

## Highlights

- As we anniversary what some refer to as retail's "9-11," we are not seeing stores become less promotional. Many retailers including *The Gap*, *Gymboree*, and *Children's Place* are actually MORE promotional today than LY. Aside from a few standouts, Bay Area store associates do not feel like there has been a considerable improvement in consumer sentiment or a pick-up in sales during the past two weeks.
- This week, **Hollister (ANF - \$32.56)** invited select customers via e-mail to enjoy *20% off Everything* September 23<sup>rd</sup> – 27<sup>th</sup>. We believe that this "*Friends with Benefits*" event is a first for *Hollister* and a desperate strategy to reduce relatively high inventory levels.
- Unlike the core chain, sales are beginning to improve at **Ann Taylor Loft (ANN - \$15.56)**, driven by this year's more casual assortment. Several Bay Area store associates suggest that sales are "running slightly below LY." Inventory levels remain well-controlled and stores are considerably less promotional versus LY.
- An anomaly in the Bay Area, **Chico's (CHS - \$12.72)** store traffic is noticeably higher of late. Store associates suggest that business has been "going gangbusters" and directly correlate September's sales pick-up to the new TV ads.
- **WH/BM (CHS - \$12.72)** is not experiencing the same improvement in sales as is *Chico's*. Traffic remains dismal and clearance levels are high.
- Good-bye **Coach Factory (COH - \$31.75)** store... Hello Cigar Shop? It's one-stop shopping for ladies who lunch in the quaint town of Burlingame, CA where women can pick up a pipe, query a psychic, and choose from the latest in designer knock-off accessories at the local smoke shop. Worth a chuckle.
- Bay Area store associates at **The Gap (GPS - \$21.87)** continue to suggest that September sales "have been more challenged than August."
- Bay Area **Gymboree (GYMB - \$49.29)** stores suggest that sales are "trending in-line with expectations." But, there are some interesting developments that are worth keeping an eye on over the next couple of weeks.
- More bad news for sales at **Hot Topic (HOTT - \$7.66)**! *Forever 21* is directly targeting the core *Hot Topic* apparel customer with its second installment of *Forever 21 Twist*. The "limited edition" *Twist* collection delivers value-priced punk-inspired novelty apparel and accessories that are strikingly similar to product found only at *Hot Topic* stores.
- Helped by improved traffic via more frequent *Kohl's Cash* promotions, Bay Area **Kohl's (KSS - \$54.76)** store associates suggest that September business is "strong." Several product launches and inventory builds on proven brands/categories are also contributing to the strength at KSS.
- We attended a *Rachel Rachel Roy* event at the San Francisco **Macy's (M - \$18.01)** flagship store. We don't believe that this exclusive line will be a win for M as it's too fashionable for the core *Macy's* customer.
- Bay Area **Children's Place (PLCE - \$28.54)** store associates continue to suggest that they are "making plan" during September, helped by considerably deeper inventory and discounts, and an incremental *Place Cash* bounce-back distribution.

## Highlights (con't)

- Bay Area **Ross Store (ROST - \$47.22)** associates suggest that September business has been “smokin’ good,” helped by appealing receipts of seasonal merchandise (likely pack-away). Traffic remains high and inventory levels appear well-controlled. The shoe category appears to be the most deeply inventoried with appealing brands and fashion.
- Unlike the increasingly enthusiastic shoppers at *Chico’s* today, traffic remains extremely light at **Talbots (TLB - \$8.73)**. The chain continues to struggle to sell fashion and updated pant fits (too modern for the core customer). We also believe that price-points are too high to ever regain a reasonable market share.
- A preview of **Pottery Barn’s (WSM - \$18.72)** *Holiday I* floor set at the photo shoot store in Burlingame, CA reveals a more traditional and slightly less seasonal-specific Holiday 2009 assortment versus LY. We have to believe that this year’s classic offering will outperform LY’s too modern, decorative, and giftable assortment.

## Hollister (ANF - \$32.56)

This week, *Hollister* invited select customers via e-mail to enjoy *20% off Everything* September 23<sup>rd</sup> – 27<sup>th</sup>. We believe that this “*Friends with Benefits*” event is a first for *Hollister* and a desperate strategy to reduce relatively high inventory levels.

According to our store visits, the response to the e-mail has been minimal. Stores have taken it upon themselves to more liberally invite customers to participate in the promotion. Several sales associates suggested that “you don’t need a coupon” and “sales associates at the POS will ask you if you want *20% off*.”

