Off-Pricers Feel the Effects of International Shoppers

Saks Fifth Avenue Off 5th, VF Corp., Carter's and Oshkosh report sales.

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Hudson's Bay has opened four Saks Fifth Avenue Off 5th stores in Canada.

Saks Fifth Avenue Off 5th Fills Off-Price Gap in Canada

Hudson's Bay Company has received a boost from Saks Fifth Avenue Off 5th's recent store expansions, especially at its Canadian locations.

Saks Fifth Avenue and OFF 5TH, CEO, Jerry Storch said, "In Canada, we are seeing strong early results from our first two Saks Fifth Avenue stores and our first four OFF 5TH stores," said Jerry Storch, CEO of Hudson's Bay, parent company of Saks Fifth Avenue and Saks Fifth OFF 5th. "We believe there is an unmet need in the Canadian market for a luxury off-price retailer, and our expansion of OFF 5TH is well positioned to fill that gap."

Meanwhile, the company has announced a total of eight more OFF 5th locations in Canada.

Also, the company opened eight new OFF 5TH stores in the United States during Q1, highlighted by its first Manhattan location at 57th Street and Lexington. This location also has the first physical Gilt shop-in-shop concept.

"Going forward, we continue to see exciting opportunities for the expansion of this banner, both inside and outside of the U.S.,"Storch said.

Earlier this summer, Hudson's Bay announced locations for the first five OFF 5TH stores in Germany: A flagship in Düsseldorf, along with stores located in the prime city centers of Frankfurt, Stuttgart, Heidelberg and Wiesbaden. The stores are scheduled for summer 2017 openings.

Storch elaborated on the new pricing strategy at Saks OFF 5TH.

"The change is working exactly as we had hoped," Storch said. "With the former strategy, we had a market price on a ticket, what the item would sell at in a department store, and we had our price. Then we ran promotional events with an additional 30 percent or 40 percent off our price, typically over holiday weekends. Bottom line, it was very difficult for consumers to figure out what the price actually was. It also meant our merchants could not be precise in pricing as they were forced to take that 40 percent off merchandise that didn't need a price reduction to sell.

Saks Off 5th moved to a more traditional off-price pricing strategy, with a market price along with the fully discounted price on the pricetag.

"Our merchants are now able to price each item individually," Storch said. "We lost the promotional spikes of big holiday weekends, and in return, we got a substantial increase in our gross margin rate; the kind merchants hope for and rarely see. Our new pricing strategy has led to enhanced profitability and we are quite pleased with what we've seen as our merchants learn the process and the consumer is shopping more on non-promotional days."

In the past year, Hudson's Bay purchased flash sales site Gilt and German department store Kaufhof, while pursuing an active store opening strategy for its Saks Fifth Avenue and Saks OFF 5TH banners in the U.S., Canada and Germany; and entered into significant investments in real estate joint ventures in the US and Germany with Simon Property Group, and in Canada with RioCan Real Estate Investment Trust; all testament to a dynamic retail industry and strategic retail executives.

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>
> **Jerry Storch**
> **Hudson's Bay**

Q1 sales for the period ended April 30, came in $22 million above SP Capital IQ consensus, at C$3.3 billion. The 59 percent sales increase benefitted from the addition of HBC Europe and Gilt and a 4.4 percent consolidated comp gain (in constant currency the comp declined 1 percent).

The decline in retail tourism continued to impact U.S. sales, which were further affected by weak U.S. domestic traffic, especially in the luxury retail sector. By segment, the department store group, "DSG" which consists of Lord & Taylor, Hudson's Bay and Home Outfitters drove a 2.3 percent comp increase offset by a 5.7 percent comp decline at Saks Fifth Avenue, a 4.1 percent comp decline at HBC Off Price (Saks Fifth Avenue OFF FTH, Find@Lord & Taylor and Gilt) and a 0.7 comp decrease at HBC Europe. Digital sales grew across all banners and were up 86 percent with the addition of Gilt; on a constant currency basis, comparable digital sales rose 7.4 percent.

