

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Did You Know...?

According to a National Retail Federation's survey, families with school-age children are expected to spend \$563.49 on back-to-school merchandise, up 6.9% from last year's \$527.08 average. At this rate, total spending should reach \$18.4 billion.

Private Labels Changing Food Industry

Ralcorp Holdings Inc. of St. Louis has seen sales surge close to 60% over the last few years, thanks to steady sales of its cereal, crackers, cookies and jellies.

But don't look for the Ralcorp brand name on your supermarket shelves.

The food company is among the largest "private-label" manufacturers, which make their profits by producing goods that are sold under the labels of various retailers and grocers. It's a hot sector because more consumers are beginning to trust these cheaper-store brands, sold under names like Wegmen's or ShopRite, and like paying less than national brands.

Plus, private-label products are getting a boost from some missteps by traditional food manufacturers. Sales of private-label peanut butter at Ralcorp, for instance, got a boost from ConAgra's recent recall of its Peter Pan and Great Value peanut-butter products amid concerns about salmonella contamination, says BB&T Capital Market analyst Heather Jones. "It helped consumers to see that there may not be as much difference in private-label and branded products," she said.

That's putting pressure on traditional manufacturers of branded-food products to put a cap on prices, spend more on marketing and work harder to differentiate their offerings. Kraft Foods Inc., for in-

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Duane Reade Holdings, Inc.: Retailer of the Week

This New York City-based drugstore chain, although still a distressed, 'F' credit with an unclear outlook, continues along its path of making modest improvements. The firm's annual report (10-K) was filed on a delayed basis in late-June 2007 due to some modest accounting restatements during fiscal 2004 (before July 30, 2004 defined as predecessor period; after July 30, 2004 defined as successor period). These restatements, related to real estate transactions and related matters that occurred during fiscal 2000-2004, do not have what we consider to be a material impact upon Duane Reade's current financial situation. The druggist's adjusted EBITDA registered a 51% increase to \$63.6 million, certainly the highlight of the twelve-month period ended December 30, 2006.

The impact of the above-mentioned restatements resulted in an increase in cost of goods sold and a corresponding decrease in gross profit of approximately \$0.9 million in the predecessor period and an increase in cost of goods sold and a corresponding decrease in gross profit of approximately \$3.5 million in the successor period. Depreciation and amortization expenses were also reduced by approximately \$0.5 million during the predecessor period. Predecessor period pre-tax income was reduced by roughly \$0.4 million while the successor period pre-tax loss was widened by \$3.4 million. Other restatements included a \$0.1 million reduction to the predecessor period income tax provision and a \$1.3 million increase to the income tax benefit during the successor period. Finally, Duane Reade recorded a reduction of \$0.3 million to predecessor period net income and an increase of \$2.1 million to the successor period net loss.^

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Private Labels Changing Food Industry

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stance, has seen its share of some food categories drop amid competition from private labels. Now it's beefing up its marketing.

While private labels have penetrated almost every consumer group in the U.S., the market share in the food industry – at about 16% – has been the strongest. High commodity costs and thin margins have made it harder for traditional makers to innovate in recent years, making their brands more vulnerable. In Europe – where a fewer number of retailers have a dominant market share – private labels' presence in some parts of Europe is in the range of 30%.

To be sure, private labels' share in the U.S. food market has been almost flat for the last few years, but that could change as a flood of more-sophisticated store-branded offerings hit the shelves.

Research from the International Business Machines Corp., for instance, found that three-quarters of all consumers surveyed in the U.S. and U.K. don't see any benefit in buying branded-food products. A majority of consumers surveyed felt the quality and safety of private-label products are the same as similar branded products. Neil Stern, a senior partner at retail consulting firm McMillan Doolittle, says that private labels in the U.S. could be headed in the direction as Europe, but that changes won't happen as quickly or in the same degree, because U.S. retailers are more fragmented than their counterparts across the pond.

"The existence of a sophisticated private label – like we are beginning to see – weighs on the pricing power of the major packaged-food companies," says Edward Jones packaged-food analyst Matt Arnold. "It forces them to stay at the top of their game in brand building."

