

## Q2 EARNINGS UPDATES AUGUST 31, 2015

### Largely Positive Takeaways from 2Q Earnings Season

- **2Q15 earnings reflected primarily positive results, with a majority of companies beating estimates.** In many cases, upside was driven by improved full-priced selling due to better product assortments and compelling merchandise offerings. Some of the companies that benefited from these initiatives include AEO, ANF, DSW and EXPR. Turnaround efforts appear to be taking hold, and ANF, COH, JCP and TGT have seen improvements.
- **Another standout was the off-price sector.** BURL, ROST and TJX posted upside in their 2Q results and were optimistic, though in some cases cautious, about the second half. Each company commented on the great buying opportunities in the marketplace, and they are all taking advantage of these.
- **Comps for the group increased by 1%, on average.** AEO and KATE posted the highest comps, with COH and ICON trailing the group and posting declines in the high teens. Denim and apparel overall were cited as key categories. Traffic was a driver of comps as well, specifically at AEO, TJX, TGT and WMT.
- **Negative trends in the period included the shift of certain tax holidays into 3Q and a later Labor Day, as well as a stronger dollar and the resulting decline in tourist traffic.** These factors were felt most prominently by KSS, M, RL and TIF.
- **About half of the companies raised guidance, whereas one-third lowered guidance; the remainder reaffirmed or did not provide guidance.** Many companies offered positive commentary on quarter-to-date trends and expectations for fall and holiday sales. AEO, PLCE and RL have all noted an acceleration in quarter-to-date comps. WMT expects an acceleration in comps over the short term, and TJX reported a solid start to 3Q, as did TLYS. Those that were less optimistic include M, which cut sales guidance for the year, and URBN, which noted a slowdown in comp trends for the quarter to date.

Beat/ Miss	Forward Outlook	Results	Commentary	Categories	
<b>AEO</b>	<b>Beat</b>	<b>Positive</b>	EPS of \$0.17 vs. consensus of \$0.14	Noted a continuation in positive momentum in 3Q to date	+ Women's woven and knit tops, dresses, and sweaters
			Revenues were \$797 mil., up 12% vs. consensus of \$769 mil.	Customers are taking notice of improvements in merchandise and service, resulting in more full-priced selling and lower markdowns	+ Men's pants, denim, woven shirts and knit tops
			Comps were up 11%; AE brand: 10%; Aerie 18%	Store traffic was better than general mall traffic	- Men's polos and graphic tees underperformed
			3Q EPS guidance of \$0.28-\$0.31 based on a +MSD comp	Positive response to back-to-school denim assortments	
<b>ANF</b>	<b>Beat</b>	<b>Continuing Efforts Toward Turnaround</b>	Adjusted EPS of \$0.12 beat expectations of \$(0.04)	Expect further comp improvement in 2H, skewed toward 4Q; 3Q consensus is (2.6)% and 4Q is (1.0)%	+ Dresses and jeans
			Total revenue: \$817.8 mil. vs. forecast of \$812.4 mil.	Hollister brand has improved more than A&F brand	
			Comps were (4)% vs. expectations of (5.5)%; Abercrombie (7)% vs. forecast of (7.4)%; Hollister (1)% vs. forecast of (4.8)%	Positive response to test group of stores that have been remodeled; more to come in 2016	
<b>ARO</b>	<b>Miss</b>	<b>Cautiously Optimistic</b>	Adjusted EPS of \$(0.56) vs. forecast of \$(0.55)	Encouraged by progress during the early part of the back-to-school season, 3Q guidance reflects a continuation in that momentum; MTD comps -LSD better than 2Q trends; stores in regions with early back-to-school rushes have shown positive comps MTD	+ T-shirts, dresses, denim (seriously stretchy) for girls
			Total revenue: \$326.9 mil. vs. forecast of \$338.2 mil., down 17% YoY	Inventory was flat at the end of 2Q on a retail-per-square-foot basis	+ Pants, active pants and shorts for guys
			Comps were (8)% vs. forecast of (5.6)%	In 2Q, guys' business (11)% underperformed girls' (6)%	
			3Q EPS guidance: \$(0.30)-\$(0.38) vs. forecast of \$(0.31)	Believe improvement in transaction comps is significant; there are some early signs of a shift away from purely fast fashion and back to more classic styles	

