

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Remember...

We are continually faced by great opportunities brilliantly disguised as insoluble problems.

Mortgage Delinquencies Break Another Record

The percentage of residential mortgages either in foreclosure or with at least one payment past due hit 13.16% in the second quarter, the highest percentage ever recorded by the Mortgage Bankers Association (MBA), the industry group reported.

During a conference call, the group's chief economist said he expects that mortgage delinquencies will continue to grow as the nation's employment picture worsens, and the percentage of borrowers behind on their mortgages will climb until the middle of next year. Foreclosures will likely peak six months later, at the end of 2010, according to MBA estimates.

The delinquency rate for mortgages on one to four-unit residential properties rose to a seasonally adjusted 9.24% of all mortgage loans outstanding in the second quarter, up from 9.12% in the first quarter and 6.41% in the second quarter of 2008, according to the MBA's national delinquency survey. The delinquency rate doesn't include mortgages in the foreclosure process.

Mortgages somewhere in the foreclosure process reached 4.3% of all mortgages, up from 3.85% in the first quarter and 2.75% in the second quarter of 2008.

However, mortgages entering the foreclosure process during the second quarter actually fell slightly to 1.36% of all loans, down from 1.37% in the first quarter. Foreclosure starts were still up from 1.08% in the second quarter of 2008. The survey covers 45 million loans on one to four-unit residential properties, representing between 80% and 85% of all first-lien residential mortgage loans outstanding in the U.S. Records date back to 1972.

As a sign that mortgage performance is once again being driven by unemployment, prime fixed-rate loans now account for one in three foreclosure starts. A year ago they accounted for one in *(continued on page 2)*

Retailer of the Week: Winn Dixie

We are reiterating our moderately high risk, 'D' credit rating and stable outlook on this southeastern grocer. The trajectory of Winn Dixie's income statement is favorable; both revenues and margins are pointed in the right direction. While we'd be the first to admit that the supermarket does not need to mirror Publix's industry-leading 7.2% operating margin to be successful, being stuck in the sub-1% range that Winn Dixie currently finds itself will not suffice over the long-term. But Winn Dixie's remodeling program, now complete in the Jacksonville market, has in fact gotten Publix's attention. Looking past the P&L statement, we turn our attention to the firm's balance sheet, which continues to appear debt-free even as the firm proceeds with its remodeling plans.

Winn Dixie's ability to keep its post-bankruptcy balance sheet clean (for 11 straight quarters) was a critical factor in our upgrade of the account last quarter. Decent levels of both cash and revolver availability should give vendors some degree of comfort that management is not looking to bite off more than it can chew. From a cash flow perspective, operating cash flows were off relative to the year ago period, but mostly due to larger working capital benefits in fiscal 2008 than the firm enjoyed in fiscal 2009.

During its 21-month stint in Chapter 11, Winn Dixie closed roughly 400 stores and extracted over \$100 million in annualized operating costs from its P&L statement. Management is attempting to elevate the grocer's reputation among middle class shoppers without losing its blue-collar clientele. This supermarket's chances of sustainable success will likely hinge upon its ability to co-exist in territories that contain much tougher competitors. At an average size of 46,800 square feet, the firm's *(continued on page 7)*

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Mortgage Delinquencies Break Another Record

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five, with prime fixed-rate mortgages accounting for two-thirds of all mortgages outstanding in the country. Forty-one states had increases in the foreclosure start rate for prime fixed-rate loans, while 43 states had decreases in the subprime adjustable-rate loans.

The MBA also reported a jump in foreclosures on loans backed by the Federal Housing Administration. The foreclosure starts rate for FHA loans was 1.15%, though the FHA percentage remained somewhat lower than other loan types due to the increase in the number of FHA loans outstanding.

Until the nation's unemployment situation improves, it is unlikely that there will be meaningful reductions in the foreclosure and delinquency rates. And until prices recover in areas with steep home price declines, borrowers who owe more on their mortgage than their home is now worth will continue to be in danger of foreclosure, especially if they are faced with a life event including divorce or job loss.

Loan modification programs are playing a role in holding the foreclosure rates below where they would otherwise be, but the issue is that many of the foreclosures involve homes that are vacant, borrowers who no longer have jobs, or loans where there is fraud involved. Therefore, in measuring the effectiveness of industry or government loan modification programs it is necessary to compare the results now with the total foreclosure and delinquency numbers reported her but with the small subset of borrowers who can and want to qualify.

The programs are set up and developed based on the industry's experience in dealing with subprime ARMs or pay-option ARMs – loans that originated with high debt-to-income ratios. The modification is made to reduce payments to a more manageable level. But if a borrower loses a job, the problem isn't paying too much income to a loan each month – it's that he or she has no income at all.

California, Florida, Arizona and Nevada still have a disproportionately high share of foreclosure starts, but the share has fallen slightly from last quarter. In Florida, 22.8% of mortgages outstanding were delinquent at least one payment or in foreclosure. Other poor performing states include Nevada, where 21.3% of mortgages were delinquent or in foreclosure, Arizona, where 16.3% were delinquent or in foreclosure, and Michigan, where 15.3% were delinquent or in foreclosure.

Mass Merchant Musings

Big Lots, Inc. provided initial third quarter guidance for earnings of \$0.14 to \$0.19 per share on flat to -2% comp store sales, compared to \$0.15 in Q3 last year. For the fourth quarter, the company expects earnings of \$0.99 to \$1.04 per share on flat to slightly up comps, versus \$1.00 last year. BIG raised full year 2009 guidance, and now expects to earn \$1.92 to \$2.02 per share, up from \$1.89 last year.

for over 2,500 companies with cash or debit card.

