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Consumer Sector Strategy  
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## GHS Consumer Strategies: January 2010 Comparable Stores Sales Preview

**Summary:** Weather and inventory dominated the overall tone of the industry in January while leggings and women's footwear trends remained solid. Industry sources noted that overall inventory available for clearance was generally limited, hurting overall sales results. This very likely became an issue as cold weather dominated the eastern half during January, while very rainy weather in California probably hurt sales during the latter part of the month. We were encouraged by news from our sources of better trends at Target (TGT). The consumer's overall mood seemed to be improving according to our interpretation of shopper surveys generated by research group, BIGresearch LLC. Comparisons to January 2009 are extremely easy going into Thursday's data releases.

### KEY OBSERVATIONS:

- **Apparel inventories generally light, but negative impact should be minor.** We are hearing widespread reports of light inventories in apparel and accessories across various channels, with lighter inventories seen in luxury, with some sources noting Saks Fifth Avenue (SKS) as having especially light inventories in certain categories. Three key points emerge:
  1. Focus on major seasonal transitions than attempting to capture small, incremental sales connected to a passing seasonal event, in our view.
  2. Invest into bigger shopping events in order to improve the rate of return on investments into inventory and resources.
  3. The January and February transition, especially in the eastern half, is highly exposed to weather risk, making it prudent to consider a lower level of inventory investment until the seasonal transition is fully confirmed.
- **Target rebounding, could signal cyclical moment.** Our industry sources noted that Target was finally achieving solid sales growth across all categories, especially apparel, during January. This could indicate a turn in the consumer cycle – a potentially favorable development. Our sources indicated that Target was posting double digit comparable sales increases in certain categories during January. TGT's comp sales in January 2009 were -3.3 percent. The latest estimates from Thomson Reuters for TGT's January comp sales were +1.3 percent, with a range of 2.0% to 1.0%.
- **Tech spending outlook improving.** One of our sources in the IT services industry this week explained that the outlook for IT spending was significantly improved. We believe the inventory situation for January fits in with an emerging increase in spending on IT solutions, thus the subtle increase in tech spending instead of inventory spending. Our sources noted a few interesting trends:
  1. Many retailers were looking for "quick wins" from IT solutions, especially "transportation tracking and supply chain visibility in an attempt to reduce lead times and better manage inventory flows. There has also been a great deal of interest in product life cycle management."
  2. The recently concluded National Retail Federation conference seemed to indicate "a broad based recovery among all retail types".
  3. Despite much talk about multi channel strategies, our source indicated, "no single system has cracked the code on creating a truly single solutions approach."
- **Sears Holdings (SHLD) joining ranks of major retailers tightening relations with China.** We heard from industry sources who noted that Sears Holdings, specifically the Sears U.S. and Kmart businesses, were taking possession of goods much earlier in the supply chain, including possession of goods in China. This was not consistent with historical approaches to international supply chain financing, since possession typically would occur when goods hit the U.S. border. We regarded this as perhaps a sign that SHLD was emboldened by its recent results, and was perhaps taking steps to strengthen its logistics and to reduce its dependence on domestic trade credit.
- **Hitha Prabhakar of The Style File Group noted continued strength in leggings and preppy-plaid.** Fashion consultant, Hitha Prabhakar, noted that "tartan patterns, khaki pants and brightly colored sweaters in womenswear will be a major trend for Spring 2010. Menswear isn't absolved from this trend either: sweater vests also in bright colors, stripes and argyle patterns as well as Bermuda shorts will be top sellers." Aeropostale (ARO) and Gap (GPS) were indicated as having significant spring inventories in short cut, cotton twill khaki shorts in plaid designs, and striped patterns in long-sleeve shirts and sweaters. *(Please refer to page 9 for addition insights from Hitha Prabhakar).*

### KEY MARKET OBSERVATIONS:

- **After earnings, then what?** We believe that investors in the sector may be looking for the next gravy train from the sector after a powerful rally during 2009. The rally was based on a severely oversold condition in early 2009, in our view. Subsequently, valuation was strengthened by the quality of earnings growth in Q3 and Q4, but this was based on easy comparisons. The sector is now switching gears towards more capex that could raise total costs slightly against sales, thus pressuring merchants to focus on new IT solutions in order to discover the next set of sales and earnings catalysts, in our view.
- **The savings rate continues to climb.** We believe it is possible for the consumer to increase spending based on higher savings, but much of the government's savings rate data seems to be based on a huge reduction in discretionary spending. However, the markets could be encouraged by more consumer spending despite the continued crisis in consumer credit *(see our charts on Pages 7-8).*

