

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Remember...

A problem is a chance for you to do your best.

Economy Facing Numerous Difficulties

Federal Reserve Chairman Ben Bernanke told Congress last week that the fragile economy is facing “numerous difficulties” despite the Fed’s aggressive interest rate reductions and other fortifying steps.

At the same time, Mr. Bernanke, testifying before the Senate Banking Committee, sounded another warning that rising prices for energy and food are elevating inflation risks. This problem looms even as officials try to cope with persistent strains in financial markets, rising joblessness and housing problems.

The situation, he said, poses “significant challenges” for Fed policymakers as they try to chart the best course for keeping the economy growing, while making sure inflation doesn’t dangerously flare up. All the economy’s problems, including slumping home values, which threaten to make people feel less wealthy and less inclined to spend in the months ahead, represent “significant downside risks” to economic growth.

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Retailer of the Week: Target Corp.

Target Corp first quarter sales grew 5% to \$14.3 billion for the first quarter ending May 3, 2008. The company’s sales performance fell short of management’s expectations however, inventories were significantly down and SG&A expense was only up 6.6%, which is the lowest increase in more than 20 consecutive quarters. Target has done a very good job controlling costs as the company has increased the amount of debt on its balance sheet. The company is currently buying back stock at an accelerated rate and significant investments in both the company’s retail and credit card segments have increased interest expense related to added debt.

Although the company had slower sales growth and has added significant interest expense during the quarter, we are reaffirming our “B” credit rating with a “Stable” outlook. Target has done a sufficient job controlling company costs and Target should see proceeds related to the \$3.6 billion sale of 47% of its credit card receivables in the second quarter. The cash proceeds will provide liquidity to implement further investments as well as additional stock repurchases.

OPERATIONS

\$ in millions, First Quarter Ended	May 3, 2008	May 5, 2007	Change
Sales	\$14,302.00	\$13,623	5.00%
Gross Margin	\$4,404	\$4,437.00	4.60%
% of Sales	30.80%	32.60%	-178 BP
Overhead	\$3,472	\$3,485	0.40%
Credit Card Contribution	\$226	\$241.00	-6.20%
Operating Income	\$1,158	\$1,200.00	-3.50%
% of Sales	7.80%	8.50%	-72 BP
Net Income	\$602.00	\$651.00	-7.50%
% of Sales	4.10%	4.60%	-57 BP

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Economy Facing Numerous Difficulties

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Over the rest of this year, the economy will grow “appreciably below its trend rate” mostly because of continued weakness in housing markets, high energy prices and tight credit conditions.

Mr. Bernanke's testimony came just two days after the Fed and the Treasury Department came to the rescue of mortgage giants Fannie Mae and Freddie Mac, offering to throw them a financial lifeline.

The two companies hold or guarantee more than \$5 trillion in mortgages – almost half of the nation's total. The Bush administration is asking Congress to temporarily increase lines of credit to Fannie and Freddie and to let the government buy their stock. The Fed has offered to let the companies draw emergency loans.

The pledges of aid have raised concerns about the government's role in such financial problems and the risk to taxpayers.

On the economic front, inflation has remained high and “seems like to more temporarily higher in the near term,” Mr. Bernanke warned.

Indeed, before Mr. Bernanke delivered his twice-a-year comprehensive economic assessment to Congress, the Labor Department reported wholesale prices jumped 1.8% in June. That left inflation rising over the past year at the fastest pace in more than 25 years.

The Fed in June signaled an end to its nearly year long-rate-cutting campaign because of growing concerns about inflation. Mr. Bernanke kept up his tough anti-inflation talk last week, but stressed that many other problems could short circuit economic growth. He seemed to be keeping his options open in terms of rates. Given all the risky cross currents, economists believe the Fed will leave rates alone when they meet on August 5th.

Strengthening regulatory oversight of Fannie and Freddie remains as job one. Congress is moving ahead on a broad housing rescue package that includes provisions to tighten regulation over the two companies. Mr. Bernanke said legislative efforts to help stabilize the housing market, the biggest threat to the economy, are of vital importance.

The Fed, in new projections, now believes inflation will be higher this year than previously thought, with prices rising as high as 4.2% under one inflation measure.