Dollar Tree, Inc. raised guidance, and now estimates third quarter sales will be \$1.19 to \$1.23 billion, based on low-to-mid single digit positive comp store sales. Earnings are now expected to be \$0.58 to \$0.64 per share. For the full year, sales are projected to be \$5.09 to \$5.19 billion with earnings of \$3.10 to \$3.25 per share.

Walmart is partnering with Fiserv, Inc. to offer that company's CheckFreePay service at all Walmart locations in the United States. The service allows customers to pay household bills

Meijer will test an on-line ordering program that enables customers to shop on the company's web site and pick up orders at a store. The test will run in September in Illinois and Ohio.

Options and Resources

Feedback and Questions: Should you have any feedback to provide us or questions to ask, please email us at inbox@globalcreditservices.com.

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Bankruptcy Blotter

The Federal Deposit Insurance Corp.'s fund that protects more than \$4.5 trillion in U.S. bank deposits fell to just \$10.4 billion at the end of June, as the banking industry continues to struggle with souring loans and regulators brace for pain in trying to clean up the mess.

The number of global corporations that are defaulting on their debt is on pace to quadruple from last year, according to a new report from Standard & Poor's.

Unsecured creditors of **KB Toys Inc.** say their efforts thus far to mediate a dispute with the defunct toy store chain's private firm equity owner have failed, and they're leaving open the possibility of moving forward with a lawsuit. The lawsuit stems from a \$25 million payment the company made to an affiliate of Prentice, the firm that bought KB Toys out of its earlier bankruptcy in 2005. The creditors contend that the transfer was made when the company was insolvent and after KB Toys' board of directors had passed a resolution barring it from making further payments under the facility.

Despite objections from unsecured creditors, a bankruptcy judge has given **Bachrach Acquisition LLC** more time to file a plan of reorganization. A judge from the U.S. Bankruptcy Court in Manhattan signed an order giving the menswear retail chain until Oct. 30 to craft the plan. Amid declining sales and reduced credit, Bachrach sought Chapter 11 protection on May 6 with plans to shed unprofitable locations. Liquidation sales in 12 states began in June and are expected to last through September.

Building Materials Holding Corp., concerned that nearly 32,000 employees could join in a lawsuit accusing it of unfair wage practices, is asking a judge to approve a settlement that would end the dispute. The lawsuit accuses the maker of residential building products and construction services of neglecting to dole out overtime pay to employees who worked more than 40 hours per week or eight hours per day. The company proposes to bring the litigation to a halt by

paying \$244,344 to the plaintiffs and \$230,505 to their lawyers. A judge is scheduled to consider approving the settlement at a hearing Sept. 10.

Old Time Pottery Inc., a 23-year-old chain based in Murfreesboro, Tenn., sought Chapter 11 protection in Nashville, saying SunTrust Bank would not renew its line of credit. The company, which has added about 16 new stores in the last six years and now has 37 locations, said it has enough cash to fund operations and that it remains solvent. Old Time Pottery's chief financial officer, said in a statement that the company had about \$62 million in assets and \$41 million in liabilities. The company said it has no plans to close stores or lay off any of its 1,600 employees.

Unsecured creditors owed as much as \$2 billion will be scraping the bottom of the big box for a recovery of zero to 13.5% in the bankruptcy of retailer **Circuit City Stores Inc.**, new court documents say. An outline of the defunct electronic chain's Chapter 11 exit plan estimates there will be less than \$500 million in cash, tax refunds and other liquid or near-liquid assets to cover Circuit City's unpaid debts. Circuit City still has another \$40 million to \$115 million worth of combined secured and priority claims to pay off, according to Chapter 11 plan documents filed Monday with the U.S. Bankruptcy Court in Richmond.

Sun Capital Partners Inc., as part of a lending group, reacquired **Anchor Blue Retail Group** out of bankruptcy for \$16.75 million in financing. Sun Capital's stake in the new business was not disclosed but does hold a majority position. Through bankruptcy, Anchor Blue was able to sell its 80-store Levi's and Dockers outlet business to **Levi Strauss & Co.** and close 65 locations. The company now has 113 stores.

Despite objections from unsecured creditors, the bankruptcy court has extended the time for **Bachrach Acquisition LLC**, a menswear retail chain, to file a Plan of Reorganization to October 30th.

Did You Know...?

U.S. Consumer Confidence rose to 54.1 this month according to the U.S. Conference Board. Still, the index figure remained far below 100, which signals strong growth, and 90, which suggests a healthy economy. U.S. consumer expectations for the next six months climbed to 73.5 from 63.4 in July, representing the highest level since December 2007.

General Retail News

The list of retailers victimized by hacker **Albert Gonzalez** now includes **J.C. Penney** and **Target** along with the previously revealed TJX, Hannaford, 7-Eleven, Heartland, BJ's Wholesale Club, Boston Market and Sports Authority, Dave & Buster's, Office Max, Barnes & Noble, Forever 21 and DSW.

August same store sales in the U.S., with a week left in the month, were forecast to be down 3.5% to 4.0% year-over-year, excluding Wal-Mart, according to the Intl. Council of Shopping Centers.

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Off the Rack

Charlotte Russe has agreed to be acquired by private equity firm Advent International in a deal worth around \$380 million. Advent International will pay \$17.50 per share of stock in an all-cash tender offer beginning August 1. The offer from Advent International is nearly double the \$198.6 million that was offered by KarpReilly Capital last November.

Bebe Stores, Inc. sales fell 24.0% to \$130.2 million in the fiscal fourth quarter ended July 4. Same store sales were off 29.6%, and gross margin tumbled 630 basis points to 39.5% on higher markdowns and occupancy cost deleverage. Net loss was \$323,000 from a profit of \$16.0 million in Q4 last year. For the full fiscal year, sales fell 12.3% to \$603.0 million, same store sales fell 20.9%, and net income fell 80.0% to \$12.6 million. BEBE expects the first fiscal quarter of 2010 will have "less negative" comps and breakeven to a net loss of \$0.05 per share.

