

## July Retail Sector Focus

### The CIT effect

*CIT has been the talk of the month, with many investors concerned about what would happen if CIT were not there to provide factoring for vendors and retailers or to participate in bank lines of retailers. We think that CIT concerns are overblown relative to the retail sector, and that other factors are weighing more heavily on fundamentals, such as continued soft sales, weak consumer income data, and worries about back-to-school sales.*

- **We discuss the CIT effect in this report**, with an overview of how the factoring business is integral to retailers and their vendors. The bottom line is that we believe the retailers in our coverage universe have adequate liquidity to fund any disruption if CIT were to exit the factoring business - not that we think CIT would exit this profitable business by choice. Those that could be most impacted (by shorter payable days) would be Burlington Coat Factory and Dillard's.
- **We will begin to get 3Q earnings in August**, and by early September we should have a good idea of how the back to school season is faring. An early survey by the National Retail Federation showed that families intend to spend 7.7% less on school supplies this year versus last.
- **We provide a summary of sales and earnings forecasts in this report.**
- **June same store sales numbers were weak as expected.**
- **We recommend an Underweight on HG Retail, based on rich relative valuations.** The HG Non-Food Retail Index trades at an I-spread of 194bp versus the JULI at 278bp. Our HG Credit Strategist continues to be constructive on HG spreads overall, which should lead to relative underperformance for HG Retail. Over the last month, NonFood Retail performed somewhat better than the JULI with tightening of 35bp. We think this was driven by a flight to quality trend as the credit markets took a breather from the bullish tone of the last few months.
- **We maintain our Underweight in HY non-food Retail, and continue to wait for a better buying opportunity.** We expect near-term data points to remain negative (July and August same store sales, commentary about back to school). We have already seen the rally fade in July. Our picks remain cautious, focused on defensive names such as Blockbuster, GNC, Eye Care Centers, Rent-A-Center, Nebraska Book Company, and Rite Aid. With the average HY retailer we cover trading at 71, we currently have no Underweight recommendations.

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## HG Retail recommendations

**We recommend an Underweight on HG Retail, based on rich relative valuations.** The HG Non-Food Retail Index trades at an I-spread of 194bp versus the JULI at 278bp. Our HG Credit Strategist continues to be constructive on HG spreads overall, which should lead to relative underperformance for HG Retail. Over the last month, NonFood Retail performed somewhat better than the JULI with tightening of 35bp. We think this was driven by a flight to quality trend as the credit markets took a breather from the bullish tone of the last few months.

We haven't changed any of our credit specific recommendations over the last month.

- We continue to recommend an UW in Wal-Mart bonds due to valuation.
- We are OW Kohl's given the company's stable credit profile and attractive spread pick up versus most names in the sector.
- We recommend an Overweight on cross over retailer Macy's and an Underweight on Jones Apparel.

Table 1: HG Retail Credit Sector Constituents

Ticker	% of IG Retail Index	Cash spread relative to Index <sup>1</sup>	5yr CDS level	JPM Credit recommendation	Comment
WMT	40%	-	50	Underweight	WMT's performance has been solid, and its credit ratios stable throughout the downturn, benefiting from consumers trading down, in our view. Spreads have rallied and are now much tighter than the index.
TGT	21%	-	65	Neutral	Same-store sales performance has been sluggish, but cash flows have improved. TGT has \$1.25bn of bond maturities in 2009 which it may look to partly refinance in term debt markets.
HD	16%	-	95	Neutral	Macro backdrop remains very soft for home improvement, but the rate of decline has stabilized. HD will pay off its 2009 bond maturities with cash. Its leverage should be pretty steady at 2.5x.
LOW	7%	-	70	Neutral	We believe demand for home improvement items is likely to remain depressed through 2009, but LOW is managing its balance sheet and cash flow conservatively.
SPLS	4%	+	125	Not rated	
COST	4%	-	NA	Neutral	COST's business model (bulk, low prices) is outperforming in the weak US macro environment, but not totally immune. Operating results have been solid. Balance sheet is conservatively managed. Rich valuation.
KSS	3%	+	85	Overweight	Sales performance has been solid compared with peers and credit metrics steady through the downturn. We believe KSS is well positioned to emerge from recession in an even stronger competitive position.
AZO	2%	+	65	Neutral	AZO's financial performance has exceeded our expectations for several quarters in a row now, with positive same store sales and stable/improving EBITDA margins. Our main concern has been financial policy, which includes a moderate leveraging of the balance sheet to repurchase shares.
JWN	1%	+	220	Neutral	Nordstrom's exposure to California (25% of operations) and the high end consumer are negatives in this environment. This is balanced by moderate leverage of 2.3x (excluding non recourse credit card debt).
BBY	1%	+	NA	Not rated	
VFC	1%	-	55	Not Rated	
M	-		385	Overweight	Although most of the positive catalysts have played out and Macy's bonds have rallied meaningfully over the past few months, we still like the relative value versus other cross-over retailers. We are comfortable with Macy's liquidity position. CDS bond basis is attractive, in our view.
JCP	-		220	Neutral	We believe JCP's cash position of \$2.1bn at 1Q09 provides cushion in a weaker operating environment. Recent bond tender reduces debt another \$100mn. \$750mn credit facility renewed on a secured basis.
JNY	-		395	Underweight	JNY's operating trends continue to be very soft, and it is heavily exposed to US Department stores (55% of revenues). Recent tender for 2009 notes and consents improve JNY's available liquidity under its ABL and slightly improve its credit metrics. But weak business trends and valuation keep us UW.

Source: J.P. Morgan.

## HY Retail recommendations

**We recommend an Underweight on HY non-food Retail**, as we wait for a better buying opportunity. HY retailers gave back 1.5 points so far in July on weaker consumer data. We expect data to remain negative (commentary on weak back-to-school, heavy promotions, less stimulus, rising mortgage rates, and general credit tightening). Our picks remain cautious and focused on defensive names, but we have no outright Underweight recommendations.

- Our **Overweight** recommendations remain focused on companies where we believe the fundamentals are strong, and/or will remain more stable in prolonged economic weakness: **Blockbuster, Eye Care Centers, GNC, Nebraska Book Company, Rent-A-Center, and Rite Aid.**
- On the bank debt front, we like **Blockbuster** (although bonds are particularly cheap to the bank debt here), **Dollar General, Rent-A-Center** (although with such short dated bonds – 2010 - bonds yields are significantly higher than bank debt, but bonds are hard to find since the company took out most of them), and **Toys R Us** (our favorite bank debt, but hard to find).

Limited Brands, Macy's and JCPenney have all been added to the HY index, the latter two most recently on July 1. These higher-rated retailers, along with defensives such as Dollar General, and Sally Beauty, now comprise 36% of the index, and could provide more stability to it than over the past 9 months.

Table 2: JPM HY Food & Drug sector weightings in JPM index

Company/bond	maturity	% of JPM HY			Comment
		Retail	STW	Rec	
<b>Food &amp; Drug</b>					
Rite Aid Corp.		19.5%			
9.750%	12-Jun-16		705	Buy	Renovation, systems and merchandise integration, and promotions at acquired stores started to show up in better margins in '10. Refinanced revolver and TLA in June, reducing refi risk (AR facility backstop matures 9/10).
10.375%	15-Jul-16		953	Buy	
7.500%	1-Mar-17		899	Buy	
8.625%	1-Mar-15		1,642	Buy	
9.375%	15-Dec-15		1,627	Buy	
9.500%	15-Jun-17		1,483	Buy	
6.875%	15-Aug-13		1,801	Buy	
7.700%	15-Feb-27		1,673	Buy	
6.875%	15-Dec-28		1,446	Buy	
Duane Reade, Inc.		3.7%			
FRN's	15-Dec-10	(NI)	601	Hold	
9.750%	1-Aug-11		1,547	Hold	

Source: J.P. Morgan.