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<b>BEBE</b>	<b>Miss</b>		EPS: \$(0.05) vs. forecast of \$(0.04)  Total revenue: \$104.3 mil. vs. forecast of \$106.3 mil.  Comps: 1.1% vs. forecast of 4.0%  1Q EPS guidance: expected loss in the high teens vs. forecast of \$(0.06); comps -MSD; GM expected to be down on higher markdowns to clear through excess inventory after product miss of the Bohemian collection	Strength in tops and bottoms; Bohemian collection, particularly day dresses, did not perform well	
<b>BURL</b>	<b>Beat</b>	<b>Positive</b>	Adjusted EPS: \$0.19 vs. forecast of \$0.12  Total revenue: \$1.14 bil. vs. forecast of \$1.12 bil.  Comps: 5.6% vs. consensus of 3.4% and guidance of 3%–4%  Adjusted EPS: \$2.27–\$2.32 vs. prior guidance of \$2.15–\$2.25 and forecast of \$2.25; revenue 6.5%–7% vs. prior guidance of 6%–7%; comps: 2.5%–3% vs. prior guidance of 2%–3% and forecast of 2.6%	2Q represented fourth consecutive quarter of positive traffic  Seeing great buying opportunities in the marketplace; pack and hold is 28% of current inventory  Continue to improve quantity and quality of vendor base  Early comments on back to school are favorable, with a strong July and strength continuing into August	+ Ladies' shoes
<b>CHS</b>	<b>Beat</b>	<b>Positive</b>	Adjusted EPS of \$0.25 vs. consensus of \$0.22, driven by fewer promos on better inventory management  Total revenue: \$680.4 mil. vs. forecast of \$674.8 mil.  Comps: 0.5% vs. consensus of (0.9%); Chico's: 0.9% vs. forecast of (1.8%); White House/Black Market: (1.9%) vs. forecast of (0.2%); Soma: 5.1%	QTD comps down 4%; total company comps should be positive, despite the delay of units due to a ship collision in Asia and market volatility  Positive trends in White House and Soma brands  Expect modestly positive, increasing comps for the remainder of the year	+ Denim and cropped pants at the Chico's brand
<b>COH</b>	<b>Beat</b>	<b>Continuing Efforts Toward Turnaround</b>	Adjusted EPS of \$0.31 vs. consensus of \$0.29  Total sales declined by 12%, to \$1 bil., vs. consensus of \$973 mil.  US comps: (19)% vs. consensus of (21)%  Maintained prior guidance of 1%–3% for FY16 comps	Sequential improvement in US business; fewer promotions  The 45 US stores that have been renovated posted positive comps in the quarter  Footwear (Coach + Stuart Weitzman combined) does \$800 mil. at retail per year globally with a 4% share	

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<b>DDS</b>	<b>Beat</b>	<b>N/A</b>	EPS was \$0.75 vs. consensus of \$0.72	Strength in shoes, followed by juniors' and children's apparel	+ Shoes, juniors', children's
			Sales: \$1.51 bil. vs. consensus of \$1.53 bil.	Weak in home	- Home
			Comps: 1%		
<b>DSW</b>	<b>In Line</b>	<b>In Line</b>	EPS was in line with expectations at \$0.42	Better full-priced selling in the quarter	+ Athletic, men's
			Revenue: \$627.2 mil. vs. consensus of \$637.6 mil.	Inventories up 21.7% YoY vs. sales up 7%; part of that was due to opportunistic buys, which is in line with recent comments of excess supply in the marketplace	
			Comps: 1.8% vs. consensus of 3.5%	Traffic down 1%	
			Reaffirmed FY EPS guidance of \$1.80-\$1.90 vs. consensus of \$1.90	Saw weakness in handbags due to lack of newness industry-wide	
<b>EXPR</b>	<b>Beat</b>	<b>Positive</b>	EPS: \$0.25 vs. consensus of \$0.16, driven by better merchandise margins on lower promos	Traffic was flattish	+ Woven tops, dresses, denim and jackets
			Total revenues: \$535.6 mil. vs. forecast of \$504.2 mil.	Initial feedback from launch of One Eleven (lower-priced casual knit tops) is that the brand has been successful	
			Comps: 7% vs. consensus of 2.8%, driven by strong fashion	Reduced the breadth, depth and frequency of promotions and focused on growing channels of distribution, stores, e-commerce and outlets while rationalizing retail store fleet	
			Adjusted EPS: \$1.30-\$1.37 vs. prior guidance of \$1.11-\$1.22 and forecast of \$1.20; comps +MSD vs. prior guidance +LSD and forecast of 3.6%		
<b>FL</b>	<b>Beat</b>	<b>Cautiously Optimistic</b>	EPS: \$0.84 vs. consensus of \$0.69	Broad-based strength, led by running and basketball	+ Footwear, driven by running, basketball
			Total sales: \$1.66 bil. vs. consensus of \$1.64 bil.	Traffic up slightly	
			Comps: 9.6%	International outperformed US	
				Accessories continue to outpace other categories	