Casual Male Retail Group, Inc. expects sales will be down 10% to 12% for the year. Merchandise margins are expected to improve 275 to 325 basis points, but with 180 basis points of occupancy costs deleveraging. SG&A are expected to decrease 15% from the prior year.

JoS. A. Bank Clothiers, Inc. will accelerate its store expansion program, and now plans to open

30 to 40 new stores in fiscal year 2010. In 2009, JOSB is slated to open 10 to 15 new stores.

Jo-Ann Stores, Inc.'s halved its long term debt, to \$50.5 million, and doubled its cash balance, to \$80.2 million, at second quarter-end compared to the end of Q2 last year. Looking ahead, JAS raised full year guidance and now expects same store sales will be flat to +1% for the year and earnings will be \$1.35 to \$1.50 per share.

Fred's, Inc. expects third quarter sales to increase 1% to 3%, with comp store sales flat to +2%. Q3 earnings are forecasted to be \$0.18 to \$0.21 per share. Full year earnings are expected to come in at \$0.73 to \$0.80 per share.

American Eagle Outfitters, Inc. issued third quarter earnings guidance of \$0.22 to \$0.25 per share, compared to \$0.30 last year.

Talbots, Inc. re-launched its website with new features, including outfit-driven shopping and searching, and expert fashion advice.

J. Crew Group, Inc. reported second quarter results (see the scorecard), and issued third quarter fiscal 2009 earnings guidance of \$0.30 to \$0.33 per share.

Did You Know...?

The U.S. gross domestic product fell at a 1% annualized rate in the second quarter, following a 6.4% drop in the first quarter, the Commerce Department reported.

FYI for the DIY

Lowe's Cos. in partnering with Australia's **Woolworths Ltd.** in a joint venture to develop home centers in that market. The companies are acquiring Aussie hardware chain Danks Holdings Ltd. for A\$87.6 million and plan to open 150 stores over five years. Lowe's will own one-third of the new Australian chain, slated to open late in the 2011 fiscal year.

Sherwin-Williams has reached an exclusive multi-year supply agreement to be the sole provider of paints, equipment, supplies and wallcoverings to Pinnacle, an American Management Services subsidiary that manages

a portfolio of apartment, office and industrial assets valued at more than \$18 billion in 42 states.

Wesco International, Inc.'s offer for certain 2026 debentures and 2025 debentures ended with approximately \$299.7 million of the 2026 notes and \$129.0 million of the 2025 notes being tendered. The company accepted all of the tendered 2026 notes and about \$57.7 million of the 2025 notes, and issued a total of \$345.0 million of 6.0% convertible senior debentures due 2029 in exchange for them.

Health & Beauty Aids

Walgreens reached a deal with Caterpillar Inc. to supply prescription drugs to CAT employees under a transparent pricing model, based off of the cost Walgreens pays the drug manufacturer. Called Pharmacy Management Excellence, the agreement also extends discounts to Caterpillar employees on other items in Walgreens stores. The two companies also agreed to explore other

ways of creating an integrated health care and pharmacy program.

Cardinal Health is making a cash tender offer to purchase up to \$1.2 billion of several classes of its long-term debt securities. The offer will expire on September 24.

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Specialty Items

Tuesday Morning Corp. sales fell 4.0% to \$188.7 million in the fourth quarter of fiscal 2009 ended June 30. Comp store sales decreased 6.6% and net loss was \$1.6 million or from a loss of \$2.5 million in Q4 2008. For the full fiscal year, sales were off 9.4% to \$801.7 million with comp store sales declining 12.5%. TUES broke even for the year, following a \$14.5 million profit last year. Looking ahead to fiscal year 2010, Tuesday Morning forecasts EPS of +\$0.02 to -\$0.02 per share, on sales of \$795 million to \$805 million. Comp store sales are expected to decline in the low single digits.

Pet Valu, Inc. and Pet Valu Canada Inc. shareholders approved the sale of PVCI for \$13.68 per shares in cash to Roark Capital Partners II AIV AG, L.P. except those held by PVI. PVI shareholders approved the transaction and amende PVI's Certificate of Incorporation to create a new class of preferred stock. Also, the Supreme Court of British Columbia has issued a final order approving the deal.

Williams-Sonoma, Inc. noted that its second quarter results were affected both this year and last by one-time charges. Excluding unusual business events, earnings would have been

\$0.05 per share in Q2 2009, vs. \$0.09 per share in Q2 2008. Looking forward to the third quarter, WSM expects sales of \$660 to \$700 million, and earnings of breakeven to \$0.01 per share.

Kirkland's, Inc. expects full year sales will be equal to or moderately below fiscal 2008 despite a 10% smaller store base than last year. Full year pre-tax earnings are expected to be significantly higher than the \$10.1 million earned last year.

Cost Plus Inc. expects fiscal third quarter sales of \$177 million to \$186 million, with a net loss from continuing operations before interest and taxes of \$19 million to \$24 million.

AutoZone, Inc. prepaid the outstanding obligations of its \$300 million term loan agreement, which was scheduled to expire in December 2009, and terminated an interest rate swap agreement related to the term loan.

Tiffany & Co. reported a stronger than expected second quarter, and raised guidance for 2009 earnings from continuing operations to \$1.65 to \$1.75 per share from the previous forecast of \$1.50 to \$1.60 per share.

Did You Know...?

Single-family home prices rose a seasonally adjusted 0.8% in June, according to the Case-Shiller home-price index. For the second quarter, the Case-Shiller index rose 2.9%, the first quarterly increase in three years.