Table 3: JPM HY Retail market value weightings in JPM index

Company/bond	maturity	% of JPM HY			Rec	Comment
		Retail	STW			
<b>Dollar General Corp.</b>		12.0%				
10.625%	15-Jul-15		654	Hold	Defensive, particularly given high percentage of consumables - over 60% of sales.	
11.875%	15-Jul-17		748	Hold	Bank debt looks cheap to bonds. Expect margin expansion in '09 from shrink Reduction. Potential IPO candidate (bonds have a 33 1/3% clawback)	
<b>Macy's **</b>		11.3%			Covered by Ginger Chambless	
5.900%	01-Dec-16		630	Buy	We show only the 2 bonds included in the JPM HY index.	
5.350%	15-Mar-12		745	Buy		
<b>Limited Brands</b>		8.2%				
6.125%	01-Dec-12		582	NR	June same store sales disappointed.	
5.250%	01-Nov-14		651	NR		
6.900%	15-Jul-17		674	NR		
7.600%	15-Jul-37		672	NR		
<b>Toys R Us, Inc.</b>		8.1%				
10.750%	15-Jul-17		819	Hold	Toys R Us Propco	
7.625%	1-Aug-11		1,118	Hold	Refinanced its Propco loan this month, now has to refinance \$800 mn CMBS	
7.875%	15-Apr-13		1,259	Hold	due in 2010. Management commented that 2Q is softer than 1Q on weak	
7.375%	15-Oct-18		964	Hold	seasonal sales.	
<b>JCPenney **</b>		4.8%			Covered by Ginger Chambless	
6.375%	15-Oct-36		514	Hold	We show only the 2 bonds included in the JPM HY index.	
7.625%	01-Mar-97		446	Hold		
<b>Michael's Stores, Inc</b>		4.7%				
10.000%	1-Nov-14		1,219	Hold	New CEO has a strong resume from Wal-Mart and Ben Franklin Crafts. 10-K	
11.375%	1-Nov-16	(NI)	1,696	Hold	reported that sponsors own \$233 million of the zeros.	
0.000%/13.000%	1-Nov-16		2,305	Hold		
<b>Neiman Marcus Group, Inc.</b>		4.1%				
9.000%	15-Oct-15		1,607	Hold	Expect high end consumer sales to remain weaker than low end through fall.	
10.375%	15-Oct-15		2,195	Hold	Managing down costs well. We believe liquidity is solid - unused revolver just	
<b>Sally Holdings LLC</b>		4.1%			refinanced.	
9.250%	15-Nov-14		682	Hold	Own ~60% stores.	
10.500%	15-Nov-16		765	Hold	Beauty care viewed as defensive, bonds have held in better than most retail.	
<b>Gamestop Corp.</b>		3.4%			We worry that prolonged downturn does eat into sales and EBITDA margins.	
8.000%	1-Oct-12		665	Hold	Cash flow is very strong, offsetting the negative of industry weakening in light of	
<b>Yankee Candle Co., Inc.</b>		2.5%			no new platforms this year.	
8.500%	15-Feb-15		1,055	Hold	Wholesale/retail balance provides better diversification than other retailers.	
9.750%	15-Feb-17		1,214	Hold		
<b>Claire's Stores, Inc.</b>		1.4%				
10.375%	1-Jun-15		2,944	Hold	Partially offset lost sales to Linens by adding Pier 1 and Target. Lower oil may	
10.500%	1-Jun-17		3,229	Hold	benefit 2009 cost structure by late in the year.	
<b>Bon-Ton Stores, Inc.</b>		1.2%			We see no liquidity risk near term, as the company elected to PIK its toggle notes.	
10.250%	15-Mar-14		3,691	Hold	Free cash flow should be close to neutral for 2008. But expect mall traffic to remain	
<b>Burlington Coat Factory</b>		1.4%			weak.	
11.125%	15-Apr-14		1,551	Hold	Tightest inventory control of the group (down mid teens). We see no liquidity risk, but	
<b>Dillard's, Inc.</b>		1.1%			modest vendor risk.	
7.130%	1-Aug-18		1,274	Hold	Off priced stores expected to do better in a downturn. Begin paying cash interest	
7.000%	1-Dec-28		1,055	Hold	on holdco notes in April 2009. Risk = long vendor payable terms.	
<b>Dollarama Group LP</b>		1.1%			Results poor, but asset rich. Used cash and revolver to take out Nov '08 bonds.	
8.875%	15-Aug-12		850	NR	Activist shareholders instigated sale of plane, travel agency, and 16 store closures	
<b>NBTY, Inc.</b>		1.1%			in '08. Own 70% of stores.	
7.125%	1-Oct-15		564	Hold	Dominant market position in Canada. Should start to see benefits from raising	
<b>Eye Care Centers of America, Inc.</b>		0.9%			price points this quarter (more than just \$1, now, like most "dollar" stores).	
10.750%	15-Feb-15		897	Buy	Industry is somewhat countercyclical. Integration of Leiner cycles by calendar	
<b>Nebraska Book Co.</b>		0.9%			3Q/4Q.	
8.625%	15-Mar-12		2,075	Buy	Somewhat defensive. Highmark (owner) trying to tender for bonds at par, but	
0.000%/11.000%	15-Mar-13		6,807	Buy	they are callable in 2/2010 at 105 3/8. Ratings upside potential.	
<b>Blockbuster, Inc.</b>		0.8%			Defensive industry - college bookstore retail and used textbook wholesale.	
9.000%	1-Sep-12		4,027	Buy	Well run business. Holdco notes now pay cash interest (began 9/08). Modest refi	
<b>Saks, Inc.</b>		0.8%			risk May 2010 (sponsors put in \$10 mn during last refi).	
9.875%	1-Oct-11		968	Hold	Cash flow strong, focused on debt pay down. Expect 2Q cash flow to be upside	
<b>GNC Corp.</b>		0.6%			surprise on working capital inflow. Refi risk - September 2010.	
FRN's	15-Mar-14	(NI)	978	Buy	Hurt by slowing tourist traffic, NYC weakness, and slowing of high-end consumer.	
10.750%	15-Mar-15		1,125	Buy	Asset rich - own 70% of real estate. Carlos Slim is largest shareholder.	
					Somewhat defensive vitamin category. Benefiting from rollout of GNC	
					store-within- a-store at Rite Aid. SSS positive each qtr in 2008, proving some	
					recession resistance, in our view.	

Source: J.P. Morgan.

## More value in bank debt

Bonds underperformed bank debt in 11 of the 17 bonds in the following chart (BBI, BCFACT, DG, MIK subs, NMG, SBH, TOY, and YCC seniors). Bonds outperformed bank debt for CLAIRE, GNC, and YCC subs. For Claire's, we believe this has made the bank debt particularly attractive relative to the bonds. Bank debt remains attractive relative to bonds at Dollar General and Sally Beauty (vs. the subs in particular), and at Toys R Us.

This chart shows the discount investors demand for taking on an additional unit of leverage. Currently, this spread is in the low 200bps range for senior notes (206bps if we exclude BBI, which skewed the results) and 267 for subordinated notes. This is down from over 500bps from January through April. Before the 4Q08 market meltdown, that spread used to be closer to 150bps.

We calculate the incremental spread (column B) investors are getting per additional turn of leverage (column A) to trade from bank debt into bonds. We then average those spreads and compute the spread/turn of leverage (boxes C for seniors and D for subs). We use these averages to calculate the theoretical fair spread (column E, or average incremental spread x incremental leverage). Where the discrepancy is positive, bank debt is cheap relative to bonds, and where it is negative, bonds are cheap relative to bank debt.

Table 4: Bonds vs. bank debt relative value as of July 15, 2009

(Negative) = bonds cheap to bank  
Positive = bank cheap to bonds

	Bank	Total	Bond	Bond	Loan	Loan	(A)	(B)	(E)	Differential		
Ticker	Coupon	Maturity	Lev	Lev	Bid px	Z-spd	Ask px	LIBOR Spd	Leverage	Spread	fair spread	(bp)
BBI	9.000	9/12	1.7 x	3.2 x	47.00	3825	80.00	2150	1.5 x	1675	412	(1,263)
BCFACT	11.125	4/14	3.4 x	4.5 x	79.00	1517	80.00	951	1.1 x	566	298	(268)
CLAIRE	9.250	6/15	7.8 x	10.7 x	55.50	2067	56.50	1692	3.0 x	375	808	433
CLAIRE	10.500	6/17	7.8 x	12.3 x	42.50	2666	56.50	1692	4.6 x	974	1,221	247
DG	10.625	7/15	2.3 x	3.4 x	107.00	603	96.00	371	1.2 x	232	315	83
DG	11.875	7/17	2.3 x	4.1 x	107.25	700	96.00	371	1.8 x	329	482	153
GNC	FLOAT	3/14	3.0 x	4.4 x	81.50	979	91.00	480	1.3 x	499	366	(133)
GNC	10.75	3/15	3.0 x	4.9 x	88.00	1090	91.00	480	1.8 x	610	491	(119)
MIKE	10.000	11/14	5.2 x	6.7 x	83.00	1184	79.00	855	1.6 x	329	428	99
MIKE	11.375	11/16	5.2 x	8.3 x	66.50	1719	79.00	855	3.1 x	864	835	(29)
NMG	9.000	10/15	4.7 x	6.6 x	57.50	1545	76.00	990	1.9 x	555	514	(41)
NMG	10.375	10/15	4.7 x	7.9 x	55.50	2169	76.00	990	3.2 x	1179	864	(315)
SBH	9.250	11/14	3.0 x	4.2 x	99.50	642	96.00	332	1.3 x	310	342	32
SBH	10.500	11/16	3.0 x	5.0 x	99.00	738	96.00	332	2.1 x	406	554	148
TOY	7.375	10/18	3.9 x	6.0 x	71.50	913	95.00	630	5.7 x	283	1,544	1,261
YCC	8.500	2/15	3.3 x	5.1 x	81.25	1038	94.00	350	1.8 x	688	486	(202)
YCC	9.750	2/17	3.3 x	6.1 x	76.00	1187	94.00	350	2.8 x	837	752	(85)
Average - senior notes and loans									2.0 x	551		
Average - sub notes and loans									2.8 x	743		
Incremental spread/turn of leverage – senior									C	272	206 ex BBI	
Incremental spread/turn of leverage – sub									D	267		

Source: JPMorgan estimates, Company data.

## Capital structures are still too top heavy

When we re-lever balance sheets using the market value of bank debt and bonds, we find that there are still some companies whose balance sheets are too top heavy (Bon-Ton, Claire's Stores, Michael's Stores, even at market values that are well below face value (CLE loans trade at 57 range and MIK at 79). These two businesses also show up as too levered at market value through the entire business (8.7x Debt at market/EBITDA for CLAIRE and 7.2x for MIK). If EBITDA does not rebound back to pre-recession levels, we believe these are prime candidates for debt for equity exchanges over the next several years.