Gross profit margin expanded 70 basis points to 41.9 percent of sales reflecting the higher gross margin business of HBC Europe and the implementation of a new pricing strategy at Saks Fifth Avenue OFF 5TH which reduced comps but results in a significant improvement in overall profitability for the banner. The normalized SG&A expense rate increased 320 basis points to 39.4 percent of sales, primarily driven by additional net rent expense related to the real estate joint ventures and the addition of HBC Europe. Hudson's Bays reported a normalized per share loss of C$0.50 per share versus a C$0.15 per share loss in the year ago period and the consensus estimate of a C$0.35 per share loss. Adjusted EBITDAR

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Tommy Hilfiger, along with Calvin Klein brands, drove 3 percent sales growth at PVH.

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(earnings before interest, taxes, depreciation and amortization and net rents) rose 44 percent to C$251 million, largely due to the addition of HBC Europe.

Hudson's Bay confirmed 2016 guidance of C$14.9 billion to C$15.9 billion, adjusted EBITDAR of C$1.56 billion to C$1.71 billion, and expects a low single digit comp gain.

Entering Q2, Hudson's Bay store fleet consisted of 476 locations: 90 Hudson's Bay, 50 Lord & Taylor, 40 Saks Fifth Avenue, 100 OFF 5TH, 60 Home Outfitters, 130 HBC Europe, one Find @ Lord & Taylor store, one Hudson's Bay outlet, two Zellers clearance centers and two Lord & Taylor outlets.

Tourist Locations Drive Sales for PVH Corp.

PVH CEO Emanuel Chirico recently addressed domestic direct-to-consumer retail trends: "Our international tourist locations are our most profitable stores," he said. "The volumes we achieve in Orlando and Miami, Florida, Harriman, N.Y., and Las Vegas, Nevada, are by far the four largest centers in the country. Despite experiencing comp store sales declines probably in excess of 20 percent in those stores, they continue to be our highest performing comp stores, generating our leading sales-per-square-foot metric."

Chirico explained that there isn't a profitability issue from the point of view of overall profitability. But given the decline in sales volume and the margin pressure that followed over the last 12 months, the business has suffered.

"We continue to report double-digit operating margins in those businesses. Comparisons ease as we get into September and October and I think we can start to see a better trend in our retail comp performance in the second half, but we're not counting on it to significantly improve."

In response to a question on wholesale accounts, e-commerce and channel conflict, Chirico said, " Three to four years ago our wholesale customers asked us to help drive traffic to their e-commerce sites. We listened and made the decision not to compete directly with our wholesale accounts online in North America. We made a strategic decision to partner with our department store customers to really expand their e-commerce businesses, to make investments on their platforms so our brands are well positioned, not only in their brick-and-mortar stores, but also at their e-commerce sites. We are seeing outsize growth with that channel of distribution, be it macy's.com or lordandtaylor.com, so we are really making the investments along with them to drive that business.

"Calvin and Tommy are two of the top four brands in every major retailer in North America, where it's appropriate for us to sell our goods. Our relationships have never been better and the channel conflict that we manage everyday has been going on for the last 20 years, and I have not seen it intensify significantly."

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> **Emanuel Chirico**
> **PVH**

Tommy Hilfiger and Calvin Klein brands drove 3 percent sales growth at PVH Corp., to $1.92 billion for Q1, ended May 1. Calvin Klein global revenues of $722.7 million increased 10.5 percent, up 12.3 percent in North America, to $380.6 million and up 8.6 percent internationally to $342.1 million. Tommy Hilfiger revenues rose 3.2 percent to $791.8 million as a 10.6 percent gain internationally, to $457.2 million offset a 5.4 percent revenue decline in North America, to $334.6 million.

