

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

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**Remember...**

*You need to live your best and act your best and think your best today, for today is the sure preparation for tomorrow and all the other tomorrows that follow.*

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### Recession Eases; GDP Dip Smaller Than Expected

The U.S. economy contracted at a much smaller pace in the second quarter of the year, the Commerce Department reported last Friday, suggesting that the trough of the recession has been reached.

Real gross domestic product—the inflation-adjusted, seasonally adjusted value of all goods and services produced in the economy—fell at a 1.0% annualized rate in the second quarter, well below the average 5.9% decline over the last six months.

The rate of contraction for the first quarter was revised down to a 6.4% drop compared with the prior estimate of a 5.5% decline.

Although the latest data are “less worse” than in prior months, the severity of the recent recession came into sharp focus because this is the first time since the Great Depression that the economy contracted for four consecutive quarters. In the past four quarters, the economy has fallen a record low 3.9%.

The big store for the second quarter was that businesses slowed their frenetic efforts to cut back investment, stockpiles and investment. As planned, the federal stimulus package kicked in, boosting government spending.

The Federal Reserve expects growth to return in the current quarter, Fed chief Ben Bernanke said earlier this week. The Fed expects positive growth at around a 1.0% annual rate in the final six months of the year, Mr. Bernanke said in an extraordinary town hall meeting with residents of Kansas City.

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### Distributor of the Week: Fastenal

As management saw in the previous two quarters, the weakened economy continued to have a substantial impact on Fastenal’s business through the second quarter. These impacts continue to negatively affect sales, particularly sales related to its industrial production business and, more recently, in its non-residential construction business. To put things in perspective, sales to the company’s manufacturing customers (historically approximately 45% to 50% of sales) contracted approximately 28% in the second quarter versus last year. This contraction was less severe in the maintenance portion of the manufacturing sales, but more severe in the industrial production business. Sales to the company’s non-residential construction customers (historically 20% to 25% of sales) contracted approximately 23%, while the remaining business (sales to other resellers, government business, other industries, and in-store retail sales) is producing better results, but unfortunately, doesn’t have enough impact to offset the manufacturing and construction impact.

With its customers buying less, the company reported total sales for the second quarter of \$474.9 million, a drop of 21.4%, which when mitigated by cost containment efforts by management resulted in operating income of \$70.4 million, a year over year decrease of 43.0% and net income of \$43.5 million, a decrease of 42.8%. As a result of the downturn, the company has slowed its store openings to a range of 2% to 5% new stores per year from a range of 7% to 10% per year, and has stopped adding any headcount except for store openings and for stores that are growing.

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## Recession Eases; GDP Dip Smaller Than Expected

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President Obama said he had not seen the gross domestic product figures released, but he referred to a consensus by economists that the U.S. economy had seen a "significant slowing down of the contraction over the last several months." Although job losses remain at a level he called too high, they were not proceeding at the pace that was seen at the beginning of the year, Obama said.

For economists, the report on the second quarter, now already a month passes, is old news. They are primarily interested in any hints of how the economy entered the third quarter. In that regard, the report was positive. One leading indicator in the report, final sales, fell a slim 0.2% in the second quarter – much shallower than the 4.1% drop in the first quarter. Final sales is a measure of growth that strips out volatile inventory behavior.

Outside of the government sector, the data was still declining. This is a sign that the recovery hasn't arrived as yet. After rebounding in the first quarter, consumer spending dropped 1.3% in the June quarter. Spending on durable goods fell 4.0%, spending on nondurable goods decreased 7.1%, and spending on services sank 2.5%. Business investments fell at an 8.9% annualized rate during the second quarter, shallower than the 36.9% drop in the first quarter.

Investments in housing fell for the 14th consecutive quarter, dropping at a 29.3% annual rate.

Government spending rose at a 5.6% annual pace, with spending by state and local governments climbing 2.4%. Federal spending rose a whopping 10.9%, including a 10.9% rise in the volatile defense spending category. In all, government spending added 1.12 percentage points to the GDP picture.

## General Retail News

**Tax holidays** in fifteen states are aimed to bolster Back-to-School. Starting with Mississippi on Jul. 31, they will conduct 'tax holidays' for consumers over the next month. The second weekend of Aug. (Aug. 7-9) is the most popular timeframe with 10 states establishing those three days as tax-free for consumer purchases on everything from PCs and school supplies to all consumer products in the case of Louisiana (under \$2,500 only) and Vermont. At least nine states (CT, IA, MS, MO, NM, OK, TX and VA) will make clothing and footwear purchases tax-exempt.

