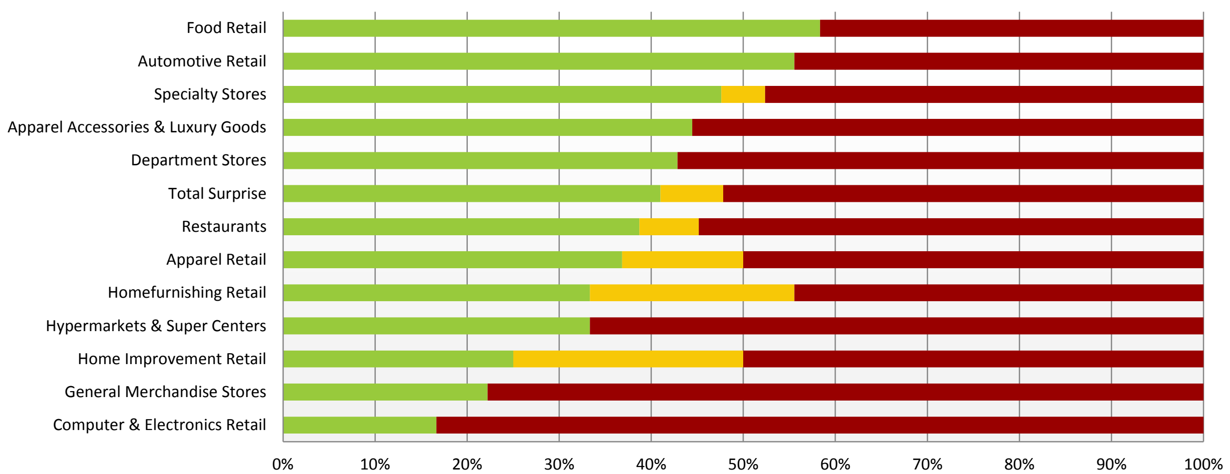
MCD, YUM, SWY & SVU Growth to Rebound; CVS, SBUX, CMG & Auto Retailers Growth to Slow

In the month ahead, 61 retailers will join the fifteen that have already reported Q1 SSS results. The earliest big names to report include AutoNation and Chipotle, which will both report Q1 results in the coming week. AutoNation is expected to report 5.5% SSS growth, which would mark a rebound from its Q4 growth rate (+4.1%), but is also well below the company's average SSS growth rate in the first three quarters of 2013 (+8.8%). Chipotle, on the other hand, is expected to report lower SSS growth (+8.6%) than it reported in Q4 (+9.3%), and is projected to continue reporting lower growth throughout 2014.

Notable companies reporting later in the month include CVS Caremark, McDonald's, Starbucks, YUM! Brands, Safeway and SUPERVALU. Results for CVS are expected to slip, with 2.5% SSS growth expected in Q1 (versus 4.0% in Q4). However, SUPERVALU is expected to approach positive growth (-0.1%) for the first time in at least three years, and Safeway is projected to show slight improvement (1.8% SSS growth versus 1.6% in Q4). In restaurants, YUM! is expected to report 5.0% growth after showing SSS declines throughout 2013, and McDonald's (+0.4%) is projected to accelerate growth over the year. In addition, Starbucks (+5.7% expected) is also expected to show improved growth in Q1, but growth is expected to slow for the remainder of 2014. Finally, struggling retailers Coach (-14.1% SSS expected), RadioShack (-8.9%), and Cabela's (-19.9%) will try to battle heavy declines in sales, while automotive retailers Penske Automotive (+3.9% expected), Sonic Automotive (+3.0%), Group 1 Automotive (-0.3%), Asbury Automotive (+5.0%), and Lithia Motors (+7.5%) are projected to report lower results than their averages in 2013. O'Reilly Automotive (+5.5%)—the only pure automotive aftermarket retailer in the bunch—is the only auto retailer expected to report improved results relative to average SSS growth rates in 2013.

Q4 2013: Same Store Sales Scorecard

% of Companies Beating and Missing SSS Estimates



	Computer & Electronics Retail	General Merchandise Stores	Home Improvement Retail	Hypermarkets & Super Centers	Homefurnishing Retail	Apparel Retail	Restaurants	Total Surprise	Department Stores	Apparel Accessories & Luxury Goods	Specialty Stores	Automotive Retail	Food Retail
Above	1	2	1	1	3	14	12	66	3	4	10	5	7
Inline	0	0	1	0	2	5	2	11	0	0	1	0	0
Below	5	7	2	2	4	19	17	84	4	5	10	4	5

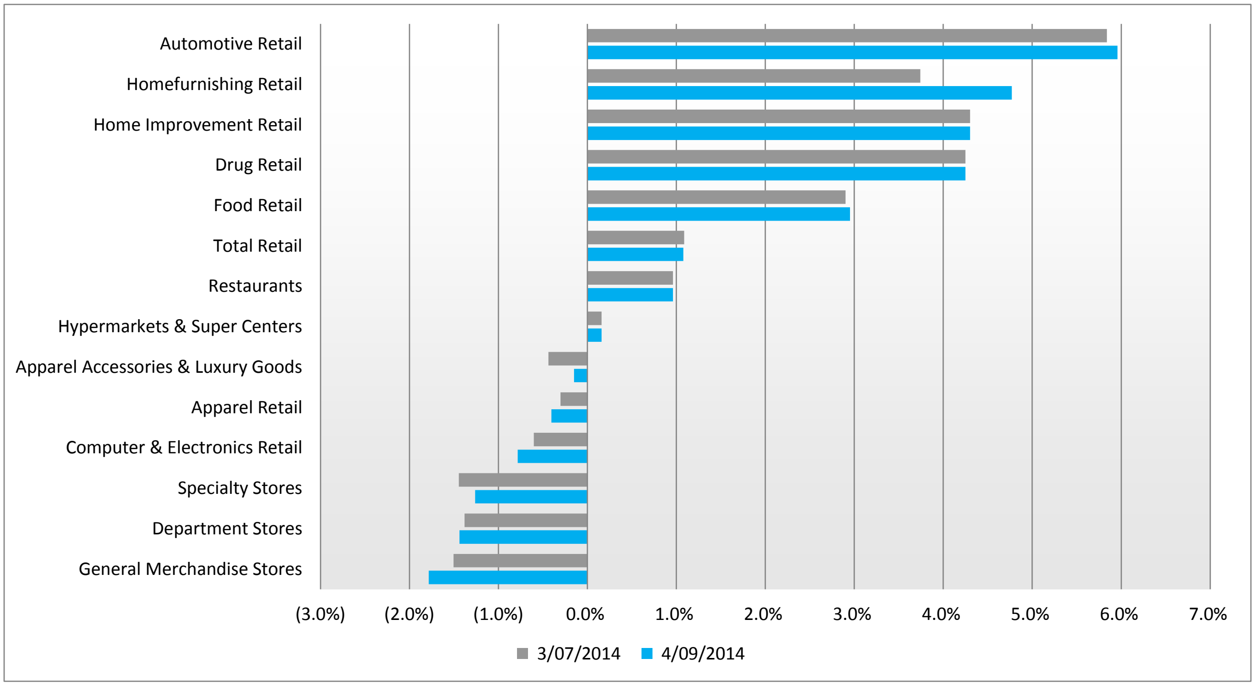
Top and Bottom 10 Retailers by Same Store Sales ("SSS") Surprise