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**Historical Comparable Store Sales: January 2001-2009**  
**Excludes most consolidations – Sorted by Tickers**  
*Continued on next page*

Ticker	Retailer	Jan-01	Jan-02	Jan-03	Jan-04	Jan-05	Jan-06	Jan-07	Jan-08	Jan-09
AEO	American Eagle Outfitters	5.9%	6.2%	3.2%	0.9%	22.0%	11.3%	17.0%	-7.0%	-22.0%
ANF	Abercrombie & Fitch (consolidated)	0.0%	-14.0%	3.0%	2.0%	17.0%	33.0%	-6.0%	0.0%	-20.0%
ANF	Abercrombie & Fitch (div. ANF)	NA	NA	NA	NA	NA	25.0%	-8.0%	2.0%	-16.0%
ANF	abercrombie (div. ANF)	NA	NA	NA	NA	NA	73.0%	-2.0%	-1.0%	-24.0%
ANF	Hollister (div. ANF)	NA	NA	NA	NA	NA	34.0%	-5.0%	-2.0%	-24.0%
ANN	AnnTaylor (division ANN)	NA	16.2%	-9.6%	-1.5%	-7.2%	15.7%	-13.0%	-6.5%	NA
ANN	AnnTaylor Loft (division ANN)	NA	11.8%	-12.2%	16.1%	-0.3%	8.4%	-12.5%	5.9%	NA
APP	American Apparel	NA	NA	NA	NA	NA	NA	NA	40.0%	2.0%
ARO	Aeropostale	NA	9.3%	4.6%	17.7%	2.5%	12.3%	5.4%	4.7%	11.0%
BJ	BJ's Wholesale Club	7.3%	2.7%	5.6%	8.8%	1.9%	2.0%	3.5%	7.8%	-0.7%
BKE	Buckle, The	-2.3%	-1.4%	4.3%	0.5%	4.4%	3.0%	7.8%	19.1%	14.7%
BONT	Bon-Ton Stores Inc. (consolidated)	-8.7%	2.1%	8.9%	-5.0%	9.8%	0.9%	2.2%	-1.3%	-8.2%
CACH	Cache, Inc.	7.0%	10.0%	5.0%	10.0%	2.0%	0.0%	10.0%	7.0%	-16.0%
CBK	Christopher & Banks	18.0%	-5.0%	-9.0%	-15.0%	19.0%	-3.0%	-4.0%	-6.0%	NA
CHS	Chico's FAS	44.8%	22.4%	8.1%	19.5%	8.2%	14.6%	-3.5%	-22.1%	-10.9%
COST	Costco Wholesale Corp.	4.0%	7.0%	5.0%	13.0%	3.0%	9.0%	3.0%	5.0%	0.0%
CTR	Cato Corporation	13.0%	0.0%	-5.0%	-8.0%	4.0%	6.0%	-7.0%	-2.0%	-10.0%
DDS	Dillards Inc.	3.0%	4.0%	-5.0%	2.0%	3.0%	3.0%	-3.0%	-12.0%	-12.0%
DEST	Destination Maternity (frmly Mothers Work)	-1.5%	-2.7%	4.7%	2.0%	-3.7%	3.0%	-6.0%	-2.1%	5.1%
DUCK	Duckwall-ALCO consolidated	-1.9%	9.3%	3.5%	-0.1%	1.5%	5.8%	5.2%	-3.1%	-18.9%
FDO	Family Dollar Stores	5.2%	7.7%	4.7%	3.0%	5.2%	3.4%	1.7%	-0.1%	NA
FRED	Freds Inc.	9.2%	12.7%	5.8%	4.1%	4.4%	0.8%	2.4%	-1.2%	-1.9%
GIII	Wilson's Leather	-6.0%	-17.1%	0.5%	-0.8%	-1.0%	-12.7%	-20.0%	10.4%	NA
GOTTQ	Gottschalks Inc.	7.8%	-4.6%	2.0%	8.6%	0.9%	0.3%	1.0%	-7.4%	-13.3%
GPS	Banana Republic	NA	-7.0%	11.0%	9.0%	7.0%	-6.0%	14.0%	5.0%	-22.0%
GPS	Gap (North America)	NA	-16.0%	16.0%	2.0%	-6.0%	3.0%	-6.0%	-4.0%	-18.0%