The Global World of Sports and Footwear

The customs value of **U.S. sporting goods imports** fell 13.5% to \$6.22 billion in the first half of 2009 H1. Retailers pared inventories and orders and vendors followed through on their promise not to speculate with their own excess inventory during the recession. Sneaker imports fell by just 2.0% during the Jan.-Jun period while the more challenged apparel market saw an 11.8% decline in the value of imports that had an athletic end use. Equipment imports were hit the hardest with a 20.3% decline in value. The data was drawn from the U.S. International Trade Commission database using a classification system developed by *Sporting Goods Intelligence*.

Sport Supply Group, Inc. saw sales fall 2.3% to \$59.7 million in the fourth quarter ended June 30. Net income rose 27.7% to \$2.3 million. For the full fiscal year, sales fell 0.5% to \$250.2 million, and net income was up 22.0% to \$11.9 million.

Genesco's forecast for the remainder of the year calls for flat to down low single digit comps in Q3 and positive low single digit comps in Q4.

Annual sales will be in the \$1.57 billion range with comps coming in flat to down low single digits and earnings of \$1.70 to \$1.80 per share excluding the impact of \$15 million in various non-cash charges.

Famous Footwear parent **Brown Shoe** expects a \$12 million boost to profits through the end of 2011, plus improvements to working capital and lease liabilities, from its strategic store closing plan that is forecast to reap \$2 million in savings this year, \$20 million in FY10 and \$35 million in 2011. BWS' current forecast is for positive earnings on flat to a -2% sales decline in H2. Famous Footwear's same store sales are seen as negative low to mid-single digits in H2. The company's full-year revenue range is \$2.18 to \$2.20 billion.

The Athletes Foot chain of 136 stores in Australia and New Zealand generated 15% EBITDA growth to A\$8.3 million (US\$6.2 million) for the 12 months ended June 30. Annual sales rose 15% to A\$166.7 million (US\$124.7 million) on 11% same store sales growth.

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Management on the Move

Wet Seal, Inc. appointed **Nick Dialynas** VP of Real Estate. Dialynas was most recently the Senior Director of Leasing at Liz Claiborne, Inc.

GameStop Corp. co-founder, EVP and CFO **David W. Carlson** will retire effective March 1, 2010. **Catherine R. (Cathy) Smith** was appointed EVP and CFO to replace Carlson. Smith was most recently EVP and CFO of Centex Corp.

The Little Clinic named **William Wright** Chief Legal Officer. Before joining the company, Wright was previously with Stites & Harbison PLLC.

Dillard's, Inc. added former U.S. Congressman **J.C. Watts, Jr.** to its board of directors. Watts replaces **James A. Haslam, III**, who resigned.

Finish Line, Inc. names **Donald E. Courtney**, a 21-year company veteran who has served as CIO/EVP of information systems and distribution since 2003, as President of its new e-commerce division.

Recreational Equipment, Inc. (REI) reappointed **José Ignacio Lozano** and **Brenda Davis** to one-year terms on its board of directors.

Safeway Inc. appointed **Arun Sarin** and **Michael S. Shannon** to the company's board of directors. Sarin was most recently CEO of Vodafone Group Plc. Shannon founded private equity firm KSL Capital Partners LLC and is its President and CEO.

Kohl's Corp. named **Kevin Mansell** Chairman of the Board, effective September 1. Mansell will continue to serve as President and CEO. Current COB Larry Montgomery will step down, but continue as a director.

Casual Male Retail Group, Inc. promoted **Peter H. Stratton, Jr.** SVP of Finance, Corporate Controller and Chief Accounting Officer. He replaced **Sheri A. Knight** who resigned from the position.

Advance Auto Parts, Inc. promoted **Judd Nystrom** to SVP Finance. Nystrom joined AAP in February 2008 after six years at Best Buy.

Eddie Bauer Holdings, Inc. appointed **Brent Kugman**, President of Kugman Partners, Inc. to serve as Chief Restructuring Officer and Corporate Secretary to oversee the resolution of the bankruptcy proceedings.

Hi Tech Entertainment

Staples, Inc.'s 9% sales increase in Q2 (see the scorecard) includes just one month of Corporate Express sales from last year. Adjusting to include those sales for the whole quarter, Staples sales decreased 14% in US dollars, or 10% in local currency. SPLS declined to give income or earnings guidance, but reaffirmed its expectations for \$300 million a year in cost savings from synergies related to the Corporate Express acquisition.

Video-rental kiosks are gaining market share at the expense of subscription services and video rental stores, according to The NPD Group. Through the first half of 2009, the share of rental turns (i.e., the number of videos rented by consumers) reached 19% for video kiosks like **Redbox**, compared to 36% for **Netflix** and other

subscription services, and 45% for **Blockbuster** and other traditional brick-and-mortar video stores. NPD projects video rental kiosks' share will grow to nearly 30% next year.

Borders Group, Inc.'s second quarter loss (see the scorecard) includes \$32.9 million of non-operating, after-tax charges. Excluding charges, Borders Group second quarter was \$12.7 million compared to a loss of \$10.5 million in Q2 last year.

Conn's, Inc. lowered its earnings guidance for fiscal year 2010, based on an increased provision for bad debts. The company now expects net income of \$1.40 to \$1.60 per share, down from \$1.75 to \$1.85 guided previously.

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
STARBUCKS CORP	BBB	BBB	STABLE	NEGATIVE	C
DESTINATION MATERNITY CORP	B-	B-	POSITIVE	STABLE	E
SUBURBAN PROPANE PARTNERS LP	BB-	BB-	POSITIVE	STABLE	C-

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Did You Know...?

U.S. durable goods ordered increased 4.9% in July, the Commerce Department reported. The transportation sector led the way, up 18.4% on aircraft orders. Year-to-date, durable goods orders are down 26% compared to 2008.