Company	FDS Industry	Surprise %	SSS	SSS Est	Price Impact (1D)
Rite Aid Corporation	Drug Retail	1050.0%	2.3%	0.2%	8.4%
Pacific Sunwear of California, Inc.	Apparel Retail	595.7%	2.0%	0.3%	3.7%
Express, Inc.	Apparel Retail	203.0%	1.0%	0.3%	(12.0%)
Williams-Sonoma, Inc.	Homefurnishing Retail	147.6%	10.4%	4.2%	9.8%
Monro Muffler Brake, Inc.	Automotive Retail	123.9%	0.3%	(1.3%)	(0.6%)
Five Below, Inc.	Specialty Stores	122.8%	0.3%	(1.3%)	11.4%
West Marine, Inc.	Specialty Stores	120.0%	0.5%	(2.5%)	(1.6%)
Finish Line, Inc. Class A	Apparel Retail	115.2%	7.1%	3.3%	2.2%
Advance Auto Parts, Inc.	Automotive Retail	106.8%	0.1%	(1.5%)	12.7%
Sally Beauty Holdings, Inc.	Specialty Stores	103.1%	2.2%	1.1%	7.2%
Ascena Retail Group, Inc.	Apparel Retail	(207.7%)	(3.0%)	2.8%	(7.2%)
Best Buy Co., Inc.	Computer & Electronics Retail	(228.2%)	(1.2%)	0.9%	(28.6%)
RadioShack Corporation	Computer & Electronics Retail	(265.4%)	(19.0%)	(5.2%)	(17.3%)
Shoe Carnival, Inc.	Apparel Retail	(284.6%)	(2.5%)	(0.7%)	(5.0%)
Men's Wearhouse, Inc.	Apparel Retail	(308.8%)	(3.6%)	1.7%	(2.5%)
Fairway Group Holdings Corp. Cl A	Food Retail	(695.0%)	(1.7%)	0.3%	(29.0%)
Chico's FAS, Inc.	Apparel Retail	(828.6%)	(3.4%)	0.5%	(8.5%)
RentACenter, Inc.	Computer & Electronics Retail	(833.3%)	(1.1%)	0.2%	(22.2%)
Target Corporation	General Merchandise Stores	(1931.3%)	(2.5%)	(0.1%)	(1.1%)
America's Car-Mart, Inc.	Automotive Retail	(2900.0%)	(2.8%)	0.1%	(4.9%)

**Surprise based on any material release of information, such as a profit warning. It is not based solely on the report date, though this is the case in most situations.*

Q4 2013: Same Store Sales Growth by Sub Industry

Same Store Sales Growth – Current "Blended" Growth vs. Start of Quarter



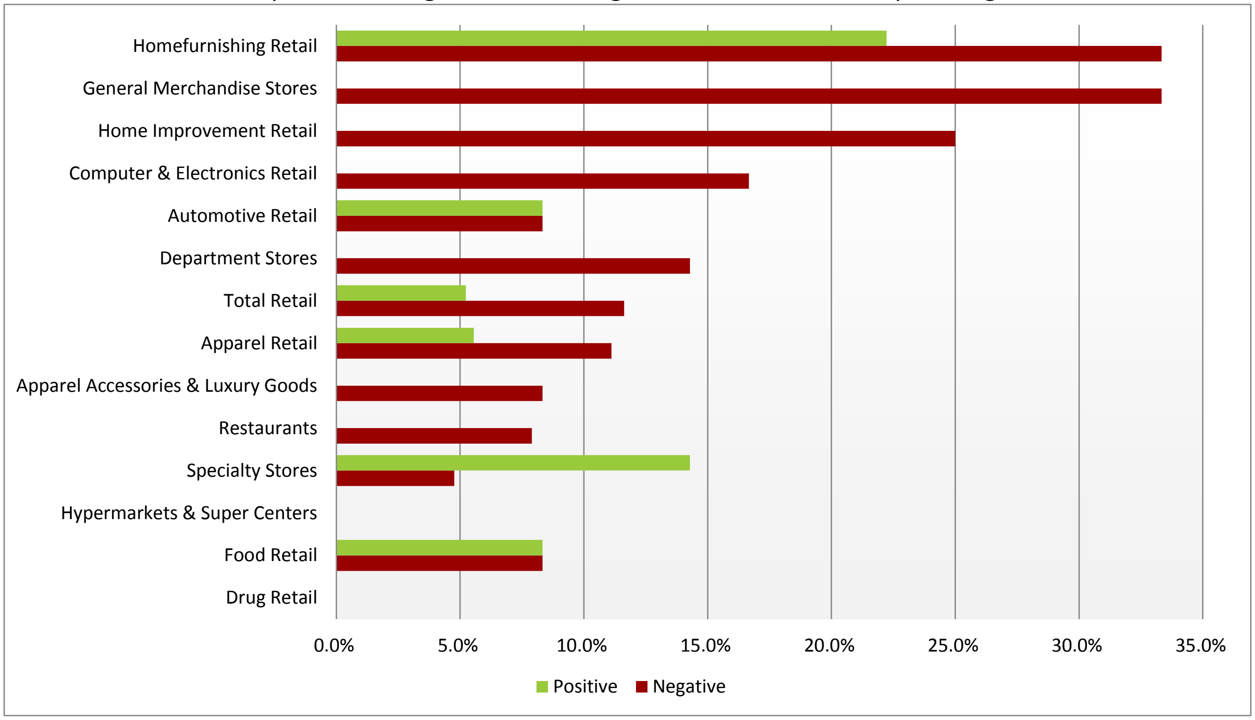
**All sub-industry growth rates are blended rates for the calendar quarter.*