## Historical Comparable Store Sales: January 2001-2009

### Excludes most consolidations – Sorted by Tickers

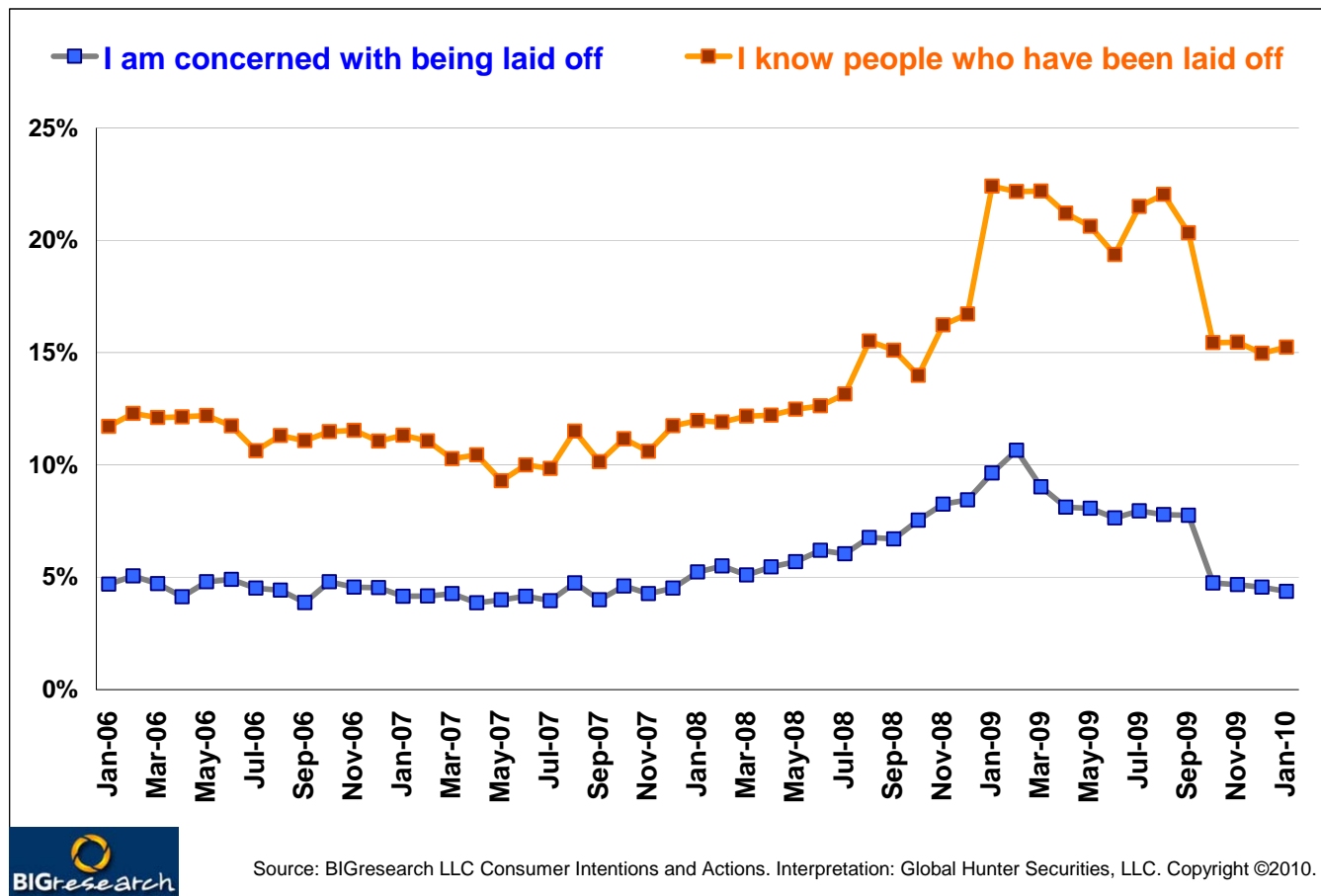
Ticker	Retailer	Jan-01	Jan-02	Jan-03	Jan-04	Jan-05	Jan-06	Jan-07	Jan-08	Jan-09
GPS	Old Navy div. Gap, Inc.	NA	-14.0%	27.0%	4.0%	-13.0%	0.0%	-1.0%	-3.0%	-34.0%
HOTT	Hot Topic, Inc.(consolidated)	NA	-3.1%	13.7%	8.5%	-2.5%	-0.7%	-6.6%	-3.6%	8.8%
JCP	J.C. Penney	-6.0%	5.9%	-3.8%	6.4%	3.3%	2.5%	3.6%	-1.9%	-16.4%
JOSB	Jos. A. Bank Clothier	NA	-8.7%	9.9%	16.1%	-5.7%	20.4%	-4.7%	-1.2%	NA
JWN	Nordstrom, Inc.	-1.3%	-2.7%	0.8%	8.7%	8.8%	6.0%	11.1%	-6.6%	-11.4%
KSS	Kohl's Corporation	7.1%	11.5%	5.5%	0.3%	-1.6%	2.0%	8.7%	-8.3%	-13.4%
LTD	La Senza	NA	NA	NA	NA	NA	NA	NA	6.0%	-9.0%
LTD	Bath & Body Works (div. LTD)	1.0%	1.0%	-6.0%	33.0%	30.0%	-2.0%	19.0%	-10.0%	0.0%
LTD	Victoria's Secret Stores div. LTD)	-3.0%	11.0%	11.0%	26.0%	12.0%	3.0%	7.0%	-8.0%	-15.0%
M	Macy's, Inc.	3.7%	-8.8%	-1.2%	5.5%	-0.4%	1.0%	8.6%	-7.1%	-4.5%
PLCE	Children's Place Retail Stores	-1.0%	7.0%	-20.0%	6.0%	21.0%	9.0%	-6.0%	9.0%	-11.0%
private	Neiman Marcus /Bergdorf's	5.5%	-4.4%	2.0%	15.2%	12.2%	4.1%	9.8%	4.2%	-25.8%
PSUN	Pacific Sunwear consolidated	11.9%	0.4%	20.4%	12.4%	8.1%	4.9%	-7.7%	-7.4%	-11.0%
ROST	Ross Stores Inc.	-3.0%	12.0%	-2.0%	4.0%	-1.0%	9.0%	2.0%	1.0%	-2.0%
SKS	Saks Fifth Avenue (Saks, Inc.)	-3.1%	-3.9%	-4.7%	10.9%	3.0%	3.7%	11.4%	4.1%	-23.7%
SMRT	Stein Mart	NA	NA	-12.0%	5.7%	13.1%	-0.4%	-1.9%	-2.5%	-16.7%
SSI	Stage Stores, Inc.	NA	9.0%	-5.2%	2.1%	3.7%	1.5%	7.5%	1.0%	-13.1%
TGT	Target Corporation	3.5%	7.6%	0.3%	5.8%	9.4%	5.2%	5.1%	-1.1%	-3.3%
TJX	TJX Companies	4.0%	4.0%	-2.0%	2.0%	5.0%	5.0%	4.0%	3.0%	-4.0%
WMT	SAM's Club Div. Wal-mart Stores, Inc.	9.9%	7.0%	0.9%	7.9%	-0.8%	8.2%	3.4%	4.9%	-1.5%
WMT	Wal-Mart Stores US division	5.0%	8.6%	2.6%	5.3%	3.2%	4.0%	1.9%	0.2%	2.1%
WTSLA	Wet Seal Inc. (consolidated)	23.3%	6.9%	-25.1%	-21.4%	8.2%	51.4%	3.6%	-5.7%	-14.7%
ZUMZ	Zumiez, Inc.	NA	NA	NA	NA	NA	23.2%	13.0%	1.7%	-14.8%

