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Fung Business Intelligence Centre

GLOBAL RETAIL RESEARCH & INTELLIGENCE

WEEKLY INSIGHTS

- **Overall store traffic continued to weaken this past week, despite small gains at apparel stores**
- **The US housing market recovery slowed**
- **China's e-commerce grew 25% YoY in 2014**
- **European retailer H&M posted strong results; BHS up for sale**

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It's fun to imagine how much easier our lives will be in the smartphone-driven Internet of Things (IoT) world of the future. For this future to become reality, however, we must first address one major stumbling block to progress: all those connected devices generate reams of personal information that could easily end up in the wrong hands or misused. It's just one more reason why ***cybersecurity*** *has become a "front and center" issue—and why we've made it one of our top retail industry themes for 2015.*

The multiple hacker attacks of the past year have concentrated minds on these looming risks for consumers and businesses. We're not just talking about the companies that develop and make the enabling technologies, devices and services that will make up the IoT ecosystem. These risks are just as critical for retailers that hope to profit from the massive new product cycle these new technologies are expected to give birth to. Consumers will not embrace IoT if they feel their security and privacy are threatened.

The government has also sounded the alarm. This week, the Federal Trade Commission released a report urging companies to institute basic data security measures in the early stages of product development, and it laid out recommendations as to how businesses can improve their data collection and handling practices to ensure the privacy and security of their customers' information. Data security and privacy experts predict that at least the larger, best-known technologies firms are likely to take the agency's data security recommendations into account to reduce business risks.

Research firm Gartner estimates that consumers, enterprises, manufacturing and utilities will be using nearly 5 billion connected "things" this year, and sees that number soaring fivefold, to 25 billion, in just five years. The widespread and growing use of mobile devices has increased the risk of cybercrime exponentially. The cost of such breaches for retailers has doubled over the past five years. And members of the industry are heeding the call, devoting an increasingly large portion of their IT budgets this year to projects aimed at reducing their exposure to cyber threats.

Mobility and connectivity are here to stay, so retailers also need to make cybersecurity risk management an integral part of their strategic thinking and corporate culture, and to design apps that protect data and customer identity.

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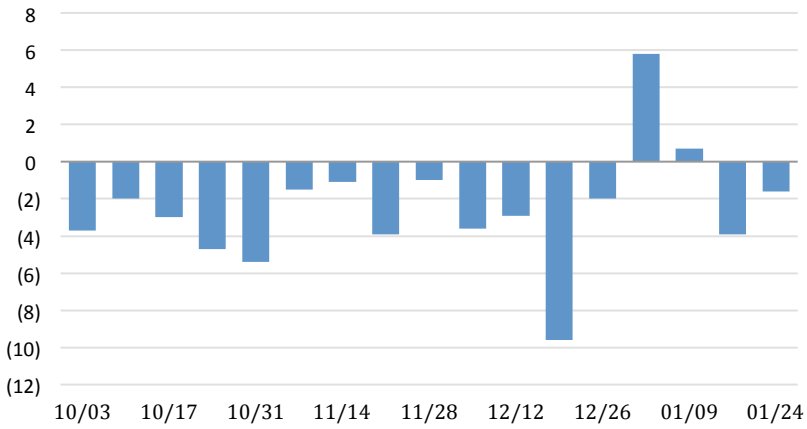
WEEKLY TRAFFIC

Store Traffic Continued to Fall As Apparel Traffic Rebounded

Figure 1. ShopperTrak US Weekly Traffic YoY%



Through January 24, 2015
Source: ShopperTrak

- *US store traffic fell 1.6% YoY for the week ended January 24, an improvement of 230 basis points from the prior week*
- *Apparel store traffic rose by 70 basis points, the fourth gain in five weeks*
- *Electronics stores' traffic fell by mid-single digits. For December, this category is likely to have the worst performance since August 2014*