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<b>GES</b>	<b>Beat</b>	<b>Mixed</b>	<p>EPS: \$0.21 vs. forecast of \$0.15</p> <p>Total revenue: \$546.0 mil. vs. forecast of \$539.3 mil.</p> <p>North American comps: (2.8)% vs. forecast of (2.8)%, flat in constant currency, driven by continued improvement in women's business</p> <p>FY EPS guidance: \$0.89–\$1.02 vs. prior guidance of \$0.86–\$1.02 and forecast of \$0.95; assumes revenues of (0.5)%–(1.5)% in constant currency</p>	<p>QTD North American comps flat in constant currency</p> <p>2Q showed improvements in the North America business, a slowdown in parts of Europe and continued weakness in Asia</p> <p>Higher IMU in Europe and North America retail drove gross margin improvement in 2Q</p> <p>New CEO Victor Herrero laid out several strategic initiatives, including elevating the quality of the sales organization and merchandising strategy, improving digital marketing, reviewing field and store structure, implementing a standardized retail calendar, increasing the number of SKUs, and aligning pricing between markets</p>	
<b>GPS</b>	<b>In Line</b>	<b>In Line</b>	<p>EPS was in line at \$0.64</p> <p>Total sales: \$3.9 bil., in line with consensus</p> <p>Comps: (2)%; Gap (6)%; BR (4)%; ON 3%</p> <p>Maintained FY guidance of \$2.75–\$2.80 vs. consensus of \$2.73</p>	<p>Continued strength at Old Navy offset weakness at Gap and Banana Republic</p> <p>Called out negative impact related to FX, West Coast port delay</p> <p>Confident about denim going into 2H</p>	+ Activewear
<b>ICON</b>	<b>Miss</b>	<b>Cautious</b>	<p>EPS of \$0.45 below estimates of \$0.70</p> <p>Total sales were down 17%, to \$98.5 mil., below expectations of \$113 mil.</p> <p>Management lowered FY EPS guidance to \$2.24–\$2.39 from \$3.00–\$3.15</p>	<p>CEO Neil Cole stepped down from his position</p> <p>Involved in an inquiry from the SEC relating to "the ongoing periodic review of the company's Form 10-K for the year ended December 31, 2014"</p>	
<b>JCP</b>	<b>Beat</b>	<b>Continuing Efforts Toward Turnaround</b>	<p>EPS was \$(0.45), better than consensus of \$(0.48)</p> <p>Total revenues increased 2.7%, to \$2.88 bil., better than consensus of \$2.86 bil.</p> <p>Comps increased 4.1%, improving sequentially and coming in higher than consensus of 3.89%</p> <p>Raised FY earnings guidance to \$620 mil. from \$600 mil. on comps of 4%–5%</p>	<p>Best categories were fine jewelry, home and men's</p> <p>Called out strength in Sephora, which posted double-digit comps</p> <p>Needs to do a better job pricing products, managing inventory and running website</p> <p>Will focus on further boosting private brands and increasing purchasing levels of existing customers</p>	+ Fine jewelry, home, men's

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<b>JWN</b>	<b>Beat</b>	<b>Positive</b>	EPS: \$0.93 vs. consensus of \$0.90	Best categories were women's apparel and cosmetics	+ Women's apparel, cosmetics
			Total sales increased 9%, to \$3.7 bil., above expectations of \$3.68 bil.	Strength in women's apparel was led by coats, dresses and departments focused on younger customers	
			Comps were up 4.9%, above expectations of 3.8%	Anniversary sale met expectations	
			Raised FY guidance to \$3.70–\$3.80 and 8.5%–9.5% from 7%–9%		
<b>KATE</b>	<b>Miss</b>		EPS of \$0.08 missed consensus of \$0.11	Handbag penetration slowly dropping to 70%; will never be less than 50%	
			Total sales increased 6%, to \$273 mil., below expectations of \$292 mil.		
			Comps increased 12% vs. expectations of 8%		
			Increased annual comp guidance to 9%–11% on better performance at the direct business		
<b>KORS</b>	<b>Beat</b>		EPS of \$0.87 beat consensus of \$0.75	Driven by strength in accessories and footwear	+ Accessories and footwear
			Total sales of \$986 mil. beat consensus of \$946 mil.	Continued to gain share in the quarter in the handbag category	
			Comps declined by 9.5%	Growth across the accessories category has slowed to +LSD	
			Provided FY EPS guidance of \$4.40–\$4.50 vs. consensus of \$4.26	US handbag market remains promotional as consumers seek newness	
<b>KSS</b>	<b>Miss</b>	<b>Cautious</b>	Adjusted EPS was \$1.07, below expectations of \$1.16	Called out shift in tax holiday from 2Q to 3Q	
			Total sales were up 0.6%, to \$4.27 bil., from \$4.24 bil.	Management cited sales softness as related to the shift of sales in tax-free states from July to August	
			Comps were up 0.1%, below expectations of 1.7%, driven by a decline in traffic	Inventory ended 2Q at 9% vs. sales of 0.6%	
			Now expect FY at low end of prior guidance of \$4.40–\$4.60		