The NRF, meanwhile, projects **Back-to-School spending** will decline 7.7% in the U.S. to \$548.72 per average family to a total of \$17.42 billion as more U.S. consumers hunt for

bargains during the annual pilgrimage to retail stores for both the K-12 set and college-bound crowd. With average electronics spending per family forecast to rise 11% to \$167.84 this b-t-s season, other segments are expected to see year-over-year declines as more consumers hunt for bargains to stretch their budgets. Average clothing and accessories purchases are forecast to fall 12% y-o-y to \$204.67 vs. \$234.51 in 2008 and the average family spend on shoes is predicted to fall 15% to \$93.59 from \$109.75 last year.

**Back-to-School** supplies' sales at food, drug and mass merchandise stores are forecast to rise 0.4% to 1.3%, to a total of \$2.17 billion, according to a Nielsen estimate. Unit sales are forecast to fall 5.5% to 1.18 billion.

## Options and Resources

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## Bankruptcy Blotter

So far this year, \$16 billion in DIP financing has been lined up by the private sector, already outstripping 2008's total of \$11 billion, according to Standard & Poor's LCD service.

Another three global corporate issuers defaulted during the week of July 27, 2009, bringing the year-to-date total to 187, nearly four times the number in the prior-year period, according to Standard & Poor's. Defaults have soared this year as tight credit and the recession have made borrowing and refinancing difficult, especially for a record number of speculative-grade borrowers. The defaults topped the total for all of 2008 by May.

A judge approved **Sportsman's Warehouse Inc.'s** plan to exit bankruptcy and continue operations as a sporting goods retailer. Sportsman's Warehouse, which sold 15 of its stores to **UFA Holdings Inc.**, recently engineered a deal with UFA that required the buyer to support its plan of reorganization. The plan of reorganization turns control of the company over to a unit of **Seidler Equity Partners III LP**. Seidler is swapping its more than \$87.7 million in debt for 100% of the new equity in the company, and also providing Sportsman's Warehouse with a \$12 million loan to help finance the operations of the new company. Unsecured creditors are set to recoup 11% of the \$130 million in total they're owed by the retailer. Holders of miscellaneous secured claims, owed \$31.6 million, are to be paid in

full under several options, including cash or the return of the collateral securing their debt.

**Fleetwood Enterprises, Inc.** is extending the bid deadline on the sale of its manufactured housing unit by four days to Saturday, August 8, 2009. The auction, should it be required, will be delayed to August 10, 2009, with final approval scheduled for August 12<sup>th</sup>.

**Big 10 Tire Stores Inc.** is seeking permission to hand over \$250,000 in cash to unsecured creditors owed \$12 million, which the company said represents the unsecured creditors' only chance of payment. Big 10, which operated more than 100 tire stores before selling its assets last month, said the buyer of its assets would have been entitled to these remaining assets but has agreed instead to funnel the funds to the holders of approximately 1,800 unsecured claims against Big 10.

Discount jewelry retailer **Ultra Stores Inc.** won bankruptcy-court approval of its restructuring plan, making it one of the rare retailers to successfully emerge from Chapter 11. Two notable jewelry retailers who have filed for Chapter 11 in prior months, **Friedman's** and **Whitehall Jewelers** weren't able to restructure and opted for liquidation instead. Ultra first convinced junior secured lenders – units of Crystal Capital – and the company's unsecured trade creditors that a restructuring would better  
*(continued on page 4)*

### Did You Know...?

*New home sales rose by 11% to a seasonally adjusted annual rate of 384,000, the Commerce Department reported. The increase was stronger than expected, but sales are still down 21.3% year-on-year.*



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## Bankruptcy Blotter

(continued from page 3)

serve their interests than a liquidation. Then, the company was able to nab continued financing from existing senior secured lender Bank of America.

Multiple parties are sniffing around the auction of trademarks and other assets associated with Firedog, the tech-support business of **Circuit**

**City Stores Inc.** before the chain shut all of its stores earlier this year. The court handling Circuit City's bankruptcy case set an Aug. 11 deadline for bids ahead of the Aug. 18 auction. None of the parties with interest have been disclosed. Firedog isn't an operating business now but was the No. 2 installation brand in the U.S., behind Best buy Co.'s Geek Squad, serving 800,000 customers a year before it was shut down.

## Health & Beauty Aids

The 2007 **Caremark** and **CVS** merger is getting new scrutiny from Democratic senators Byron Dorgan of North Dakota, Russell Feingold of Wisconsin and Amy Klobuchar of Minnesota the *Associated Press* reported. The senators are concerned that CVS Caremark will drive independent pharmacies out of business.

