

Broadlines Retailing

Weather Call Key Takes: A Rainy Outlook for Apparel in 2H09

On Friday, we hosted our semi-annual weather outlook conference call with Bill Kirk, Co-Founder and CEO of Weather Trends International (WTI). In summary, the 2H of 2009 is expected to be challenging from a weather perspective – with sales coming under pressure from unseasonably cool temperatures through most of the summer and an unseasonably warm stretch during the first part of Back-to-School. In the near term, May sales should receive a positive bump from favorable weather – only due to give way to a wet/cold June, which is unfortunate since most retailers could use a tailwind as they cycle the stimulus lift from 2008. **A replay of our call can be accessed until 5/15 by dialing 866-465-0328 (US); +1-203-369-1413 (outside US); Passcode: 68574.**

- **Will May flowers steal June’s sunshine?** May 2009 is shaping up to be a bright spot for retailers from a weather perspective, according to WTI. Evidenced by a favorable start to the month and an outlook for continued warm and slightly wet conditions ahead, Mr. Kirk highlighted selling opportunities often delayed until later in the season, including lawn & garden, patio, and summer apparel. However, as favorable as May’s outlook may be, June’s is equally as *unfavorable*, according to WTI, with the coldest and wettest conditions on tap in at least 5 years. Therefore, we may expect that the seasonal big-ticket items (air conditioners) pulled forward into May and traditional seasonal add-ons (apparel, lawn care) may be absent from June selling, making for a very difficult sales environment.
- **Fall outlook = Too little, too late?** Although the weather is expected to be cooler YOY through mid-summer, WTI’s calling for a burst of warmer temperatures late in the season, beginning mid-August. The late-inning warm-up may help retailers exit lingering seasonal items; however, the timing of the weather change may be too late to capture full-priced selling and may foreshadow a period of heightened markdowns as items fall to clearance ahead of back-to-school. As a reminder, retailers are generally looking for a shift toward Fall conditions (in early August) as shoppers prepare for back-to-school. As such, a return to summer temperatures during this timeframe may prove challenging for stores to convince consumers to stock up on Fall apparel items in August/September. Overall, we fear the warming trends late in the season may prove to be “too little, too late” and back-to-school may prove to be another “challenge” for retailers this Fall.
- **I’m dreaming of a warm Christmas.** It may seem counter-intuitive, but WTI’s forecast for a warm Holiday period may be a welcome change for most retailers in our space. To this point, WTI’s outlook for a warm and dry Holiday season can be beneficial for store traffic, particularly big-ticket sales that lag in periods of extreme weather. However, such a forecast bodes very poorly for the department stores, as moderate temperatures limit cold-weather apparel sales and challenge seasonal styles in the very limited full-priced window before markdowns take hold in January.

See page 4 for analyst certification and important disclosures.

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- Overall take = Not a good read for apparel selling.** The key secular takeaway from WTI's 2009 weather outlook may be significant headwinds ahead for apparel sales – the combination of (1) a cool summer, (2) hot back-to-school, and (3) mild Holiday period may put a damper on the prime apparel selling periods of the year. As such, we're taking a cautious approach in our sales outlook for department store sales, favoring those with both lean inventories and nimble supply chains (namely Overweight-rated Kohl's).

Table 1: Understanding What Retailers Want From Mother Nature

	Temperature	Precipitation	Snow/Hurricane
January	Much Warmer	Drier	Less Snow
February	Much Warmer	Drier	Less Snow
March	Much Warmer	Drier	Less Snow
April	Much Warmer	Drier	Less Snow
May	Much Warmer	Average	Less Snow
June	Warmer	Drier	Fewer Storms
July	Warmer	Average	Fewer Storms
August	Warmer	Drier	No impact
September	Colder	Wetter	More Snow
October	Colder	Average	More Snow
November	Average	Drier	More Snow
December	Warmer	Drier	Less Snow

Source: WTI.

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North America Equity Research
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J.P.Morgan

Companies Recommended in This Report (all prices in this report as of market close on 11 May 2009)

Kohl's Corporation (KSS/\$44.84/Overweight)

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Kohl's Corporation (KSS) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
29-Sep-06	N	66.45	--
03-Mar-08	OW	45.31	--
02-Jul-08	OW	41.01	50.00
12-Aug-08	OW	51.00	--
31-Oct-08	OW	33.86	43.00
10-Nov-08	OW	33.08	40.00
14-Nov-08	OW	30.57	34.00
29-Jan-09	OW	38.75	44.00
27-Feb-09	OW	34.70	42.00
27-Mar-09	OW	43.04	46.00
08-May-09	OW	44.25	50.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
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