Week Ended April 26th, 2013

Michael Exstein
4/29/2013

Retail Broadlines Weekly Shopping Cart

CREDIT SUISSE

Retail Quote of the Week

"We live at such a quick clip - I don't just think it's me, but pretty much everyone. In fashion, we live in the future. I'm designing for 2014." Tom Ford , WWD, 4/15/13

Weekly Comment

The Age of the Flagship Store

Reading a week's worth of Woman's Wear Daily's, we were struck by the number of articles that talked about various retailers' and manufacturers' focus on developing Flagship locations. Here is a list from this past week: Louis Vuitton opened two "experience" stores in Munich and Venice. Sandro and Maje (KKR bought a majority interest in these French brands recently) opened a new Lanvin Flagship in Hong Kong. Ceremony also opened a flagship in Tokyo in addition to a special section on the South Coast Plaza shopping and entertainment complex in Orange County California. In addition, such high profile flagship projects like Nordstrom's entry into Manhattan, Macy's $400 million renovation of Herald Square, Unqlo's, entry into San Francisco, Top Shop's opening in Chicago. In addition, Belk will soon be taking over the Saks store in Dallas, creating a new Flagship for the company's Texas entry.

As US retailing developed in the 60's and 70's with the rollout of mall locations across the country in response to the demographic shift to the suburbs, the need and attractiveness of downtown flagship locations began to wane. Today, most downtown locations in the US have more than one closed flagship retail location - a testimony to the changes in the US retail market place. The new flagship trend appears to be different than the past and is now centered around selected urban or suburban locations as opposed to a national rollout. The key to site selection appears to be locations with both strong local as well as tourist traffic to leverage fixed costs. In an age where e-commerce is emerging from its infancy to a more established and integrated part of the retailing system, it seems that flagships serve two purposes. These include retailers' affirming brand stakeholders in addition to a hedge against how the retailing structure could evolve in the next decade. The result could be fewer locations, less inventory, but more powerful locations in their own right. As the retail industry evolves, we would expect the industry's flagship focus to intensify, creating more competition for a finite number of areas where such locations can realistically go. The trend reaffirms that the physical retail store is alive and well, but going through a transformation, similar to when the industry went from an urban based strategy to a suburban one.

Company Financial Statistics

Company Coverage	Credit Suisse Rating	Price 4/26/2013	Target Price	% Stk Price Perf. Wk/Wk	% Stk Price Perf. YTD	EPS 2012	EPS 2013E	EPS 2014E	P/E 2012	P/E 2013E	P/E 2014E	EV / EBITDA 2012	EV / EBITDA 2013E	EV / EBITDA 2014E
Department Stores														
Bon-Ton (BONT)	U	$15.30	$10.00	17.7%	25.8%	($0.42)	$0.40	$0.65	NA	NA	23.7x	6.6x	6.3x	6.4x
Dillard's (DDS)	O	$83.31	$95.00	5.3%	(0.5%)	$6.31	$7.05	$7.70	13.2x	11.8x	10.8x	5.5x	5.4x	5.6x
Macy's Inc. (M)	O	$44.63	$46.00	2.5%	14.4%	$3.46	$3.85	$4.20	12.9x	11.6x	10.6x	6.0x	5.9x	5.9x
JCPenney (JCP)	U	$17.00	$15.00	11.4%	(13.7%)	($4.50)	($3.40)	($3.00)	NA	NA	NA	--	--	--
Kohl's (KSS)	N	$48.28	$43.00	1.8%	12.3%	$4.17	$4.25	$4.45	11.6x	11.4x	10.8x	5.3x	5.3x	5.3x
Nordstrom (JWN)	N	$56.71	$56.00	3.3%	6.0%	$3.55	$3.90	$4.30	16.0x	14.6x	13.2x	7.1x	6.7x	6.4x
Saks (SKS)	N	$11.51	$10.50	3.4%	9.5%	$0.51	$0.42	$0.50	22.5x	27.7x	22.8x	7.7x	7.7x	7.0x
								Average[2]	15.2x	15.4x	13.7x	6.4x	6.2x	6.1x
Mass Merchants														
Costco[1] (COST)	O	$109.27	$115.00	4.6%	10.7%	$3.43	$4.46	$4.84	31.8x	24.5x	22.6x	12.7x	11.3x	10.0x
Target (TGT)	N	$70.52	$62.00	2.1%	19.2%	$4.33	$4.32	$4.95	16.3x	16.3x	14.2x	7.7x	7.8x	7.3x
Wal-Mart (WMT)	N	$79.04	$80.00	1.0%	15.8%	$5.02	$5.40	$5.70	15.8x	14.6x	13.9x	8.4x	7.9x	7.7x
								Average:	21.3x	18.5x	16.9x	9.6x	9.0x	8.3x
Off Pricers														
TJX Companies (TJX)	N	$48.40	$49.00	3.0%	14.0%	$2.55	$2.90	$3.40	19.0x	16.7x	14.2x	9.3x	8.5x	7.6x
Ross Stores (ROST)	O	$65.12	$68.00	3.6%	20.4%	$3.53	$3.97	$4.45	18.4x	16.4x	14.6x	9.3x	8.5x	7.9x
Stein Mart (SMRT)	N	$8.04	$8.50	1.1%	6.6%	$0.41	$0.52	$0.75	19.7x	15.4x	10.7x	4.9x	4.3x	3.2x
								Average:	19.0x	16.2x	13.2x	7.8x	7.1x	6.2x
Dow Jones Industrial Average		**14,712.6**		**1.1%**	**12.3%**									
S&P 500		**1,582.2**		**1.7%**	**10.9%**									
S&P Retail Index		**745.5**		**1.4%**	**14.2%**									