A recent McKinsey & Co. report done in partnership with the Grocery Manufacturers Association found that some retailers have managed to achieve much higher-than-average private-label dollar share, even in categories once thought to be strictly branded territory. In spaghetti sauce, industry average private-label dollar share is around 5%, but Wegman's made this category a priority, driving its private-label dollar share above the industry average to beyond 20%, according to the McKinsey report, while private-label retailers like Kroger Co. have driven up their dollar share in the natural-cheese category of 65% to 75%.

Some branded-food companies have been trying to tap the lucrative private-label business themselves, a move that can sometimes be cannibalistic of their own internal brands. Dean Food's, which sells Horizon Organic milk, has a substantial private-label business, while ConAgra Foods Inc. also sells both private-label and branded products. Analysts believe that Dean Food's move to tap both markets is prudent because of the high level of private-label penetration in the milk category. [First Page](#)

Did You Know...?

The Discover Spending Confidence Monitors revealed only 34% of consumers expected to spend more in July than they did in June, a 6 point decline from last month's inaugural survey.

Mass Merchant Musings

... **Wal-Mart** plans to more than double its stores in China in the next five years to tap the growing personal wealth of the country's 1.3 billion people. Wal-Mart has opened 12 stores in mainland China so far this year, on track to beat 2006 openings of 15 stores.

... In related news, it is being reported that **Wal-Mart** is considering making an acquisition bid for **Beijing Hualian**, a hypermarket operator, which owns scores of stores in Beijing and other cities across China. The two sides are said to have held some preliminary talks about a deal.

... British retailer **Tesco** will open a dozen **Fresh & Easy Neighborhood Markets** in the Los Angeles area this fall and stress that not only will one of them be in Compton, described as a "poor and supermarket starved" community, but that the company "was still negotiating for seven other sites in economically depressed Los Angeles communities."

... In a bid to boost customer service, **Meijer, Inc.** is re-evaluating the leadership structure at its 179 stores to make sure employees are doing the jobs that best suit their skills. Hourly workers and corporate employees are not being included in the reviews.

... With 17.8 million accounts, **Target Corp.** is now the seventh-largest issuer of credit cards, higher than **Wells Fargo**. Today nearly 15% of the company's pretax profit comes from its credit card portfolio. And you wonder why they don't want to sell it.

... **Toys "R" Us** opened a dedicated **Sony Shop** in its flagship store, Toys "R" Us Times Square. The 550 square foot area showcases an increased assortment of Sony products including Cyber-shot digital still cameras, Handycam camcorders, Walkman portable MP3 and CD Players, VAIO notebooks, mylo personal communicators, Sony® Reader, and other personal audio products.

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Bankruptcy Blotter

... **Hancock Fabrics Inc.** is seeking a seven-month extension of its deadline for filing a Plan of Reorganization to February 28, 2008. However, **Jay Indyke**, counsel for the official unsecured creditors' committee, believes that the company will be able to emerge before then. A hearing is scheduled for August 28th, with objections due by August 20th.

... The court authorized **Joan Fabrics Corp.** to sell up to 2 million pounds of yarn and fabrics in one or more private sales. The company expects to fetch approximately \$400,000 for the material.

... Unsecured creditors of **Tower Records** are opposing the company's Liquidation Plan, claiming the governance structure proposed is highly unusual and far from mainstream. A confirmation hearing is scheduled for July 31st.

... **Interstate Bakeries Corp.** reported a net loss of \$6 million for the four weeks ended June 2, 2007, compared to a net loss of \$3.8 million in the four-week period ended May 5th. Sales for the period were \$235.4 million, as the company has reported five straight months of increasing sales.

... **Delphi Corp.** won court approval to sell its brake manufacturing business in Mexico to affiliates of the **Bosch Group** for \$15 million, after Delphi reported it received no other bids for the business.

... In other news, **Delphi** accepted an offer led by Appaloosa Management to invest up to \$2.55 billion in the company and lead it out of bankruptcy. The deal is about \$1 billion less than a proposed investment offer of \$3.4 billion from Cerberus Capital Management that was withdrawn.