PVH's Heritage Brands reported a 12 percent revenue decline, to $403.3 million as the company exited Izod; however, Van Hausen enjoyed a 12 percent comp gain. Digital commerce grew 20 percent. Comps rose 8 percent for Tommy Hilfiger Europe and declined 10 percent at Tommy Hilfiger North America as the U.S. retail business remains under pressure with weak store traffic. Management notes they haven't seen any improvement in Q2 trends and does not see trends improving through 2016. Calvin Klein comps declined 1 percent internationally despites rising double digit in Europe as results in Hong Kong, Korea and Brazil offset European momentum. In the U.S., Calvin Klein was impacted similarly to Tommy Hilfiger, and Q2 comps are experiencing further deceleration. Both brands grew EBIT 20 percent on a constant currency, supporting 18 percent growth in non-GAAP EBIT to $232 million. Q1 non-GAAP EPS of $1.50 compare with $1.50; excluding currency, Q1 non-GAAP EPS rose 33 percent.

Emanuel Chirico, CEO, provided domestic perspective, stating, "The U.S. market continues to be the most difficult and volatile market we operate in. Despite that, our domestic wholesale businesses are running ahead of plan and prior year actual results. However, our U.S. retail businesses are seeing weaker traffic and higher promotional trends. Overall, international tourist traffic and spending continues to weigh on our U.S. retail business, and we are experiencing a deceleration in sales trends domestically, especially after the early Easter."

In addition to global expansion, growth opportunities in 2016 include the April 2016 acquisition of the 55 percent interest in Tommy Hilfiger China that PVH did not own; the formation of a joint venture in Mexico for all PVH brands; licensing Tommy Hilfiger wholesale womenswear U.S. and Canadian businesses to G-III; and second half launch of a Tommy Hilfiger collection with social media super model Gigi Hadid as co-creator and brand ambassador. PVH lifted 2016 EPS guidance to $6.45 to $6.55 on a non-GAAP basis, which includes a negative FX rate impact of $1.55 per share, from its previous guidance of $6.30 to $6.50 (included a $1.60 per share negative FX rate impact).

The PVH store fleet consists of 610 North American locations, most of which are outlet stores, and are 240 Tommy Hilfiger stores, 200 are Calvin Klein and 170 are Van Heusen; in Europe, 1,530 stores (includes concession locations and franchisee and distributor stores) of which 780 are Tommy Hilfiger and 750 are Calvin Klein; 2,310 Asia Pacific stores (includes concession, franchisee and licensee

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stores) of which 570 are Tommy Hilfiger and 1,800 are Calvin Klein; and 315 Latin American stores of which 210 are Tommy Hilfiger licensee stores and 110 are Calvin Klein stores (and include franchisee and distributor stores).

VF Corp's. Diverse Portfolio Generates Solid Q2 Performance

VF Corp. Q2 sales rose 1 percent to $2.4 billion, approximately $80 million (or 3.3 percent) short of analyst estimates. Q2 EPS from continuing operations were $0.35 versus $0.39 and the $0.34 consensus analyst estimate.

"In our Outdoor & Action Sports DTC (direct-to-consumer) performance, ecommerce is where we are seeing great strength, and our store comps, which we don't talk directly about our brands specifically, were flat to up just slightly, which is pretty consistent with what you hear across the board," said CEO Eric Wiseman. "Contrast that with our sportswear coalition. The majority of our sportswear retail footprint is in outlet locations, and as a broad comment, the outlet channel has seen a pretty significant impact in traffic due to the high promotional activity going on across the majority of retail here in the United States."

Highlights of Q2 include a 6 percent revenue increase in VF Corp's DTC businesses, driven by a low double-digit percentage rate increase in the outdoor & action sports business, partially offset by a mid-teen decline in sportswear. Ecommerce revenues rose nearly 30 percent. Total DTC revenues were approximately 27 percent of Q2 revenues, or an estimated $660 million.

Outdoor & action sports revenue grew 2 percent to $1.4 billion as The North Face brand increased sales 2 percent (including a high single digit gain in the Americas), Vans sales rose 4 percent (high single digit in the Americas) and Timberland revenue declined 7 percent (down high-teens in the Americas region). Jeanswear sales grew 3 percent to $629 million led by Lee Brand (up 8 percent).