Table 5: HY Retail: market value debt/EBITDA

	BBI	BONT	BCFACT	CLAIRE	DG	GNC	MIK	NMG	RCII	RAD	SBH	TOY	TOY Del
Face value of bank debt & sec	549	682	908	1,622	2,297	664	2,464	1,625	780	2,788	1,014	4,056	1,685
Face value of bonds & other	333	510	428	960	1,840	416	1,493	1,321	150	3,422	713	1,711	22
Face value of Debt	881	1,192	1,337	2,582	4,137	1,080	3,957	2,946	930	6,211	1,727	5,767	1,707
Market value of bank debt & Sec	205	647	734	1,001	2,197	605	1,983	1,235	748	1,896	973	3,547	1,381
Market value of bonds & other	174	209	344	408	1,969	348	1,000	750	149	2,308	708	1,485	22
MV of Debt	378	856	1,078	1,409	4,166	952	2,983	1,985	897	4,204	1,681	5,033	1,403
Cash	107	18	27	205	435	66	32	229	196	152	105	470	256
LTM EBITDA	297	159	275	209	1,015	222	477	371	357	968	342	967	579
<b>Bank debt ratios</b>													
Book value bank/EBITDA (net)	1.5 x	4.2 x	3.2 x	6.8 x	1.8 x	2.7 x	5.1 x	3.8 x	1.6 x	2.7 x	2.7 x	3.7 x	2.5 x
MV Bank/EBITDA (net)	0.3 x	3.9 x	2.6 x	3.8 x	1.7 x	2.4 x	4.1 x	2.7 x	1.5 x	1.8 x	2.5 x	3.2 x	1.9 x
<b>Total debt ratios</b>													
Book value total debt/EBITDA (net)	2.6 x	7.4 x	4.8 x	11.4 x	3.6 x	4.6 x	8.2 x	7.3 x	2.1 x	6.3 x	4.7 x	5.5 x	2.5 x
MV total debt/EBITDA (net)	2.1 x	5.5 x	4.5 x	8.7 x	3.8 x	4.3 x	7.2 x	5.8 x	2.1 x	5.1 x	4.7 x	5.2 x	2.5 x

Source: J.P. Morgan estimates, Company data. Shaded areas denote where we believe bank or bond leverage at market value is too high.

## HY gave back some of the spring gains

With little to no good news on the consumer front, or same store sales, and early fears that back-to-school sales will be weak, HY retail gave back a point and a half in early July. We expect to see more give back as news continues to weigh on the markets.

We did not believe the lows were justified back in March, nor did we believe the rally through June had fundamentals to back it. We would expect levels to stabilize somewhere lower than today's levels, and remain Underweight, but don't see the market going back to March levels.

Table 6: Retail bond prices as of first day of each month: October 2008 to present (lows shaded)

Date	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Current	Curr-Apr
BBI 9% '12	65.25	56.75	47.50	45.00	50.50	53.00	45.00	52.00	51.50	49.00	45.50	0.50
BCFACT 11.125% '14	55.25	39.00	24.00	31.00	30.00	25.00	17.00	31.25	49.00	43.50	39.50	22.50
BONT 10.25% '14	36.50	17.00	14.00	12.00	15.25	12.00	31.00	69.75	72.50	79.00	77.75	46.75
CLAIRE 9.25% '15	41.50	31.00	18.00	21.00	24.00	19.00	30.50	40.00	39.00	46.00	44.50	14.00
CLAIRE 9.625% '15	29.00	18.50	10.00	9.00	7.00	6.00	20.00	28.50	27.00	32.00	33.00	13.00
CLAIRE 10.5% '17	35.50	26.00	13.50	17.00	19.00	15.50	26.00	33.00	34.00	36.00	35.00	9.00
DDS 6.625% '18	62.00	48.00	42.00	35.50	34.00	36.00	36.00	41.50	52.50	56.00	55.00	19.00
DG 10.625% '15	98.50	92.50	89.50	95.50	99.25	100.25	99.75	104.00	106.50	108.00	107.00	7.25
DG 11.875% '15	92.50	82.00	79.50	85.50	92.00	96.75	99.00	103.50	106.00	108.25	107.50	8.50
DRD 9.75% '11	83.00	60.50	54.00	53.00	54.00	54.00	57.00	68.00	81.00	85.50	88.50	31.50
EYCA10.75% '15	103.50	101.00	92.00	95.00	93.00	92.00	91.00	93.00	100.00	100.00	100.00	9.00
GMEUS 8% '12	99.25	92.75	86.13	93.00	99.00	99.50	101.00	101.50	100.38	100.75	100.00	(1.00)
GNC 10.75% '15	79.00	61.50	57.50	56.00	69.00	70.00	72.00	80.00	86.25	85.00	87.75	15.75
MIK 10% '14	61.00	46.00	31.50	45.50	44.50	33.50	47.13	60.50	72.00	86.00	82.00	34.88
MIK 11.375% '16	46.00	36.00	22.50	33.00	29.50	23.50	37.00	49.50	54.00	70.50	66.50	29.50
NTY 7.125% '15	92.25	75.00	74.00	71.00	79.25	80.00	81.25	90.00	91.25	93.50	93.75	12.50
NEBRK 8.625% '15	75.00	64.00	50.00	45.00	50.00	52.00	56.00	70.00	72.00	72.25	73.50	17.50
NEBRK 11% '15	78.50	78.50	40.13	40.63	39.00	40.38	38.38	47.00	33.00	25.00	25.00	(13.38)
NMG 9% '15	82.50	69.00	44.38	45.00	43.75	38.50	32.13	55.00	57.75	63.00	57.50	25.38
NMG 10% '15	83.25	69.00	41.50	43.50	45.50	41.00	32.00	55.00	57.00	59.50	55.50	23.50
RAD 6.875% '15	45.00	33.00	26.00	28.50	23.00	16.00	15.00	48.00	64.50	67.00	64.00	49.00
RAD 8.625% '15	51.00	37.00	28.00	34.50	27.50	23.50	22.50	50.50	67.25	67.25	64.50	42.00
RAD 9.375% '15	51.00	37.00	28.50	35.00	28.00	25.00	24.00	50.50	67.76	67.25	64.50	40.50
RAD 7.5% '17	75.00	64.00	57.50	65.00	58.50	54.00	52.50	74.00	79.50	78.50	77.25	24.75
RAD 9.5% '17	50.00	37.00	28.50	34.75	28.00	24.50	24.00	50.50	67.00	68.00	64.00	40.00
RAD 7.7% '27	39.00	24.00	18.00	18.50	19.00	11.00	13.00	28.00	40.00	41.00	38.50	25.50
RAD 6.875% '28	36.00	24.00	18.00	18.50	19.00	11.00	13.00	28.00	40.00	40.00	38.50	25.50
RCII 7.5% '10	97.25	93.75	93.00	92.00	93.00	94.88	97.75	100.25	99.50	100.00	100.00	2.25
SBH 9.25% '14	94.75	79.00	75.00	86.50	91.50	94.50	94.75	100.50	100.75	100.00	99.50	4.75
SBH 10.5% '16	93.63	73.50	58.00	68.50	82.00	85.50	87.50	96.50	100.00	99.00	99.25	11.75
SKS 9.875% '11	101.00	95.00	78.00	79.00	80.00	67.50	73.00	94.00	97.00	97.50	98.25	25.25
TOY 7.625% '11	83.25	63.00	54.63	48.50	41.50	39.00	40.13	69.00	79.50	92.50	91.50	51.38
TOY 7.875% '13	77.50	62.00	48.00	39.00	37.00	34.00	35.50	60.00	64.00	84.00	81.00	45.50
TOY 7.375% '18	66.00	53.00	40.00	36.00	34.00	32.00	35.25	52.00	58.00	72.00	70.00	34.75
YCC 8.5% '15	71.00	57.00	46.00	46.75	49.50	51.00	55.00	70.50	77.50	84.25	81.00	26.00
YCC 9.75% '17	55.50	49.50	37.00	42.00	43.00	45.00	48.00	64.50	68.00	78.00	75.00	27.00
Avg M/M decline		(12.23)	(10.56)	2.20	0.75	(2.10)	2.33	14.72	5.64	3.39	(1.49)	
Cumulative		(12.23)	(22.79)	(20.58)	(19.84)	(21.94)	(19.61)	(4.90)	0.74	4.14	2.65	

Source: J.P. Morgan Index

## The CIT factor

CIT's financial woes are not good for the retail and apparel industry, much of which relies on CIT for trade support. We believe there would be considerable short-term disruption (3-6 months) if CIT exited the factoring business; but we also believe this is unlikely. If needed, this profitable business could be sold to another player, some of it could be absorbed by existing players, or CIT could sell other businesses and reorganize around this relatively profitable line. ***Most importantly, we believe that the companies in our HG and HY coverage universe have ample liquidity to manage through the disruption. Aside from factoring, few count CIT as a lender.***

In this feature we go through:

- How factoring works
- Which companies would be most affected if CIT did not factor (some may even benefit)
- The Bon-Ton case study
- CIT's involvement in bank lines
- Back half retail outlook in light of the CIT fears

### How factoring works

CIT's factoring business is integral to much of the retail industry. Factors support vendors who need help managing cash flow (often start up, fast growing, or smaller vendors in general) or vendors who want to protect themselves in the event a retailer has financial problems (many vendors in today's environment). Factors assume the risk on inventory as it moves from a vendor to a retailer. They buy the right to collect on the invoice of a retailer at a discount to the face value of the invoice.

CIT is the largest factor in the US, about 5x larger than the next largest player, Wells Fargo. Other players include GMAC, BB&T, and Capital Business Factoring. Factors support vendors who:

- 1) Need help managing cash flow (often start up, fast growing, or smaller vendors in general) or
- 2) Want to protect themselves in the event a retailer has financial problems (many vendors in today's environment).

Factors take risk off the balance sheets of vendors. They buy the right to collect on the invoice of a retailer at a discount to the face value of the invoice. A factor will agree to pay the vendor (at a discount) for product (usually when shipped or shortly after shipping), it will then receive payment when the retailer sends the check either to the vendor or to the factor directly. So the retailer may know the payable is being factored (it is being factored on a "notification" basis) or it may not know ("non-notification"). If the retailer cannot pay the vendor, then the factor has the obligation

to pay the retailer-payable to the vendor. This is a simplification, just to give you the idea how it works.

From the apparel companies we have polled this week and last, we have found that most of the larger players do not factor much. Those that factor protect perhaps 10-20% of their receivables. We believe smaller vendors factor more than larger vendors because they had less access to capital to fund working capital.

From the retailers we polled, we found that long payable days can be an indication of factoring - Burlington Coat has the longest payable days, and the most factored payables. About 50% of its product on the floor is factored (CIT makes up about 2/3 of this). Of those we did not speak with, we believe Dillard's, with similarly long payable days, has similar exposure to factoring.