Growth for the year will be sluggish, at best 1.6% growth, but not as bad as previously forecast, helped by the government's \$168 billion stimulus, including rebates. The unemployment rate, which could rise as high as 5.7% this year, is the same as earlier projections.

Heard in the Grocery Aisle

Aldi is planning 24 store openings in Florida this fall, according to their new recruiting website at www.aldifloridajobs.com.

Sprouts Farmers Market has revamped their website at sprouts.com with more shopper-friendly features, including recipes, promotions and events.

Safeway confirmed earnings guidance for 2008 of \$2.25 to \$2.35 per share and free cash flow of \$500 million to \$700 million. The company revised downwards guidance for same-store sales, excluding fuel, from a range of 2.0% to 2.3% to a range of 1.0% to 2.0%.

Fresh & Easy broke ground for their South L.A. store. The mixed-use building will have 80 apartments above ground-floor retail space.

Supervalu division Jewel-Osco announced plans for a small format 16,000-square-foot store to open in Chicago this fall. The store will be called “Urban Fresh” and will focus on fresh and prepared foods.

SimonDelivers is ceasing operations after nine years of delivering groceries in the Twin Cities region. Sales have been around \$55 million a year, but increasing food and fuel costs took their toll.

Feedback?

Questions?

Suggestions?

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Bankruptcy Blotter

Credit-quality trends remained "fairly negative" in the second quarter, with airlines, nonlife insurance, real estate and construction, and media and entertainment companies experiencing the largest percentages of downgrades, according to Moody's Investors Service.

The court gave **Whitehall Jewelers Holdings Inc.** permission to hold a July 31 auction of its assets, either through a going concern sale or liquidation of inventory at its 373 jewelry stores. A joint venture comprised of **Great American Group LLC**, **Hudson Capital Partners LLC** and **Silverman Jeweler Consultants Inc.** is seeking the right to hold store closing sales and pay the jeweler 90% of the value of the inventory.

Elliott Outdoors, which operates an outdoor specialty store in Paris, Tennessee, filed Chapter 11 bankruptcy. The petition listed total liabilities of \$0.9 million and \$0.3 million in assets.

The court has rejected a bid by bondholders in **Pacific Lumber Co.'s** case to halt a court-approved plan by hedge fund **Marathon Asset Management** to take over the company and

bring it out of bankruptcy. It is unclear if bondholders will appeal the decision.

The Trustee in the **Sharper Image Corp.'s** bankruptcy case is balking at a deal the company's unsecured creditors reached to back the sale of the company's trade name and other intellectual property in exchange for \$500,000, claiming the deal runs afoul of the Bankruptcy Code's priority scheme governing distribution to creditors.

In filings with the court, **Shoe Pavilion**, which filed for bankruptcy protection last week, may need to close up to 71 store locations of its total 117 stores in eight states. The company stated that 43 stores are clearly unprofitable and should be shuttered and that an additional 28 locations could remain open with lease modifications and reductions from landlords.

Delphi Corp. is looking for a buyer for its brake business, which generates about \$295 million in revenue. In addition, the company plans to sell its stake in a joint venture with Ener1 Inc. that makes lithium-ion batteries for hybrid vehicles, a \$27.6 million deal.

Did You Know...?

The home builders' sentiment index fell two points in July to record-low 16, with all three components of the survey also dropping to historic lows. At 16, the index shows that only one-in-six home builders has a positive view of the market.

Mass Merchant Musings

Wal-Mart is testing installation and repair kiosks in partnership with Dell under the name, "Solution Station by Dell." 15 Dallas-area Wal-Mart stores will get the kiosks initially. The concept will help the retail giant compete with similar services from Best Buy and Circuit City.

Employees of a **Wal-Mart** outlet in northeast China signed a collective contract with the retailing giant, the first among Wal-Mart's 100-odd stores across China. After talks lasting more than five hours, the Wal-Mart outlet in Shenyang, capital of Liaoning Province, agreed on a proposal by its trade union to raise employees' salary by an annual rate of 8% in 2008 and 2009, according to the city's trade union. Other agreements included the standard

of minimum salary, paid vacation, social security treatment and payment for overworking.