**AmerisourceBergen Corp.** sales increased 2.2% to \$18.394 billion in its fiscal 2009 third quarter ended June 30. Net income from continuing operations was up 11.1% to \$125.1 million. For the full fiscal year, ABC expects earnings from continuing operations to be at the higher end of its previously stated range of \$1.59 to \$1.65 per share, up 10% to 15% from 2008. Revenue is expected to grow of between 1% and 3% for the full year.

**Jewel-Osco** opened its first in-store clinic, called Physicians Prompt Care Express, in Orland Park, Illinois. Jewel-Osco's clinic will have physicians on staff, unlike most in-store clinics operated by other pharmacies.

**Express Scripts, Inc.** raised 2009 earnings guidance to \$3.72 to \$3.82 per share from \$3.67 to \$3.77 guided prior. The new numbers represent 20% to 23% growth over 2008. However, the estimates exclude \$0.41 per share in financing costs and \$0.30 to \$0.32 per share in other costs related to the NextRx acquisition.

**Drugstore.com, Inc.** expects third quarter sales will be in the range of \$94.0 to \$96.0 million, with a net loss in the range of \$2.8 to \$3.8 million.

**McKesson Corp.** sales were flat at \$26.7 billion for the first quarter ended June 30. Net income expanded 22.6% to \$288 million. The company raised guidance for the full year, and now expects earnings of \$4.15 to \$4.30 per share.

**MinuteClinic** signs American CareSource Holdings, Inc. and will offer that company's ancillary care services in its clinics.

**Duane Reade** reported its second quarter (see the scorecard) and the comp store sales growth of 1.7% consisted of pharmacy comps of +3.6% and front end comps of +0.2%. Duane Reade's store count was 253 at the end of June.

**CVS Caremark Corp.** and Medco Health Solutions Inc were mentioned as potential buyers of Aetna' PBM business, according to *Reuters*. Aetna is looking to sell the business.

**Walgreen Co.** awarded Leo Burnett division Arc Worldwide its retail marketing business in the U.S., including promotional marketing and shopper marketing.

### Did You Know...?

Initial jobless claims rose by 25,000 to a seasonally adjusted 584,000 for the week ended July 25, the Labor Department reported. The four-week average of claims fell by 8,250 to 559,000.

## Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
LAS VEGAS SANDS CORP	B-	B	NEGATIVE	NM	D-
TJX COMPANIES INC	A	A	STABLE	NEGATIVE	B-
ADVANCE AUTO PARTS INC	BB+	BB+	STABLE	NEGATIVE	B
LANDRYS RESTAURANTS INC	B	B	NEGATIVE	STABLE	E+
VITAMIN SHOPPE INDUSTRIES INC	B	B	NM	STABLE	NR

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## The Global World of Sports and Footwear

**Cabela's** has scrapped a planned 125,000 sq. ft. store in Greenwood, Indiana. The retailer is taking an \$11.7 million, pre-tax impairment charge on the decision and will sell the real estate. Meanwhile, a nearly 200,000 sq. ft. store planned for the Xanadu development in East Rutherford, New Jersey now won't open until late 2010. CAB, which does not have material interest in the property, continues to work with the developer on the delayed project. The planned Wheat Ridge, Colorado store is still on schedule.

In reporting its second quarter (see the scorecard) **Golfsmith** management said the number of U.S. golf retail doors has slipped approximately 10% to 1,500 from a high of 1,670 and will likely settle at approximately 1,300 storefronts.

**Zappos** shareholders got a 78.5 multiple on the sale of the company to Amazon.com, Inc. In spite of shipping \$1 billion in orders in 2008, after free shipping returns actual net sales were \$635.0 million for the FY ended December 31, up 21% from \$535.9 million and net income was just \$10.8 million compared to \$1.8 million the year before. Q1 showed sales growth of 8% to \$143.9 million and a decline in net income to \$224,000 from \$594,000.

**Under Armour's** direct-to-consumer business rose 37% in the second quarter with an unspecified increase in comps. At 28 stores now, Dog expects to have 35 open by the end of the year. UA noted that these efforts would be concentrated on factory outlet stores and e-

commerce for now, rather than expanding the four mall locations.

**Modell's Sporting Goods** completed the implementation of JDA's Merchandise Management System solution in its 143 stores.

**Outdoor retailers** saw inventory turns drop in 2008 while their days on hand increased, according to a new report from the Outdoor Industry Association. The typical independent outdoor retailer had sales of \$2,461,835 and a pre-tax profit of 2.0%. The high profit firm had sales of \$1,927,339, a pre-tax profit of 8.2% and return on assets of 22.1%. The typical firm had a pre-tax return on assets of 5.0%.

**Sports Supply Group** acquired certain assets of Har-Bell Athletic Goods of Springfield, Missouri. Financial terms of the transaction weren't immediately available but no liabilities were assumed by Sports Supply. RBI will employ Har-Bell owned Bryan Tucker and his existing sales force.