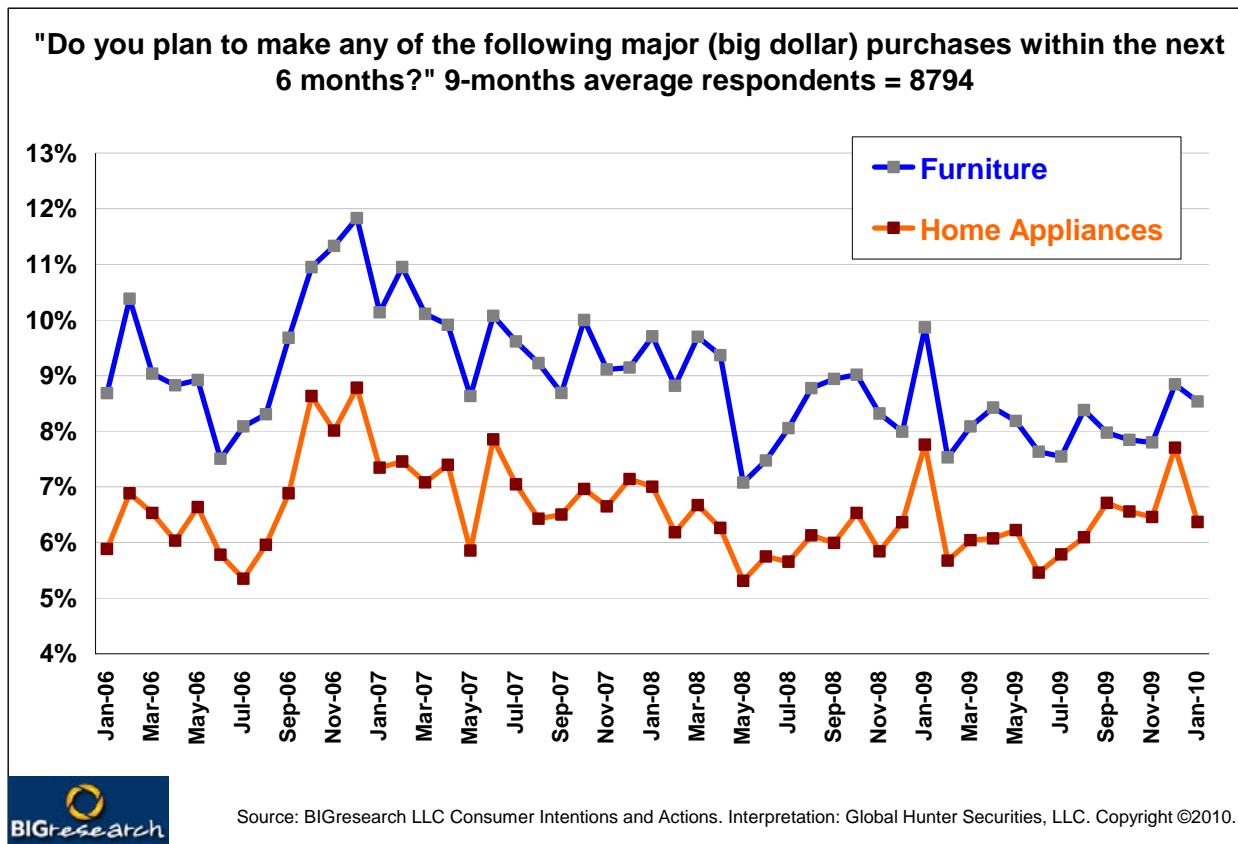
Statistical summary	Jan-01	Jan-02	Jan-03	Jan-04	Jan-05	Jan-06	Jan-07	Jan-08	Jan-09
Count	33	42	43	43	43	47	47	49	43
Arithmetic total of comp sales values	162.30%	99.90%	67.20%	253.20%	213.60%	406.80%	69.00%	-2.20%	-439.50%
Mean	4.92%	2.38%	1.56%	5.89%	4.97%	8.66%	1.47%	-0.04%	-10.22%