Wal-Mart commenced its previously-announced Locally Grown program with an event in Oklahoma.

My Healthy Access, Inc. will partner with **NuPhysicia LLC** to operate telemedicine clinics in certain Houston-area **Wal-Mart** supercenters. The concept uses an on-site paramedic examining a patient and sending data to a remote located physician.

Canadian Tire opened its first two stores testing a new small format. The 14,000 to 18,000 sq ft stores are aimed at smaller markets.

Options and Resources

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Management on the Move

Sears named **Craig M. Israel** as SVP and President of Apparel. Israel is the former President and CEO of May Department Stores.

AnnTaylor Stores promoted two. **Brian E. Lynch** was named President of Corporate Operations and EVP and CFO **Michael J. Nicholson** will assume responsibility for Information Technology and Global Procurement. Also, **Anthony M. Romano**, Chief Supply Chain Officer, has resigned.

Pacific Sunwear board member **Julius ("Reb") Jensen III** has resigned to pursue personal interests.

FAO Schwarz names **Lee Bissonnette** SVP of E-Commerce. Prior, he was head of E-Commerce for Delia's.

FreshDirect chairman **Rick Braddock** will be the company's new CEO. He replaced Steve Michaelson who left the company for a position at Supervalu.

Hudson's Bay Company's new owners **NRDC Equity Partners** named Jeffrey Sherman CEO of HBC. Sherman has a distinguished resume including senior roles at Polo, Limited Brands and Federated.

Pep Boys appointed **James A. Mitarotonda** non-executive Chairman. Mitarotonda is CEO of Barington Capital Group, Pep Boys' largest shareholder. Also, Interim CEO **Michael R. Odell** was appointed to the Board of Directors.

Collective Brands, Inc. named **Betty Click** as SVP Human Resources. She succeeds Jay Lentz, who is retiring.

Winn-Dixie Stores promoted three: **John Fegan** was named VP of Pharmacy, **Peter Thomas** is VP of Real Estate, **Dan Tobin** is VP of Development.

United Rentals, Inc. director **Jenne K. Britell** has been elected Chairman of the company's Board.

FYI for the DIY

James P. Robinson, a former DMM for flooring for **Home Depot**, has pleaded guilty to one count of conspiracy to commit wire fraud and two counts of tax evasion related to the supplier kickback scheme that has already claimed one former HD executive.

84 Lumber turned their first monthly profit this year in May, the company reported. Sales had been decreasing at 84 Lumber, which is primarily dependent on single-family housing starts - since April 2006, leveling off in December 2007 and remaining flat since then.

IKEA will open its new 834,000 sq ft Tacoma Distribution Center on Sep 17, 2008. The DC will employ about 125 workers and supply stores in Western U.S. and Canada.

Menards plans to forge ahead with its second and third home improvement stores in the city of Columbia, Missouri, according to the *Columbian Missourian* newspaper. Construction is expected to begin on the Columbia big-box site by the end of July.

HAVE YOU HEARD...

The following Trade Commentaries on private Food & Drug accounts are now available on the Global Credit Services website:

Bartell Drug Company
Discount Drug Mart
MBM Corporation
Minyard Food Stores
U.S. Foodservice, Inc.
Vistar Corporation

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The Global World of Sports and Footwear

GSI Commerce extends and expands its multi-year marketing services contract with Toys R Us.

American Eagle Outfitters won a preliminary injunction against Payless ShoeSource. Payless will have to adopt a disclaimer stating that American Eagle by Payless is not affiliated with American Eagle Outfitters.

Finish Line, obviously feeling better about its improved financial performance and long-term marketplace opportunities, re-instates its quarterly cash dividend and hikes the figure 20% to \$0.03 a share. FINL shareholders of record on Aug. 29 will be paid the dividend on Sept. 15. Meanwhile, the FINL board has authorized a new 5 million share stock repurchase program that expires at the end of 2011 and represents approximately 9% of Class A and Class B FINL shares.

June Retail Sales for the sporting goods, hobby, book and music store sector realized a 1.1% decline to an seasonally unadjusted \$6,964 million versus \$7,044 million in June 2007. Retail sales of clothing/clothing accessories stores were flat in June on an unadjusted basis at \$17,555 million.