### Who is the most impacted - and who can benefit

We believe vendors will feel the pinch if CIT cannot help them fund working capital. Retailers could feel the pinch as vendors ask for shorter terms for retailers to pay them. None of the vendors we cover factor with CIT, but several HY retailers pay their vendors through CIT. We believe the most at risk of disruption would be those with the longest terms today: **Burlington Coat Factory** and **Dillard's**, both over 70 days payable on average (we define this on the following page).

These retailers, as well as the other department stores we cover, have adequate liquidity to support some vendors, in our view, so we would not expect the loss of CIT to drive a major credit event. On the following page, we show a chart of the average days for each retailer to pay (based on LTM results).

The chart below shows each retailer's total accounts payable as of the most recent quarter. We compare this to revolver availability, understanding that if vendors have to shorten terms, retailers would have to fund the one time reduction in accounts payable with cash and revolver availability. Importantly, we would not expect any of the accounts payable balances to decrease to zero, but see a 20-30% reduction as possible for those most exposed to factors if the factors were to stop working with them.

Only Blockbuster and Claire's Stores have limited availability (or none) under their credit lines, but we believe both have ample cash. We believe every other retailer in the chart has adequate availability in the event it had to fund a 20-30% reduction in payables.

Table 7: Retail payables relative to revolver availability

	Date	Accounts Payable	Revolver available	LTM Days Payable
Macy's	2-May-09	1,809.0	2,000.0	96.1
Dillard's	2-May-09	849.3	637.5	71.6
Burlington Coat	28-Feb-09	408.6	427.9	70.8
Eye Care Centers	4-Apr-09	29.4	22.4	54.7
Toys R Us	3-May-09	1,290.0	1,534.0	54.2
Rent-A-Center	31-Mar-09	92.3	269.4	53.4
Sally Holdings	31-Mar-09	185.7	318.7	50.3
JCPenney	2-May-09	1,102.0	750.0	47.4
GNC	31-Mar-09	140.0	46.4	45.0
Blockbuster	5-Apr-09	240.3	29.2	36.7
NBTY	31-Mar-09	156.3	320.0	36.6
Bon-Ton	2-May-09	173.5	164.6	33.0
Dollar General	1-May-09	700.4	970.4	32.9
Michael's Stores	2-May-09	213.0	539.0	31.9
Claire's	2-May-09	59.6	0.0	31.8
GameStop	2-May-09	775.6	400.0	31.1
Yankee Candle	4-Apr-09	23.6	108.5	30.6
Duane Reade	28-Mar-09	98.3	57.7	28.8
Saks	2-May-09	140.3	282.0	27.3
Nebraska Book	31-Mar-09	26.9	47.4	26.8
Limited Brands	2-May-09	410.0	916.0	25.2
Rite Aid	30-May-09	1,259.8	862.6	24.6
Neiman Marcus	2-May-09	159.0	510.0	22.9
Dollarama	3-May-09	36.0	75.0	16.3
<b>Average</b>				<b>40.8</b>

Source: J.P. Morgan estimates, Company data.

On the vendor front, none of the apparel companies we cover factor domestic receivables with CIT. We confirmed with Warnaco, Levi, Hanes Brands and Phillips-Van Heusen that they do not factor receivables. Only Perry Ellis factors 8-10% of its receivables to smaller retailers. We believe most of the larger vendors we cover do not need a factor to manage their cash flow, and may use them selectively to manage holiday exposure. ***Some of these larger vendors may actually benefit from disruption in the factoring market, to the extent that it accelerates the consolidation of vendors (which has been an ongoing trend).***

We believe smaller vendors (none of those we cover) would be the most affected by a CIT exit from the factoring market. Vendors have 3 options:

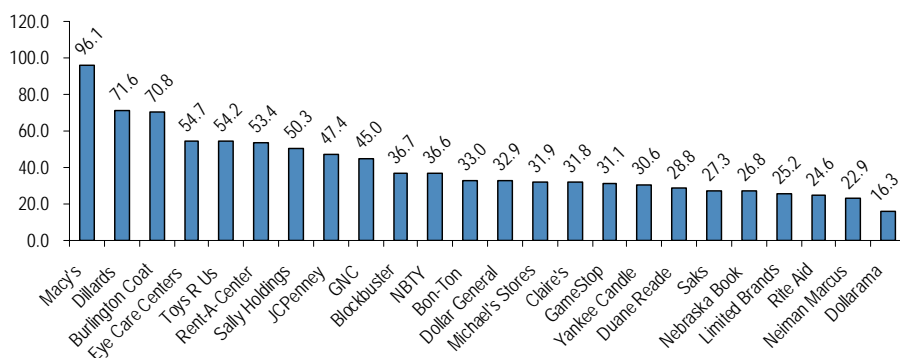
- Replace CIT with another factor. This is getting costly as the cost of factoring has risen in the tough retail environment.
- Ask retailers to pay sooner. If the vendor/CIT/retailer relationship collapses, the vendor may need the retailer to pay sooner (we view normal payable days in the 20-40 day range).
- Seek credit insurance, buy receivable puts, or buy CDS on the retailers it wants to protect itself against – for vendors who were factoring more for seasonal protection (holiday when it may have large receivables balances outstanding). We believe this is less of a cash flow issue, than a “seasonal protection” issue.

***We believe retailers are in a stronger bargaining position today, because of retail consolidation, and retailers' focus on consolidating its own vendor bases.*** Retailers have several options:

- Support a vendor that loses CIT as a factor by paying it sooner.
- Terminate the relationship with the vendor.
- Work with another factor in CIT's place.

***We believe the impact on the retail universe would be somewhat tighter payable-days for a number of retailers, and resulting one time working capital use.*** The chart below shows which retailers we find have the longest days payable.<sup>1</sup>

Figure 1: LTM Days payable in purchases



Source: J.P. Morgan estimates, Company data.

## Bon-Ton case study

We believe Bon-Ton's dispute with CIT last fall provides a good case study on the issue. Last November Bon-Ton and CIT could not agree on terms, so CIT did not factor any of Bon-Ton's holiday inventories for about 6-8 weeks. The result was tighter liquidity at Bon-Ton, as it had to pay vendors sooner (payable days came down by about 10 days during 4Q, which reduced working capital and increased revolver usage, but did not cripple the company.

- Payable days came down by about 10 days during 4Q, from the mid-30s to the mid-20s
- This reduced working capital by about \$55 million during 4Q
- Revolver availability declined from \$351 million at the end of 4Q07 to \$269 million at the end of 4Q08.

We believe this is a strong case in point to the argument that if CIT were to exit from the factoring business, we would not see a retail credit crunch, but would see a one time reduction in cash flow and a reduction in liquidity. Bon-Ton was in one of the weakest liquidity positions last holiday of the names we cover. We believe vendors

<sup>1</sup> We calculate payable days as (Accounts Payable) / (Annual purchases/365 days). Annual purchases = Ending inventory - Beginning inventory + annual Cost of goods sold.

were nervous about the environment in general, and Bon-Ton specifically, and it made it through the loss of a factor in this period.

### **CIT may cause more stress in the bank market**

Although our market is focused on CIT's profitable factoring business, the bigger issue may be CIT's involvement in companies' bank lines. We have found that CIT had no more than \$10 million exposure in bank lines for any of the companies we spoke with. We focused on the retailers with the least liquidity or greatest leverage, and found that there is no exposure to CIT at Blockbuster, Bon-Ton, Burlington Coat, Michaels Stores, Neiman Marcus, and Rite Aid. Although we did not speak with Claire's Stores, we believe that the company does not have exposure to CIT based on its vendor base.

### **Back half retail outlook**

We were already beginning to evaluate retail balance sheets at the mid-point of the year when we started to hear the CIT concerns. This proved a good exercise to evaluate liquidity, but we continue to believe that 3Q could be the trough for many retailers and that 4Q09 should prove better than 4Q08 even if the consumer does not improve because:

- Inventories are in a better starting position, and with less excess inventory to have to clear, margins will be stronger
- Most management teams have cut costs out of SG&A and overhead, which will also help margins, and
- Sales comparisons are easier as we get into October-December than they are mid-year

## HG & HY back half earnings outlooks

With our cautious view of the consumer, and the press starting to pick up on back-to-school news (none of which has been very good), we thought it would be helpful to provide our 2009 estimates for the group.

The interesting point to note from our HY retail outlooks is that in 2008, EBITDA typically declined more than sales, but in 2009, we expect the opposite. Retailers were caught off-guard last year, with too much inventory. Today, inventory is down around 10% for the department stores (BONT and DDS down over 10%, SKS and NMG just under 10%), which should protect year-end margins. In fact, we have seen gross margins improve for some retailers during Q1 after significant declines in Q4.