We called *Abercrombie & Fitch* stores to see if they are running a similar promotion. One store manager was adamant that ANF “never EVER does coupons, it must be a fake!”



**A 20% off Entire Purchase “Friends & Family” type e-mail coupon from Hollister**

## Ann Taylor Loft (ANN - \$15.56)

Unlike the core chain, sales are beginning to improve at *AT Loft*, driven by this year’s more casual assortment. Several Bay Area store associates suggest that sales are “running slightly below LY.” Inventory levels remain well-controlled and stores are considerably less promotional versus LY.

This year’s incremental sweater coats, improved/broader denim assortment, and knit tops similar to offerings at *J. Crew (JCG - \$35.30)* are experiencing the most strength. Incremental July deliveries of *Spanx Assets Shapewear* (undergarments featured in fitting rooms) are also helping drive add-on sales.

Interest in the new *Loft Lounge* collection that launched in late-August appears to be tepid. But *Loft Lounge* sweaters have been excluded from numerous sweater promotions over the past month, suggesting that the assortment is meeting expectations.

Clearance inventory is extremely light in most stores and weekly promotions are less inclusive than LY. Key-item sweaters are most consistently discounted and many styles are currently promoted at *25% - 40% off*. But, given that the \$29.50 key-item sweater price-point is similar to LY’s out-the-door sweater pricing, we suspect the promotion is largely planned.

## Chico's (CHS - \$12.72)

An anomaly in the Bay Area, *Chico's* store traffic is noticeably higher of late. Store associates suggest that business has been “going gangbusters” and directly correlate September’s sales pick-up to the new TV ads.

Sales associates also suggest that “phone order wait times have increased” and customer service representatives suggest that “there has been a considerable increase in catalog requests since the ads began.”

For the first time in years, many catalog items (same items advertised in TV ads) are selling-out company-wide. We are also noticing women take interest in jewelry at *Chico's* again since stores began displaying the category at the front of stores mid-August. Note: though CHS is infusing pricier jewelry into the assortment (\$78 necklaces versus \$48), stores continually run *BOGO 50% off Jewelry* promotions.

*Chico's* also continues to benefit from innovative Fall fashions that are still appropriate for the core customer’s body type. In addition to higher-rise *Ultimate* fit denim in updated (not too trendy) leg silhouettes, *Chico's* offers newness in novelty sweaters and outerwear that is not available at competitors such as **Kohl's (KSS - \$54.21)**. Cocoon sweaters, tweed jackets, longer *Anna Lee* shirts, and tunic sweater vests are among this season’s standouts at CHS.

While *Chico's* stores remain highly promotional, seasonal clearance inventory levels are currently lighter than LY.



**Novelty tunic sweaters, tweed jackets, and jewelry are driving sales at CHS**

## White House/Black Market (CHS - \$12.72)

*WH/BM* is not experiencing the same improvement in sales as is *Chico's*. Traffic remains dismal and clearance levels are high.

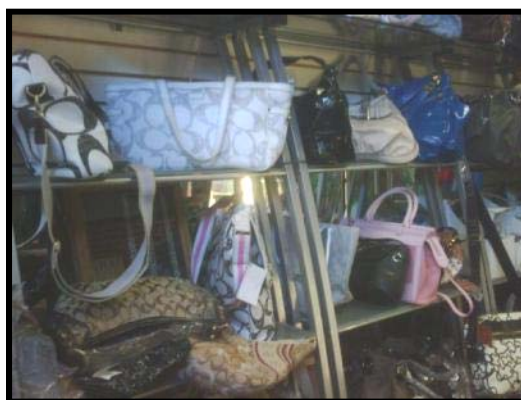
Separates are being de-emphasized today and *WH/BM* is instead pushing “the little black dress.” But most of the new dresses are too dressy. We believe that these styles are too early and stores could benefit from more day-to-evening black dresses. *WH/BM* is also missing the sweater coat trend (unlike many peers, the chain has none).

## Coach (COH - \$31.75)

Good-bye *Coach Factory Store*... Hello Cigar Shop?

Who needs to drive 2-hours to an outlet store? It's one-stop shopping for ladies who lunch in the quaint town of Burlingame, CA where women can pick up a pipe, query a psychic, and choose from the latest in designer knock-off accessories at the local smoke shop.

Cigars, newspapers, men's special interest magazines, and rolling papers once dominated the dusty shelves at the town's cigar shop. But today, respectable \$149 designer counterfeit handbags, wallets, and sunglasses (*Coach, Gucci, and Dolce & Gabbana*) have been infused into the assortment of this enterprising cigar store.