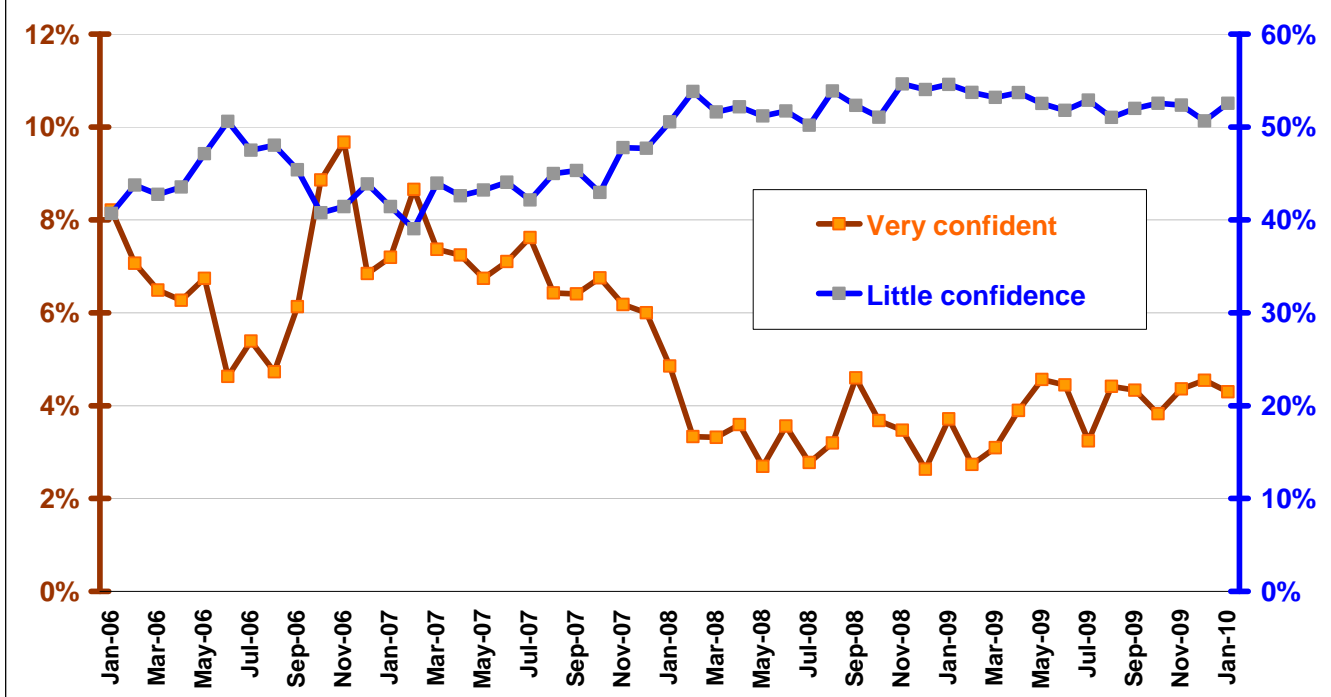
We focused on broad-based shopper surveys to determine whether shoppers seem to be more inclined to spend, and to measure their sense of confidence. The results were moderately encouraging, especially regarding clothing.