Heard in the Grocery Aisle

Supermarkets have re-captured the highest share of food shoppers, after ranking a close second behind mass merchandisers for several years, according to the *How America Shops® PULSE* report published by WSL Strategic Retail for the second quarter of 2009.

The Tampa Bay Business Journal reported. Following these closures, the privately owned retailer will have only 31 stores in Florida. In the fall of 2008, Albertsons LLC had sold 49 of its Florida-based locations to Publix for roughly \$500 million.

Albertsons LLC intends to close four Florida-based supermarkets and lay off over 300 workers,

Boston-area Asian supermarket **Super 88 Market** has been acquired by **Hong Kong Supermarkets Inc.**, the *Boston Globe* reported.

Upcoming Reporting Dates

Company	Event	Date
Collective Brands	Financial Results	Sep 2, 2009
Gander Mountain	Financial Results	Sep 1, 2009
Gap	Financial Results	Sep 3, 2009
Home Depot	Investor Conference	Sep 10, 2009
IAC	Investor Conference	Sep 16, 2009
Ingram Micro	Investor Conference	Sep 9, 2009
Insight Enterprises	Investor Conference	Sep 10, 2009
JoS. A. Bank Clothiers	Financial Results	Sep 3, 2009
Lululemon Athletica	Financial Results	Sep 10, 2009
Men's Wearhouse	Financial Results	Sep 9, 2009
Neiman Marcus	Financial Results	Sep 9, 2009
Pep Boys	Financial Results	Sep 9, 2009
Ulta Salon, Cosmetics & Fragrance	Financial Results	Sep 3, 2009
United Natural Foods	Financial Results	Sep 9, 2009
Zale	Financial Results	Sep 2, 2009

Retailer of the Week: Winn Dixie

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515 stores are currently spread across Florida (353), Alabama (71), Louisiana (52), Georgia (23), and Mississippi (16). Inside its locations, the firm operates 401 pharmacies and 74 liquor stores; only 5 fuel centers exist as part of its store base.

OPERATING PERFORMANCE: 12 MONTHS ENDED JUNE 24, 2009

\$ in millions, 52 weeks ended	June 24, 2009	YOY Var.	June 25, 2008
Net Sales	\$7,367.0	1.2%	\$7,281.5
Identical Store Sales Growth	1.2%		0.9%
Gross Margin	28.5%	124 bps	27.2%
Adjusted Operating Profit (1)	\$63.8	165.9%	\$24.0
Adjusted Operating Margin (1)	0.9%	54 bps	0.3%
Net Profit	\$39.8	211.0%	\$12.8

(1) - in fiscal 2009, excludes a \$22.4 million gain on an insurance settlement and a \$5.5 million impairment charge; in fiscal 2008, excludes a \$1.0 million impairment charge.

Winn Dixie's registers managed to pull in \$7.4 billion of receipts for its fiscal 2009 year ended June 24, 2009, equating to 1.2% top-line growth. Identical store sales grew a reported 1.2% over this twelve-month period following 1.6% rise in Q4 2009. Fourth quarter identical store sales growth was favorably impacted by 140 basis points due to the shift of Easter into Winn Dixie's Q4 2009; one year earlier, Easter was a Q3 event for the company. Similar to fiscal 2008, the grocer again remodeled 75 stores in fiscal 2009. Offensive remodels in their first year of operation registered a weighted average sales lift of 10.3% comprised of a 5.6% increase in transaction count and a 4.5% rise in average ticket.

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Retailer of the Week: Winn Dixie*(continued from page 7)*

Although management's guidance for fiscal 2010 includes identical store sales growth of between 1% and 2%, CEO Peter Lynch issued some cautionary remarks regarding the firm's slow start in the opening eight weeks of fiscal 2010. Over that period, identical store sales were running only nominally positive after adjusting for the benefit of hurricane-related sales in the prior year period. Drilling down into the preview of the firm's next quarterly top-line results, CEO Lynch expressed some concern over the general softness of the grocer's summer business (excluding the July 4th holiday which he referred to as a "home-run" in all of Winn Dixie's markets, particularly on both weekends and at month-ends. He suggested that shoppers are having more and more difficulty coming up with extra funds at the end of each month.

In mid-July, the grocer announced that it had completed its renovation work on all 51 of its stores in its Jacksonville market (which includes locations in northern Florida and southern Georgia). As of today, the company is probably about two and a half months into its official relaunch in this market. The relaunch has caught the attention of Winn Dixie's primary competitor; to this point, Publix has centered its circulars on the Jacksonville market. Winn Dixie's management noted that it has not seen any unusual promotional activity from Publix in its other territories.

Moving further down the P&L statement, Winn Dixie's gross margin improved 130 basis points in fiscal 2009 thanks to product mix changes (100 basis points), lower warehouse and transportation costs (20 basis points), and a reduced LIFO charge (10 basis points). Private label penetration improved 70 basis points to 21.8% during Q4 2009 versus the same period last year. The firm's 70 basis point rise in its SG&A burden to 27.6% was owed to higher payroll and utility expenses. Winn Dixie did record substantial uptick in fiscal 2009 adjusted operating profit to \$63.8 million, good for a 0.9% margin. Of course, that metric will need to see further improvement to make Winn Dixie an account vendors can trust for the long term. Management maintained its projections for its fiscal 2010 adjusted EBITDA guidance of a range of \$170 million to \$180 million; in fiscal 2009, the firm reported adjusted EBITDA of \$164.2 million.