**Cigars... Psychics... and HANDBAGS. Wow!**

## The Gap (GPS - \$21.87)

Bay Area store associates continue to suggest that September sales "have been more challenged than August." When pressed, sales associates suggest that mall traffic is picking up slightly, "but customers are extremely price-sensitive."

The September week #3 incremental promotion offering *Additional 25% off Clearance* to PLCC holders was extended to all customers during September week #4. But traffic remains pathetically light.

## Gymboree (GYMB – \$49.29)

Bay Area *Gymboree* stores suggest that sales are “trending in-line with expectations.” But, there are some interesting developments that are worth keeping an eye on over the next couple of weeks.

- *Gymboree* lowered price-points on this year’s dressy Holiday collection that arrived to stores September week #4 (similar timing to LY). Prices on almost exact replicas of last year’s plaid silk dress, black wool coat, red velveteen dress are priced \$0.50 below LY.

That said, most other items (including the newest boy’s Holiday dressy apparel and pj’s) remain an estimated \$0.25 higher than LY. Note: *Gymboree* anniversaries increased price points in January 2010.

- *Gymboree* remains more promotional (i.e. deeper discounts) than LY. Stores lifted what we believe to be an incremental weekend *Additional 20% off Clearance* promotion on September 21<sup>st</sup> and took further hard markdowns on older collections (similar timing to LY).

Currently, Summer and Fall merchandise is more deeply discounted at 20% - 70% off versus 20% - 50% off LY.

- One Bay Area store manager informed us that the stores were atypically given extra payroll hours to manage the broader than LY markdowns taken during September week #4.

On the positive side, *Gymboree* appropriately replaced LY’s underperforming girl’s gold and brown Holiday dressy assortment with a more traditional silver and burgundy dressy capsule this year.

## Hot Topic (HOTT - \$7.66)

More bad news for sales at *Hot Topic*!

In addition to this year’s later receipts of *Twilight: New Moon* merchandise (October this year versus September LY), *Forever 21* is directly targeting the core *Hot Topic* apparel customer with its second installment of *Forever 21 Twist*. The “limited edition” *Twist* collection delivers value-priced punk-inspired novelty apparel and accessories that are strikingly similar to product found only at *Hot Topic* stores.



**New punk-inspired *Forever 21 Twist* collection is similar to product found at *Hot Topic*, but at a cheaper price**

## Kohl's (KSS - \$54.76)

Helped by improved traffic via more frequent *Kohl's Cash* promotions, Bay Area store associates suggest that September business is “strong.”

KSS launched what we believe to be an incremental \$10 *Kohl's Cash for Every \$50 Spent* promo (distribution September 16<sup>th</sup> – 23<sup>rd</sup> followed by a September 24<sup>th</sup> – October 7<sup>th</sup> redemption period). Consistent with prior *Kohl's Cash* promotions, everyday price cuts are slightly lower than usual throughout the store. Most discounts are 30% - 40% off during *Kohl's Cash* periods versus 40% - 60% off during non-*Kohl's Cash* periods.

Several product launches and inventory builds on proven brands/categories are also contributing to the strength at KSS:

- *Sonoma* fashions for men, women, and children have noticeably improved for Fall (more appealing and updated basics). The private label brand appears growing in stores and replacing what we believe to be a reduced “exclusive” *Chaps* offering.
- KSS recently expanded many “exclusive” labels into the fragrance category including *Dana Buchman Luxury*, *Black Star* by *Avril Lavigne*, and *Chaps Weekend*. “Exclusive” fragrance price-points are often \$20 higher than many of the branded fragrances!
- The new contemporary apparel line, *LC Lauren Conrad*, arrived to select stores on September 16<sup>th</sup>. Though the collection is limited to 16 pieces, the priciest dresses and blazers sold-out at Bay Area stores during the first week.
- In-line with greater emphasis on basics, KSS continues to successfully grow its denim offering throughout the store with a significantly broader assortment of both branded (e.g. *Levi's*) and “exclusive” private label denim styles.
- Women's intimates now offers many more specialty bras, including a broader assortment of wire-free bras, sports bras, convertible bras, and full-figure bras. Though less differentiated bras have been rationalized, intimates inventory levels appear higher than LY.
- Shoes continues to benefit from a broader Kids assortment, including several new fixtures of toddler *Jumping Beans* shoes that complement *Jumping Beans* apparel fashions. KSS also appears to be expanding its adult sneaker offering.
- KSS is finally investing deeper into *Simply Vera* handbags. Typically sparse *Simply Vera* handbag fixtures are well-inventoried today. Though *Simply Vera* apparel is skewing more basic of late (appropriate), the brand's accessory fashion continues to accelerate.