Top and Bottom 10 Retailers by Year-over-Year Growth in SSS – Blended

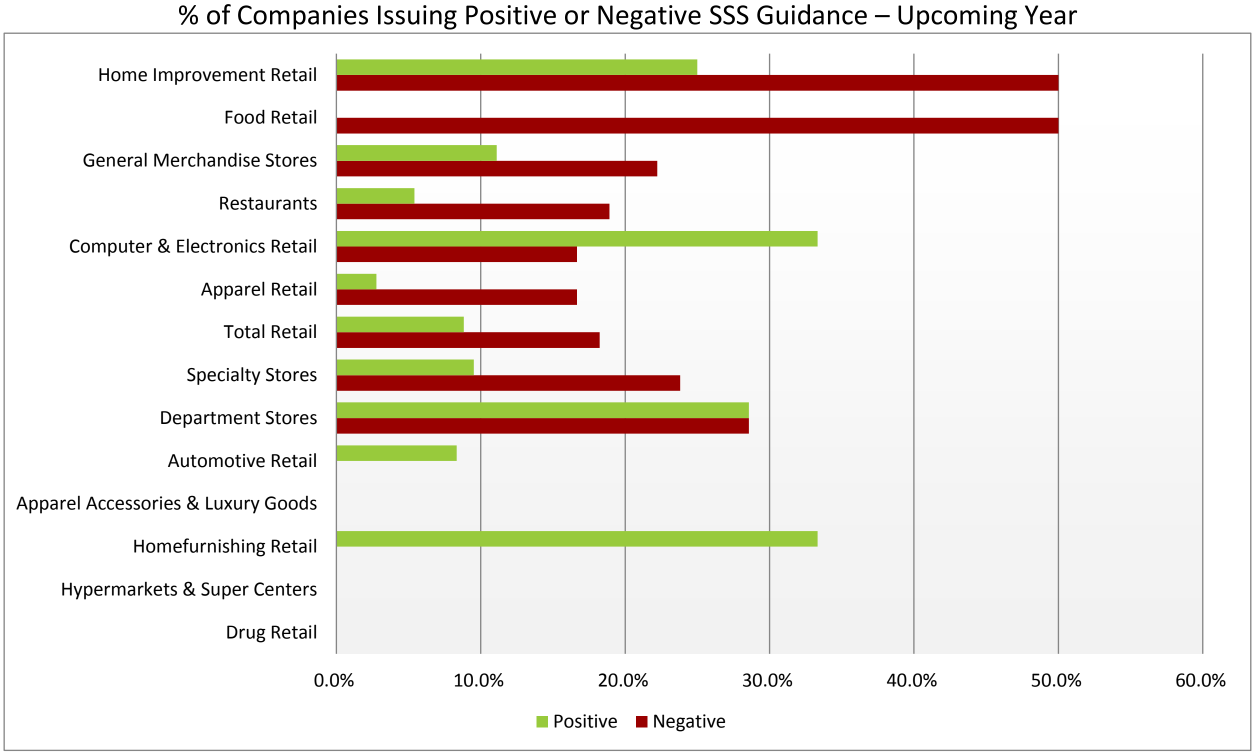
Company	FDS Industry	SSS	Sales	Stores	1 Yr Total Return
Conn's, Inc.	Computer & Electronics Retail	33.4%	44.3%	16.2%	(5.9%)
Michael Kors Holdings Ltd	Apparel Accessories & Luxury Goods	28.0%	59.0%	1.8%	62.5%
Restoration Hardware Holdings, Inc.	Homefurnishing Retail	17.0%	18.5%	(1.4%)	101.6%
Lumber Liquidators Holdings, Inc.	Home Improvement Retail	15.6%	22.7%	10.4%	38.3%
Sprouts Farmers Markets, Inc.	Food Retail	13.8%	#N/A		
Penske Automotive Group, Inc.	Automotive Retail	12.4%	14.3%		42.8%
Papa John's International, Inc.	Restaurants	11.5%	5.6%	6.4%	64.0%
Lithia Motors, Inc. Class A	Automotive Retail	11.3%	16.8%		52.8%
Asbury Automotive Group, Inc.	Automotive Retail	11.0%	12.7%		61.0%
Casey's General Stores, Inc.	Food Retail	10.7%	7.7%	3.0%	23.7%
Cabela's Incorporated	Specialty Stores	(10.1%)	6.1%	25.0%	10.7%
Vera Bradley, Inc.	Apparel Accessories & Luxury Goods	(10.2%)	(3.1%)	30.3%	24.4%
hhgregg, Inc.	Computer & Electronics Retail	(11.2%)	(11.6%)	0.0%	(23.2%)
Coach, Inc.	Apparel Accessories & Luxury Goods	(13.6%)	(5.6%)	7.3%	2.0%
Aeropostale, Inc.	Apparel Retail	(15.0%)	(16.0%)	1.5%	(62.2%)
Abercrombie & Fitch Co. Class A	Apparel Retail	(16.0%)	(11.5%)	(4.3%)	(20.7%)
Wet Seal, Inc. Class A	Apparel Retail	(16.5%)	(22.8%)	0.4%	(60.2%)
RadioShack Corporation	Computer & Electronics Retail	(19.0%)	(27.8%)	8.2%	(33.4%)
Body Central Corp.	Apparel Retail	(19.5%)	(18.3%)	6.5%	(88.0%)
dELiA*s, Inc.	Catalog Retail	(26.9%)	(46.7%)	(2.9%)	(17.6%)