Steve & Barry's reportedly has two additional weeks to round up buyers or financial partners, reported Newsday, citing Judge Allan L. Gropper's July 11 decision to postpone the original asset auction date of July 29.

Columbia Sportswear will open a store on Chicago's Magnificent Mile next year.

Merrell will open a 2,400 sq. ft. flagship store in San Francisco's Union Square district, the company's first U.S. retail store, next month.

Outdoor products sales reached \$449 million in May according to the OIA, gaining 14% in units and 12% in dollars over last year. By channel for the month, outdoor specialty stores gained 5% in units and 4% in dollars; outdoor chain stores gained a 15% in units and 13% in dollars; outdoor internet stores gained 31% in units and 25% in dollars.

Stride Rite Children's Group is launching a new store format, Collections by Stride Rite, which has separate areas for youth footwear and for parents shopping for infant and toddler shoes. The first location is 1800 sq ft on 3rd Ave at 87th in NYC, with future locations planned at upscale shopping venues.

NexCen Brands Inc.'s Bill Blass apparel brand has been drawing weak bids that are being rejected by the company, which is struggling to meet a debt payment deadline. The bid by Designer Licensing Holdings of \$24 million is well short of the \$54 million NexCen paid for the brand in late 2006. It also falls short of a \$30 million debt payment that is coming due.

Also, **NexCen** gets a three week extension from lender BTMU Capital from Jul 17 to Aug 8, as they continue to work on a comprehensive restructuring of NEXC's loan facility.

Shoe Carnival has selected 22squared as its ad agency.

Did You Know...?

The National Retail Federation reported that retail sales for June (which exclude automobiles, gas stations, and restaurants) rose 1.3% y-o-y and was up 0.2% from May.

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
ORIENTAL TRADING COMPANY INC/ DBA FUN EXPRESS	B-	B-	NEGATIVE	STABLE	NR
PANTRY INC ,THE	B+	BB-	STABLE	NEGATIVE	D-
CAESARS ENTERTAINMENT INC	NR	BB+	NR	NM	D+
MAPCO EXPRESS INC	B-	B	NEGATIVE	STABLE	NR
AMERIGAS PARTNERS LP	NR	BB+	NR	STABLE	C-
VENETIAN CASINO RESORT LLC	BB-	BB-	NM	STABLE	NR
LAS VEGAS SANDS INC	BB-	BB-	NM	STABLE	D+
DAVE & BUSTERS INC	B	B-	NM	POSITIVE	E+

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General Retail News

The Organized Retail Crime Act of 2008, H.R. 6491, would make organized retail crime a federal crime. The bill includes many facets, from transportation and sale of stolen goods, to the sale of stolen or counterfeit gift cards, to faked UPC or RFID information, to holding web sites like eBay liable for any stolen goods sold there.

Shopping center and mall vacancies are rising, according to a study by Reis Inc. The average vacancy rate at neighborhood and community malls was 8.2%, up from 7.3% last year. At larger regional and super-regional malls, vacancies were 6.3% vs. 5.6% last year.

Shopping centers in the upscale **Lifestyle Center** format are having trouble finding tenants, the *Wall Street Journal* reports. Some scary stats: overall nationwide lifestyle-center square footage expanded by 67% last year, with twice the square footage now under construction.

The new **Most Competitive Retail & Consumer Goods Study** from wRatings

Corporation gives retailers a "W Score" based on a retailer's consumer and economic competitive advantages. Here are the top 20 for 2008:

2008 Rank	2007 Rank	Retailer	W Score
1	1	Publix	92.0
2	15	Coach	88.6
3	64	Family Dollar	87.6
4	9	Claire's Stores	84.6
5	10	Staples	84.4
6	49	NY & Company	83.3
7	46	Gap	80.4
8	8	Michael's Stores	79.3
9	5	Williams-Sonoma	79.2
10	11	Petco	78.5
11	3	Ross Stores	76.7
12	51	Neiman Marcus	76.4
13	21	American Eagle	75.0
14	52	J.Crew	74.7
15	6	Gymboree	74.6
16	25	Nordstrom	74.2
17	20	NIKETOWN	74.0
18	58	Amazon	73.4
19	27	PetSmart	72.7
20	17	Kroger	72.4