## Macy's (M - \$18.01)

We attended a *Rachel Rachel Roy* event at the San Francisco *Macy's* flagship store this week. We don't believe that this exclusive line will not be a win for M as it's too fashionable for the core *Macy's* customer.

Though touted as an “exclusive RSVP” affair to meet designer, *Rachel Roy*, anyone who showed up to the event was allowed entrance. Attendance was relatively sparse.

We believe that the brand is too fashionable for the core *Macy's* customer. Though intended to target young twenty-somethings, the line is attracting older thirty-something customers seeking lower-priced fashions. That said, it appears that only the most basic *Rachel Rachel Roy* items are experiencing strength.

## Children's Place (PLCE - \$28.50)

Bay Area PLCE store associates continue to suggest that they are “making plan” during September, helped by considerably deeper inventory and discounts, and an incremental *Place Cash* bounce-back distribution.

Whatever happened to the strategy of offering more “wear-now” merchandise? Several Bay Area store associates also suggested that *BTS* merchandise would be sent to the *Outlet* stores on September 27<sup>th</sup>. If this occurs, stores would be transferring merchandise to the outlet channel an estimated 4-weeks earlier this year versus LY. If Fall merchandise is shipped-out, *Full-Price* stores will be left exclusively with Holiday merchandise (dressy and casual).

### Chuck Crovits, Interim CEO, PLCE Q2 2009 Conference Call:

*As we enter the important back-to-school season, we are pleased with early customer response to our Fall One line, particularly the “wear now” product. During the past year, we have observed customers shopping closer to need, shopping less frequently, and waiting for great deals before making a purchase. And, we have no reason to believe that these behaviors will change significantly during the latter half of 2009.*

## Ross Stores (ROST - \$47.22)

Bay Area store associates suggest that September business has been “smokin’ good,” helped by appealing receipts of seasonal merchandise (likely pack-away). Traffic remains high and inventory levels appear well-controlled.

The shoe category appears to be the most deeply inventoried with appealing brands and fashion. In addition to a strong assortment of women’s boots, city locations offer a plethora of men’s *Nike* and *Adidas* sneakers.

Outerwear is getting a boost with atypically high inventory levels of branded fleece hoodies for young men and juniors. Though full-price retailers have struggled with this category in recent years, the value-priced branded fashions are experiencing strength at ROST.

City locations appear to be growing their men’s suit assortments. Today, the San Francisco Flagship houses a broad offering of \$149 2-piece suits from better brands such as *Calvin Klein* and *Lauren*. That said, we are noticing less men’s packaged shirts inventory in most stores than we have historically.

Some higher-volume stores have recently added double-decker fixtures to house additional home accent furniture. But accent furniture inventory levels are relatively light today.

Stores are largely “full-price” and Summer clearance levels are low. Interestingly, stores are more heavily promoting *Ross Store* Gift Cards today.



**A broader men's suit assortment and new double-decker accent furniture fixtures at ROST**

## Talbots (TLB - \$8.73)

Unlike the increasingly enthusiastic shoppers at **Chico's (CHS - \$12.72)** today, traffic remains extremely light at *Talbots*. Customers typically retort, "JUST LOOKING," if they're lucky to be greeted by a store associate.

TLB continues to struggle to sell fashion and updated (too modern) pant fits. Sales associates point to the same key-item "strengths" as last year (e.g. cardigan sweaters, basic knit tops, corduroy pants) while fashion prints and silhouettes fill up the clearance racks. Store associates suggest that the new lower-rise pants and emphasis on boot-cut legs are "greatly underperforming."

We also believe that price-points are too high to ever regain a reasonable market share. At *50% off*, Summer sundresses are priced at \$98 and basic knits are priced at \$28. Although TLB began discounting merchandise in-season several years ago, stores are sitting on brightly colored light-weight Summer clearance merchandise while competitors are already discounting Fall apparel.

## Pottery Barn (WSM - \$18.72)

A preview of the *Holiday I* floor set at the Burlingame Avenue photo shoot store in Burlingame, CA reveals a more traditional and slightly less seasonal-specific Holiday 2009 assortment versus LY.

Though we are not convinced that the holidays will be more festive than LY, we have to believe that this year's classic offering will outperform LY's too modern, decorative, and giftable assortment. We were particularly impressed with the incremental assortment of smaller decorative faux Christmas trees.



**Traditional tree ornaments and vintage-inspired décor dominate the 2009 *PB Holiday I* collection**