Same Store Sales Guidance

% of Companies Issuing Positive or Negative SSS Guidance – Upcoming Quarter

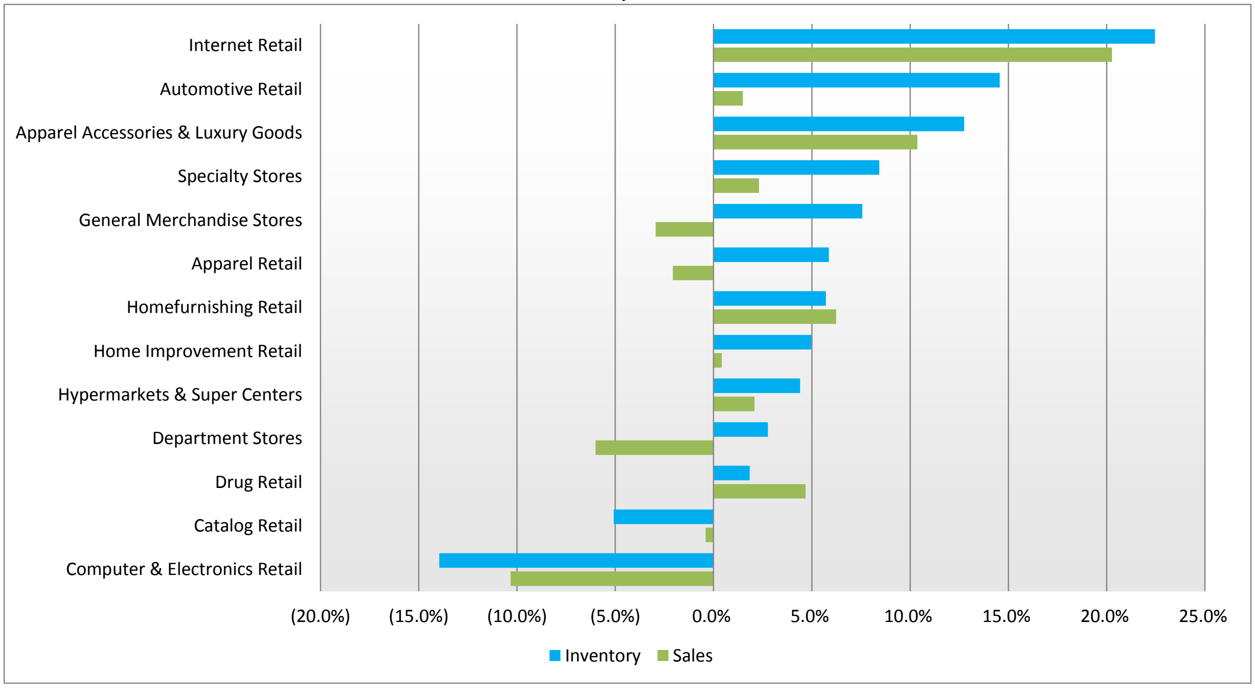


% of Companies Issuing Positive or Negative SSS Guidance – Upcoming Year



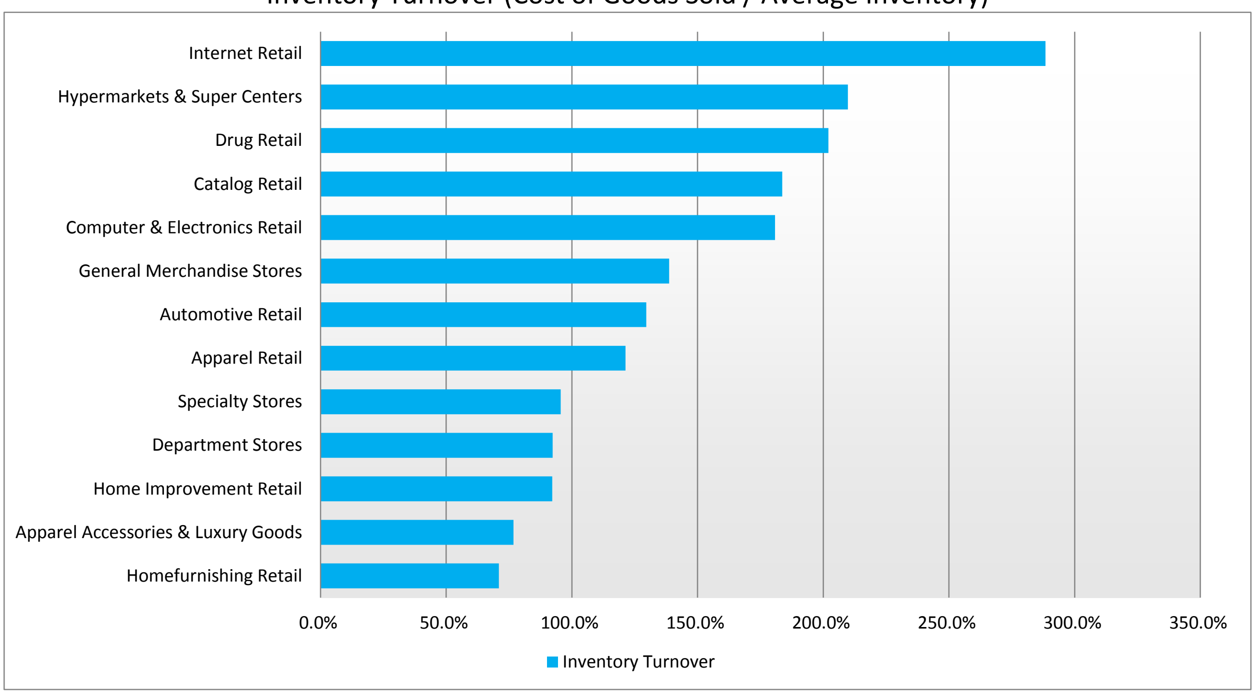
Q4 2013: Inventory Management

Growth of Inventory vs. Growth of Sales



Inventory turnover equals cost of goods sold in the specified quarter divided by the average inventory. Food Retail and Restaurants are removed from both charts due to short inventory shelf life.