Table 8: HY Retail 2009 Expectations

Company	2008				2009			
	Revenue	EBITDA	Total Debt	Lease Adj Lev	Revenue	EBITDA	Total Debt	Lease Adj Lev
Blockbuster, Inc. <sup>(1)</sup>	\$5,287.9	\$314.5	\$817.8	5.8 x	\$4,616.6	\$315.0	\$824.7	5.6 x
Bon-Ton Stores, Inc.	\$3,225.4	\$161.9	\$1,157.6	7.4 x	\$2,959.1	\$145.2	\$1,069.7	7.6 x
Burlington Coat Factory <sup>(2)</sup>	\$3,424.0	\$250.0	\$1,483.9	6.6 x	\$3,571.9	\$313.1	\$1,394.5	5.5 x
Claire's Stores	\$1,413.0	\$209.2	\$2,581.8	9.7 x	\$1,318.9	\$193.8	\$2,604.6	10.1 x
Dillard's, Inc.	\$6,988.4	\$166.5	\$1,209.0	7.0 x	\$6,298.7	\$198.7	\$1,037.3	5.7 x
Dollar General	\$10,457.7	\$905.3	\$4,137.1	5.3 x	\$11,897.1	\$1,217.8	\$4,127.3	4.1 x
Duane Reade Inc. <sup>(1)</sup>	\$1,774.0	\$84.0	\$556.0	7.4 x	\$1,867.3	\$88.7	\$425.5	6.9 x
Eye Care Centers of America <sup>(1)</sup>	\$537.6	\$96.8	\$235.9	4.2 x	\$561.8	\$100.1	\$230.8	4.1 x
GameStop Corp. (street ests)	\$8,805.9	\$826.1	\$545.7	2.2 x	\$9,567.2	\$959.2	NA	NA
GNC Corp. <sup>(1)</sup>	\$1,656.7	\$214.9	\$1,084.7	6.1 x	\$1,684.8	\$225.2	\$1,076.8	5.8 x
Limited Brands, Inc.	\$9,043.0	\$1,060.6	\$2,897.0	3.6 x	\$8,154.0	\$960.0	\$2,896.5	3.8 x
Michaels Stores, Inc.	\$3,817.0	\$467.0	\$3,927.0	8.2 x	\$3,790.9	\$445.6	\$3,828.7	8.3 x
NBTY, Inc. <sup>(3)</sup>	\$2,179.5	\$313.1	\$571.7	3.2 x	\$2,531.1	\$245.8	\$464.5	3.5 x
Nebraska Book Company, Inc. <sup>(4)</sup>	\$610.7	\$72.3	\$449.4	7.1 x	\$604.3	\$72.6	\$457.5	6.9 x
Neiman Marcus Group, Inc. <sup>(5)</sup>	\$4,600.5	\$685.8	\$2,946.1	4.4 x	\$3,673.8	\$350.2	\$2,980.8	7.7 x
Rent-A-Center, Inc. <sup>(1)</sup>	\$2,884.2	\$363.6	\$947.1	4.6 x	\$2,818.3	\$355.4	\$762.4	4.1 x
Rite Aid, Inc. <sup>(6)</sup>	\$26,289.3	\$987.6	\$6,560.1	7.2 x	\$26,300.3	\$1,050.0	\$6,242.5	6.9 x
Saks, Inc.	\$3,029.7	\$26.8	\$640.1	11.2 x	\$2,833.7	\$130.4	\$600.6	5.9 x
Sally Beauty Holdings, Inc. <sup>(3)</sup>	\$2,648.2	\$341.7	\$1,825.3	6.0 x	\$2,583.7	\$322.0	\$1,714.0	6.0 x
Toys R Us, Inc.	\$13,724.0	\$969.0	\$5,545.0	6.5 x	\$12,943.2	\$900.7	\$5,375.0	6.7 x
Yankee Candle <sup>(1)</sup>	\$713.7	\$187.5	\$1,183.1	6.0 x	\$693.0	\$141.5	\$1,146.5	7.6 x

Source: J.P. Morgan estimates, Company data.

Note: (1) Fiscal year end is December. (2) Burlington fiscal year end is May. We show 5/08A and 5/09E. (3) Fiscal year ends September. We show 9/08A and 9/08E. (4) Nebraska fiscal year ends March. We show 3/09A and 3/10E, and include holdco debt. (5) Neiman Marcus fiscal year end is July. We show 7/08A and 7/09E (6) Fiscal year ends February. We show 2/09A and 2/10E.

Table 9: HY Retail 2009 change over 2008

	Absolute value				% Change			
	Revenue	EBITDA	Total Debt	Lease Adj Lev	Revenue	EBITDA	Total Debt	Lease Adj Lev
Blockbuster, Inc. (1)	(\$671.3)	\$0.5	\$6.9	-0.3 x	-13%	0%	1%	-5%
Bon-Ton Stores, Inc.	(\$266.3)	(\$16.7)	(\$87.8)	0.2 x	-8%	-10%	-8%	2%
Burlington Coat Factory (2)	\$147.9	\$63.1	(\$89.4)	-1.1 x	4%	25%	-6%	-16%
Claire's Stores	(\$94.0)	(\$15.4)	\$22.8	0.4 x	-7%	-7%	1%	4%
Dillard's, Inc.	(\$689.7)	\$32.2	(\$171.7)	-1.4 x	-10%	19%	-14%	-20%
Dollar General	\$1,439.5	\$312.5	(\$9.8)	-1.1 x	14%	35%	0%	-21%
Duane Reade Inc. (1)	\$93.3	\$4.7	(\$130.5)	-0.5 x	5%	6%	-23%	-7%
Eye Care Centers of America (1)	\$24.2	\$3.3	(\$5.2)	-0.2 x	5%	3%	-2%	-4%
GameStop Corp. (street ests)	\$761.3	\$133.1	NA	NA	9%	16%	NA	NA
GNC Corp. (1)	\$28.1	\$10.4	(\$7.9)	-0.3 x	2%	5%	-1%	-5%
Limited Brands, Inc.	(\$889.0)	(\$100.6)	(\$0.5)	0.1 x	-10%	-9%	0%	3%
Michaels Stores, Inc.	(\$26.1)	(\$21.4)	(\$98.3)	0.1 x	-1%	-5%	-3%	1%
NBTY, Inc. (3)	\$351.6	(\$67.3)	(\$107.2)	0.3 x	16%	-21%	-19%	10%
Nebraska Book Company, Inc. (4)	(\$6.5)	\$0.3	\$8.0	-0.2 x	-1%	0%	2%	-3%
Neiman Marcus Group, Inc. (5)	(\$926.8)	(\$335.7)	\$34.7	3.3 x	-20%	-49%	1%	73%
Rent-A-Center, Inc. (1)	(\$65.9)	(\$8.2)	(\$184.7)	-0.4 x	-2%	-2%	-20%	-9%
Rite Aid, Inc. (6)	\$11.0	\$62.4	(\$317.6)	-0.3 x	0%	6%	-5%	-5%
Saks, Inc.	(\$196.1)	\$103.6	(\$39.5)	-5.3 x	-6%	386%	-6%	-48%
Sally Beauty Holdings, Inc. (3)	(\$64.4)	(\$19.7)	(\$111.3)	0.0 x	-2%	-6%	-6%	0%
Toys R Us, Inc.	(\$780.8)	(\$68.3)	(\$170.0)	0.2 x	-6%	-7%	-3%	3%
Yankee Candle (1)	(\$20.8)	(\$45.9)	(\$36.6)	1.6 x	-3%	-25%	-3%	27%
<b>Sector average</b>					<b>-2%</b>	<b>17%</b>	<b>-6%</b>	<b>-1%</b>

Source: J.P. Morgan estimates, Company data.

**The main takeaways from our HG/cross over Retail sales and EBITDA outlooks for 2009 include:**

- We are expecting the biggest revenue declines from HD and JNY at down 10% and 11% respectively.
- We expect 7-8% declines for Macy's, Nordstrom and JCPenney as the department store sector is impacted by lower consumer spending.
- The biggest EBITDA decline is estimated at JCP, down 52% from 2008, largely due to the accounting for its pension plan.
- As such, we estimate JCP's lease adjusted leverage metric will experience the most deterioration in 2009, going from 3.3x to 4.5x. JWN's leverage should also increase a meaningful amount to 3.0x.
- We expect moderate 5-6% increases in EBITDA at AZO and WMT.
- We believe the biggest improvement in leverage will be at JNY given the redemption of \$250mn of notes maturing this year. Leverage will still be high though at an estimated 5.1x.

Table 10: HG Retail 2009 Expectations

\$ in millions

	2008				2009E			
	Revenues	EBITDA	Total Debt	Lease Adj Leverage	Revenues	EBITDA	Total Debt	Lease Adj Leverage
Autozone	\$6,523	\$1,294	\$2,250	2.4x	\$6,905	\$1,375	\$2,406	2.5x
Costco	\$72,483	\$2,622	\$2,346	1.3x	\$71,306	\$2,391	\$2,300	1.4x
Home Depot	\$71,288	\$6,777	\$11,434	2.4x	\$64,159	\$6,099	\$9,684	2.4x
JCPenney	\$23,084	\$2,094	\$3,442	3.3x	\$21,468	\$1,000	\$3,400	4.5x
Nordstroms	\$8,416	\$1,205	\$2,513	2.3x	\$7,743	\$900	\$2,500	3.0x
Jones Apparel	\$3,599	\$190	\$782	5.7x	\$3,200	\$175	\$530	5.1x
Kohls	\$16,388	\$2,079	\$2,070	2.2x	\$16,388	\$1,900	\$2,100	2.4x
Lowe's	\$48,230	\$5,453	\$6,060	1.6x	\$47,507	\$4,875	\$5,000	1.6x
Macy's	\$24,892	\$2,703	\$9,699	3.9x	\$23,150	\$2,100	\$8,720	4.5x
Target	\$64,948	\$6,228	\$13,262	2.3x	\$63,911	\$6,288	\$12,500	2.1x
Wal-Mart	\$405,365	\$29,522	\$42,218	1.8x	\$407,795	\$31,151	\$42,218	1.7x

Source: J.P. Morgan estimates.

Table 11: HG Retail 2008 Change over 2009

\$ in millions

	Absolute Change 2009/2008				% Change 2009/2008			
	Revenues	EBITDA	Total Debt	Lease Adj Leverage	Revenues	EBITDA	Total Debt	Lease Adj Leverage
Autozone	\$382	\$81	\$156	0.1x	6%	6%	7%	2%
Costco	(\$1,177)	(\$231)	(\$46)	0.1x	(2)%	(9)%	(2)%	8%
Home Depot	(\$7,129)	(\$678)	(\$1,750)	0.0x	(10)%	(10)%	(15)%	(1)%
JCPenney	(\$1,616)	(\$1,094)	(\$42)	1.3x	(7)%	(52)%	(1)%	39%
Nordstroms	(\$673)	(\$305)	(\$13)	0.7x	(8)%	(25)%	(1)%	33%
Jones Apparel	(\$399)	(\$14)	(\$252)	-0.6x	(11)%	(8)%	(32)%	(10)%
Kohls	\$0	(\$179)	\$30	0.2x	0%	(9)%	1%	9%
Lowe's	(\$723)	(\$578)	(\$1,060)	0.0x	(1)%	(11)%	(17)%	(2)%
Macy's	(\$1,742)	(\$603)	(\$979)	0.6x	(7)%	(22)%	(10)%	14%
Target	(\$1,037)	\$60	(\$762)	-0.1x	(2)%	1%	(6)%	(6)%
Wal-Mart	\$2,430	\$1,629	\$0	-0.1x	1%	6%	0%	(5)%

Source: Source: J.P. Morgan estimates.