The North Face brand increased sales 2 percent (including a high single-digit gain in the Americas).

Consolidated operating income declined 3 percent to $211 million, and as a percent of sales, contracted 40 basis points to 8.6 percent of sales. The operating margin for the outdoor & action sports coalition declined 100 basis points to 8.7 percent of coalition sales, offset by a 10 basis point increase in the jeanswear operating margin, to 17.3 percent of sales.

The sportswear coalition disappointed with a 19 percent revenue decline, to $115 million in tandem with a 56 percent decline in the operating profits and 470 basis point operating margin contraction to 5.5 percent of sales.

"Our sportswear business decreased in Q2 due to traffic declines in both wholesale and DTC," said president and COO Steve Rendle. "Revenue at Nautica dropped 20 percent due to the same challenges we've seen in the past few quarters, including heavy discounting and promotional environments in the U.S. department store channel, as well as our strategic decision to license the women's sleepwear and men's underwear business, and traffic declines at outlet, where we closed seven stores this year."

VF Corp. updated guidance which excludes its contemporary brands businesses and reflects reduced revenue projections for its sportswear and outdoor & actionwear sports coalitions. Consolidated revenues are now projected to increase 3 to 4 percent versus the previous projection of mid-single-digit growth. The exclusion of contemporary brands is expected to reduce gross margin 10 basis points to 48.7 percent of sales and lift the operating margin a similar amount. Operating margin is expected to reach 14.5 percent of sales, and 2016 EPS are projected at $3.20, up 5 percent and reduced about $0.03 reflecting the exclusion of contemporary brands.

At the end of Q2 there were 1,461 VF-owned retail stores.

One third of all Carter's stores are in outlet centers.

Carter's and Oshkosh Impacted by Muted International Demand

"On a comparable basis, domestic demand in our U.S. retail business rose more over 8 percent in Q2," said CEO Michael Casey. "By comparison, international demand declined about 18 percent resulting in a net 3 percent comp increase. We've seen the biggest impact from lower international traffic in the Southeast and some of our largest, most productive stores in Florida."

Historically, the company's best performing outlet stores have benefited from international tourism. Sales to international tourists dropped from 20 percent of its retail sales in the first

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half of 2015 to 15 percent in the first half of this year. This decrease impacted retail comps by about 3 percentage points.

"As the volatility in exchange rates has begun to moderate, we're seeing a positive correlation in retail sales," Casey said. "We're starting to see some recovery in some of the larger outlet stores in Florida, but it hasn't been sustained. So our biggest assumptions for the second half are, as exchange rates start to normalize year-over-year, the international guest is coming back. And so we put reasonable assumptions on both our ecommerce business and the stores. We're seeing recovery online, not so much in the stores yet."

Carter's Inc. beats consensus estimates for Q2 (ended July 2) EPS, by $0.06, coming in at $0.72 versus $0.69 and sales were modestly ahead as well, up 4 percent to $639 million. Still, management reduced 2016 guidance reflecting weak international traffic in the U.S.

Oshkosh, with approximately two-thirds of its retail stores in outlet locations, was overly affected on a comp store sales basis, according to CFO, Richard Westenberger.

"Oshkosh total retail segment net sales grew 5 percent, driven by new store openings and 18 percent ecommerce growth, offset by a 6 percent store comp decline," Westenberger said. "We believe lower demand from international consumers disproportionately affected the OshKosh store comp performance, given the concentration of international tourist outlets in the OshKosh brand store portfolio."

Nearly two-thirds of OshKosh stores are in outlet centers compared to only one-third for Carter's. Non-outlet OshKosh stores, principally side-by-side stores, comped positively in the second quarter. The best traffic and the best comps were in our side-by-side stores. It's where you have the best of Carter's and best of OshKosh sitting side-by-side."