**GSI Commerce** is forecasting an operating loss of \$15.5 to 17.5 million and a revenue range of \$181 to 186 million in the third quarter. In separate developments, the company signed a multi-year extension and expansion of its e-commerce deal with Turner Sports and NASCAR, and a similar extension and expansion of its deal with the NHL that includes plans to open a new fulfillment center in Ontario, Canada to drive incremental revenues, streamline order fulfillment and provide additional customer service.

### Did You Know...?

*U.S. home prices increased 0.5% in May, with gains in 13 of 20 cities, according to the national Case-Shiller home price index. It was the first increase since July 2006 released. Year-on-year, prices are down 17.1%.*

## Specialty Items

**Rent-A-Center, Inc.** issued guidance for the third quarter and full year 2009. For Q3, the company expects sales of \$666 to \$681 million, same store sales in the range of -4% to -6%, and earnings of \$0.46 to \$0.52 per share. For the full year, sales guidance is for between \$2.750 and \$2.780 billion, with same store sales of -2% to -4% and earnings of \$2.32 to \$2.42 per share.

**Williams-Sonoma, Inc.** has entered into a multi-year franchise agreement with M.H. Alshaya Co., for the Middle East. Four stores are expected to open in Dubai and Kuwait in

2010 and will include the Pottery Barn and Pottery Barn Kids brands.

**Pier 1 Imports, Inc.** will retire \$69.5 million of its 6.375% convertible senior notes due 2036 in exchange for \$61 million in aggregate principal of new 9% convertible senior notes due 2036. PIR also purchased \$5.0 million of the existing notes for cash. About \$16.6 million of the existing notes remain outstanding. The new notes are convertible at \$2.5050 per share.

**1-800-Flowers.com** launched an e-commerce store inside its Facebook page.

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## Hi Tech Entertainment

**RadioShack Corp.** reported its second quarter (see the scorecard) and noted that it ended the quarter with cash and cash equivalents of \$930.8 million up from \$577.8 million a year ago, while inventories were 7.7% lower at \$578.2 million. CapEx was \$43.9 million in the first half of 2009 out of a full year budget of \$75 million to \$100 million.

**Microsoft** revealed its first two store locations: one in Scottsdale, Arizona, and the second in a strip mall in Mission Viejo, California that already has an Apple store.

**PC Connection, Inc.** had a \$12.1 million charge in the second quarter to write-off a software development project, which drove their bottom line to a loss (see the scorecard). Without the charges, pro forma Q2 net income would have been \$1.1 million.

**OfficeMax's** second quarter bottom line (see the scorecard) included many charges both this year and last, which distorted the company's performance. Excluding charges, the company

reported adjusted operating income of \$0.8 million, compared to adjusted operating income in Q2 2008 of \$39.9 million.

**Ingram Micro's** expense-reduction program, which began in Q4 2008, has realized about half of the expected quarterly savings of \$25 million to \$30 million so far, while total are expected to be towards the low end of the \$45 to \$65 million estimate. IM is realizing \$5 million per quarter from last year's program.

**Insight Enterprises, Inc.** amended its receivables purchase agreement with JPMorgan Chase Bank and JS Siloed Trust. The amendment extended the agreement through July 23, 2010, and added PNC Bank and Market Street Funding LLC to the facility. The financing costs increased slightly along with some adjustments to eligible receivables.

**Blockbuster** is going head to head with Redbox DVD rental kiosks, and has partnered with Publix to install its own branded kiosks in some Florida stores.

## Off the Rack

**American Eagle Outfitters** extended its e-commerce and customer service agreement with GSI Commerce Inc. and expanded the customer care services provided.

**TJX Companies Inc.** will pay \$9.75 million to 41 states over a computer security breach in 2007 in which hackers had access to the accounts of millions of TJX consumers. The company also agreed to upgrade its security systems.

**Christopher & Banks** opened a new 5,000 sq. ft. prototype store in Moosic, Pennsylvania, which combines a Christopher & Banks with the company's plus-size banner, CJ Banks, in one location.

**Citi Trends** opened eight stores in Southeastern markets (Georgia, Louisiana, South Carolina and Tennessee) and California.

**Destination Maternity Corp.** sales decreased 6.4% to \$142.5 million for the third quarter of fiscal 2009 ended June 30. Comp store sales fell 5.5%. Net income was up 65.9% to \$6.8 million, beating guidance handily on the strength of better gross margins. DEST lowered full year 2009 sales guidance to \$530 to \$534 million, lowered comp sales guidance to between -3.5% and -4.5%, but raised earnings

guidance to between \$1.15 and \$1.30 per share, again based on stronger than expected margins.