## June SSS remain lackluster

- The market may tire of weak same-store-sales. June remained a lackluster month, and July is typically a clearance month with the lowest sales of the year, so we have little hopes for a rebound near term.
- Last month we commented that stimulus starts to wane in May/June. This continues into July. A few later tax-free holidays (more in August this year than in July last year) may add to July woes. It is spurring some retailers to start sales early to try and spur consumers into the stores before the last minute.
- Several retailers, mostly lower end or middle-market companies, outperformed: BONT surprised with only an 8% drop, JCP beat with an 8.2% drop and raised 2Q guidance, and KSS outperformed with a 5.6% drop.

Table 12: Same-store sales comps from July 2008 to June 2009

	Jun-09	May-09	Apr-09	Mar-09	Feb-09	Jan-09	Dec-08	Nov-08	Oct-08	Sep-08	Aug-08	Jul-08
Costco Companies, Inc.	(6.0%)	(7.0%)	(8.0%)	(5.0%)	(3.0%)	(2.0%)	(4.0%)	(5.0%)	(1.0%)	7.0%	9.0%	10.0%
Target Corp	(6.2%)	(6.1%)	0.3%	(6.3%)	(4.1%)	(3.3%)	(4.1%)	(10.4%)	(4.8%)	(3.0%)	(2.1%)	(1.2%)
Wal-Mart - Total	NA	NA	5.0%	1.4%	5.1%	2.1%	1.7%	3.4%	2.4%	2.4%	(3.0%)	3.0%
Bon-Ton	(8.0%)	(12.1%)	(5.1%)	(11.2%)	(8.5%)	(8.2%)	(5.8%)	(16.0%)	(11.1%)	(4.6%)	(10.3%)	0.7%
Dillard's	(14.0%)	(12.0%)	(6.0%)	(19.0%)	(13.0%)	(12.0%)	(5.0%)	(9.0%)	(9.0%)	(12.0%)	(7.0%)	2.0%
J.C. Penney - Total	(8.2%)	(8.2%)	(6.6%)	(7.2%)	(8.8%)	(16.4%)	(8.1%)	(11.9%)	(13.0%)	(12.4%)	(4.9%)	(6.5%)
Kohl's	(5.6%)	(0.4%)	(6.2%)	(4.3%)	(1.6%)	(13.4%)	(1.4%)	(17.5%)	(9.0%)	(5.5%)	(5.8%)	(10.4%)
Macy's Group	(8.9%)	(9.1%)	(9.1%)	(9.2%)	(8.5%)	(4.5%)	(4.0%)	(13.3%)	(6.3%)	NA	NA	NA
Neiman Marcus	(20.8%)	(23.3%)	(22.5%)	(29.9%)	(20.9%)	(24.4%)	(27.5%)	(11.9%)	(26.8%)	(12.9%)	(0.5%)	(1.7%)
Nordstrom	(10.0%)	(13.1%)	(10.8%)	(13.5%)	(15.4%)	(11.4%)	(10.6%)	(15.9%)	(15.7%)	(9.6%)	(7.9%)	(6.1%)
Saks Incorporated	(4.4%)	(26.6%)	(32.0%)	(23.6%)	(26.0%)	(23.7%)	(19.8%)	(5.2%)	(16.6%)	(10.9%)	(5.9%)	(5.3%)
The Gap	(10.0%)	(6.0%)	(4.0%)	(8.0%)	(12.0%)	(23.0%)	(14.0%)	(10.0%)	(16.0%)	(11.0%)	(8.0%)	(11.0%)
Gap	(10.0%)	(11.0%)	(10.0%)	(14.0%)	(12.0%)	(18.0%)	(12.0%)	(11.0%)	(14.0%)	(3.0%)	(5.0%)	(6.0%)
Old Navy	(7.0%)	3.0%	1.0%	0.0%	(13.0%)	(22.0%)	(16.0%)	(9.0%)	(20.0%)	(24.0%)	(9.0%)	(16.0%)
Banana Republic	(20.0%)	(14.0%)	(8.0%)	(16.0%)	(16.0%)	(34.0%)	(15.0%)	(11.0%)	(17.0%)	(4.0%)	(14.0%)	(8.0%)
International	(5.0%)	(7.0%)	(2.0%)	(5.0%)	(6.0%)	0.0%	(5.0%)	(6.0%)	(5.0%)	(3.0%)	(2.0%)	(9.0%)
Limited Brands	(12.0%)	(7.0%)	(6.0%)	(9.0%)	(7.0%)	(9.0%)	(10.0%)	(12.0%)	(9.0%)	(6.0%)	(7.0%)	(5.0%)
Victoria's Secret - Stores	(14.0%)	(10.0%)	(8.0%)	(10.0%)	(9.0%)	(15.0%)	(9.0%)	(9.0%)	(10.0%)	(7.0%)	(8.0%)	(6.0%)
Bath and Body Works	(10.0%)	(11.0%)	1.0%	(6.0%)	(3.0%)	(9.0%)	(10.0%)	(16.0%)	(7.0%)	(7.0%)	(5.0%)	(5.0%)
La Senza	(10.0%)	(15.0%)	(19.0%)	(12.0%)	(12.0%)	0.0%	(11.0%)	(12.0%)	(7.0%)	(4.0%)	(5.0%)	3.0%
TJX Companies	4.0%	5.0%	3.0%	2.0%	(2.0%)	(4.0%)	0.0%	(6.0%)	(6.0%)	(1.0%)	0.0%	3.0%

Source: Company reports.

## Retail spread performance and relative value

Table 13: High-grade retail issuers' intermediate-term notes

Ranked by spread over Treasury within sub sector grouping

Issuer	Ticker	Rating/Outlook	Maturity	Coupon	Amount (\$MN)	07/15/2009 SOT	change 1wk	1m	ytd	1yr
<b>Discounters</b>										
Wal-Mart	WMT	Aa2/AA-/S/S	04/05/17	5.38%	\$1,000	79	(19)	(6)	(128)	(43)
Target	TGT	A2/A+;/N/N	05/01/17	5.38%	\$1,000	145	(5)	17	(250)	(47)
<b>Specialty Retailers</b>										
Lowe's	LOW	A1/A+;/S/N	10/15/16	5.40%	\$550	92	(78)	(68)	(291)	(90)
Home Depot	HD	Baa1/BBB+;/S/S	03/15/16	5.40%	\$3,000	181	(118)	(203)	(523)	(106)
AutoZone	AZO	Baa2/BBB-/S/S	11/15/15	5.50%	\$300	290	(30)	(80)	(155)	23
Limited Brands	LTD	Ba3/BB-/S/N	07/15/17	6.90%	\$700	565	5	NA	(706)	86
Jones Apparel	JNY	Ba3/BB-/S/N	11/15/14	5.13%	\$250	730	NA	(45)	(412)	230
<b>Food/Drug Retail</b>										
CVS	CVS	Baa2/BBB+;/P/S	08/15/16	6.13%	\$700	169	(43)	(83)	(308)	(40)
Kroger	KR	Baa2/BBB-/S/P	08/15/17	6.40%	\$600	186	4	2	(219)	(29)
Safeway	SWY	Baa2/BBB-/S/S	08/15/17	6.35%	\$500	192	(18)	(11)	(203)	(16)
Delhaize	DELB BB	Baa3/BBB-/S/S	06/15/17	6.50%	\$450	239	(33)	(65)	(344)	(24)
<b>Restaurants</b>										
McDonald's	MCD	A3/A-/S/S	03/15/17	5.30%	\$400	88	(13)	(37)	(172)	(72)
YUM! Brands	YUM	Baa3/BBB-/S/S	04/15/16	6.25%	\$300	223	(22)	(26)	(326)	(5)
<b>Department Stores</b>										
Kohl's	KSS	Baa1/BBB+;/S/N	12/15/17	6.20%	\$650	240	10	6	(456)	(60)
JCPenney	JCP	Ba1/BB-/S/S	02/15/18	5.75%	\$300	395	95	NA	(544)	46
Macy's Group	M	Ba2/BB-/S/S	12/01/16	5.97%	\$1,100	530	NA	(16)	(663)	89

Source: JPMorgan. 1. Spread over Treasury.