Upcoming Reporting Dates

Company	Event	Date
99 Cents Only Stores	Quarterly Results	Aug 7, 2008
Amazon.com	Quarterly Results	Jul 23, 2008
AmerisourceBergen	Quarterly Results	Jul 24, 2008
Bebe Stores	Quarterly Results	Aug 21, 2008
Blue Nile	Quarterly Results	Aug 5, 2008
Cabela's	Quarterly Results	Jul 31, 2008
Cache	Quarterly Results	Jul 24, 2008
Charlotte Russe	Quarterly Results	Jul 23, 2008
Crane	Quarterly Results	Jul 28, 2008
CVS Caremark	Quarterly Results	Jul 31, 2008
Drugstore.com	Quarterly Results	Jul 28, 2008
Ethan Allen	Quarterly Results	Jul 23, 2008
Express Scripts	Quarterly Results	Jul 30, 2008
GSI Commerce	Quarterly Results	Jul 23, 2008
Ingram Micro	Quarterly Results	Jul 24, 2008
Loblaw Companies	Quarterly Results	Jul 25, 2008
McKesson Corporation	Quarterly Results	Jul 23, 2008
Mothers Work	Quarterly Results	Jul 29, 2008
Office Depot	Quarterly Results	Jul 30, 2008
PC Mall	Quarterly Results	Jul 29, 2008
Rent A Center	Quarterly Results	Jul 29, 2008
Spartan Stores	Quarterly Results	Jul 30, 2008
Staples	Quarterly Results	Sep 3, 2008
Supervalu Inc.	Quarterly Results	Jul 22, 2008
Tractor Supply	Quarterly Results	Jul 23, 2008
West Marine	Quarterly Results	Jul 24, 2008
Whole Foods Market	Quarterly Results	Aug 5, 2008

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Off the Rack

Coldwater Creek Inc. raised its sales and earnings guidance for the second quarter and full year. Second quarter sales guidance is up to \$235 million to \$240 million from \$215 million to \$239 million. Second quarter earnings is up to \$0.00 to \$0.02 per share from \$(0.09) to \$(0.03) previously. For fiscal 2008, sales guidance is now \$1,105 million to \$1,151 million up from \$1,085 million to \$1,150 million and earnings guidance is \$(0.04) to \$0.09, up from \$(0.13) to \$0.04 per share.

Saks Inc. will open three new OFF 5TH stores in 2009, located in The Legends at Sparks Marina in Reno-Sparks, Nevada in May, in Cincinnati Premium Outlets in Monroe, Ohio in August, and in Grand Prairie Prime Outlets in Grand Prairie (metropolitan Dallas), Texas in November.

Macy's CEO Terry Lundgren sent out a letter to employees last week to emphasize that the company is "financially healthy" after weeks of

decline in the stock price. The pep-talk emphasized that Macy's recent results have outperformed sector rivals.

True Religion Apparel has been added to the S&P SmallCap 600 Index.

NRDC Equity Partners, owners of Lord & Taylor and Fortunoff, have acquired the Canadian giant Hudson's Bay. NRDC did not place a value on the transaction, but said it would be investing \$500 million in new equity into the combined company. NRDC said in a release that the combined company will have revenues of more than a mere \$8 billion. Lord & Taylor has 47 locations in the US, while HBC operates more than 580 locations.

The Talbots, Inc. has finalized the terms of its \$50 million unsecured subordinated working capital term loan credit facility. The new facility increases the Company's total working capital borrowing capacity to \$215 million.

Did You Know...?

The Consumer Price Index was up 1.1% in June, which was the fastest rate of increase in 26 years. A 6.6% increase in energy prices and a 0.8% increase in food prices led the gain.

Specialty Items

Pet Valu, Inc. will acquire 15 Berrys...Your PetsChoice stores next month through its Canadian subsidiary. The stores are located in eastern Ontario. Pet Valu will maintain the Berrys banner initially.