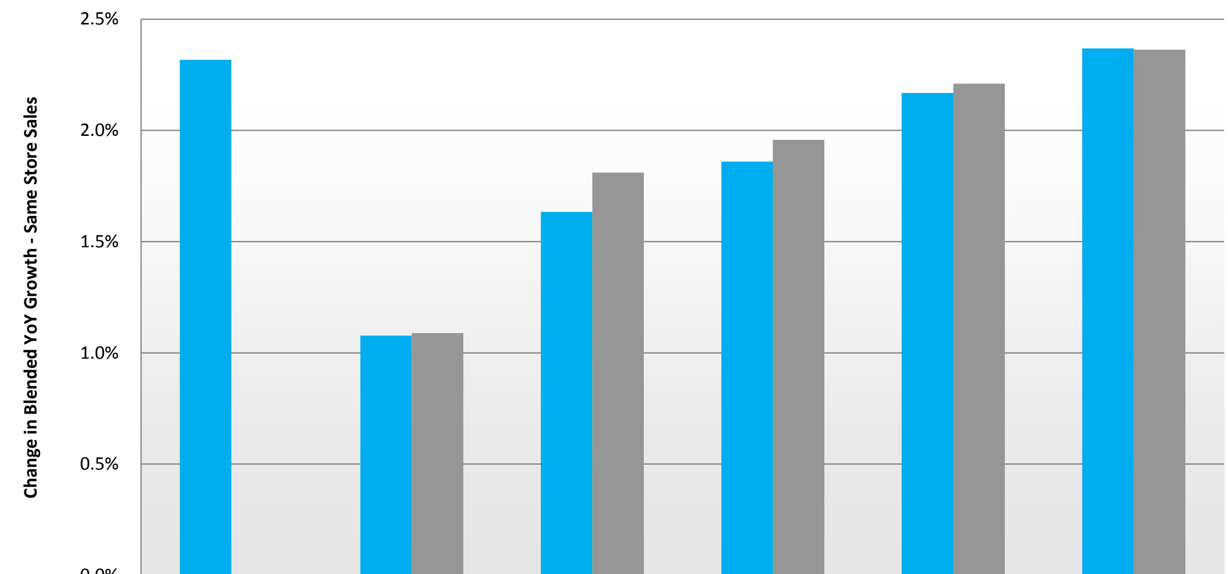
Inventory Turnover (Cost of Goods Sold / Average Inventory)



Retail Same Store Sales ("SSS") Growth

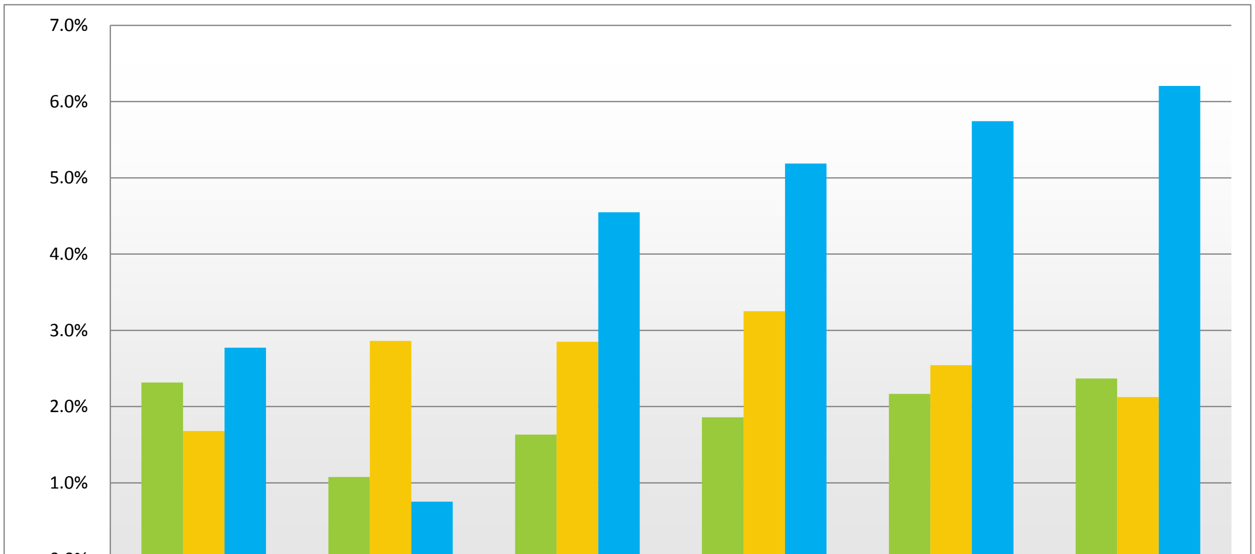
Same store sales are the year-over-year growth of sales excluding the contributions of the opening of new stores. Stores must be open for more than a year to have their sales included.

Year-over-Year Same Store Sales ("SSS") Growth – Current "Blended" Growth vs. Start of Quarter



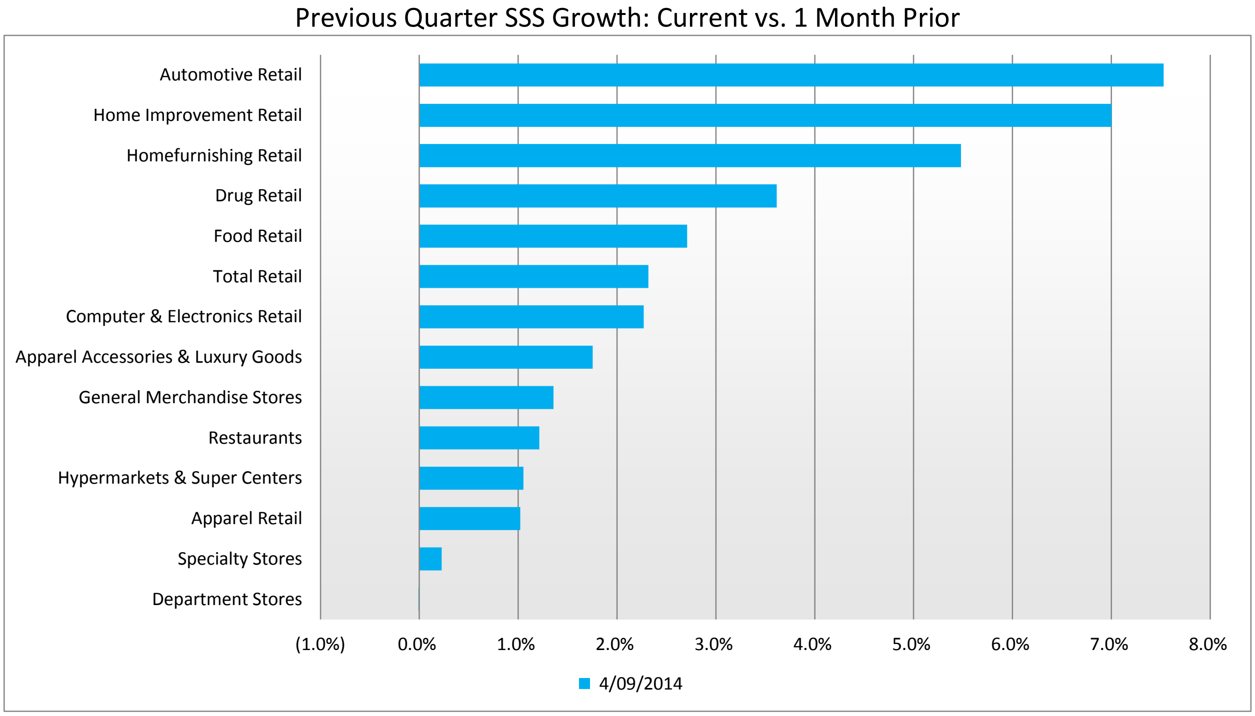
	10/31/13	01/31/14	04/30/14	07/31/14	10/31/14	01/31/15
4/09/2014	2.3%	1.1%	1.6%	1.9%	2.2%	2.4%
3/07/2014		1.1%	1.8%	2.0%	2.2%	2.4%