LIQUIDITY & FINANCIAL STRUCTURE

Winn Dixie finished its fiscal 2009 year ended June 24, 2009 with cash and equivalents of \$182.8 million. With respect to the firm's \$725 million secured revolver, only \$174.2 million worth of L/Cs were outstanding; no direct borrowings were reported. Availability on the facility, after taking into consideration the \$50 million excess availability covenant, fell slightly from its level three months earlier to a still robust \$479.4 million (see Bank Reference). Global Credit estimates the gross borrowing base on June 24th to have been \$724.3 million, with a usable borrowing base of \$703.6 million. As we mentioned in previous write-ups, while the new threshold for Winn Dixie's rolling four-quarter minimum EBITDA has graduated to \$180 million (from \$147 million) this past winter, it is only applicable should revolver availability drop below \$75 million. Therefore, this covenant is not currently a concern.

At fiscal 2009's end, Winn Dixie had remodeled a total of 170 stores (75 during fiscal 2009) since the program's inception. Capital spending of \$216.9 million, which was down 0.4% relative to the year-ago period, was not quite covered by Winn Dixie's cash flow from operations of \$199.5 million. Fiscal 2009 capital spending is anticipated to total \$220 million; \$130 million will be devoted to the remodeling program while the remaining \$90 million will serve as maintenance cap-ex. Elsewhere in the store base, CFO Bennett Nussbaum noted that Winn Dixie closed six of its lower-volume stores in fiscal 2009 that were at or near the end of their leases (5 of them occurring in May & June). Operating cash flow during the recent fiscal year ended was off 4% versus the same period last year but did reflect year-over-year improvement during the fiscal fourth quarter.

Benefiting from growth in shareholders' equity and a decline in intangible assets, tangible net worth has improved 23% to \$653.4 million since last summer. Liabilities-to-assets of 51% eased slightly; the firm's long-term liabilities are primarily comprised of reserves for self-insurance liabilities and unfavorable leases. Despite the lack of debt, Winn Dixie has little assets to speak of other than its inventory and equipment, which are pledged to the banks. To this point, the grocer only owns 8 of its 520 stores and one of its six distribution centers, while also leasing its corporate headquarters and manufacturing operations.

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RETAIL SECTOR WEEKLY

Second Quarter Scorecard

\$ in Millions. Quarter ended closest to 7/31/09	Sales			Comps	Net Income		
	2009	2008	Change		2009	2008	Change
Apparel							
Abercrombie & Fitch	\$648.5	\$845.8	-23.3%	-30.0%	(\$26.7)	\$77.8	-134.3%
Aeropostale, Inc.	\$453.0	\$377.1	20.1%	12.0%	\$38.6	\$21.1	83.4%
American Apparel	\$136.1	\$133.0	2.3%	-10.0%	\$4.5	\$6.8	-34.3%
American Eagle Outfitters	\$657.6	\$688.8	-4.5%	-10.0%	\$28.6	\$59.8	-52.2%
American Tire Distributors	\$557.3	\$504.3	10.5%	NA	\$0.3	\$2.3	-87.0%
AnnTaylor Stores Corp.	\$470.2	\$592.3	-20.6%	-22.5%	(\$18.0)	\$29.3	-161.4%
Bon Ton Stores, Inc.	\$609.2	\$673.4	-9.5%	-9.8%	(\$34.8)	(\$33.8)	-2.9%
Buckle, Inc.	\$192.9	\$169.8	13.6%	8.6%	\$25.0	\$22.3	12.1%
Cache, Inc.	\$56.9	\$74.0	-23.1%	-23.0%	\$0.8	\$2.1	-59.9%
Casual Male Retail Group	\$98.3	\$113.5	-13.4%	-13.9%	\$3.6	\$1.9	89.5%
Cato Corporation	\$225.4	\$231.0	-2.4%	-3.0%	\$16.7	\$12.1	38.1%
Charming Shoppes, Inc.	\$527.2	\$648.6	-18.7%	-14.0%	\$5.0	\$10.7	53.3%
Chico's FAS, Inc.	\$419.9	\$405.2	3.6%	1.3%	\$14.9	\$6.7	123.1%
Children's Place	\$315.7	\$338.0	-6.6%	-9.0%	(\$7.1)	\$0.0	-64191%
Citi Trends, Inc.	\$111.6	\$115.7	-3.5%	-12.4%	(\$0.1)	\$2.9	-102.4%
Coldwater Creek Inc.	\$225.2	\$241.4	-6.7%	-10.2%	(\$4.9)	\$3.1	-256.1%
dELIA*s, Inc.	\$45.7	\$44.6	2.5%	-8.1%	(\$4.7)	(\$5.0)	6.5%
Dillard's, Inc.	\$1,366.3	\$1,606.7	-15.0%	-13.0%	(\$26.7)	(\$38.3)	30.4%
Gap Inc.	\$3,245.0	\$3,499.0	-7.3%	-8.0%	\$228.0	\$229.0	-0.4%
Gymboree Corporation	\$212.3	\$202.8	4.7%	-1.0%	\$12.2	\$8.0	51.8%
Hot Topic, Inc.	\$157.8	\$166.8	-5.4%	-7.7%	(\$3.2)	(\$0.5)	-611.1%
J. Crew Group, Inc.	\$357.6	\$336.3	6.3%	-5.0%	\$18.6	\$18.1	2.8%
J.C. Penney Company	\$3,943.0	\$4,282.0	-7.9%	-9.5%	(\$1.0)	\$117.0	-100.9%
Jo-Ann Stores, Inc.	\$419.4	\$403.0	4.1%	1.8%	(\$3.2)	(\$11.7)	72.6%
Kohl's Corporation	\$3,806.0	\$3,725.0	2.2%	-2.3%	\$229.0	\$236.0	-3.0%
Limited Brands	\$2,067.0	\$2,284.0	-9.5%	-9.0%	\$60.3	\$93.9	-35.8%
Macy's, Inc.	\$5,164.0	\$5,718.0	-9.7%	-9.5%	\$7.0	\$73.0	-90.4%
New York & Company, Inc.	\$247.8	\$295.7	-16.2%	-16.4%	(\$4.8)	\$8.8	-154.5%
Nordstrom, Inc.	\$2,145.0	\$2,287.0	-6.2%	-9.8%	\$105.0	\$143.0	-26.6%
Ross Stores, Inc.	\$1,769.0	\$1,640.0	7.9%	3.0%	\$103.4	\$71.3	45.0%
Saks Incorporated	\$561.7	\$657.0	-14.5%	-15.5%	(\$54.5)	(\$32.7)	-66.7%
Stage Stores, Inc.	\$341.7	\$372.7	-8.3%	-10.7%	\$9.1	\$9.7	-5.8%
Stein Mart, Inc.	\$287.5	\$311.6	-7.7%	-4.5%	\$1.5	(\$8.0)	118.8%
Tandy Leather Factory	\$13.2	\$13.8	-4.3%	4.3%	\$0.8	\$0.7	16.2%
TJX Companies	\$4,747.5	\$4,554.4	4.2%	4.0%	\$261.6	\$200.2	30.7%
Tween Brands, Inc.	\$205.1	\$223.1	-8.1%	-12.0%	(\$2.8)	(\$6.7)	58.2%
Urban Outfitters, Inc.	\$458.6	\$454.3	0.9%	-6.0%	\$49.0	\$57.0	-14.0%
Wet Seal, Inc.	\$136.4	\$149.1	-8.5%	-10.6%	\$3.1	\$10.2	-69.5%
Drug							
Abbott	\$7,495.0	\$7,314.0	2.5%	NA	\$1,288.0	\$1,322.0	-2.6%
CVS Caremark Corporation	\$24,871	\$21,140	17.6%	6.1%	\$886.5	\$774.8	14.4%
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%
Food							
Arden Group	\$107.9	\$116.6	-7.5%	-7.5%	\$4.7	\$6.6	-28.8%
Delhaize Group Le Lion	\$7,173.4	\$7,063.2	1.6%	4.1%	\$175.6	\$183.3	-4.2%
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%
Publix Super Markets	\$6,000.0	\$5,900.0	1.7%	-2.6%	\$300.8	\$295.8	1.7%
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%
High-Tech & Electronics							
Amazon.com, Inc.	\$4,651.0	\$4,063.0	14.5%	NA	\$142.0	\$158.0	-10.1%
BMTC Group Inc. (C\$)	\$168.8	\$181.7	-7.1%	NA	\$3.1	\$11.6	-73.3%
Conn's, Inc.	\$190.3	\$190.6	-0.2%	-5.2%	\$4.9	\$10.2	-51.5%
GameStop Corp.	\$1,740.0	\$1,750.0	-0.6%	-14.1%	\$38.6	\$57.1	-32.4%