**Sears Holdings** saw a Riverside, California jury award a former Kmart manager \$916,000 for compensatory damages and \$25 million for punitive damages in an age discrimination suit.

Also, **Sears Holdings** will open toy shops at 20 Sears stores next month, the *LA Times* reported. The stores getting the new departments are all in the Los Angeles, San Francisco, New York and Chicago metro areas.

**AnnTaylor Stores Corp.** is expanding its restructuring initiatives, and now expects that savings will total \$125 million over the three-year program period ending in fiscal 2010, up from \$85-\$95 million in savings previously anticipated. \$40 million was saved in fiscal 2008, another \$60 million are expected saved this year, with the remainder expected in fiscal 2010.

**Children's Place Retail Stores** board member and former CEO Ezra Dabah dropped his proxy battle with the company after it agreed to buy 2.45 million shares of CHRS from him. Dabah and his father-in-law, Stanley Silverstein, have also agreed to resign from the board.

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**Did You Know...?**

The consumer confidence index fell to 46.6 in July from 49.3 in June, the Conference Board reported. It was the second straight month of declines.

**Management on the Move**

**CVS Caremark** named **Andrew J. Sussman, M.D.**, President and COO of MinuteClinic. Sussman was most recently EVP and COO of UMass Memorial Medical Center.

**Best Buy Europe** appointed **Scott Wheway** CEO. Wheway is a 20 year Tesco Stores veteran, but most recently was Managing Director of Boots the Chemist in the U.K.

**Staples, Inc.** added responsibilities for Staples International to **Mike Miles**, the company's President and COO. **Peter Ventress**, who currently runs Staples International, is leaving the company.

**Wet Seal, Inc.** named **Kim Bajrech** VP & DMM Apparel and **Debbie Shinn** VP & DMM Accessories and Ready-to-Wear. Bajrech was most recently Creative Director at PJ Salvage. Shinn was VP & DMM for Junior Sportswear at Kohl's.

**VF Corp.** hires **David Conn** as President of VF Retail Licensed Brands, a new position. Conn

was EVP for the Iconix Brand Group, and is expected to assist VF developing a licensed business model similar to the one ICON uses.

**Duane Reade** made changes in the executive suite, according to *Drug Store News*:

- **Paul Tiberio** was named Senior Director of Category Management. Tiberio comes from Shaw's Supermarkets, where he was VP for Center Store Merchandising.
- **Lee Colarco** was appointed VP Merchandising, replacing **Mike Cirilli**, who has left the company.

**Talbots, Inc.**'s board of directors named **Gary Pfeiffer** Chairman. Pfeiffer has been Talbots independent Lead Director since July 2008.

**United Hardware** promoted **Chad Ruth** to VP Retail Growth Initiatives.

Price Chopper Supermarkets parent **Golub Corp.** named 29-year company veteran **Joe Brousseau** Director of Construction.

**FYI for the DIY**

Spending on outdoor living spaces by those making more than \$100,000 annually rose 22.6% from 2007 to 2008, and 33% in the first quarter of 2009, according to *A Trend Report on the Market for Outdoor Living Products* by Unity Marketing.

**Wesco International, Inc.** is offering to exchange new 6.0% Convertible Senior Debentures due 2029 for outstanding 2.625% Convertible Senior Debentures due 2025 and 1.75% Convertible Senior Debentures due 2026. It will pay \$960 principal amount of the new notes for each \$1000 of the 2025 notes and \$1010 of the new notes for each \$1000 of the 2026 notes up to a maximum of \$345 million of the 2029 Debentures.

**Pro-Build Holdings, Inc.** opened a new location in Kalispell, Montana, a new market for the company. The facility is a former Stock Building Supply location. ProBuild's 10 other Montana facilities include two units in Butte and locations in Billings, Glendive, Great Falls, Havre, Helena, Miles City, Missoula and Sidney.

**Home Depot** topped the list of online home and garden shopping destinations in June, according to Nielsen Online. HD had 34% growth to 20 million unique visitors, while second place **Lowe's** had 8% growth to 12 million unique visitors.

**W.W. Grainger Inc.** will open an 820,000 sq. ft. distribution center in Patterson, California, the *Modesto Bee* reported. The new facility is scheduled to open in mid-2011.

**Handy Hardware**, which has about 1,240 member stores, is building a new 488,000 sq. ft. distribution center in Meridian, Mississippi to supply the hardware distributor's stores in the region. The facility is expected to be operational by August 2010.

**United Rentals, Inc.** is offering to exchange \$500 million of unregistered 10.875% Senior Notes due 2016 for new equivalent notes that are registered under the Securities Act of 1933, which carries certain liquidity advantages over unregistered notes.