... **International Automotive Components Group North America**, controlled by billionaire investor **Wilbur Ross** agreed to buy **Collins & Aikman Corp.'s** factory in Mermostillo, Mexico, for \$17 million and the assumption of some liabilities.

... In other news, **Collins & Aikman Corp.** reported that its **Collins & Aikman Automotive Canada Inc.** unit applied for creditor protection under Canada's Companies' Creditors Arrangement Act. The company obtained orders stating creditors and other third parties from terminating agreements.

Feedback?

Questions?

Suggestions?

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The Global World of Sports and Footwear

... Newspapers were reporting that **Foot Locker** is considering putting itself up for sale following disappointing performance in its U.S. shoe stores and the failure to buy **Genesco Inc.**, with **Apollo Management** said to be mulling a \$29 pr share offer. It is believed that the company hired **Lehman Brothers** to advise on a potential sale.

... **The Finish Line, Inc.** signed a commitment letter with **UBS Loan Finance LLC** and **UBS Securities LLC** to provide \$1.14 billion in senior secured credit facilities in connection with the acquisition of **Genesco Inc.** In addition, the commitment letter includes the commitment of UBS to provide a \$700 million senior unsecured bridge loan facility.

... **American Skiing Company** entered into a definitive agreement to sell its subsidiary ASC Utah, Inc., the owner and operator of **The Canyons** resort, located near Park City, Utah, to **Talisker Canyons Finance Co. LLC**, an affiliate of **Talisker Corporation**, for \$100 million in cash. The sale, which is expected to close on or before the end of September, represents the planned disposition of the last major resort asset of American Skiing Company.

... **Cabela's** held a special groundbreaking ceremony last week to commemorate the beginning

of construction of one of its destination retail stores in Scarborough, Maine. The store is expected to open in the Spring of 2008.

... In other news, the city council of Greenwood, Indiana approved \$18 million in bonds that paves the way for **Cabela's** to erect a destination store in that community.

... **Sport Chalet, Inc.** will release its first fiscal quarter earnings results after the market closes on Wednesday, August 1, 2007. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... **GSI Commerce Inc.** opened a new 540,000 square foot, highly automated fulfillment center in Richwood, Kentucky. At full capacity, the facility will ship more than 110,000 orders per day during peak season.

... **REI's** Boulder, Colorado prototype store reached the second phase in its expansion and renovation. Upon completion in early October, the store will serve as a working laboratory to analyze new retail concepts and the performance of green building features. At 42,000 square feet, the completed space will be double in size of the original store.

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Management on the Move

... **Interstate Bakeries Corp.** announced the resignation of CFO **Ronald Hutchison**, who is taking a similar position with a private company. **J. Randall Vance**, SVP Finance and Treasurer, will serve as interim CFO until a permanent successor is appointed.

... **Sears Holdings Corp.** appointed **Richard Gerstein** as the SVP, Chief Marketing Officer for its **Sears, Roebuck and Co.** subsidiary with responsibility for executing Sears' brand marketing strategies and programs, reporting to **Maureen McGuire**, Sears Holdings' Chief Marketing Officer. Mr. Gerstein most recently served as Global Chief Marketing Officer and SVP of the U.S. business for **Alberto Culver Beauty**.

... **John T. Harper** was named President and COO of **Macy's** Home Store division, replacing **Michael J. Osborn**, who is retiring. Mr. Harper currently serves as Vice Chairman and Director of Stores of the Macy's Midwest division in St. Louis.

... **Charlotte Russe Holding, Inc.** appointed **Michael J. Blitzer** to its Board of Directors. Mr. Blitzer currently serves as a Principal of **Portsmouth Partners, LLC**.

... **Casual Male Retail Group, Inc.** notified **Linda B. Carlo** of the termination of her active employment as the company's EVP, Business Development and Direct-to-Consumer, effective August 18th.

... **J.Crew Group, Inc.** appointed **David House** to its Board of Directors. Mr. House was previously at **American Express Company** from 1993 to 2006 where he most recently served as Group President of the Global Network, Establishment Services, Travelers Cheques and Prepaid Services businesses.

... **Borders Group** announced the resignation of **Cedric Vanzura**, EVP of Emerging Business and Technology, and Chief Strategy Officer. The company is eliminating the position.