Year-over-Year Growth in Retail Metrics – Current "Blended" Growth

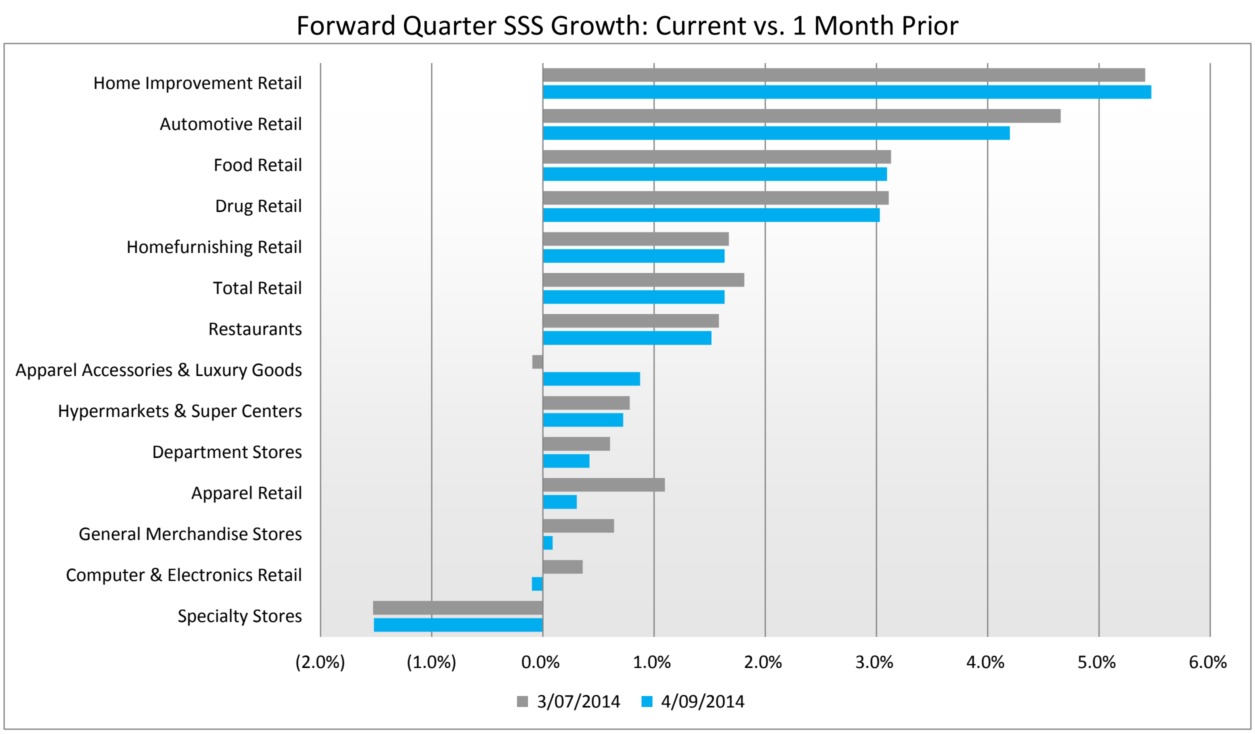


	10/31/13	01/31/14	04/30/14	07/31/14	10/31/14	01/31/15
SSS	2.3%	1.1%	1.6%	1.9%	2.2%	2.4%
Stores	1.7%	2.9%	2.8%	3.3%	2.5%	2.1%
Sales	2.8%	0.8%	4.5%	5.2%	5.7%	6.2%