US RETAIL HEADLINES

Coach Q2 Profit Declined, Yet Better Than Expected

(January 29) Women's Wear Daily

- Coach posted a decline of 38.3% in net income and a 14.1% decline in sales for Q2 2015
- CEO Victor Luis said the results were within expectations as their brand transformation plan progresses. The numbers posted included costs of the Stuart Weitzman acquisition
- Andre Cohen, former head of Coach China and Coach Asia, will become president of Coach North America; David Duplantis, president of global digital and customer experience, will also lead Coach's global marketing and customer experience team

Kate Spade Announced Strategic Initiatives, Kate Spade Saturday Stores to Close

(January 29) Seeking Alpha

- Preliminary 2014 comparable sales increased by 24%, adjusted EBITDA of $145 to $150 million
- Kate Spade Saturday will transition to a label under kate spade new york. The current 19 stores are to be closed in the first half of 2015. The men's line Jack Spade will focus on e-commerce and retail partners

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UPS Miscues Again During Christmas
(January 23) Financial Times

- UPS warned that its earnings fell short of expectations due to overspend on solving delivery congestion problems. In 2014 the company invested heavily in automation of its facilities, mobile sorting equipment and hiring extra staff
- The slowdown at US west coast ports also exacerbated problems
- The company's shares fell 8.7% in pre-market trading

Family Dollar Posts Positive Comps for Month Ended January 3
(January 26) Street Account

- Family Dollar reported 1.2% comps gains and 3.6% net sales growth for the month
- Gross margin increased by 59 basis points to 34.91%
- Fewer markdowns, increased purchase markups and less freight expense contributed to the positive results

This Week's Snowstorm in the Northeastern US Has Small Impact on Retail Sales
(January 27) Street Account

- Analysts anticipate that winter storm Juno will have had a small impact of less than 0.5% on total Q4 traffic, as the stores had prepared for a slow week regardless of the weather conditions
- **Winners** were home improvement stores like Home Depot and Lowe's and stores with cold-weather equipment like Sears and Costco. Over 20% of stores of the above-mentioned retailers are located in regions affected by the storm
- **Losers** were restaurant chains with large exposure to weather-affected regions, including Dunkin' Donuts, Chipotle and Panera Bread

Walmart Canada Add 11 Supercenters
(January 22) Street Account

- Walmart Canada will open 11 additional Supercenters by the end of the month. The expansion was being planned before Target's announcement that it would exit the country
- The total store count of Walmart in Canada will be 394, including 280 Supercenters and 114 discount stores

Figure 2. US Regular Gasoline Prices

	$ Per Gallon		Change From	
01/12/15	01/19/15	01/26/15	Week Ago	Year Ago
2.14	**2.07**	**2.04**	**(0.02)**	**(1.26)**

Source: US Energy Information Administration

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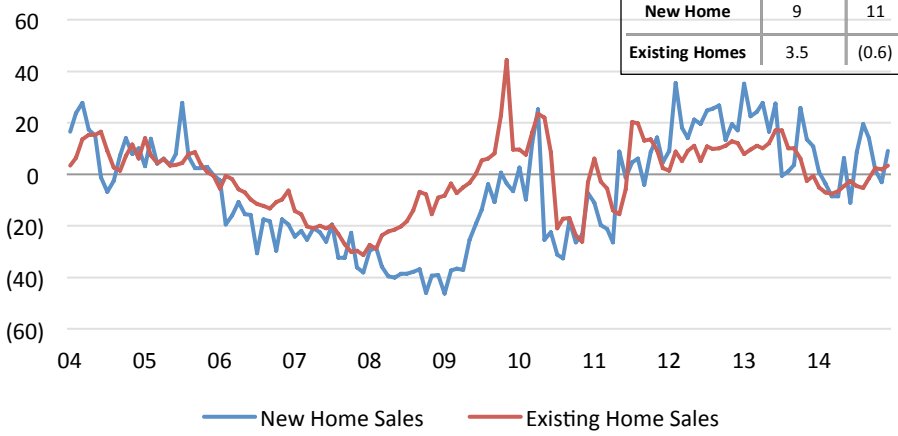
US MACROECONOMIC UPDATE