Separately, **Pet Valu** said it has received an unsolicited offer to purchase the company, but has not revealed the name of the secret suitor. PVC operates about 340 stores in Canada and the U.S.

United Rentals, Inc. "modified Dutch Auction" tender offer was oversubscribed at the minimum price of \$22. The company expects to repurchase approximately 33.9% of the 80.1 million shares tendered at that price.

Tiffany & Co. lost their trademark infringement lawsuit against eBay Inc. related to counterfeit

merchandise sold on the auction site. A federal judge said the trademark owner, not the web site, is responsible for monitoring sales of knockoffs. This decision comes after LVMH won a similar case against eBay in French court.

Tiffany will open of a second location in Toronto. The 6,200-sq ft store is slated for spring 2009 in upscale Yorkdale Shopping Centre.

Pet Supermarket opened four news stores in Clermont, Orlando and Inverness, Florida and in Brentwood, Tennessee, bringing their total to 80 stores.

Alimentation Couche-Tard Inc., which operates Circle K c-stores in the U.S., blamed the economic downturn in the United States for its poor quarterly results. Profit fell nearly 54 percent as gasoline margins shrunk.

Hi Tech Entertainment

eBay made a secret deal with **Buy.com**, *ECommerce-Guide.com* reports, to bulk up their listing volume by allowing Buy.com to sell products on eBay without paying the usual fees charged to its other merchants.

Staples, Inc. has completed the cash tender offer for senior subordinated notes of Corporate

Express U.S. Finance Inc. Also, Staples now had acquired 99.3% of the ordinary and 99.9% of the preferred shares of Corporate Express.

Staples and **United Parcel Service** have opened a store in Shanghai, their third in China. The 330 sq m (3,550 sq ft) co-branded store offers office supplies and shipping services.

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Health & Beauty Aids

The Medicare Improvements for Patients and Providers Act of 2008 became law after Congress overrode a veto by President Bush. The Act benefits doctors and pharmacies, who were due to have Medicare reimbursement fees cut. Medical-equipment makers get a reprieve from a competitive-bidding requirement. The extra costs imposed by the Act will come out of the Medicare Advantage insurance program.

Longs Drug Stores signs on with Microsoft's HealthVault medical records platform.

Walgreen Co. has priced an offering of \$1.3 billion in senior notes due 2013 at 4.875%. Proceeds will be used for repayment of short-term debt and general corporate purposes.

Rite Aid Corp. is laying off 44 employees at their headquarters and other corporate offices. The cuts are in areas related to the now-complete integration of acquired Brooks and Eckerd stores and distribution centers.

Second Quarter Scorecard

\$ in Millions. Quarter ended closest to 7/31/08	Sales			Comps	Net Income		
	2008	2007	Change		2008	2007	Change
Apparel							
Bebe Stores, Inc.	\$167.2	\$160.9	3.9%	-5.6%	tba	tba	tba
Cache, Inc.	\$74.1	\$71.1	4.2%	3.0%	tba	tba	tba
Mothers Work, Inc.	\$152.2	\$153.2	-0.7%	2.4%	tba	tba	tba
Mass Merchants							
99 Cents Only Stores	\$304.9	\$293.0	4.1%	-0.5%	tba	tba	tba
Overstock.com	\$188.8	\$149.0	26.7%	NA	(\$6.5)	(\$13.8)	52.9%
Sports & Footwear							
West Marine, Inc. (Stores)	\$198.6	\$218.7	-9.2%	tba	tba	tba	tba
WinMark Corporation	\$8.7	\$7.6	14.5%		\$0.9	\$0.4	116.3%
Specialty							
Haverty Furniture	\$168.4	\$187.1	-10.0%	-12.7%	tba	tba	tba
Jennifer Convertibles	\$26.8	\$30.3	-11.6%	-19.8%	(\$0.6)	\$1.7	-135.3%
Tuesday Morning Corp.	\$196.5	\$219.4	-10.4%	-12.7%	tba	tba	tba
Home Centers							
Fastenal Company	\$604.2	\$519.7	16.3%	NA	\$76.2	\$60.3	26.4%
Sherwin-Williams Company	\$2,229.5	\$2,198.2	1.4%	-4.5%	\$171.7	\$202.6	-15.3%
W.W. Grainger	\$1,756.9	\$1,601.0	9.7%	NA	\$113.2	\$104.8	8.0%
Food							
Great Atlantic & Pacific Tea C	\$2,922.7	\$1,679.2	74.1%	3.2%	\$2.2	(\$65.1)	103.4%
Nash Finch Company	\$1,042.0	\$1,064.0	-2.1%	-3.9%	\$10.1	\$9.6	5.2%
Safeway, Inc.	\$10,120.0	\$9,823.3	3.0%	-0.3%	\$234.3	\$218.2	7.4%
Weis Markets, Inc.	\$603.4	\$578.8	4.3%	4.3%	\$12.8	\$18.2	-29.7%
Drug							
Shoppers Drug Mart	\$2,109.3	\$1,928.1	9.4%	4.6%	\$128.3	\$112.2	14.3%

