FLASH REPORT

Chico's FAS Inc (CHS) 4Q16 Results: Solid Earnings and Revenue Beat, Cost-Saving Initiatives Grow Profits

Figure 1. Chico's FAS 4Q16 Key Metrics

	4Q16	4Q15	YoY Change
Adjusted Revenues (USD Mil.)	$600.8	$614.9	(2.3)%
Adjusted Gross Margin	35.5%	34.7%	80 bps
Adjusted SG&A/Sales	32.0%	33.4%	(148) bps
Adjusted Operating Margin	3.6%	1.3%	230 bps
Adjusted EPS (USD)	$0.10	$0.05	100%

Source: Company reports/Fung Global Retail & Technology

- **Chico's FAS reported 4Q16 adjusted EPS of $0.10, up from $0.05 in the year-ago quarter and beating the consensus estimate of $0.04. The company reported adjusted revenue of $600.8 million, down 2.3% from $614.9 million in the year-ago quarter but above the $594.8 million consensus estimate.**
- **Same-store sales declined by 2.5% during the quarter, slightly above the (2.8)% consensus estimate and in line with previous guidance. Total comps were driven by declines in both number of transactions and average dollar sale.**
- **For FY17, the company expects a low-single-digit same-store sales decline versus the (0.2)% consensus estimate. Chico's anticipates it will make steady progress toward its target of a double-digit operating margin in 2019.**

4Q16 Results

Chico's reported total adjusted revenue of $600.8 million for 4Q16, down 2.3% from the year-ago period but above the $594.8 million consensus estimate. The adjusted figures for 2015 exclude the $16.9 million divestment of the Boston Proper business. Fourth-quarter average unit retail, or the average price of an item sold, was higher, primarily due to reduced promotional activity.

Total company same-store sales declined by 2.5%, driven by reduced transaction count and lower average dollar sale. The comp decrease was in line with the company's previous comp guidance, which called for a low-single-digit decline.

Chico's cost-saving and operating-efficiency initiatives drove merchandise margin and gross margin expansion during the quarter:

- Adjusted gross margin expanded by 80 basis points year over year, driven reduced promotional activity that was partially offset by an increase in incentive compensation.
- Adjusted SG&A expense as a percentage of sales was almost 150 basis points lower than in the year-ago period, resulting in a reduction of $14 million in the quarter.
- On-hand inventory was down 4% compared with the year-ago quarter.

The company reported adjusted EPS of $0.10, beating the consensus estimate of $0.04 and up from $0.05 in the year-ago quarter.

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Performance by Segment

Same-store sales were down 4.8% for the Chico's brand and down 0.6% for the White House Black Market business. The declines were partially offset by a 0.4% increase for the Soma brand.

- The Chico's brand—which represents 48.4% of total company sales—saw sales decline by 4.7%, to $290.8 million, driven by reduced promotional activity. The Chico's brand denim and woven categories saw their highest fourth-quarter sales volumes ever.
- White House Black Market sales declined by 1.2%, to $212.6 million, driven by reduced promotions. Woven tops, jackets and denims continued to be winning categories.
- Soma brand sales increased by 3.0%, to $97.4 million, driven by increased marketing efforts, including television advertising and holiday promotions. Bras, panties and sleepwear were the strongest categories at Soma.

FY16 Results

For FY16, Chico's reported that adjusted revenues decreased by 3.8%, to $2.5 billion, and that total company comps declined by 3.7% year over year. Comps were down 5.3% for the Chico's brand and down 2.8% for the White House Black Market business. The declines were partially offset by Soma's 0.5% comp increase.

Chico's reported full-year adjusted EPS of $0.81, up 8% from adjusted EPS of $0.75 the previous year.

FY17 Outlook

For FY17, the company expects a low-single-digit percentage decline in comparable sales, due to lower promotional activity. Chico's projects that it will achieve steady improvement in its operating margin, which will advance progress toward its goal of achieving a double-digit operating margin by 2019.

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