Low Inventory Levels and Tight Credit Restrain Housing Market Recovery

Figure 4. Total Housing Starts YoY% Change

	This Month	Year Ago
New Home	9	11
Existing Homes	3.5	(0.6)

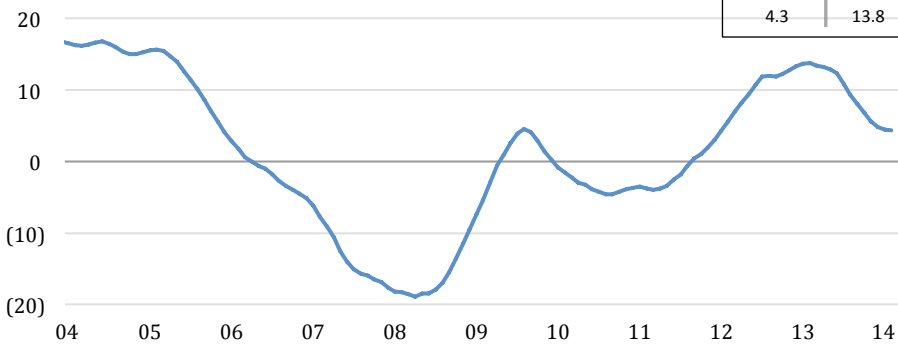


Through December 31, 2014
Seasonally adjusted
Source: US Department of Commerce

- *Low participation of first-time buyers of existing homes (29% of total transactions in December) suggested a continued slow recovery of the US housing market*
- *For the whole of 2014, sales of existing homes dropped by 3.1%, the first decline in four years*
- *Sales of new homes rose to the highest level since June 2008: 16.5% MoM or 3% YoY in December. However, new homes only account for one-tenth of the overall housing market*

Figure 4. S&P/Case-Shiller 20-City Home Price Index YoY%

This Month	Year Ago
4.3	13.8



Through November 2014
Source: S&P Dow Jones and CoreLogic

- *The 20-city home price index gained 4.3% in November YoY; a slowdown from the previous month's 4.5%, but within analysts' expectations*
- *Miami and San Francisco continue to lead all cities, with 8.6% and 8.9% growth YoY*
- *As of November 2014 average home prices are back to their Fall 2004 level for the 20 cities*
- *Difficulties facing the housing recovery include low inventory levels and stiff mortgage qualification standards*

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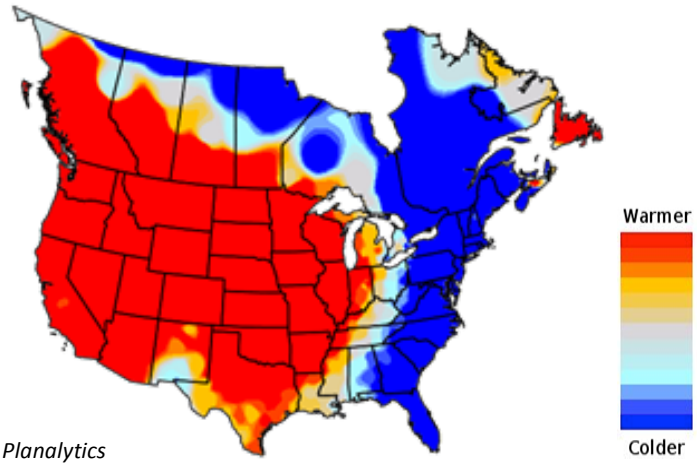
US WEATHER ANALYTICS: WEEK OF FEB. 1 – 7