- 8,794 shoppers (based on 9-month average) seemed to indicate a normal seasonal uptick in demand for appliances, but not as strong as was the case in early 2006. *We note that Whirlpool (WHR) posted favorable sales and earnings for their fourth quarter ended 12/31/2009, including a North American sales increase of 4 percent, and shipments increased 8 percent. Major appliances shipments increased 6 percent.*
- Shopper demand for furniture seemed less impressive compared to appliance demand, based on our interpretation of the data trends.
- We were very encouraged by the tone of the shopper survey responses regarding concerns about being laid off. This trend showed a significant improvement, reverting very close to longer-term averages. The other question in this survey cluster, regarding “I know people who have been laid off” was less encouraging but is easily reconciled to the weak employment data.
- Shopper spending intentions for clothing were generally upbeat and indicated substantial improvements, although this indicator did not revert to its longer-term average. This outcome seems to be consistent with industry sales results over the last three months.
- Shopper confidence in the economy was less encouraging, possibly reflecting concerns about employment and the future course of domestic fiscal policy, among other issues.





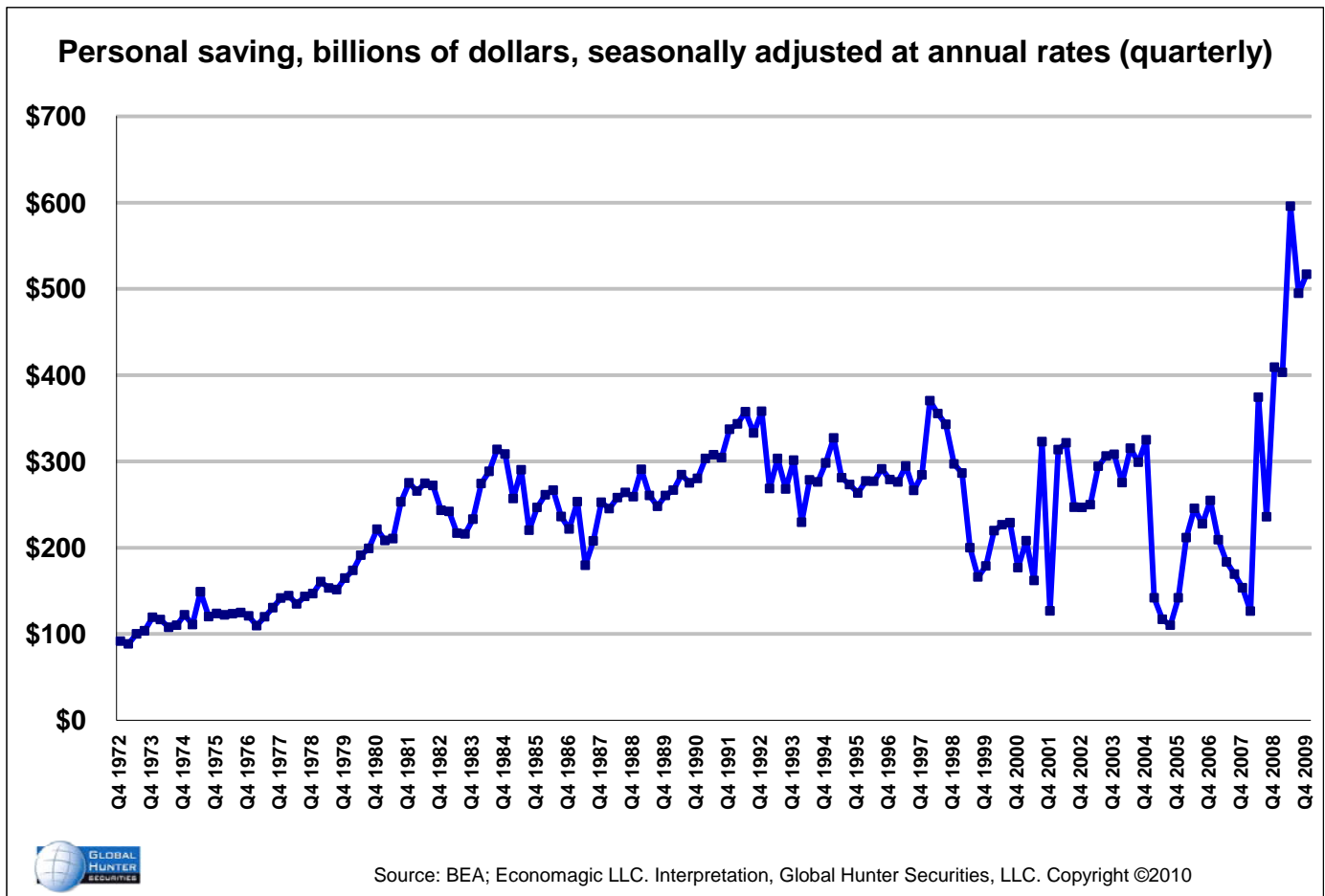
**"Which one of the following best describes your feelings about chances for a strong economy during the next 6 months?" 9-months average respondents = 8794**