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<b>M</b>	<b>Miss</b>	<b>Negative</b>	EPS of \$0.64 vs. expectations of \$0.76	Called out slower tourist traffic and port slowdown	
			Total sales were down to \$6.1 bil. vs. expectations of \$6.23 bil.	We expect an improvement in trend beginning in 2H15, based on a range of promising new strategic initiatives	
			Comps: (2.1)% vs. consensus of (0.2)%		
			Cut FY sales guidance to (1)% vs. 1% previously; comps flat from 2%		
<b>PLCE</b>	<b>In Line</b>	<b>Confident</b>	Adjusted EPS of \$(0.33) was in line with expectations	Significant deceleration in traffic in 2Q, resulting in more aggressive promotional environment	
			Total revenue: \$366.5 mil. vs. consensus of \$380.6 mil.	Traffic has significantly accelerated in August, and there has been a very positive response to back to school, resulting in a +LSD comp QTD	
			Comps: (3.5)% vs. expectations of 1.0%		
			Adjusted EPS: \$3.35–\$3.45 vs. prior guidance of \$3.30–\$3.45 and consensus of \$3.45		
<b>PVH</b>	<b>Beat</b>	<b>Cautiously Optimistic</b>	Adjusted EPS: \$1.37 vs. forecast of \$1.29	Consumers responded well to product initiatives in the Calvin Klein business, particularly in underwear; brand continues to gain traction	+ Women's denim significantly gaining traction
			Total revenue: \$1.86 bil. vs. forecast of \$1.82 bil.	FX, changing international tourism patterns and global volatility will remain headwinds in 2H	- Dress shirts underperformed
			EPS: \$6.90–\$7.00 vs. prior guidance of \$6.85–\$6.95 and forecast of \$6.92 based on revenue increase of 4% on a constant currency basis	Trends for the Calvin Klein business in China have been consistent through August	
<b>RL</b>	<b>Beat</b>	<b>Positive but Cautious</b>	EPS of \$1.09 beat consensus of \$0.99	Called out increasingly promotional environment in the US in addition to FX and less tourist traffic	+ Accessories
			Total sales were \$1.62 bil. vs. consensus of \$1.61 bil.	Sales have picked up QTD, though we remain cautious, as it is still early in the period	
			Comps were down 2% in constant currency terms	International retail comps were positive	
			Maintained prior FY guidance of 4%–6% increase in comps	Promotions across men's, women's, kids' and home	

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ROST	Beat	Cautious	EPS of \$0.63 beat expectations of \$0.62	Comps driven by higher average basket (mostly units); transactions up slightly	+ Juniors' and home
			Total sales were up 9%, to \$2.97 bil., vs. consensus of \$2.94 bil.	Cautious given uncertainty in the macro and retail environments in addition to tough comps	
			Comps were up 4%	Company has been able to capitalize on excess supply in the marketplace in categories across the board	
				Inventory levels going into fall are high at many retailers	
			3Q comp guidance: 1%–2%; 4Q: 0%–1%	Promos for back to school are aggressive	
TGT	Beat	Positive	EPS: \$1.22 vs. consensus of \$1.11	Called out traffic growth in press release	+ Home and apparel
			Revenues were \$17.4 bil., in line with expectations	Online sales were up 30% and contributed 60 b.p. to the comp	
			Comps were 2.4%, driven by transactions; home and apparel comps were 4%–5%	Appears to be pulling expense levers faster than expected, with SG&A leverage driving EPS upside	
			Management raised guidance to \$4.60–\$4.75 from \$4.50–\$4.65, which reflects the 2Q beat	Comparisons become more difficult in 4Q as TGT laps improvements it began to make at that time	
TIF	Miss	Negative	EPS: \$0.81 vs. forecast of \$0.91	2Q comps driven by increased sales of fashion gold jewelry and statement jewelry	+ Fashion gold jewelry and statement jewelry
			Total revenue: \$990.5 mil. vs. forecast of \$1.00 bil.	Higher spending in the US tied to strength in statement jewelry was offset by lower foreign tourist spending, especially in New York and Hawaii, which was attributed to the strong US dollar	
			Comps were up 7% in constant currency terms vs. forecast of 3.6%	Outside the higher-end sales in the US, other categories were soft	
			EPS: (2)%–(5)% vs. prior year's \$4.20, implying \$3.99–\$4.12 vs. prior guidance for minimal growth; YoY forecast of \$4.24; assumes 3Q EPS flat and a resumption of growth in 4Q; consensus for 3Q is \$0.84 and consensus for 4Q is \$1.68, up from \$0.76 and \$1.51, respectively, last year		