Table 14: HY retail bonds

Issuer	Ticker	Rating	Maturity	Coupon	Amount (\$MN)	07/15/2009 SOT	change 1wk	1m	ytd	1yr
<b>Department Stores</b>										
	SKS	Caa1/B-	10/01/11	9.88%	\$142	974	(54)	3	(1009)	262
	DDS	B3/B-	01/15/18	6.63%	\$150	1361	(12)	111	(916)	596
	NMG	Caa3/CCC+	10/15/15	10.38%	\$500	2206	96	503	(703)	1436
	BONT	Caa3/CCC	03/15/14	10.25%	\$510	3745	111	1070	(5674)	1717
<b>Drugstores</b>										
	DRD	Caa1/CCC+	08/01/11	9.75%	\$210	1567	(161)	(95)	(2437)	312
	RAD	Caa3/CCC	03/01/15	8.63%	\$500	1673	(9)	189	(1694)	230
<b>Specialty</b>										
	NTY	B1/BB	10/01/15	7.13%	\$200	582	(22)	6	(628)	115
	DG	B3/B-	07/15/15	10.63%	\$1,175	665	(0)	70	(323)	(74)
	SBH	B3/B	11/15/14	9.25%	\$430	695	(11)	38	(409)	(26)
	GME	Ba1/BB+	10/01/12	8.00%	\$580	696	24	75	(212)	260
	RCII	B2/B+	05/01/10	7.50%	\$75	710	(1)	6	(676)	(16)
	DLRAMA	B2/B-	08/15/12	8.88%	\$200	858	(4)	(14)	(892)	(0)
	EYCA	B2/B-	02/15/15	10.75%	\$152	906	(6)	87	(116)	222
	YCC	B3/B-	02/15/15	8.50%	\$325	1097	19	246	(1398)	16
	TOY	Caa1/CCC+	08/01/11	7.63%	\$400	1152	47	(32)	(2940)	195
	MIKE	Caa3/CCC	11/01/14	10.00%	\$469	1263	30	231	(1627)	196
	NEBRK	Caa1/CCC	03/15/12	8.63%	\$175	2109	(29)	(15)	(1878)	854
	CLE	Ca/CCC+	06/01/15	10.38%	\$368	2892	(65)	642	(2344)	170
	BBI	Ca/CC	09/01/12	9.00%	\$300	4027	252	954	647	2785

Source: J.P. Morgan Index

Table 15: High-grade retail issuers' long-term notes

Ranked by spread over Treasury within sub sector grouping

Issuer	Ticker	Rating/Outlook	Maturity	Coupon	Amount (\$MN)	07/15/2009 SOT	change 1wk	1m	ytd	1yr
<b>Discounters</b>										
Wal-Mart	WMT	Aa2/AA;S/S	09/01/35	5.25%	\$2,500	124	(4)	(19)	(134)	(42)
Target	TGT	A2/A+;N/N	11/01/32	6.35%	\$600	210	(9)	(40)	(285)	(24)
<b>Specialty Retailers</b>										
Lowe's	LOW	A1/A+;S/N	10/15/35	5.50%	\$500	159	(27)	(73)	(313)	(79)
Home Depot	HD	Baa1/BBB+;S/S	12/15/36	5.88%	\$3,000	246	(8)	(32)	(262)	(85)
Jones Apparel	JNY	Ba3/BB-;S/N	11/15/34	6.13%	\$250	560	(15)	(15)	(710)	80
Limited Brands	LTD	Ba3/BB;S/N	07/15/37	7.60%	\$300	630	(31)	44	(713)	223
<b>Food/Drug Retail</b>										
Kroger	KR	Baa2/BBB-;S/P	04/01/31	7.50%	\$600	180	(50)	(30)	(180)	(51)
Safeway	SWY	Baa2/BBB;S/S	02/01/31	7.25%	\$500	180	(61)	(40)	(165)	(51)
Delhaize	DELB BB	Baa3/BBB-;S/S	04/15/31	9.00%	\$900	285	(5)	(10)	(330)	(14)
<b>Department Stores</b>										
Kohl's	KSS	Baa1/BBB+;S/N	12/15/37	6.88%	\$350	254	(10)	(3)	(464)	(61)
JCPenney	JCP	Ba1/BB;S/S	10/15/36	6.38%	\$700	455	0	24	(343)	103
Macy's Group	M	Ba2/BB;S/S	03/15/37	6.38%	\$500	485	(10)	5	(395)	71

Source: JPMorgan. 1. Spread over Treasury

Table 16: High-grade retail 5-year credit default swap levels

Ranked by 5-year CDS level within subsector grouping

Issuer	Ticker	Rating/Outlook	07/15/2009 5yr CDS	change 1wk	1m	ytd	1yr
<b>Discounters</b>							
Wal-Mart	WMT	Aa2/AA;S/S	50	0	(0)	(55)	10
Target	TGT	A2/A+;N/N	70	0	(0)	(170)	(8)
<b>Specialty Retailers</b>							
Gap Inc	GPS	WR/BB+;NR/S	40	0	(0)	(65)	(63)
AutoZone	AZO	Baa2/BBB;S/S	60	0	(5)	(80)	(36)
Lowe's	LOW	A1/A+;S/N	75	0	5	(65)	5
Home Depot	HD	Baa1/BBB+;S/S	101	0	11	(148)	(44)
Staples	SPLS	Baa2/BBB;S/S	141	0	16	(245)	11
RadioShack	RSH	Ba1/BB;S/S	183	0	42	(27)	(39)
Limited Brands	LTD	Ba3/BB;S/N	323	20	58	(212)	(2)
Jones Apparel	JNY	Ba3/BB-;S/N	430	(11)	114	(381)	39
<b>Food/Drug Retail</b>							
CVS	CVS	Baa2/BBB+;P/S	60	0	(0)	(45)	(9)
Kroger	KR	Baa2/BBB-;S/P	91	0	1	(4)	23
Safeway	SWY	Baa2/BBB;S/S	91	0	1	(10)	30
<b>Restaurants</b>							
McDonald's	MCD	A3/A;S/S	40	0	(0)	(25)	8
YUM! Brands	YUM	Baa3/BBB-;S/S	81	0	11	(89)	(24)
Darden Restaurants	DRI	Baa3/BBB;S/S	142	0	26	(142)	(28)
Wendy's	WEN	Caa1/B+;S/N	202	0	67	(151)	(48)
<b>Department Stores</b>							
Kohl's	KSS	Baa1/BBB+;S/N	96	0	11	(184)	(59)
Nordstrom	JWN	Baa2/BBB+;N/S	247	(5)	52	(272)	113
JCPenney	JCP	Ba1/BB;S/S	255	(27)	60	(249)	3
Macy's Group	M	Ba2/BB;S/S	424	(5)	109	(254)	154

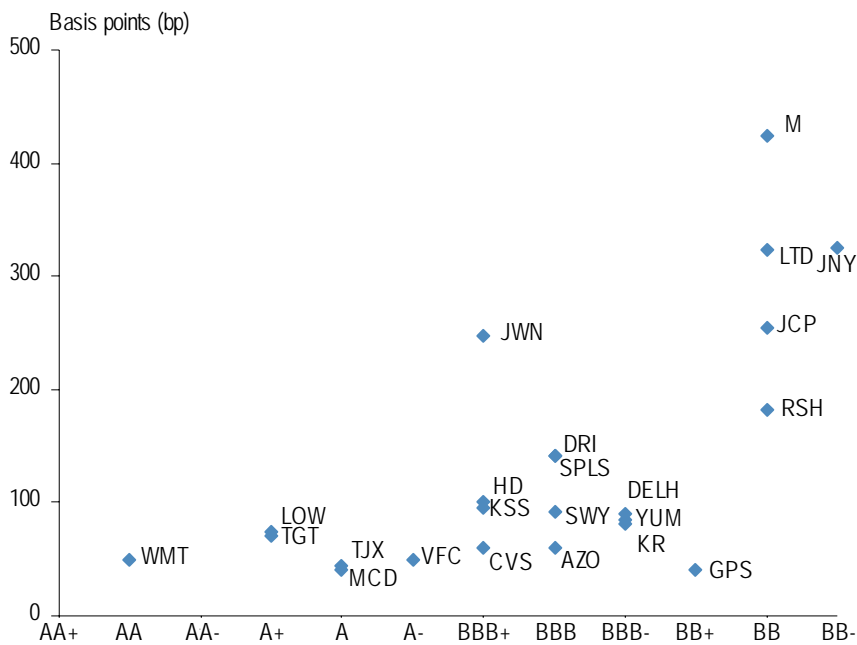
Source: JPMorgan.

Table 17: HY retail CDS performance

Issuer	Ticker	Rating	07/15/2009 5yr CDS	change 1wk	1m	ytd	1yr
<b>Department Stores</b>							
	DDS	BB	970	107	261	(620)	309
	SKS	B+	1187	109	245	(445)	666
	NMG	B-	1597	88	456	340	1123
<b>Drugstores</b>							
	RAD	0	1678	106	251	(3639)	(268)
<b>Specialty</b>							
	TOY	CCC+	1135	113	194	(1174)	263

Source: JPMorgan Index

Figure 2: 5-year high-grade CDS relative value



Source: J.P. Morgan.

Table 18: JULI sector performance

I-spread (treasury, bp)

Industry	15-Jul-08	31-Dec-08	14-Jun-09	15-Jul-09	Spread Change		
					1m	ytd	1yr
Electronics/Electrical	233	305	190	143	(47)	(162)	(90)
Health/Pharm	206	368	193	172	(21)	(196)	(34)
Technology	208	455	177	177	(0)	(278)	(31)
<b>NonFood Retail</b>	<b>239</b>	<b>475</b>	<b>238</b>	<b>190</b>	<b>(48)</b>	<b>(284)</b>	<b>(49)</b>
Aerospace/Def	176	332	204	197	(7)	(136)	20
Beverages	191	374	251	206	(45)	(168)	15
Eng/Machinery	175	407	227	207	(20)	(200)	32
Capital Goods	177	399	230	207	(23)	(192)	30
<b>Food/Drug Retail</b>	<b>229</b>	<b>445</b>	<b>237</b>	<b>208</b>	<b>(29)</b>	<b>(236)</b>	<b>(20)</b>
Cons Prods	181	366	265	211	(55)	(155)	30
Food Products	226	450	278	211	(66)	(238)	(15)
Railway & Freight Svc	236	433	243	212	(31)	(220)	(24)
Divers Indus	173	427	243	214	(29)	(213)	40
Utilities	227	497	235	224	(10)	(273)	(3)
Consumer Noncyclicals	221	447	276	233	(43)	(214)	12
Telecoms	253	513	260	242	(18)	(271)	(11)
Energy	227	547	247	244	(3)	(302)	17
<b>JULI Index</b>	<b>274</b>	<b>528</b>	<b>299</b>	<b>279</b>	<b>(20)</b>	<b>(249)</b>	<b>5</b>
Media/Ent	289	597	328	299	(28)	(298)	10
Chemicals	213	391	350	304	(46)	(87)	91
Tobacco	253	548	340	323	(17)	(226)	70
Fin Svcs	333	625	344	328	(16)	(296)	(5)
Banks	312	435	357	337	(20)	(98)	25
Metals/Mining	257	739	393	353	(41)	(387)	96
Auto Mfrs	200	947	431	425	(6)	(522)	225
Auto Parts/Equip	228	941	423	430	6	(511)	201
Insurance	287	681	490	476	(14)	(205)	189
Paper/Pkging	384	835	487	489	1	(347)	105
REITS	401	1279	493	515	21	(764)	113
Bldg Mat/Constr	364	1094	722	560	(162)	(534)	196

Source: JPMorgan.