**Mass Merchant Musings**

**Dollar General Corp.** owner Kohlberg Kravis Roberts & Co. is preparing to take the company public, the *Wall Street Journal* reported.

**Wal-Mart** saw a Canadian court issue an injunction against the UFCW there, which was using Wal-Mart trademarks on a union website.

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## Heard in the Grocery Aisle

The U.S. Department of Agriculture lowered its prediction of food price inflation to 2.5% to 3.5% for 2009 and 3% to 4% in 2010. Prices rose 5.5% in 2008. Lower energy prices are the primary driver for the lower estimates.

**Publix Supermarkets Inc.** plans to build 970,000 sq. ft. distribution center near Orlando, Florida, and has purchased 119 acres of industrial land there for \$13.5 million, the *Orlando Business Journal* reported.

**Nash Finch Co.** saw second quarter sales jump 18.8% from the acquisition of three military distribution centers in January. Excluding those sales, and correcting for the Easter shift, NAFC sales would have increased 1.9% in the quarter.

**Spartan Stores, Inc.** sales increased 1.6% to \$596.0 million in its first fiscal quarter ended June 20. Same store sales fell 1.8%, excluding fuel sales and the Easter shift. Net earnings from continuing operations fell 4.2% to \$6.8 million. Spartan expects same store sales to be in the negative low single digit range for the full fiscal year, and for earnings from continuing operations to decline slightly from fiscal 2009.

**Supervalu, Inc.** sales fell 4.7% to \$12.715 billion during the first quarter of fiscal 2010 ended June 20. Same store sales dropped 3.2%, and the company's supply chain services sales suffered a 6.2% drop. Net earnings were down 30.2% to \$113 million. SVU issued new guidance for fiscal 2010. Sales are expected to total approximately \$42 billion and same store sales growth, which excludes fuel, is now expected to be -3%, down from initial guidance of -1% to +1%. Supply chain revenue is

expected to drop 5%, primarily due to the ongoing transition of Target to self-distribution. The company expects a total of \$220 million of pre-tax charges for store closures and other restructuring costs. CapEx is pegged at \$700 million for the year.

Also, **Supervalu, Inc.** reached a deal with Associated Food Stores to sell all but four of its 40 Utah-based Albertsons stores that it originally acquired in June 2006. Management expects that this 36-store transaction will close this fall and generate after-tax net proceeds of \$150 million. Supervalu's Salt Lake City-based distribution center is not part of the deal; this facility will remain under Supervalu to service its stores based in Idaho, Montana, and Wyoming. The company will continue to pursue a new home for the four Utah stores not part of this transaction.

**Royal Ahold** reported its second quarter, and its U.S. subsidiaries Stop & Shop and Giant Landover had a sales increase of 2.8% to \$4.1 billion, while Giant Carlisle sales increased 0.4% to \$1.1 billion. Comp stores sales were up 1.7% at Stop & Shop, up 3.7% at Giant Landover and down 1.8% at Giant Carlisle.

**Kroger Co.** has reached a tentative agreement on a new contract with the UFCW Local 75 in Dayton, Ohio, covering more than 4,000 workers in the area. The agreement still needs to be ratified by the membership.

**The Great Atlantic & Pacific Tea Company, Inc.** priced its offering of \$260 million of senior secured notes due 2015 at 11.375%. The notes will be sold at 97.385% of their face value.

## Upcoming Reporting Dates

Company	Event	Date
Barnes & Noble	Financial Results	Aug 20, 2009
Bebe Stores	Financial Results	Aug 27, 2009
Big 5 Sporting Goods	Financial Results	Aug 4, 2009
Blue Nile	Financial Results	Aug 6, 2009
Borders Group	Financial Results	Aug 25, 2009
Citi Trends	Financial Results	Aug 19, 2009
CVS Caremark	Financial Results	Aug 5, 2009
Haverty Furniture	Financial Results	Aug 5, 2009
HHGregg	Financial Results	Aug 5, 2009
Hibbett Sports	Financial Results	Aug 20, 2009
Kirkland's	Financial Results	Aug 26, 2009
Metro Inc.	Financial Results	Aug 6, 2009
Nordstrom	Financial Results	Aug 13, 2009
Pacific Sunwear	Financial Results	Aug 20, 2009
PC Mall	Financial Results	Aug 5, 2009
Ross Stores	Financial Results	Aug 20, 2009
Sears Holdings	Financial Results	Aug 20, 2009
Wet Seal	Financial Results	Aug 20, 2009
Whole Foods Market	Financial Results	Aug 4, 2009

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## Distributor of the Week: Fastenal

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The company has historically maintained one of the strongest balance sheets in the industry and as such we are continuing our current "A" Credit Rating with a "Positive" Outlook. While we expect operations to deteriorate further in 2009, we feel confident that the company's current balance sheet and efforts to maximize cash flow will sustain the company through this deep, prolonged recession.