Temperatures Nose Dive Across the East, Driving Winter Clearance

- **Dual Storm Tracks** A series of storm systems will bring light snow across the northern tier and rain from southern California to the southeast
- **First Week of February Packs a Punch in the East** There will be low temperatures in the single digits in the northeast and mid-Atlantic regions, particularly early in the week. Freezing temperatures may stretch as far as the Gulf Coast
- **Plains and Midwest Start Cold, End Warm** Kansas City and St. Louis will spend most of the week in the twenties, Chicago and Detroit will fight to climb out of single-digits early in the week before warming into the low teens. Cincinnati and Indianapolis will hover in the teens and twenties as well
- **Potential for Snowfall from the Plains to the East Coast.** Overall, amounts of snow are expected to be light to moderate. Mild and dry for much of the west
- **Weather-Driven Demand**: Heaters +26% YoY

February 1–7 Weather Outlook
(Average Temperature vs. Last Year)



Source: Planalytics

CHINA'S RETAIL HEADLINES

Alibaba Reports Weaker than Expected Revenue Growth for December Q

- Revenues rose 40% to 18,745 million RMB or US$4.2 billion driven by 448% growth in mobile revenues
- December Q GMV increased 40% to 787 billion RMB and mobile GMV rose 213% and represented 42% of total GMV
- Income from operations was up 6% to 8,801 million RMB and net income declined 28% to 8,357 million RMB
- The number of active buyers on Alibaba's various services rose 8.8% QoQ to 334 million
- BABA shares closed down 8.8% on the NYSE at US$89.81

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China's E-commerce Transaction up 25% YoY in 2014
(January 21) China News Service

- According to China's Ministry of Commerce (MOFCOM), China's e-commerce transactions (including B2B and online retail) are expected to reach 13 trillion yuan in 2014, up 25% from a year earlier. Online retail sales rose 49.7% year-over-year to 2.8 trillion yuan
- Online sales growth of the 5,000 key retailers monitored by MOFCOM was 33.2% in 2014, up 1.3% from 2013. Sales growth of specialty stores, supermarkets, department stores and shopping centers slowed to 5.8%, 5.5%, 4.1% and 7.7% respectively, down from 7.5%, 8.3%, 10.3% and 12.2% in 2013

LVMH-backed Fund Invests More Than US$100 Million in China's Sasseur
(January 23) Wall Street Journal

- L Capital Asia, an Asian private equity fund backed by LVMH, announced its plan to invest more than US$100 million in Sasseur, an outlet mall operator in China. Sasseur plans to increase its outlet malls from four to eight by 2015 and bring its network in China to a total of 20 over the next five years. Sales of Sasseur have increased at 30% per year since 2008, when the company opened its first mall in Chongqing

Top 100 Most Valuable Chinese Brands 2015 Unveiled
(January 27) BrandZ

- Internet service company Tencent has become the most valuable Chinese brand for the first time, and newly-listed online retailer Alibaba entered the rankings at number 2. Both brands leapfrogged over longtime leader China Mobile, which had held the top spot since the rankings launched in 2011
- Technology companies have become brand powerhouses; the technology category has now surpassed that of financial institutions as the highest-value category ($106.9 billion), contributing 23% of the Top 100's total value.

2015 Top 10 Most Valuable Chinese Brands

#	Brand	Brand Category	Brand Value 2015 ($M)	Brand value change 2015 vs 2014 %	Rank change
1	Tencent	Technology	66,077	95%	2
2	Alibaba	Retail	59,684	New	
3	China Mobile	Telecom Providers	55,927	-9%	-2
4	ICBC	Financial Institutions	34,521	-13%	-2
5	Baidu	Technology	30,897	55%	0
6	China Construction Bank	Financial Institutions	21,005	-18%	-2
7	Sinopec	Oil & Gas	15,493	18%	2
8	Agricultural Bank of China	Financial Institutions	15,427	-20%	-2
9	PetroChina	Oil & Gas	12,022	-11%	-1
10	Bank of China	Financial Institutions	11,861	-13%	-3