... In other news, **Borders Group** named **Teresa Wright** to the position of VP, Merchandising, for the company's Paperchase U.S. Division, a new position. Ms. Wright is responsible for product procurement, inventory forecasting, assortment planning, merchandising strategies, visual presentation and marketing activities for gift and stationery items sold through Paperchase branded shops. Ms. Wright most recently served as Operating VP of Planning for Women's Ready to Wear at **Macy's**.

... In addition, **Borders Group** named **Myles Romero** to the position of VP, Strategic Marketing and Entertainment Alliances, also a new position. Mr. Romero is responsible for providing strategic leadership, planning direction, and program management for all third-party marketing partnerships that Borders engages in to add meaningful customer value. Mr. Romero most recently served as Director, Ford Global Branded Entertainment, for **Ford Motor Company**.

... Due to personal considerations, **Scott Devett** has changed his mind and decided not to become the CFO of **Blue Nile Inc.**, the online jewelry retailer. **Diane Irvine**, who has been the company's CFO will continue until a new permanent successor is found.

... **Best Buy** promoted **Julie Gilbert** to SVP, expanding her role to oversee the company's strategy to increase its market share with female consumers, a group that controls an estimated \$68 billion of the U.S. consumer electronics market. Ms. Gilbert will continue to lead retail training and leadership development.

... **Office Depot Inc.** appointed **Elisa Garcia** as its new EVP, General Counsel and Corporate Secretary, succeeding **David Fannin**. Previously, Ms. Garcia served as General Counsel and Corporate Secretary of **Domino's Pizza Inc.**

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Monthly Comps Analysis
Report

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2nd Quarter Earning Release Dates

Apparel/Department Stores

Carter's, Inc.	24-Jul
Cache Inc.	25-Jul
The Children's Place Retail Stores	23-Aug

Consumer Electronics

Amazon.com, Inc.	24-Jul
CDW Corporation	24-Jul
PC Connection, Inc.	26-Jul
Zones, Inc.	26-Jul

Drug

drugstore.com, inc.	25-Jul
Omnicare, Inc.	2-Aug
Tenet Healthcare Corporation	7-Aug

Sporting Goods & Footwear

GSI Commerce® Inc.	25-Jul
West Marine	26-Jul
Cabela's Incorporated	2-Aug

Specialty

O'Reilly Automotive Inc.	24-Jul
A.C. Moore Arts & Crafts, Inc.	6-Aug
Tuesday Morning Corporation	28-Aug

Home Centers

Tractor Supply	25-Jul
Building Mat'ls Holding Corp.	26-Jul
Huttig Building Products	26-Jul
Interline Brands, Inc.	3-Aug

Heard in the Grocery Aisle

... What you heard from Southern California last week was a collective (bargaining) sigh of relief, as negotiators for the **United Food and Commercial Workers** and South California's three biggest supermarket chains – **Albertsons**, owned by **Supervalu**; **Ralphs**, owned by **Kroger**; and **Vons**, owned by **Safeway** – came to a tentative agreement on a new four-year contract that should prevent a strike and/or lockout.

... The **SEC** is conducting an inquiry in relation to online financial message board postings made by **John Mackey**, the co-founder and CEO of **Whole Foods** regarding **Whole Foods Market** and **Wild Oats Markets**. The postings were under a pseudonym and aimed at rival **Wild Oats**, which Mr. Mackey is attempting to acquire. Talk about hubris.

... In other news, **Whole Foods Market, Inc.** extended the expiration date for its tender offer to purchase outstanding shares of **Wild Oats Markets, Inc.** to Friday, August 10, 2007. At the close of business on July 19th, a total of 17.0 million shares of **Wild Oats** stock, representing 57.1% of the \$29.9 million outstanding, had been tendered. This one is going to end of as a Harvard Business Study.

... **The Great Atlantic & Pacific Tea Company (A&P)** announced that its first quarter sales were \$2.0 billion, or virtually the same as during the same period a year ago, on comp store sales that were up 1% for the quarter. A&P also declared a \$43 million net loss for the quarter, compared to a loss of \$6 million last year.