### BUSINESS OVERVIEW

Fastenal is a leader in the wholesale distribution of industrial and construction supplies, operating stores primarily located in North America. As of June 30, 2009, the company operated 2,350 company-owned or leased store locations. Most of the company's customers are in the manufacturing and construction markets. The manufacturing market includes both original equipment manufacturers (OEM) and maintenance and repair operations (MRO). As one might expect, the weakness of the global industrial environment has negatively impacted the company's growth over the past nine months.

### OPERATIONS

\$ in millions, 9 months ended	For the Three Months Ended			For the Six Months Ended		
	June 30, 2008	June 30, 2009	Change	June 30, 2008	June 30, 2009	Change
Sales	\$604.2	\$474.9	-21.4%	\$1,170.4	\$964.2	-17.6%
Gross Margin	\$317.4	\$242.5	-23.6%	\$614.0	\$501.2	-18.4%
% of Sales	52.5%	51.1%	-146 BP	52.5%	52.0%	-49 BP
Overhead	\$193.9	\$172.1	11.2%	\$380.5	\$352.1	7.5%
Operating Income	\$123.5	\$70.4	-43.0%	\$233.5	\$149.1	-36.2%
% of Sales	20.4%	14.8%	-562 BP	\$20.0%	15.5%	-449 BP
Net Income	\$76.2	\$43.5	-42.8%	\$144.3	\$92.2	-36.1%
% of Sales	12.6%	9.2%	-344 BP	12.3%	9.6%	-276 BP

Net sales for the second quarter were down 21.4% because customers were just plain buying less as the industrial sector of the economy fell apart right after the collapse of the financial markets in the fourth quarter of last year. Unfortunately that trend has continued and deepened through the second quarter of this year as industrial production in the U.S. has been severely curtailed.

Unfortunately the sales volume declines were exacerbated by a 146 basis point reduction in gross margin per cent caused by competitive pricing pressures, the deflation in steel and the fact that with the lower sales the company cannot sell through the older, higher price inventory, and thirdly by the loss of volume incentives and rebates associated with the loss of volume. On a more positive note, the management team did a very good job in controlling expenses, actually reducing overhead by 7.5% year over year. However, the overhead reduction was not nearly enough to offset the sales and margin losses resulting in a 43.0% reduction in operating income and a 42.8% reduction in net income.

The company fared significantly better on a cash basis for the first six months of the year generating \$167.6 million of cash from operations (reducing working capital requirements due to lower volume), while investing approximately \$32.6 million in capital expenditures providing \$135.0 million of free cash flow. After paying \$52.0 million in dividends the company was able to add \$87.8 million to its coffers providing management with \$174.6 million of cash and Marketable Securities on hand at the end of the second quarter, bolstering an already strong balance sheet.

### LIQUIDITY AND CASH FLOW

The company maintains one of the healthier balance sheets in the industry, boasting of significant liquidity and no debt. As of June 30, 2009, the company had \$174.6 million in cash and marketable securities more than covering \$128.0 of current liabilities, a sharp improvement over the prior year when cash and equivalents covered roughly 53% of current liabilities. Supplementing the

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#### Did You Know...?

Durable goods orders fell 2.5% in June, the Commerce Department reported. Also, May orders were revised downward to +1.3% from +1.8% originally reported.

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## Distributor of the Week: Fastenal

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cash, the company had approximately \$794.0 million in adjusted working capital at the end of the second quarter covering approximately 13.5 months of expenses. The working capital is further bolstered by a \$8 million revolving credit facility which is fully available. Further, the company carries no debt.

### OUTLOOK

Fastenal is one of the few companies tied to manufacturing and construction which had been minimally impacted by the current economic conditions through 2008. While we expect operations to further decline in 2009, we see no reason for vendors to be concerned about this customer. In fact, this should be a target account for vendors' sales plans.