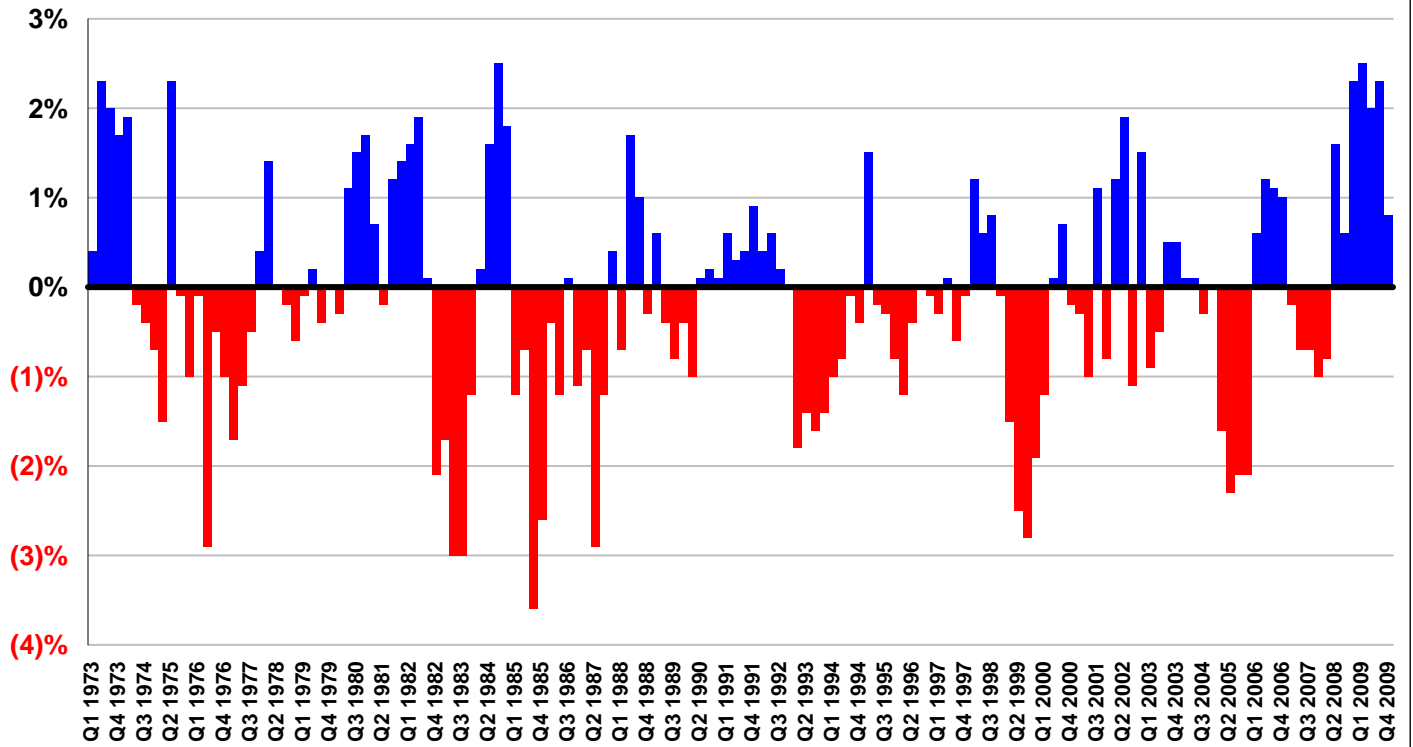
Source: BIGresearch LLC Consumer Intentions and Actions. Interpretation: Global Hunter Securities, LLC. Copyright ©2010.