... In other news, **A&P's** planned acquisition of **Pathmark Stores** will be delayed by an additional two months while the **Federal Trade Commission** completes its investigation into whether the deal is anti-competitive. Both retailers say that they have substantially complied with the FTC's various requests for additional information.

... Management at **Grocery Outlet** said that despite **Save Mart's** plan to reintroduce the **Lucky**

name at some 70 of its stores in Northern California – units that it acquired from **Albertsons** last year – it intends to continue pursuing its legal case claiming ownership of the **Lucky** name.

... **Sobeys Inc.**, a unit of **Empire Company Limited**, entered into an agreement to purchase **Thrifty Foods**, a British Columbia-based grocery retailer, for the equivalent of \$250 million (US). Thrifty's business includes 20 full-service supermarkets, a main distribution center and a wholesale division on Vancouver Island and the Lower Mainland of British Columbia.

... **Dillons** and **Kwik Shop**, units of **The Kroger Co.** announced plans to reopen a grocery store in Greensburg, Kansas as the town rebuilds in the aftermath of a devastating tornado. **Kwik Shop** has already reopened its convenience store and will convert the store to a combination **Dillons** grocery store and **Kwik Shop** by the end of September.

... **The Fresh Market** opened its first Maryland store in The Shops at Quarry Lake, a mixed-use development in Baltimore County. The **Fresh Market** models itself on the open-air markets in Europe. The new store marks the 70th location for the company.

... **Wakefern Food Corp.** reported that of the 10 **Stop & Shop** locations bought in New Jersey and New York, **Supermarkets of Cherry Hill, New Jersey** is buying three, **Eickhoff Supermarkets** is buying one, **Zallie Supermarkets** is buying two stores, **Ammons Supermarkets** is buying one, and **Village Supermarkets** is buying one. The store in New York is a replacement store, and one store in New Jersey is being closed permanently.

... **Alimentation Couche-Tard Inc.**, Canada's convenience store leader, reported revenues for the fiscal year ended April 30, 2007 of US\$12.1 billion, an increase of US\$1.9 billion or 19.0% over prior year. Net earnings for the year totaled US\$196.4 million compared with US\$196.2 million last year.

Did You Know...?

According to a report by *Gift-giving Report 2007*, the typical gift giver spent \$2,643 on gift purchases in 2006, with an additional \$78 spent on gift cards, wrapping paper, ribbons and other gifting accessories, an increase of 13.5% over the average amount spent in 2005. Who knew my ties cost so much.

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Specialty Items

... **Overstock.com, Inc.** received a favorable ruling in the lawsuit pending against most of the largest prime brokerage firms in the country, including **Morgan Stanley & Co. Incorporated**, **Goldman Sachs & Co.**, **Bear Stearns Companies, Inc.**, **Bank of America Securities LLC**, **Bank of New York**, **Citigroup Inc.**, **Credit Suisse (USA) Inc.**, **Deutsche Bank Securities, Inc.**, **Merrill Lynch, Pierce, Fenner & Smith, Inc.**, and **UBS Financial Services, Inc.** The court's ruling rejected defendants' claims that **Overstock's** complaint is preempted

by federal law and that "phantom" shares are not created by naked short selling of a company's stock as a matter of law.

... **Rooms To Go** confirmed that the retailer will enter the hotly contested Houston market early next year with its first four stores. The company, which already has stores in Austin, San Antonio and the Dallas/Fort Worth markets, has started construction on two stores in the Baybrook and Willowbrook areas of Houston.

Health & Beauty Aids

... **Walgreen Co.** was granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act applicable to Walgreens proposed acquisition of **Option Care**. Walgreen's began a tender offer to acquire all shares of Option Care common stock for \$19.50 per share, in cash. Completion of the transaction is subject to acceptance of the tender offer.

... **Rite Aid Corporation** and **Saint Alphonsus Regional Medical Center** agreed to open **Saint Alphonsus Express Care** medical clinics inside three Rite Aid stores in neighborhoods in the Boise, Idaho area this year. The clinics will be the first to open in Idaho.