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Retailer of the Week: Target Corp.

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Retail Segment

Sales for the retail segment improved 5% to \$14.3 billion in the first quarter. The increase in sales was attributable to new store sales and was offset due to a negative 0.7% decrease in comp store sales. Gross margin fell nominally during the quarter to 30.7% of sales from 30.8% of sales in the first quarter of 2007. Margin rate was adversely affected by mix, as sales of lower margin consumables and commodity categories outpaced sales of higher margin apparel and home categories. Target's SG&A also had a marginal increase of 30 BP, this increase actually shows an improvement in costs as the company historically has much larger SG&A increases in past quarters due to new stores. The company added 26 new stores net of relocations and closings during the first quarter.

Credit Card Segment

Credit card revenue is comprised of finance charges, late fees, and other revenues from the company's REDcard products, the Target Visa, and the Target Card. The company also receives fees from merchants who accept the Target Visa credit card. Total revenue from the credit card segment reached \$500 million for the first quarter, this is 19.6% increase over the same period last year. The company measures profitability of the credit card segment by EBIT, which is the total credit card portfolio less the interest expense on non recourse debt collateralized by credit card receivables. This is weighed against the amount of capital Target has invested in the credit card receivables. Credit card profit was \$181 million in the first quarter of 2008, compared with \$194 million in the same quarter last year. This was due to a 4.0% decrease in EBIT as a percentage of total portfolio receivables, partially offset by the beneficial impact of a 32.6% increase in average receivables funded by Target. The decline was due to lower short-term interest rates and to substantially higher bad debt expense during the quarter when compared to the same period last year.

LIQUIDITY & CAPITAL RESOURCES

In the first quarter of 2008, net interest expense was \$201 million, a \$65 million increase from the first quarter of 2007, which is a reflection of significantly higher debt balances that were slightly offset by lower rates. Higher debt balances were due to significant investments in both the Retail and Credit Card segments, in addition to significant share repurchases during the last four quarters. The company has invested more than \$9.0 billion in capital expenditures, receivables growth and share repurchases. During the quarter, the company repurchased 30.5 million shares of common stock which equaled a cash investment of \$1.57 billion. Since the inception of the current share repurchase program, which began in in the fourth quarter of 2007, Target repurchased 57 million shares of common stock, for a total investment of \$3.01 billion.

Target's management has stressed that it is committed to providing long term equity value to the company's shareholders. Although burdened by added interest expenses the company does have sufficient liquidity on the balance sheet. Target currently has a current ratio of 1.53, and the company's receivables and inventories far outweigh the company's current liabilities. The company has \$5.8 billion in working capital which would provide more than five months of expense coverage.

OUTLOOK

Management's outlook for 2008, includes retail sales to grow between 8% and 9% for the year and expect comp store sales to increase to 2% to 3%. Sales for the company fluctuate often providing higher numbers in the second half of the year. The company however, does remain cautious about its estimates during the country's current sluggish economy. The impact of the credit card portfolio sale to JP Morgan should also become apparent in the second quarter. This should result in a better return for the company on the invested capital the which has been spent in growing this business. The 47% sale of the credit card portfolio will allow Target to share in the portfolio's profits while helping to mitigate the company's exposure in the current market.

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