Source: BrandZ/Millword Brown

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EUROPE/UK RETAIL HEADLINES

BHS Finally Up for Sale

(*January 25) Sunday Times*

- Billionaire retailer Sir Philip Green has hoisted the "for-sale" flag over loss-making clothing and home-wares retailer BHS. This follows extended speculation over a possible sale of the chain, as revenues have continued to fall year on year
- The BHS chain consists of 185 large high-street and shopping-mall stores, 150 of which have planning permission to sell food
- Some commentators have speculated that grocery retailers could buy the chain, carving out space for small convenience stores and subletting the remainder. There are likely to be few major clothing retailers interested in acquiring such a substantial estate of large stores

Karstadt Seeks To Cut Employee Costs

(*January 27) lebensmittelzeitung.net*

- Troubled department store chain Karstadt is preparing to make more cuts, with 1,100 sales consultants set to be demoted with an average salary cut of €300 per month
- The move follows a reported 2,000 job losses after the company was bought by Signa Holdings for a nominal €1 in September 2014
- The 83-store chain reportedly saw a "significant" drop in sales over the holiday season

H&M: Fast Growth from Fast Fashion

(*January 28) Company report*

- Swedish fashion giant H&M reported Q4 sales up 11% in local currencies (+17% in SEK), with full-year sales up 14% by the same measure (+18% in SEK). Annual gross profit rose 17% to yield a gross margin of 58.8%
- Strong expansion by H&M during the year added a net 379 new stores. The largest expansion markets were China and the US. At year-end, H&M's portfolio amounted to 3,511 stores in 55 markets
- Strongest full-year sales growth was seen in China (+30% in local currency), Italy (+24%) and the US (+22%). UK full-year sales were up 16% in local currency. In Germany, where it is market leader in clothing, H&M grew revenues 7%

Ikea: Flat Earnings from Flat Packs

(*January 28) Bloomberg and Financial Times*

- Meanwhile, Sweden's Ikea posted net profits flat at €3.3 billion for the year ending August 2014, with full-year revenues up 3% (5.9% in local currencies) to €28.7 billion
- Sales rose fastest in China, Russia and Hungary, the company said. North America held up well during the year, and Europe improved after previous lackluster performances
- The company said it reduced prices by an average 1% last year, with gross margin dropping .4% to 42.9%. Ikea repeated its target to grow sales to €50 billion by 2020

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Tesco Reveals Stores Set for Closure
(*January 28) The Guardian*

- Tesco has listed stores scheduled for closure under the turnaround plans announced earlier this month. The company revealed around 2,000 jobs will be lost as a result
- The tally of closures includes seven superstores, 12 town-center Metro supermarkets and 18 Express convenience stores. The remaining six closures are non-food stores under the Tesco Homeplus banner
- The stores will close in March and April

EUROPE/UK RETAIL HEADLINES

EARNINGS CALENDAR

Company	Event	Date
General Growth Property	Q4 14 Earnings Call/Earnings Release	Jan. 28
Kate Spade	Q4 14 Earnings Call/Earnings Release	Jan. 29
Macerich	Q4 14 Earnings Call/Earnings Release	Feb. 4
Yoox Spa	Q4 14 Earnings Call/Earnings Release	Feb. 4

EVENT CALENDAR

Event	Location	Date(s)	FBIC Presentation
New Partners for Smart Growth (NPSG)	Baltimore, MD	Jan. 29–31	Deborah Weinswig
WWD Digital Beauty	New York, NY	Feb. 12	
CES Unveiled	Tokyo, Japan	Feb. 18	
MAGIC	Las Vegas, NV	Feb. 17–19	
ICSC Mid-Atlantic Conference & Deal-making	Nat'l Harbor, MD	Feb. 17–18	
Mobile World Congress	Barcelona, Spain	Mar. 1–3	
American Apparel & Footwear Association (AAFA) 2015 Annual Executive Summit	Washington, DC	Mar. 18–20	Deborah Weinswig
Retail and Consumer Analytics	Chicago, IL	Apr. 29–May 1	
CES Asia	Shanghai, China	May 25–27	
NRF PROTECT	Long Beach, CA	Jun. 23–25	

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