## Second Quarter Scorecard

\$ in Millions. Quarter ended closest to 7/31/09	Sales			Comps	Net Income		
	2009	2008	Change		2009	2008	Change
<b>Apparel</b>							
Cache, Inc.	\$56.9	\$74.0	-23.1%	-23.0%	\$0.8	\$2.1	-59.9%
<b>Drug</b>							
Abbott	\$7,495.0	\$7,314.0	2.5%	NA	\$1,288.0	\$1,322.0	-2.6%
Drugstore.com, Inc.	\$100.3	\$92.2	8.8%	NA	\$1.0	(\$2.3)	145.2%
Duane Reade Holdings	\$479.1	\$451.4	6.1%	1.7%	(\$11.6)	(\$12.1)	4.1%
Express Scripts, Inc.	\$5,503.3	\$5,530.8	-0.5%	NA	\$192.3	\$190.2	1.1%
Shoppers Drug Mart (C\$)	\$2,288.8	\$2,109.3	8.5%	5.7%	\$136.1	\$126.6	7.5%
<b>Food</b>							
Loblaw Companies Ltd (C\$)	\$7,233.0	\$7,037.0	2.8%	2.5%	\$193.0	\$140.0	37.9%
Nash Finch Company	\$1,216.6	\$1,023.9	18.8%	-0.8%	\$9.5	\$9.4	1.1%
Safeway, Inc.	\$9,462.1	\$10,120.0	-6.5%	-1.5%	\$238.6	\$234.3	1.8%
Weis Markets, Inc.	\$615.4	\$603.4	2.0%	2.4%	\$15.2	\$12.8	18.5%
<b>High-Tech &amp; Electronics</b>							
Amazon.com, Inc.	\$4,651.0	\$4,063.0	14.5%	NA	\$142.0	\$158.0	-10.1%
IAC/InterActiveCorp	\$340.0	\$354.2	-4.0%	NA	\$40.8	(\$421.6)	109.7%
Ingram Micro Inc.	\$6,578.6	\$8,816.6	-25.4%	NA	\$25.3	\$58.9	-57.0%
Office Depot, Inc.	\$2,824.1	\$3,605.1	-21.7%	-18.0%	(\$82.6)	(\$2.0)	-4030%
OfficeMax Incorporated	\$1,657.9	\$1,984.6	-16.5%	-11.6%	(\$17.7)	(\$895.3)	98.0%
PC Connection, Inc.	\$377.3	\$449.4	-16.0%	NA	(\$6.5)	\$5.1	-227.5%
RadioShack Corporation	\$965.7	\$994.9	-2.9%	-4.0%	\$48.8	\$41.4	17.9%
<b>Home Centers</b>							
Builders FirstSource, Inc.	\$175.5	\$282.3	-37.8%	NA	(\$22.6)	(\$45.9)	50.8%
Fastenal Company	\$474.9	\$604.2	-21.4%	-24.2%	\$43.5	\$76.2	-42.9%
Griffin Land & Nurseries	\$19.7	\$21.1	-6.6%	NA	(\$1.0)	(\$0.4)	-158.1%
Interline Brands, Inc.	\$269.9	\$311.4	-13.3%	NA	\$6.4	\$11.2	-42.9%
Sherwin-Williams Company	\$1,947.8	\$2,229.5	-12.6%	-13.5%	\$158.0	\$171.7	-8.0%
Tractor Supply Company	\$946.5	\$898.3	5.4%	-2.7%	\$54.8	\$43.4	26.3%
True Value Company	\$540.7	\$571.3	-5.4%	-2.2%	\$27.8	\$18.5	50.3%
United Rentals, Inc.	\$615.0	\$831.0	-26.0%	NA	(\$17.0)	\$37.0	-145.9%
W.W. Grainger	\$1,533.3	\$1,756.9	-12.7%	tba	\$92.5	\$113.2	-18.3%
Wesco International	\$1,159.2	\$1,587.8	-27.0%	NA	\$26.4	\$58.0	-54.5%
<b>Mass Merchants</b>							
Overstock.com	\$176.1	\$188.8	-6.7%	NA	\$0.4	(\$7.4)	105.4%
<b>Specialty</b>							
Aarons, Inc.	\$417.3	\$387.0	7.8%	8.4%	\$27.8	\$23.3	19.3%
Brookstone, Inc.	\$73.0	\$97.4	-25.1%	-18.6%	(\$16.7)	(\$8.7)	-92.0%
Rent-A-Center, Inc.	\$679.6	\$719.0	-5.5%	-6.2%	\$41.9	\$37.7	11.1%
<b>Sports &amp; Footwear</b>							
Cabela's	\$549.2	\$526.0	4.4%	6.1%	\$9.1	\$7.3	24.7%
Golfsmith International	\$114.8	\$130.0	-11.7%	-9.5%	\$6.8	\$8.6	-20.9%
GSI Commerce	\$187.2	\$193.2	-3.1%	NA	(\$13.1)	(\$20.3)	35.5%
West Marine, Inc.	\$215.4	\$226.7	-5.0%	-1.0%	\$32.5	\$4.4	638.6%
WinMark Corporation	\$8.8	\$8.7	1.4%	NA	\$1.2	\$0.9	28.5%

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