

July 2017 US Same-Store Sales

	Net Sales (USD Mil.)		Same-Store Sales (%)		
	July 2017	July 2016	July 2017 Actual	July 2016	July 2017 Est.
Mass Merchants					
Costco Wholesale	9,410	8,650	6.2	(2.0)	5.3
Costco US			6.0	(3.0)	
Costco Canada			7.2	3.0	
Costco International			6.3	(2.0)	
Costco Wholesale (ex fuel)			5.3	1.0	
Costco US (ex fuel)			5.5	0.0	
Costco Canada (ex fuel)			4.0	6.0	
Costco International (ex fuel)			5.9	2.0	
Specialty Apparel Stores					
Buckle	60.6	66.5	(8.4)	(14.8)	(5.5)
Cato	56.1	61.2	(9.0)	(10.0)	N/A
Fred's	150.5	154.0	(0.1)	(4.6)	N/A
L Brands	767.7	777.0	(7.0)	2.0	(5.2)
Victoria's Secret			(10.0)	0.0	
Bath & Body Works			1.0	6.0	
Zumiez	67.5	61.9	5.1	(2.9)	N/A

Source: Company reports

Key Takeaways

- 1) The group generally missed comp expectations in July, but Costco's same-store sales beat expectations and were up 6.2% year over year.
- 2) Negative sales trends continued to affect specialty retailers. In particular, L Brands reported a 7.0% decline in comps, while Cato reported a 9.0% decline in comps.
- 3) Traffic was weak overall, but Costco continues to report strong traffic trends.

Costco's US Comps Beat Expectations; Strong Traffic Trend Continues

- Costco's July same-store sales were up 6.2% year over year, beating the consensus estimate of 5.3%. July comps were positively impacted by the timing shift of Independence Day in the week (it fell on a Tuesday this year), but the gain was largely offset by a negative impact from fewer promotional days in the month.
- Traffic at Costco was up by more than 3.6% in July worldwide, and up 4.2% in the US.
- The average transaction value was up 2.5%, including foreign exchange and gas inflation.
- The average gas price per gallon was up 4.6% from last July.



FLASH REPORT

- Within the US, the strongest sales regions were the Midwest, the Bay Area, the Northwest and the Southeast. Internationally, the UK, Japan, Australia and Mexico were the better-performing countries, in local currencies.
- Cannibalization negatively impacted other international markets by 140 basis points and negatively impacted the US market by 55 basis points.
- Food and sundries comps increased by mid-single digits. Better-performing categories were coolers, liquor, deli and tobacco.
- Hardline comps were up by mid-single digits. Better-performing categories were garden, tires, majors and sporting goods.
- Softline comps were also up by mid-single digits for the month. Better-performing categories included housewares, apparel and home furnishings. Fresh foods were up by high single digits.

L Brands' Victoria's Secret Business Continued to Be Challenged; Results Were Partially Offset by Bath & Body Works' Performance

- L Brands' comps were down 7% in July, missing the company's prior guidance. Victoria's Secret's comps were down 10% and Bath & Body Works' comps were up 1%.
- The exit of swim and apparel categories and a decline in the lingerie business negatively impacted total company comps. The exit of swim and apparel categories had a negative impact of 400 basis points on L Brands' comps and a negative impact of 500 basis points on Victoria's Secret's comps.
- The merchandise margin rate was up versus the same period last year. Inventories per square foot were down 9%.
- At Victoria's Secret, comps were down 10% for the month, driven by the exit of swim and apparel and weak performance in the lingerie business.
- At Bath & Body Works, July comps were up 1%. The merchandise margin rate was down, driven by the penetration of clearance selling during the month.
- L Brands expects total second-quarter comps to be down by low to mid-single digits, including a negative impact of 200 basis points from the exit of swim and apparel.

Buckle Comps' Declining Trend Accelerated in July

- Teen retailer Buckle saw overall comps decline by 8.4% in July, following June's 5.8% decline and missing expectations of a 5.5% decline. Other sales metrics also worsened compared with June. Units per transaction were flat and average transaction value was down 7.0%.
- The women's segment accounted for 49% of total monthly sales versus 52.5% last July. Total sales for the women's segment were down 17%. Price points were down 8.5%.
- Sales for men's categories were down 5.5% and men's represented 51% of total sales versus 47.5% in the same month last year. Price points were down 6.0%.



FLASH REPORT

- Accessories and footwear represented 10.5% and 6.0% of sales, respectively, versus 10.0% and 5.0%, respectively, in the year-ago period. The average accessory price point was flat and the average footwear price point was down 5.0%.

Fred's Comps Improved from Previous Months

- Fred's reported a comp decline of 0.1%, which represented an improvement from the reported 5.3% decline in June. The same-store sales decline included a (0.6)% impact related to the sale of low-productivity discontinued inventory versus July of last year. Total sales were \$150.5 million, down 3.5% from a year ago.
- The company's second-quarter comps result was the best in four quarters. The company's retail and specialty pharmacy business continued to drive momentum in July. Its front store business still faces headwinds in consumables.

Cato Expects Sales Declines and Pressures on Profitability to Continue

- Cato reported July sales of \$56.1 million, down 8.3% from the same month last year. Same-store sales declined by 9%.
- July sales continued the negative sales trend seen in recent months, which puts pressure on merchandise margin and profitability.
- The company expects a loss for the second quarter and for full-year earnings to be significantly below last year's.

Zumiez Comps Continued to Improve

- Zumiez's total net sales for July were up 8.9%, to \$67.5 million. The company's comparable sales increased by 5.1% compared with a decrease of 2.9% in the same month a year ago.
- The July increase in comps was driven primarily by an increase in the number of transactions, which was partially offset by a decrease in dollars per transaction. The decline in dollars per transaction was primarily due to a decrease in units per transaction and a decrease in average unit value.
- Men's footwear and juniors posted positive comps in July, while hard goods and accessories posted negative comps.



FLASH REPORT

Deborah Weinswig, CPA

Managing Director
FGRT
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

Jing Wang
Research Associate

Hong Kong:

2nd Floor, Hong Kong Spinners Industrial Building Phase 1&2
800 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

London:

242-246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

New York:

1359 Broadway, 18th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com