... **Cardinal Health, Inc.** will release its fourth quar-

ter and full fiscal year results on Thursday, August 9th, prior to the opening of trading on the NYSE. Be sure to look for **Global's** updated analysis and assessment.

... **McKesson Corporation** signed a definitive agreement to acquire **Awarix, Inc.**, one of the first companies to offer an enterprise patient care visibility system. The acquisition is expected to close by the end of July.

... **PharMerica Corporation**, the institutional pharmacy services company formed from the combination of the institutional pharmacy businesses of **AmerisourceBergen** and **Kindred Healthcare**, will hold an informational investor meeting on Wednesday, August 15th in New York City.

Off the Rack

... **Kohlberg Kravis & Roberts** is reported to be studying a bid to buy **Macy's** for about \$24 billion, with an agreement in principle possibly as early as this week. Current Macy's management would probably remain in place.

... In other news **Macy's** Midwest is implementing a black clothing dress code for its employees at all 113 of its regional stores, including those in Missouri. The dress code is already in place in most other Macy's divisions and is designed to help customers identify Macy's associates in its stores.

... Tapping into the low-income retail market, **Ross Stores Inc.** continued to expand its **dd's Discounts** chain, opening its first stores outside California, with 4 stores in the Dallas area and two in Tampa. In addition, the company plans to open two more stores in Texas, five more in Florida, as well as two stores in Arizona this fall. The company has 34 dd's stores in California.

... The troubled **Gap** could exit the United Kingdom market if its new European fashion range

fails to seduce consumers, according to those close to the company.

... **Hart Stores Inc.** announced the opening of three new stores in three provinces this fall. The first opening will be in North Bay, Ontario, followed by a store in Fleurimont, Quebec, with the third store in Tracadie, New Brunswick.

... **Abercrombie & Fitch** will sell overstock in Israel through **One World Designers Ltd.**, an importer of surplus labels. The Abercrombie overstock will be sold at the Outlet Mall in Ramat Hasharon.

... **True Religion Apparel Inc.** opened its newest branded store at The Galleria in Houston, featuring a 1,508 square feet of retail space and offering shoppers the entire True Religion line of clothing and accessories.

... **Mothers Work, Inc.** will release its third quarter earnings results on Tuesday, July 24, 2007. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

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Hi Tech Entertainment

... Demand for consumer electronics helped prop up June retail sales, and now a new survey by the **National Retail Federation** predicts the category will buoy the back-to-school season as well. According to the NRF, consumer electronics will see the biggest category increase in sales this year, with families spending 13% more on consumer electronics than in 2006 (\$129.24 on average vs. \$114.38).

... **Tweeter Newco**, the newly formed, privately held portfolio company of **Schuitze Asset Management**, will immediately employ funding from its new owners to resume its store remodeling program. The chain has earmarked 40 of its 103 stores for partial retrofits that will incorporate key features of its next generation "Playground" format.

... **Rex Stores Corporation** reduced the revolving credit commitments under its Amended and Restated Loan Agreement from \$115 million to \$75 million. No borrowings are currently outstanding

under the credit facility.

... **GameStop Corp.** renewed its partnership with **Major League Gaming**, the first professional video game league, as the presenting sponsor and official global video game retailer for the MLG Pro Circuit through the 2008 season.

... **Ingram Micro** expanded and reopened its East Coast Solution Center in Buffalo, New York. The facility has been expanded with a 1,000 square foot build-out featuring a new demonstration area and conference space. The facility features more than 100 suppliers across multiple market categories.

... Designer **David Rodriguez** will launch his first ever ready-to-wear collection exclusively on **HSN** on August 21st. "Fleur by David Rodriguez" will be one of the key collections being presented to HSN viewers during the network's Fall Fashion Week, which runs from August 18th to 24th.

Did You Know...?

The Retail Sector Newsletter has increased readership each week since publishing began?