## Personal Savings and Spending: Q4 2009 and Historical Data

- We analyzed data from the Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov)) to determine the latest trends in aggregate household saving and spending.
- The data suggests an unusual increase in the savings rate and aggregate cash buildup.
- Personal saving as a percentage of disposable personal income increased suddenly and substantially between Q1 2008 and Q2 2008. This has turned into a strong trend that shows little evidence of returning to the levels noted during 2007.
- However, a modest decrease in savings as a percentage of income seemed to occur between Q3 2009 and Q4 2009, or a 2.3% rate leading to a 0.8% rate in Q4. This would be logical in the context of the uptick in consumer spending noted during the holiday season.
- We were very encouraged by the tone of the shopper survey responses regarding concerns about being laid off. This trend showed a significant improvement, reverting very close to longer-term averages. The other question in this survey cluster, regarding "I know people who have been laid off" was less encouraging but is easily reconciled to the weak employment data.



**Personal saving as a percentage of disposable personal income: in billions of dollars; seasonally adjusted at annual rates (quarterly): actual dollar change from same quarter prior year**



Source: BEA; Economagic LLC. Interpretation, Global Hunter Securities, LLC. Copyright ©2010

## The Style File Group's Hitha Prabhakar: Fashion Insights for February and Spring Transitional: *Excerpts*

- **Aeropostale (ARO).** "Graphic and Henley tees remain top sellers across the board in primary colors. Patterns are not popular at Aeropostale; however, stripes in tees and some girls' sweaters are big sellers and will continue to be through spring's second delivery. For the fourth spring/summer season in a row, short shorts will be a big seller in preppie patterns such as plaid and materials like cotton twill in khaki."
- **Saks Fifth Avenue (SKS).** "Saks may not have had major sales during the holiday shopping season but their consolidation sale at their flagship store (which accounts for 20% of all sales for the entire company) took over the entire 9th floor in NYC. Traffic has been thin post holidays and so was inventory. Sales items were moved to the top floor. The most popular vendors focused on prints in their collections. Tory Burch, whose tunics in paisley prints and gold embellishments were low on sizes and inventory; Diane von Furstenberg, with Navajo print dresses with only larger sizes left; and, report wear by M by Missoni in the iconic zig-zag knit in bright primary colors had barely any inventory left. Theory as well as Elie Tahari with gold riveted tops and dresses were among the best sellers among the non-sale items/areas. Sale items on the shoe floor were well edited and also sparse, indicating much of the inventory was either bought or Saks is waiting to re-stock post February."
- **Trends to Look Out For.** **Sizing:** "Retailers like Aeropostale (ARO), Abercrombie & Fitch, Gap (GPS) and American Eagle Outfitters (AEO) are starting to increase the sizing on their pieces by an eighth of an inch taking into consideration the expanding waistline of the American consumer. Aeropostale has a "curvy" line for girls which has more room through the hips and waist. Likewise, men's sizes extend through triple extra large." **Shorts:** "Short shorts and longer shorts (Bermuda) for women continue to be a trend for spring for the 4th season in a row. Bermuda shorts for men will also be big sellers as well as cargo shorts in darker colors like army green, dark brown, khaki and black."



Hitha Prabhakar is a CNBC contributor, retail industry expert, and principal of The Style File Group, a retail consulting firm based in New York City. As the former style writer for Forbes magazine and Forbes.com, Hitha covered the luxury industry as well as men's fashion. She has written for People magazine, People.com, Time magazine, ELLE India, Metro Newspapers, Nirvana Women, Inked magazine and Zink magazine.

She has had numerous television appearances as a retail analyst for Fox Business News, Fox News, Sky News, Fox Radio Network, foxnews.com, Bravo, CNN, CBS News, CBS Radio, Univision, E! Entertainment television and Reuters.

She received an MA from Columbia University Graduate School of Journalism and a BA in Economics and Philosophy from Smith College (which included a year stint at the London School of Economics).

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