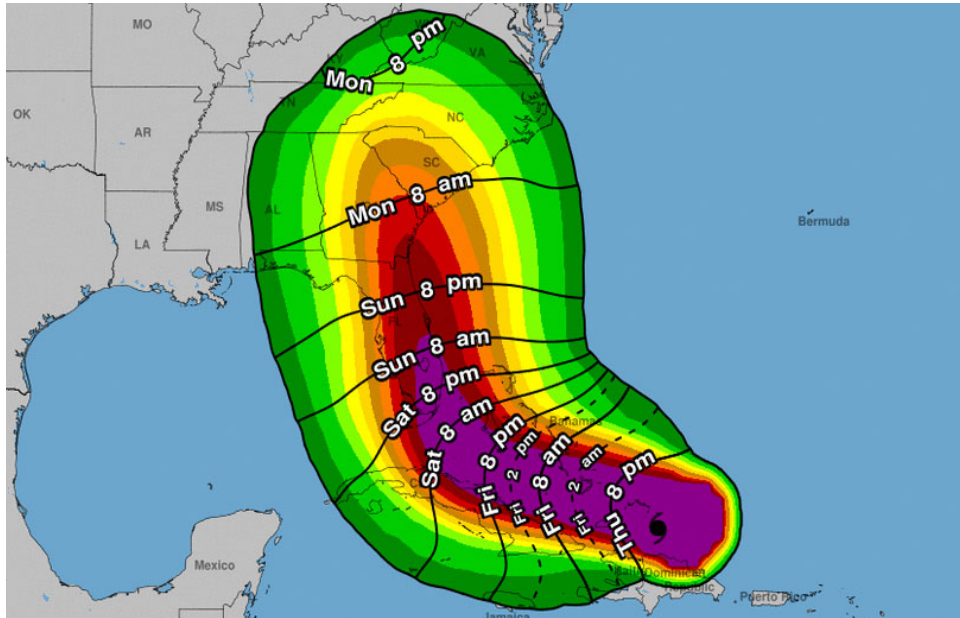


Hurricane Irma: Potential Impact on US Retailers



Source: National Weather Service

- 1) Still reeling from the damage of Hurricane Harvey two weeks ago, the US is currently facing an even stronger hurricane threat. Irma, a Category 5 hurricane and the second-strongest storm ever recorded in the Atlantic, is forecast to pass across the Southeast US this weekend.
- 2) Irma is expected to pass across the Florida Keys, Miami and further into Florida over the weekend. Areas along the state's east and west coasts are facing the greatest threat, and Georgia and the Carolinas are also at risk from Irma.
- 3) The potential economic impact from lost retail sales in the consumer/retail sector is forecast at \$1.45 billion, according to weather analytics firm Planalytics. However, some businesses are benefiting from the unfortunate event through greater customer foot traffic and retail sales, as residents in areas that may be affected by Irma prepare for the storm with purchases of consumables and other supplies.
- 4) After Hurricane Sandy hit the US in October 2012, Walmart booked approximately \$35 million of expenses related to inventory damage, cleanup and other items, and Costco noted a 0.5% hit to monthly comparable sales. However, Home Depot noted about \$377 million of additional sales due to Hurricane Sandy and Hurricane Isaac (Isaac occurred in August 2012), and Lowe's noted a contribution to comps from Sandy's impact.

Hurricane Irma is expected to pass across the Southeast US this weekend. The potential economic impact from lost retail sales in the consumer/retail sector is forecast at \$1.45 billion, according to Planalytics. The estimate is based primarily on the size and strength of Irma combined with the size of the population centers under threat and compares with approximately \$1 billion in lost sales for retailers and restaurants from Hurricane Harvey, according to Planalytics.



Damage from Hurricane Irma could include store closures and expenses due to property damage. The storm will surely curtail consumer spending in discretionary categories in the short term.

- Walmart stated that Irma could potentially impact up to 400 stores, more than the 125 Walmart, Sam's Club and Neighborhood Market stores that were closed for several days due to Harvey.
- Target anticipates closing stores in affected areas this weekend.

Negative Impact to Be Much Greater than Hurricane Harvey's

Hurricane Irma is a much larger and stronger storm than Hurricane Harvey, a Category 4 storm that hit the US at the end of August. In fact, Irma is expected to be one of the strongest storms ever recorded in the Atlantic. It could cause winds of up to 185 miles per hour, as well as storm surges and tidal waves, according to the National Hurricane Center.

Furthermore, while Hurricane Harvey mainly affected the Houston, Texas, metropolitan area, Irma will likely impact several major population centers in Florida, including Miami, Fort Lauderdale, Orlando and even Tampa, which is further north. Thus, Irma will potentially affect greater numbers of heavily populated areas. In fact, the population currently under threat in Florida alone is three times larger than the population impacted by Harvey. Irma is also threatening other areas in the Southeast, including major markets such as Columbia and Charleston in South Carolina, and Charlotte in North Carolina, according to Planalytics.

Individuals and Businesses in Preparation Mode

The Florida state government has already declared a state of emergency, and certain areas are being evacuated. However, some businesses are benefiting from the unfortunate event through greater customer foot traffic and retail sales as residents prepare for the storm by purchasing supplies such as consumables, food, generators, cleaning products, plywood and other emergency items ahead of the weekend.

Retailers are preparing for Irma's arrival and striving to meet product demand and ensure product availability. Following the storm, some home improvement retailers could benefit from cleanup and repair activities.

We see Hurricane Irma's retail impact as consisting of three stages:

1. Preparation

- The threat of Irma is currently driving traffic into home improvement centers, grocery stores, mass merchants, warehouse clubs, gas stations and convenience stores. Press reports have noted that strong demand has resulted in some empty shelves at retailers such as Walmart, Target, Costco and Home Depot.

2. Disruption and Store Closures

- According to Planalytics, major retailers and restaurant chains with large store-base exposure in areas that may be affected by the storm include Stage Stores (at 26% exposure), West Marine (at 18%), Bloomin' Brands (at 15%), Stein Mart (at 13%) and BJ's (at 13%). After Hurricane Sandy hit the US in October 2012, Walmart noted approximately \$35 million of expenses related to inventory damage, cleanup and other items. Following Sandy, Walmart stated that it reopened around 75% of its 300 impacted stores within 24 hours. In a November 2012 earnings call, Costco management estimated that store closures related to Sandy negatively impacted its November comparable sales by about 0.5%.



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3. Recovery and Repair

- Home maintenance retailers such as Home Depot and Lowe's are likely to see an uptick in demand in the months following Hurricane Irma. On an August 2013 earnings call, Home Depot management noted that the company had seen a \$360 million boost in sales from Hurricane Irene in 2011 and about \$377 million in sales due to Hurricanes Sandy and Isaac in 2012. Home Depot reported total sales of \$70.40 billion in fiscal year 2011 and \$74.75 billion in fiscal year 2012. On a May 2013 earnings call, Lowe's management noted that Hurricane Sandy had boosted the company's fiscal fourth quarter 2013 comparable sales by 70 basis points and its fiscal first quarter 2014 comparable sales by 45 basis points.



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