

SEPTEMBER 2016 SAME-STORE SALES

Key Takeaways

- 1) Overall, comps for the group decelerated in September. Zumiez posted an unexpected, and significant, beat that was driven by an increase in transactions. Management raised its third-quarter guidance based on the better sales performance. The stronger categories were men's, accessories and juniors.
- 2) At Costco, overall comps came in better than expected at 1%, though US comps excluding fuel were flat, which was somewhat disappointing. Traffic decelerated from prior months, and was up by just under 2%.
- 3) L Brand comps were also better than expected, but merchandise margins were down significantly and below management's expectations.

	Net Sales (USD Mil.)		Same-Store Sales (%)		
	Sep 2016	Sep 2015	Sep 2016 Actual	Sep 2015	Sep 2016 Est.
MASS MERCHANTS					
Costco Wholesale	11,060.0	10,750.0	1.0	0.0	0.1
Costco US			0.0	3.0	
Costco Canada			6.0	(10.0)	
Costco International			0.0	(6.0)	
Costco Wholesale (ex fuel)			1.0	8.0	
Costco US (ex fuel)			0.0	8.0	
Costco Canada (ex fuel)			5.0	11.0	
Costco International (ex fuel)			0.0	8.0	
Fred's	199.9	211.5	(4.9)	4.2	(2.7)
SPECIALTY APPAREL STORES					
Buckle	82.9	97.4	(15.5)	(6.7)	(10.4)
Cato	76.2	83.2	(9.0)	2.0	(4.0)
Gap	1,430.0	1,460.0	(3.0)	(1.0)	(3.1)
Gap Global			(10.0)	0.0	
Banana Republic Global			(9.0)	(10.0)	
Old Navy Global			4.0	4.0	
L Brands	971.4	919.9	3.0	9.0	0.3
Victoria's Secret			0.0	9.0	
Bath & Body Works			9.0	8.0	
Zumiez	75.0	67.3	6.3	(1.8)	(0.5)

Source: Company reports

Buckle Continues to Lose Market Share

- Teen retailer Buckle saw overall comps decline by 15.5%. Units per transaction were up 1.5%, while average transaction value was down 3.5%.
- The women's segment accounted for 55.5% of total monthly sales versus 58% last year. Total sales for the women's segment were down 18.5%.



- The total sales portion for men's categories increased to 44.5% from 42% last year. Total sales for the men's segment were down 9.5%.
- Accessories and footwear represented 8.5% and 6.5% of sales, respectively. Average accessory price points were up 2.0% and average footwear price points were down 17.5%.

Cato Comps Below Management's Expectations

- Cato reported sales of \$76.2 million, down 8.4% from last year. Comp sales were down 9%.
- Management lowered its third-quarter EPS guidance to \$0.07–\$0.11 from \$0.13–\$0.18 previously. Consensus calls for EPS of \$0.11.

Costco Comps Better than Expected, but US Comps Excluding Gas Flat

- Traffic at Costco was up by just under 2.0% in September.
- The average transaction value was down about 1.25%, including the negative impact of foreign exchange and gas deflation of almost 0.6%.
- Gas prices fell, with the average price per gallon down 7% year over year, to \$2.27, versus \$2.43 last year. This negatively impacted comps by 60 basis points.
- Foreign exchange positively impacted sales.
- Cannibalization negatively impacted sales by 50 basis points.
- Within the US, the strongest sales regions were the Northwest, Texas, Northern California and the Southeast. Internationally, Mexico, the UK and Spain were the better-performing countries, in local currencies.
- By category, food and sundries comps were flat. Better-performing categories included sundries, spirits and foods; tobacco remained the weakest category.
- Hardlines comps were up by low single digits. Better-performing categories were hardware, home and garden, health and beauty aids, and tires. Consumer electronics comps were slightly positive.
- Softlines comps were up by low to mid-single digits. Domestics, jewelry and apparel were the better-performing categories.
- Fresh foods comps were also up by low to mid-single digits. Better-performing categories were produce and service deli.
- In the ancillary space, better-performing categories were optical, hearing aids and pharmacy.

Comps at Fred's Decelerated from Prior Month

- Total sales for discount store and pharmacy Fred's decreased by 5.4% in September, to \$199.9 million.
- Same-store sales for the month decreased by 4.9%.
- September sales faced a tough year-over-year comparison. The front of store also experienced calendar shifts for federal assistance payments, continued substantial reductions in SNAP payments, and an increased impact related to competitive pricing strategies, particularly in consumables categories.



Fire at Fishkill Distribution Center Hampers Comps by 3% in September

- September comps at Gap were down 3%, compared to a decrease of 1% last year. The company estimated that the fire which occurred in a building on its Fishkill, New York distribution center campus negatively impacted September comparable sales by approximately 3%.
- Comps for the Gap brand were down 10% (including a 5 point negative impact from the fire at the Fishkill Distribution Center), compared to flat last year. Banana Republic comps were down 9% (including a 3 point negative impact from the fire at the Fishkill Distribution Center), compared to a decrease of 10% for the same month last year, and Old Navy comps were up 4% (including a 2 point negative impact from the fire at the Fishkill Distribution Center), compared to 4% increase last year.

L Brands Comps Better; Merchandise Margins Down Significantly

- L Brands' comps were up 3% in September. Victoria's Secret's comps were flat and Bath & Body Works' comps were up 9%.
- Merchandise margins for the overall company were down significantly compared with last year, and were below expectations.
- Inventories per square foot were up 2%.
- At Victoria's Secret, continued strength at PINK was offset by declines in the lingerie and beauty businesses as well as in the non-go-forward categories of swim and apparel. The merchandise margin rate was down significantly, primarily due to a decline in beauty as the company repositions the category and an unfavorable impact from the exiting of noncore businesses. Also, the brand was negatively impacted by promotional events aimed to drive trials in key categories and proactively manage inventory.
- At Bath & Body Works, the merchandise margin rate was about flat compared with last year.

September Comps Well Above Expectations at Zumiez

- Zumiez reported sales of \$75.0 million, up 11.4% from last year. Comp sales were up 6.3%.
- Management raised its third-quarter EPS guidance to \$0.29–\$0.30 from \$0.21–\$0.26 previously. Guidance is now predicated on a comparable sales increase of approximately 2% in the third quarter, versus the prior guidance range of (2)%–flat.
- The increase in comps was driven primarily by an increase in comparable transactions, which was partially offset by a decrease in dollars per transaction. The dollars-per-transaction decline was due to a decrease in units per transaction and, to a lesser extent, a decrease in average unit retail.
- By category, men's, accessories and juniors posted positive comps, while hard goods and footwear posted negative comps.



FLASH REPORT

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