[1] EPS estimates are calendarized.
[2] P/E averages exclude BONT, JCP excluded from all averages

Weekly CDS Tracker

Spreads Narrow, Stocks Up

Broadline CDS spreads narrowed by 5.1% while stocks were up 5.3% this week.

Dillard's (-14.4%) cds spread narrowed the most, followed by Nordstrom (-11.1%). Broadlines stocks were up this week. Bon-Ton (+17.7%) increased the most, followed by JC Penney (+11.4%).

Correlation between stock performance and CDS was 0.85 this week vs 0.11 in the prior week.

CDS Spreads vs Stock Performance (April 19th 2013 – April 26th, 2013)

	4/19/2013	4/26/2013	Change	4/19/2013	4/26/2013	Change
BONT	1361.33	1361.33	0.0%	13.00	15.30	17.7%
SKS	220.74	209.49	-5.1%	11.13	11.51	3.4%
COST	38.36	36.36	-5.2%	104.45	109.27	4.6%
DDS	208.20	178.21	-14.4%	79.08	83.31	5.3%
JCP	923.21	906.79	-1.8%	15.26	17.00	11.4%
KSS	189.61	179.21	-5.5%	47.44	48.28	1.8%
M	100.00	95.09	-4.9%	43.54	44.63	2.5%
JWN	71.39	63.45	-11.1%	54.90	56.71	3.3%
TGT	35.93	35.92	0.0%	69.04	70.52	2.1%
WMT	35.39	34.39	-2.8%	78.29	79.04	1.0%
Average			-5.1%			5.3%

Source: Company data, Credit Suisse estimates, equal weighted average

Notes

WMT: Highlights of WMT's ASDA Trip in the UK; Sourcing and Ecommerce Could be Leveraged
Broadline Retail: Unexpected Share Shifts in the Year of Penney
Credit Suisse Pricing Survey: Walmart Price Gap Widens; Inflation Remains Modest Y/Y and Flat M/M

Upcoming Events

Credit Suisse Consumer Growth Opportunities Forum - 4/29

Upcoming Earnings Conference Calls

Company	Date	Day	Time	Number	Passcode

Contacts

Michael Exstein, Research Analyst (212) 325-4147
Trey Schorgl, Research Analyst (212) 325-6076
Jacqueline Commins, Research Analyst (212) 325-7217

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Companies Mentioned *(Price as of 26-Apr-2013)*

Costco Wholesale Corporation (COST.OQ, $109.27)
Dillard's Inc. (DDS.N, $83.31)
JC Penney (JCP.N, $17.0)
Kohl's Corporation (KSS.N, $48.28)
Macy's Inc. (M.N, $44.63)
Nordstrom (JWN.N, $56.71)
Ross Stores (ROST.OQ, $65.12)
Saks Incorporated (SKS.N, $11.51)
Stein Mart, Inc. (SMRT.OQ, $8.04)
Target Corporation (TGT.N, $70.52)
The Bon-Ton Stores, Inc. (BONT.OQ, $15.3)
The TJX Companies, Inc. (TJX.N, $48.4)
Wal-Mart Stores, Inc. (WMT.N, $79.04)

Disclosure Appendix

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