Did You Know...?

Consumer spending increased 0.2% in July, the Commerce Department reported. Personal incomes were unchanged and consumer prices, excluding food and energy, rose just 0.1%.

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RETAIL SECTOR WEEKLY

Second Quarter Scorecard

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\$ in Millions. Quarter ended closest to 7/31/09	Sales			Comps	Net Income		
	2009	2008	Change		2009	2008	Change
High-Tech & Electronics							
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%
PC Mall, Inc.	\$261.4	\$331.2	-21.1%	NA	\$0.8	\$3.0	-73.3%
RadioShack Corporation	\$965.7	\$994.9	-2.9%	-4.0%	\$48.8	\$41.4	17.9%
Staples, Inc.	\$5,533.8	\$5,074.7	9.0%	-5.0%	\$92.4	\$150.2	-38.5%
Systemax Inc.	\$721.6	\$756.0	-4.6%	NA	\$6.5	\$13.5	-51.9%
Tech Data Corporation	\$5,183.7	\$6,166.0	-15.9%	NA	\$35.2	\$22.1	59.3%
Trans World Entertainment	\$165.7	\$215.2	-23.0%	-15.0%	(\$17.8)	(\$19.2)	7.3%
Home Centers							
Builders FirstSource, Inc.	\$175.5	\$282.3	-37.8%	NA	(\$22.6)	(\$45.9)	50.8%
Calloway's Nursery, Inc.	\$16.5	\$20.3	-18.7%	-9.9%	\$0.9	\$1.9	-52.6%
Fastenal Company	\$474.9	\$604.2	-21.4%	-24.2%	\$43.5	\$76.2	-42.9%
Greybar Electric	\$1,121.6	\$1,420.9	-21.1%	NA	\$8.3	\$28.4	-70.8%
Griffin Land & Nurseries	\$19.7	\$21.1	-6.6%	NA	(\$1.0)	(\$0.4)	-158.1%
Home Depot, Inc.	\$19,071	\$20,990	-9.1%	-8.5%	\$1,116.0	\$1,202.0	-7.2%
Huttig Building Products	\$119.9	\$195.4	-38.6%	NA	(\$6.0)	(\$2.5)	-140.0%
Interline Brands, Inc.	\$269.9	\$311.4	-13.3%	NA	\$6.4	\$11.2	-42.9%
Lowe's Companies	\$13,844	\$14,509	-4.6%	-9.5%	\$759.0	\$938.0	-19.1%
Lumber Liquidators	\$143.1	\$128.0	11.8%	NA	\$6.9	\$5.9	18.0%
Rona, Inc. (C\$)	\$1,370.0	\$1,473.3	-7.0%	-6.2%	\$60.8	\$76.6	-20.6%
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%
Mass Merchants							
Big Lots, Inc.	\$1,086.6	\$1,105.2	-1.7%	-2.4%	\$28.4	\$26.0	9.1%
BJ's Wholesale Club, Inc.	\$2,566.1	\$2,702.7	-5.1%	-7.7%	\$35.1	\$36.5	-3.8%
Canadian Tire (C\$)	\$2,324.8	\$2,450.7	-5.1%	-2.7%	\$103.7	\$97.7	6.1%
Dollar Tree Inc.	\$1,220.0	\$1,090.0	11.9%	6.8%	\$56.9	\$37.6	51%
Fred's, Inc.	\$434.2	\$447.1	-2.9%	-1.3%	\$4.2	\$1.0	310.5%
Overstock.com	\$176.1	\$188.8	-6.7%	NA	\$0.4	(\$7.4)	105.4%
Sears Canada Inc.	\$1,250.0	\$1,420.3	-12.0%	-10.0%	\$49.1	\$61.5	-20.2%
Sears Holdings Corp.	\$10,551	\$11,762	-10.3%	-8.6%	(\$94.0)	\$65.0	-244.6%
Target Corporation	\$14,567	\$15,472	-5.8%	-6.2%	\$594.0	\$634.0	-6.3%
Wal-Mart Stores, Inc.	\$100,082	\$101,546	-1.4%	-1.9%	\$3,442	\$3,449	-0.2%
Specialty							
A.C. Moore Arts & Crafts	\$104.4	\$126.4	-17.4%	-13.8%	(\$8.1)	(\$4.3)	-91.1%