2nd Quarter Earnings

\$ in Millions	Sales			2nd Qtr Comps	Net Income		
	2006	2007	Change		2006	2007	Change
Home Centers							
Fastenal Company	\$458.8	\$519.7	13.3%		\$51.5	\$60.3	17.0%
Griffin Land & Nurseries	\$24.6	\$31.9	29.7%		(\$0.3)	\$6.0	N/A
Sherwin-Williams Company	\$2,130.0	\$2,198.2	3.2%	0.0%	\$184.6	\$202.6	9.8%
Wesco International	\$1,336.0	\$1,518.1	13.6%		\$55.2	\$57.1	3.4%
W. W. Grainger	\$1,482.9	\$1,601.0	8.0%	8.0%	\$93.7	\$104.8	11.8%
Sports & Footwear							
West Marine, Inc.	\$264.5	\$247.8	-6.3%	-2.9%			
WinMark Corporation	\$6.3	\$7.6	20.6%		\$0.7	\$0.5	-15.9%
Specialty							
Richelieu Hardware Ltd.	C\$102.6	C\$116.3	13.4%		C\$8.6	C\$8.7	0.3%
Tuesday Morning Corp.	\$207.7	\$219.4	5.6%	0.1%			
Consumer Electronics							
CDW Corporation	\$1,633.0	\$2,033.0	24.5%				#DIV/0!
Food							
Nash Finch Company	\$1,070.8	\$1,064.0	-0.6%	0.3%	\$4.1	\$9.6	132.6%
Safeway, Inc.	\$9,367.1	\$9,823.3	4.9%	4.5%	\$246.2	\$218.2	-11.4%
Weis Markets, Inc.	\$561.9	\$578.8	3.0%	3.2%	\$15.5	\$18.2	17.2%
Drug							
Abbott	\$5,501.1	\$6,370.6	15.8%		\$612.2	\$988.7	61.5%
Shoppers Drug Mart	C\$1,768.2	C\$1,928.1	9.0%	5.3%	C\$94.4	C\$112.3	18.9%

Options and Resources

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Duane Reade Holdings, Inc.:Retailer of the Week

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OPERATING PERFORMANCE: 12 MONTHS ENDED DECEMBER 30, 2006

<i>\$ in millions, fiscal year ended</i>	52 weeks 12/30/2006	53 weeks 12/31/2005	YOY Var.
Net Sales	\$1,584.80	\$1,589.50	-0.30%
Comparable Store Sales Growth	4.60%	1.90%	
Gross Margin	20.50%	19.00%	151 bps
SG&A Burden	21.90%	21.70%	28 bps
Adj. EBITDA*	\$63.60	\$42.20	50.90%
Adj. EBITDA Margin*	4.00%	2.70%	136 bps
Adj. Operating Profit*	(\$23.20)	(\$42.70)	N/M
Adj. Operating Margin*	-1.50%	-2.70%	123 bps
Net Profit	(\$80.10)	(\$100.40)	N/M
*-excludes transaction expenses, labor contingency items, severance costs, and other unusual one-time items.			

Duane Reade produced a 4.6% comparable store sales increase during fiscal 2006, with front-end comps registering a 6.2% increase while 2.6% growth was achieved behind the pharmacy counter (see Comparable Store Sales). Adjusting for fiscal 2005's extra week of sales, net retail store sales (which exclude pharmacy resale activity), rose 3.4% to \$1.5 billion for the twelve months ended December 30th. Recent initiatives that could lure more store traffic and elevate average transactions include getting beer licenses in 200 stores, adding more frozen and refrigerated space, and growing its in-store skin fitness centers. Moreover, the druggist also plans to expand the presence of its Lab-Corp diagnostic patient service centers and announce a replacement shortly for its recently ended partnership with RediClinic. The mystery shop program has not only helped to improve in-store conditions but has also allowed associates consistently demonstrating ideal behavior to be rewarded.

A combination of higher front-end selling margins, selling more generic drugs, and reducing shrink have propped up gross margins, even as overall pharmacy margins continue to be pressured. Duane Reade's private-label penetration improved from 7.2% to better than 8.0% during fiscal 2006, but much work remains to be done in this initiative. Labor saving processes are being implemented to realize efficiencies and cost savings. CEO Richard Dreiling cited that productivity per employee has improved 9% year-over-year. YTD interest expense is 3.6% of revenues, up from 3.2% one year ago.