Q3 2013: Same Store Sales Growth

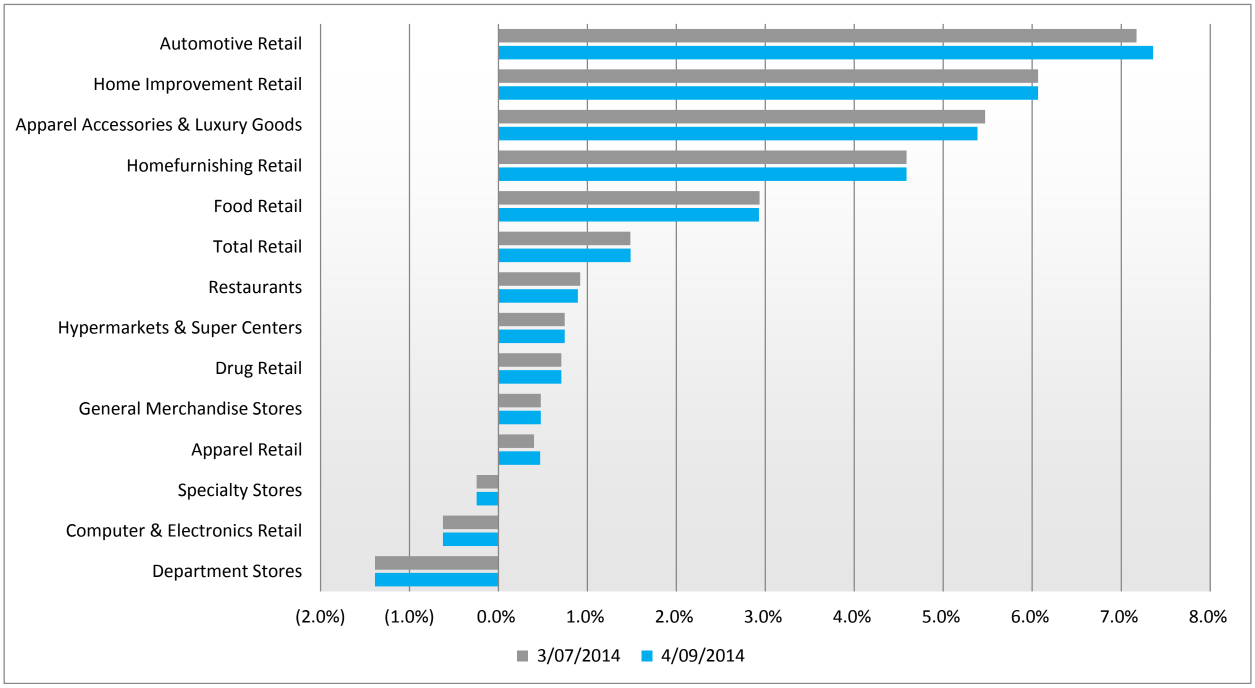


Q1 2014: Same Store Sales Growth



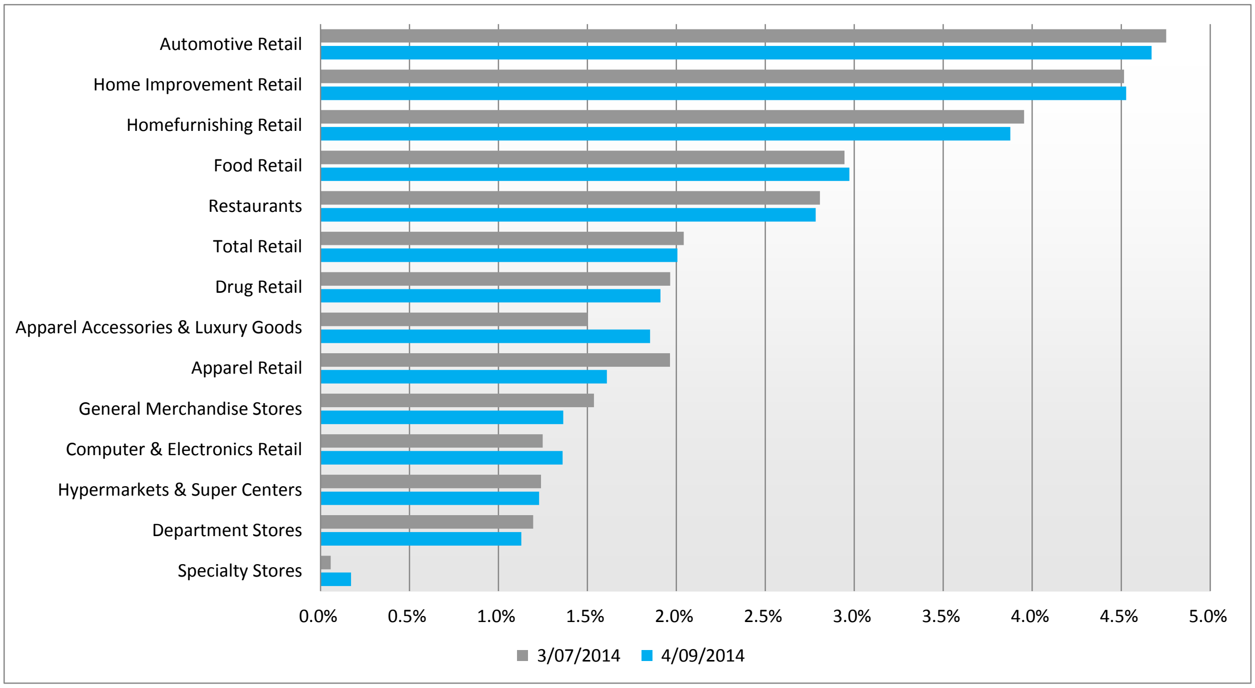
CY 2013: Same Store Sales Growth

Current Year SSS Growth: Current vs. 1 Month Prior



CY 2014: Same Store Sales Growth

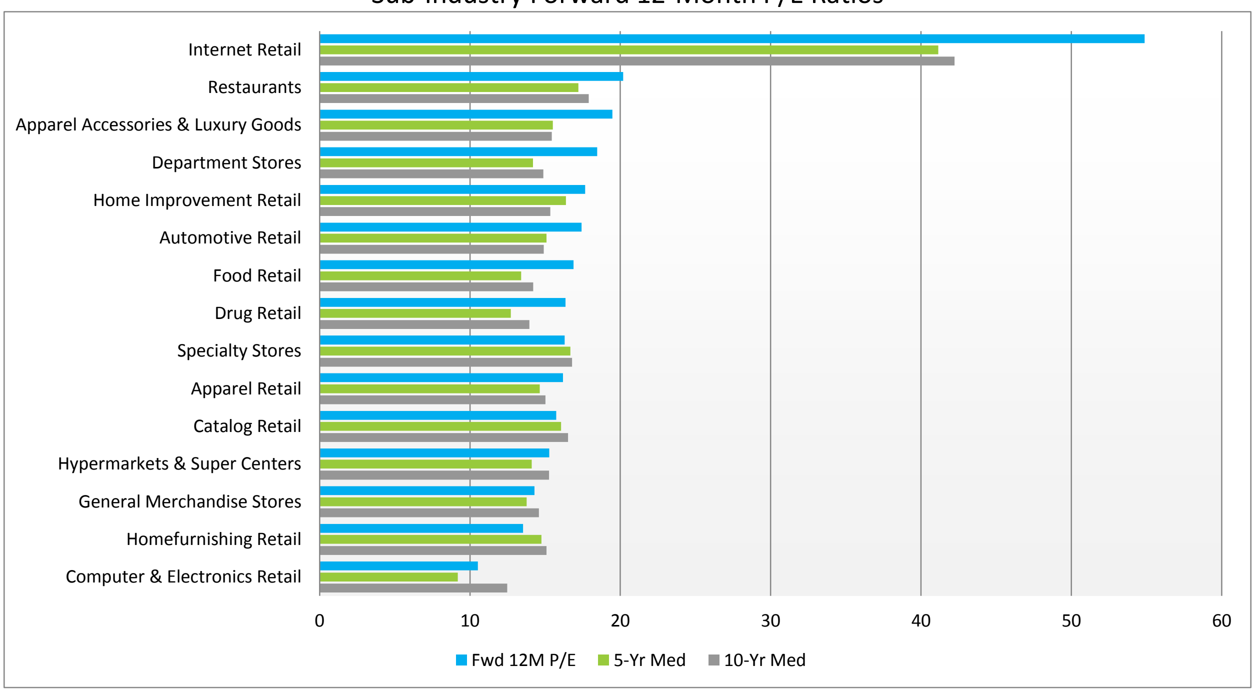
Forward Year SSS Growth: Current vs. 1 Month Prior