Aarons, Inc.	\$417.3	\$387.0	7.8%	8.4%	\$27.8	\$23.3	19.3%
Advance Auto Parts, Inc.	\$1,322.8	\$1,235.8	7.0%	4.8%	\$80.3	\$75.4	6.5%
Amscan Holdings, Inc.	\$342.1	\$371.5	-7.9%	-2.4%	\$11.0	\$14.7	-25.4%
Barnes & Noble, Inc.	\$1,155.7	\$1,221.0	-5.3%	-6.9%	\$12.2	\$15.3	-20.3%
Blue Nile, Inc.	\$69.9	\$73.7	-5.2%	NA	\$2.8	\$3.2	-12.5%
Books-A-Million, Inc.	\$122.4	\$123.3	-0.7%	-4.9%	\$1.5	\$0.6	132.6%
Borders Group, Inc.	\$624.7	\$758.5	-17.6%	-17.9%	(\$45.6)	(\$9.2)	-395.7%
Brookstone, Inc.	\$73.0	\$97.4	-25.1%	-18.6%	(\$16.7)	(\$8.7)	-92.0%
Cost Plus, Inc.	\$183.4	\$210.7	-13.0%	-10.9%	(\$20.8)	(\$26.6)	21.8%
DGSE Companies, Inc.	\$21.6	\$25.1	-13.9%	NA	\$0.7	\$0.5	40.8%
Hancock Fabrics, Inc.	\$59.6	\$63.8	-6.6%	-4.2%	(\$2.3)	(\$10.1)	77.2%
Haverly Furniture	\$129.7	\$168.4	-23.0%	-22.6%	(\$6.6)	(\$2.3)	-187.0%
Kirkland's, Inc.	\$87.7	\$87.7	0.0%	6.1%	\$3.4	(\$1.7)	303.3%

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Second Quarter Scorecard

(continued from page 10)

\$ in Millions. Quarter ended closest to 7/31/09	Sales			Comps	Net Income		
	2009	2008	Change		2009	2008	Change
Specialty							
Leon's Furniture Limited	\$209.9	\$224.7	-6.6%	-6.5%	\$8.6	\$11.6	-25.9%
Michaels Stores, Inc.	\$807.0	\$796.0	1.4%	-0.8%	\$2.0	(\$30.0)	106.7%
Pet Valu Inc.	\$52.3	\$54.6	-4.2%	6.0%	\$2.8	\$3.6	-22.2%
PetSmart, Inc.	\$1,308.8	\$1,241.9	5.4%	0.8%	\$39.0	\$37.2	4.8%
Rent-A-Center, Inc.	\$679.6	\$719.0	-5.5%	-6.2%	\$41.9	\$37.7	11.1%
Tiffany & Co.	\$612.5	\$729.6	-16.0%	-16.0%	\$56.8	\$80.8	-29.7%
Williams-Sonoma, Inc.	\$672.1	\$819.6	-18.0%	-15.3%	\$0.4	\$18.4	-97.8%
Sports & Footwear							
Bakers Footwear Group, Inc	\$43.7	\$43.6	0.2%	0.7%	tba	(\$2.3)	tba
Big 5 Sporting Goods Corp.	\$216.0	\$209.0	3.3%	0.3%	\$4.7	\$1.7	170.0%
Broder Bros., Co.	\$177.7	\$257.6	-31.0%	NA	\$15.2	(\$0.7)	2271.4%
Brown Shoe Company, Inc.	\$511.6	\$569.2	-10.1%	-6.7%	(\$4.2)	\$2.2	-291.5%
Cabela's	\$549.2	\$526.0	4.4%	6.1%	\$9.1	\$7.3	24.7%
Dick's Sporting Goods, Inc.	\$1,126.8	\$1,086.3	3.7%	-4.1%	\$38.9	\$39.9	-2.5%
DSW Inc.	\$369.5	\$357.2	3.4%	-2.9%	tba	\$11.0	tba
Foot Locker	\$1,099.0	\$1,302.0	-15.6%	-12.1%	\$0.0	\$18.0	-100.0%
Genesco Inc.	\$334.7	\$353.1	-5.2%	-8.0%	(\$2.7)	(\$10.8)	-74.9%
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%
Hibbett Sporting Goods, Inc.	\$123.1	\$130.3	-5.5%	-10.5%	\$1.1	\$4.8	-77.1%
Shoe Carnival, Inc.	\$152.8	\$158.5	-3.6%	-6.4%	\$1.0	\$1.0	0.5%
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%
Zumiez Inc.	\$85.2	\$92.3	-7.7%	-18.8%	(\$3.1)	\$2.7	-214.8%

Numbers in italics are implied or company estimates.

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