LIQUIDITY AND FINANCIAL STRUCTURE

Asset-side liquidity remained light as Duane Reade exited fiscal 2006. Cash balances of \$1.4 million were nominally higher than year-ago levels. Revolver owings under its \$225 million secured credit facility subsided to \$157.1 million as the retailer began 2007, leaving \$62.4 million of availability after accounting for L/C usage (see Bank Reference).

Capital spending plans, excluding the acquisition of eight Gristedes locations (to be funded through preferred equity commitments from affiliates of Oak Hill Capital Partners), should approximate \$35 million in 2007. CFO John Henry anticipates the store base of 248 locations to grow on a net basis to 254 by 2007's end. Ninety-seven stores had received renovations by year-end to reflect the chain's new look and feel, while 55 of those units had been fully converted to Duane Reade's new merchandising presentation. During 2007, CEO Dreiling hopes to adjust the adjacencies in another 80 stores. Management reported that five of the twenty-five underperforming stores identified in early-2006 have returned to acceptable financial health, while four have been closed; the remaining sixteen locations remain under close monitoring. Low-to-medium quality debt capital totaling \$412 million represents the bulk of Duane Reade's capital base. Sustained operating losses have left the drug-store chain with negative tangible net worth.

Did You Know...?

The average time delay between a consumer's first visit to a Web site and the time of purchase has increased from 19 hours in 2005 to 34 hours and 19 minutes in 2006. Consumers have discovered they have options online.

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Rating Changes and Outlooks

S&P Rating Changes				
Company	Credit Rating		Credit Outlook	
	Current	Prior	Current	Prior
BUILDING MATERIALS HOLDINGS INC/BMC WEST	BB	BB	NEG	STA
PETRO STOPPING CENTERS LP	NR	B	NR	STA
DRIVETIME AUTOMOTIVE GROUP INC	B+	B	STA	STA
TARGET CORP	A+	NM	STA	NM
KROGER CO,THE	BBB-	BBB-	POS	STA
SAFEWAY INC	BBB-	BBB	STA	NM
SUPERVALU INC	BB-	BBB	STA	NM
YUM! BRANDS INC	BBB	BBB-	STA	POS
NEW WORLD RESTAURANT GROUP, INC / FKA	NR	CCC+	NR	STA
LIMITED BRANDS INC	BBB-	BBB	NEG	STA
HOME DEPOT INC, THE	BBB+	A+	STA	NM
RITE AID CORP	B	B+	STA	NM
DOLLAR GENERAL CORP	B	BB+	NEG	NM
SEARS HOLDING CO. F/K/A KMART HOLDING	BB+	BB+	NEG	STA
SEARS HOLDINGS CORP	BB+	BB+	NEG	STA
ALBERTSONS INC (SEE SUPERVALU)	NR	BBB-	NR	NM
TARGET CORP	A+	NM	STA	NM
DILLARDS INC-HQ	BB	BB	STA	NEG
KROGER CO,THE	BBB-	BBB-	POS	STA
LOWES COMPANIES INC	A+	A	STA	POS
SAFEWAY INC	BBB-	BBB	STA	NM
MCDONALDS CORP	A	A	STA	NEG
OFFICE DEPOT INC	BBB-	BBB-	STA	POS

Did You Know...?

Mass Merchants, led by Wal-Mart, generated 43% of all DVD sales in 2006, according to a report commissioned by the Entertainment Merchandiser's Association. Consumer electronics chains accounted for 16% of sales followed by online retailers with 12.5% of the market.

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FYI for the DIY

... **United Rentals, Inc.** signed a definitive merger agreement to be acquired by affiliates of **Cerberus Capital Management, L.P.** for \$34.50 per share, a transaction valued at approximately \$6.6 billion including the assumption of approximately \$2.6 billion in debt obligations. Completion of the transaction is subject to customary closing conditions, including approval of the company's stockholders (which is being recommended by the Board of Directors) and regulatory review. Holders of the company's preferred stock, including affiliates of **Apollo Management, L.P.**, which represent approximately 18% of the voting power of the capital stock of the company, have agreed to vote their shares in favor of the merger. In addition, United Rentals may continue to solicit proposals for alternative transaction from third parties through August 31, 2007.