The company plans to adjust the mix of Oshkosh Outlets to about one-third of total stores over the next five years. Moreover, given the success with its Carter's Oshkosh side-by-side locations, every Oshkosh store opening will be in a side-by-side location.

"To achieve our growth objectives this year, we have initiatives focused on providing the best value and experience in young children's apparel, extending the reach of our brands and improving profitability," Casey said. "We believe one of our most impactful initiatives is our strategy to make shopping for our brands more convenient for consumers."

The company plans to open 130 stores in North America in 2016.

Management adjusted 2016 guidance to reflect reduced spring 2017 bookings and international demand. Casey said, "Understandably, some of our wholesale customers are being more conservative with their inventory commitments given trends in their businesses. That said, we're expecting good growth for our company in 2016 and our longer-term outlook has not changed. We believe that our multi-brand, multi-channel business model will enable us to achieve $4 billion in sales by 2020."

The company now projects for net sales to grow 5 to 6 percent (down from 6 to 7 percent) and adjusted diluted EPS to accrete about 10 percent from $4.61 to approximately $5.07, versus previous guidance of 10 to 12 percent growth.

Additional details on Q2: A 4.4 percent comp gain at Carter's retail reflecting 17.4 percent ecommerce sales growth and a 1.4 percent store comp gain. Total Carter's brand retail sales rose 10.9 percent to $274 million aided by 62 net new stores versus Q2 2015. Oshkosh retail sales increased 7.5 percent to $79 million driven by a 17.6 percent gain in the ecommerce channel and 41 net new stores. Oshkosh store comp declined 5.8 percent and the Oshkosh retail brand comp was a 1.3 percent decrease. Carter's retail operating margin decreased 150 basis points to 14 percent of segment sales due to store expense deleverage, higher promotions and marketing spend and IT investments. At Oshkosh, lower product costs drove 60 basis points of margin improvement for an operating loss that represented 1.9 percent of segment sales. Sales at Carter's and Oshkosh wholesale dropped 2.8 percent and 34.4 percent respectively and international sales rose 8.0 percent to $72 million benefiting from store expansion in Canada and ecommerce in China.

Entering Q3, the Carter's Inc. store fleet consisted of 624 Carter's stores including 196 Carter's Outlets and 428 Carter's brand stores and 262 OshKosh B'gosh stores, including 159 OshKosh B'gosh Outlets and 103 OshKosh B'gosh brand stores. There are 36 Carter's OshKosh B'gosh Outlet side-by-side locations and 83 Carter's OshKosh B'gosh Outlet brand store side-by-side locations.

> **"One of our most impactful** initiatives is our strategy to make shopping for our brands more convenient for consumers."
>
> **Michael Casey**
> **Carter's, Inc.**

LVMH will sell Donna Karan International to G-III apparel group for $650 million.

LVMH to Sell Donna Karan

LVMH has announced that it will sell Donna Karan International to G-III apparel group.for approximately $650 million. The transaction is expected to close by early 2017., after 15 years of ownership.

"Donna Karan International has a deep heritage, global recognition, and renewed energy," said Toni Belloni, group managing director of LVMH, in a statement.. "We believe the DKNY brand has a dynamic position in the market, and when G-III approached us about acquiring the brand, we concluded that the time was right and that G-III was the right steward going forward. We are pleased to have reached an agreement with G-III, a company that has the expertise and capabilities to broaden the brand's distribution and take it to its next level of success."

G-III Apparel Group, which owns, licenses and markets brands such as Marc New York, Calvin Klein, Karl Lagerfeld and Guess, said it expects to "capitalize on a significant market opportunity" for Donna Karan.

"Donna Karan International's lifestyle aesthetic resonates well with consumers throughout the world," said Morris Goldfarb, chairman, CEO and president of G-III, in a statement. "Donna Karan brings increased scale and diversification, while providing incremental growth on top of our portfolio of some of the best fashion brands in the world. We believe we are well positioned to create and sustain