



February 2017 US Same-Store Sales

	Net Sales (USD Mil.)		Same-Store Sales (%)		
	Feb 2017	Feb 2016	Feb 2017 Actual	Feb 2016	Feb 2017 Est.
Mass Merchants					
Costco Wholesale	8,920.0	8,280.0	4.0	0.0	4.8
Costco US			5.0	2.0	
Costco Canada			10.0	(2.0)	
Costco International			(2.0)	8.0	
Costco Wholesale (ex fuel)			2.0	4.0	
Costco US (ex fuel)			2.0	4.0	
Costco Canada (ex fuel)			2.0	10.0	
Costco International (ex fuel)			(1.0)	0.0	
Specialty Apparel Stores					
Buckle	62.8	81.8	(23.2)	(8.9)	(13.9)
Cato	63.9	84.7	(25.0)	4.0	N/A
Fred's	165.4	171.4	(4.0)	0.8	N/A
L Brands	765.5	849.3	(13.0)	5.0	(16.5)
Victoria's Secret			(16.0)	4.0	
Bath & Body Works			(4.0)	9.0	

Source: Company reports

Key Takeaways

- 1) Comps for the group generally declined in February from January. Costco's overall comps came in slightly lower than expected at 4.0%, reflecting the negative calendar shift of the Chinese Lunar New Year.
- 2) Cato and Fred's cited delayed tax refunds as having negatively impacted comps; a newly enacted law passed by Congress required the IRS to wait until February 15, 2017, to issue refunds for taxpayers claiming two particular tax credits.
- 3) L Brands continued to be challenged in February. Victoria's Secret comps were down 16% for the month, negatively impacted by eight percentage points due to the brand's exit of the swim and apparel categories.

Positive Comps for Costco Despite Deflation and Calendar Shift

- Traffic at Costco was up approximately 2% in February, decelerating from January's 4% increase.
- The average transaction value was up 2.5%, and was positively impacted by foreign exchange and gas inflation.
- The calendar shift of the Chinese Lunar New Year, which was 11 days earlier versus last year, negatively impacted total comps by about 75 basis points.



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- Foreign exchange and gasoline inflation positively impacted sales by 60 and 200 basis points, respectively. Comps would have been up 2% excluding gas inflation and foreign currency effects.
- Within the US, the strongest sales regions were the Midwest, Texas, San Diego, Arizona, Colorado, New Mexico and the Bay Area. Internationally, Mexico, the UK and Canada were the better-performing countries, in local currencies.
- Group cannibalization negatively impacted sales by 90 basis points. Cannibalization negatively impacted other international markets by 180 basis points. Canada was negatively impacted by 300 basis points due to recent store openings.
- Food and sundries comps increased by low-single-digit rates. For the fiscal second quarter, the stronger categories were liquor, spirits and deli. Tobacco comps continued to be negative, down by a high-teens percentage.
- Hardline comps increased by low-single-digit rates. For the quarter, better-performing categories were tires, hardware and seasonal, with consumer electronics partially offsetting those categories' performance.
- Softline comps were up by mid-single digits. For the quarter, better-performing categories were apparel and home furnishings. Fresh food comps were slightly negative.
- Deflation was seen across multiple areas. For the quarter, deflation was in the range of 1.5%–2.0%.

L Brands' Comps Declined and Were Below Company Expectations; Victoria's Secret Continued to Struggle

- L Brands' comps were down 13% in February, below previous guidance for a mid-single-digit decline. At Victoria's Secret, comps were down 16% and at Bath & Body Works, they were down 4%.
- For February, the exit of the swim and apparel categories had a negative impact of six percentage points on total company comps and a negative impact of eight percentage points on Victoria's Secret comps.
- The merchandise margin rate was down significantly versus February last year, partially driven by promotional events aimed at driving traffic.
- Inventories per square foot were down 4%.
- At Victoria's Secret, comps were down 16% for the month and down 8% excluding the non-go-forward categories of swim and apparel. The decline was driven by challenging mall traffic levels. The merchandise margin rate was down significantly, primarily due to promotional activity.
- At Bath & Body Works, the merchandise margin rate was down significantly year over year, driven by higher promotional activity. The comp decline was driven by challenging traffic performance mid-month.
- L Brands expects first-quarter comps to decline by high-single to low-double digits, which includes a negative impact of six percentage points from the exit of the swim and apparel categories.



- In March, the company plans to focus on spring break and fashion in its Dream Angels collection. The retailer expects to see a negative impact of about two to three points in March due to Easter Sunday being later this year.

Buckle Comps Continued to Decline in February; Weakness in Women's

- Teen retailer Buckle saw overall comps decline by 23.2% in February, continuing a recent trend of mid-to-high-teen declines. Units per transaction were up 5.0%. Average transaction value was down 5%.
- The women's segment accounted for 53.5% of total monthly sales versus 54.5% last February. Total sales for the women's segment were down 24.5%. Price points were down 11.5%.
- Sales for men's categories were down 21.5% and men's represented 46.5% of total sales versus 45.5% in the same month last year. Price points were down 7.5%.
- Accessories and footwear represented 8.5% and 5.5% of sales, respectively, versus 8.5% and 6.0%, respectively, in the year-ago period. The average accessory price point was down 3.0% and the average footwear price point was down 15.5%.

Delayed Tax Refunds Negatively Affected Fred's General Merchandise Sales

- Fred's reported a total sales decline of 3.5%, to \$165.4 million, in February. Same-store sales for the month decreased by 4%.
- Specialty pharmacy sales trended positive in February, reflecting the strong comp sales Fred's reported in the overall pharmacy business, which were driven by positive adjusted prescription comparisons.
- The strong performance in the pharmacy business was not enough to offset the negative impact of a significant delay in taxpayers' receipt of their individual tax refunds. As of Friday, February 24, 2017, the number of returns processed was down approximately 13% year over year, according to data released by the US Department of the Treasury.
- Comp sales of front-of-store categories, or general merchandise, improved in the last week of February as customers received their individual tax refunds.

Declining Comp Trend Persisted at Cato

- Cato reported February sales of \$63.9 million, down 25% from the same month last year. Same-store sales also declined by 25%. February comp sales were negatively impacted by delayed tax refunds.
- The company continues to expect fiscal fourth-quarter EPS of \$(0.54)–\$(0.50) as a result of reduced margins and store impairment charges.
- The company closed one store in February and now operates 1,371 stores in 33 states (as of February 27, 2017).



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