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<b>TJX</b>	<b>Beat</b>	<b>Positive</b>	EPS was \$0.80 vs. consensus of \$0.76	Solid merchandise margins in 2Q
			Total sales were up 6%, to \$7.4 bil., vs. consensus of \$7.25 bil.	Solid start to 3Q
			Comps: 6% vs. consensus of 3%, entirely driven by traffic	Underlying business continues to be very strong; company sounds very positive going into fall/holiday
			Raised the high end of FY guidance to \$3.24–\$3.28 from \$3.21–\$3.27, reflecting better 2Q offset by FX headwinds, higher supply chain costs; FY comp guidance of 3%–4%	
<b>TLYS</b>	<b>Miss</b>		EPS missed at \$0.02 vs. forecast of \$0.04	Solid start to 3Q
			Total revenue: \$130.0 mil. vs. forecast of \$130.3 mil.	2Q comps driven by better conversion related to digital marketing initiatives
			Comps: 0.5% vs. forecast of flat and guidance of (2.0)%–2.0%	Made some opportunistic inventory buys in low-risk items during the period
			3Q guidance: EPS of \$0.12–\$0.16 vs. forecast of \$0.19; comp growth in +LSD vs. forecast of 1.1%	Experienced a slowdown in traffic in the last week of July as the shift in back-to-school sales related to tax holidays and a later Labor Day took effect
<b>ULTA</b>	<b>Beat</b>	<b>Positive</b>	EPS: \$1.15 vs. forecast of \$1.12	
			Total revenue: \$877.0 mil. vs. forecast of \$870.3 mil.	
			Comps: 10.1% vs. forecast of 8.8%, driven by 7% increase in transactions, 3.1% in avg. ticket price	
			FY guidance: comps: 8%–10% vs. prior guidance of 7%–9% and forecast of 8.8%; total sales up in mid- to high teens; EPS growth in the high teens, compared to previous guidance of 15%–17% at the high end	
<b>URBN</b>	<b>Beat</b>	<b>Negative</b>	EPS of \$0.52 beat expectations of \$0.49	Comps slowed QTD
			Total sales increased 7%, to \$868 mil., below expectations of \$882 mil.	Strength at Free People and recovery of Urban brand
			Comps: 4% vs. expectations of 4.3%	Online sales and lower margins are pressuring profitability
				Margin declines suggests trouble with pricing power

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<b>WMT</b>	<b>Miss</b>	<b>Positive on Comp Trends</b>	<p>EPS: \$1.08 vs. expectations of \$1.12, attributed to higher labor costs, the pharmacy business, FX at \$(0.04) and shrinkage</p> <p>Total sales: \$120.2 bil., flat YoY</p> <p>US comps: 1.5%; traffic: 1.3%; ticket: 0.2%</p> <p>Lowered FY guidance to \$4.40–\$4.70 from \$4.70–\$5.05 (consensus was \$4.76), primarily driven by headwinds to US margins (FX, wages, pharmacy and shrinkage)</p> <p>Sam's Club comps: 1.3% ex fuel; apparel comps outperformed total</p>	<p>Expect Walmart US comps to accelerate over the short term</p> <p>Lower gas prices have helped sales</p> <p>Ongoing focus on basics in apparel drove momentum in the quarter</p>	+ Apparel at Walmart, Sam's Club
<b>ZU</b>	<b>Beat</b>	<b>N/A</b>	<p>EPS of \$0.06 vs. consensus of \$0.04</p> <p>Total sales were \$298 mil. vs. expectations of \$294 mil.</p> <p>To be acquired by LINTA (parent of QVC)</p>	<p>Expects complementary core competencies to enhance customer experience and accelerate growth; plans to apply digital technology at QVC and video commerce expertise at ZU</p> <p>Believes that QVC's international reach will benefit ZU and help spread its reach</p> <p>Company believes there is low overlap in age demographic between the two companies, but that socioeconomic demographics are similar, which will lead to potential upside at both</p> <p>Company sees a lot of potential growth, with synergies flowing from merchandising crossover</p>	

Weinswig's **WATCHING** This Week.



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