P/E Valuations: S&P 1500

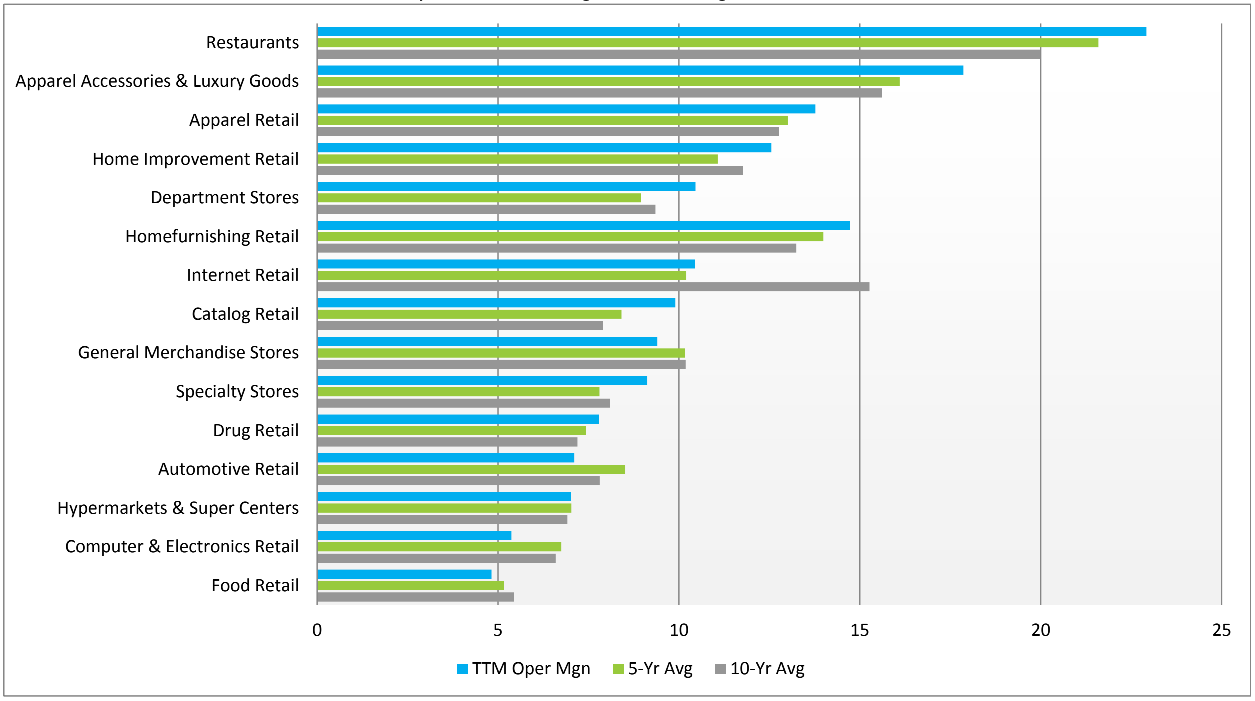
Price to Earnings ("P/E") Ratio: Forward, 10 Years

Sub-Industry Forward 12-Month P/E Ratios

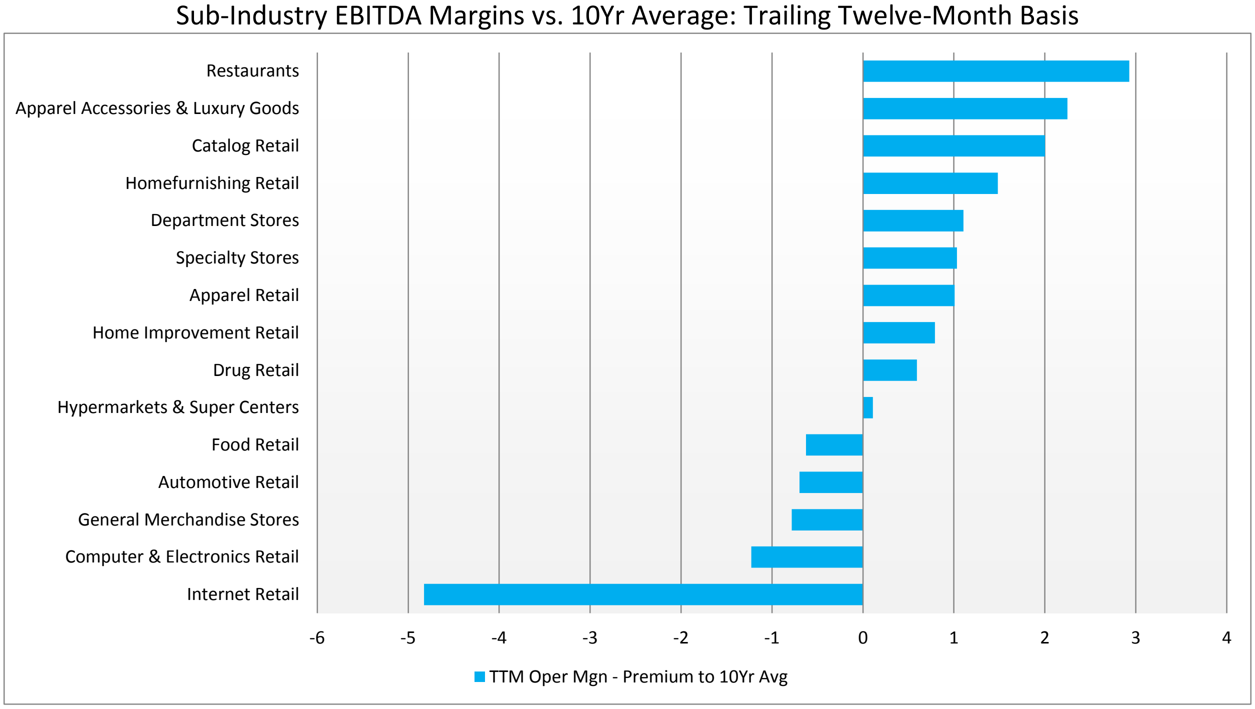


Operating (EBITDA) Margins: S&P 1500

Sub-Industry EBITDA Margins: Trailing Twelve-Month Basis



Sub-Industry EBITDA Margins vs. 10Yr Average: Trailing Twelve-Month Basis



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Methodology

"Blended" growth rates are calculated with estimated results for the current calendar quarter if actual results have not yet been released.

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