Table 19: HY industry spreads

Industry	15-Jul-08	31-Dec-08	16-Jun-09	15-Jul-09	Spread Change		
					1m	ytd	1yr
Metals/Minerals	538	1313	741	779	38	(535)	241
Cable/Wireless Video	830	1780	752	793	41	(988)	(37)
<b>Food &amp; Drug</b>	<b>680</b>	<b>1424</b>	<b>741</b>	<b>797</b>	<b>55</b>	<b>(627)</b>	<b>117</b>
Utility	490	1025	748	797	49	(228)	307
Healthcare	608	1208	772	811	38	(397)	203
Wireline Telecommunications	681	1283	816	842	26	(442)	160
Wireless Telecommunications	711	1219	828	876	48	(342)	166
Food/Tobacco	817	1589	879	891	12	(699)	74
Energy	558	1511	841	921	80	(591)	363
Aerospace	584	1272	982	976	(6)	(297)	392
Manufacturing	669	1478	992	1012	21	(466)	343
<b>Retail</b>	<b>948</b>	<b>2089</b>	<b>1021</b>	<b>1029</b>	<b>7</b>	<b>(1061)</b>	<b>81</b>
<b>JPMorgan HY Index</b>	<b>800</b>	<b>1725</b>	<b>999</b>	<b>1039</b>	<b>40</b>	<b>(686)</b>	<b>239</b>
Consumer Products	892	1991	1047	1080	33	(912)	188
Information Technology	756	2018	1027	1088	61	(930)	332
Forest Prod/Containers	852	1725	1020	1097	76	(628)	245
Chemicals	715	1909	1123	1138	15	(770)	423
Gaming/Leisure	1015	2390	1124	1174	51	(1216)	159
Service	835	1894	1160	1233	73	(662)	398
Housing	1116	2074	1265	1267	3	(807)	151
Transportation	1159	2636	1285	1315	29	(1321)	156
Financial	1240	2086	1321	1319	(2)	(767)	79
Diversified Media	1142	2843	1379	1366	(13)	(1478)	224
Broadcasting	1079	4169	2204	2090	(114)	(2079)	1010

Source: J.P. Morgan Index

Figure 3: JULI retail sub sectors

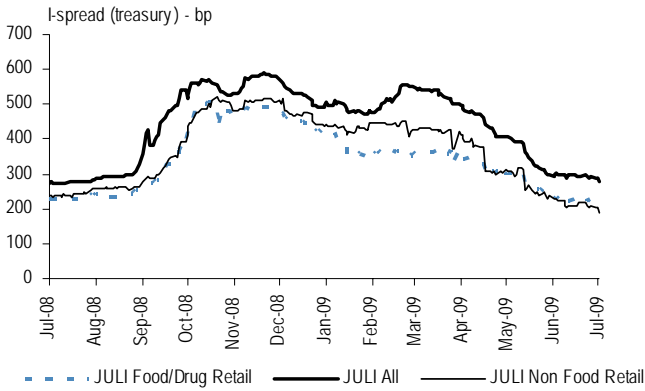


Figure 6: High-yield retail sub sectors

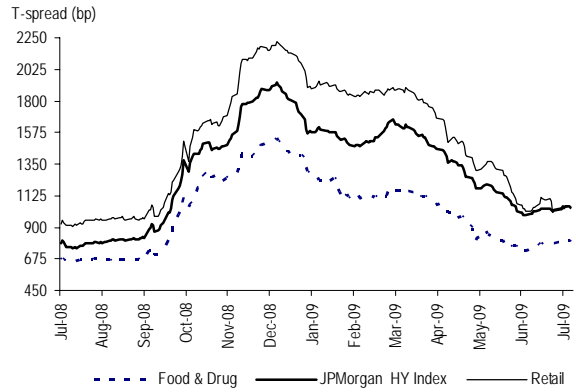


Figure 4: JULI food and drug retail sub sector

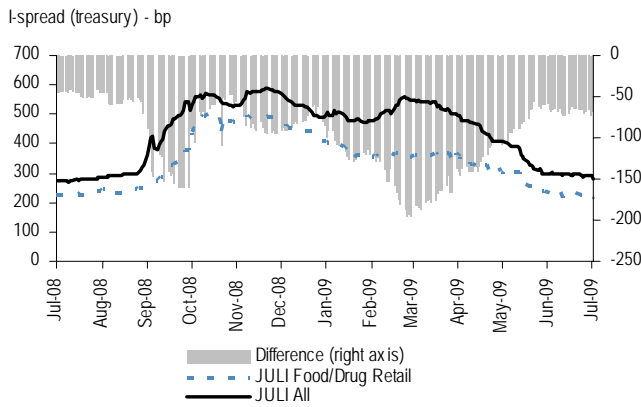


Figure 7: High-yield food and drug sub sector

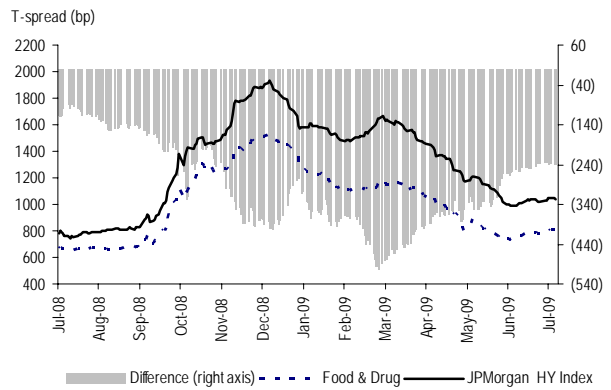


Figure 5: JULI non-food retail sub sector

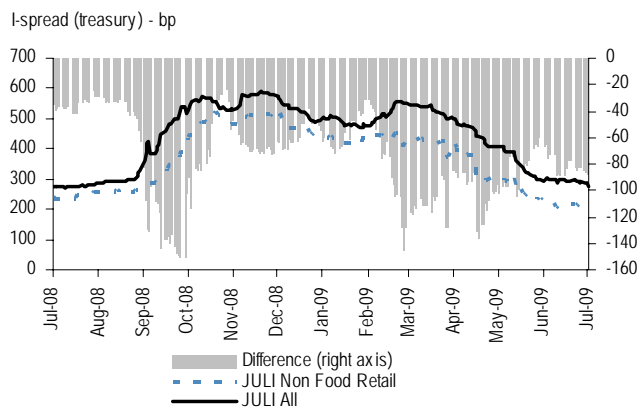
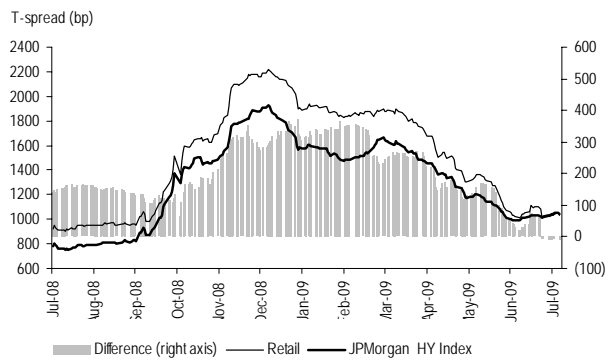


Figure 8: High-yield retail sub sector



Source: JPMorgan

## Appendix I: High-yield relative value

Table 20: High-yield retail relative value

Coupon	Desc.	Recom.	Maturity	Ratings	Amount Outst.	Recent Quote				LTM EBITDA	Adj Net Debt/ LTM EBITDAR	TEV/ EBITDA
						Bid	YTW	Spread				
<b>Blockbuster, Inc.*</b> 9.000%	Sr Sub Nts	Buy	01-Sep-12	Ca/CC	300.0	45 1/2	41.82%	4,027bp	\$297.3	6.2x	3.1x	
<b>Bon-Ton Stores, Inc.</b> 10.250%	Sr Nts	Hold	15-Mar-14	Caa3/CCC	510.0	40	39.21%	3,691bp	\$159.0	7.6x	7.7x	
<b>Burlington Coat Factory</b> 11.125%	Sr Nts	Hold	15-Apr-14	Caa1/CCC	305.0	79	17.86%	1,551bp	\$274.8	5.6x	na	
<b>Claire's Stores, Inc.</b> 9.250%	Sr Nts	Hold	01-Jun-15	Ca/CCC+	250.0	44 1/2	29.80%	2,713bp	\$211.8	8.8x	na	
10.375%	Sr Nts	Hold	01-Jun-15	Ca/CCC+	368.2	32	32.11%	2,944bp	\$211.8	8.8x	na	
10.500%	Sr Sub Nts	Hold	01-Jun-17	Ca/CCC	335.0	35	35.40%	3,229bp	\$211.8	9.6x	na	
<b>Dillard's, Inc.*</b> 6.625%	Nts	Hold	15-Jan-18	B3/B-	100.0	55	16.75%	1,350bp	\$164.7	6.8x	10.3x	
7.130%	Nts	Hold	01-Aug-18	B3/B-	200.0	58	16.11%	1,274bp	\$164.7	6.8x	10.3x	
7.000%	Nts	Hold	01-Dec-28	B3/B-	150.0	51 1/2	14.55%	1,055bp	\$164.7	6.8x	10.3x	
<b>Dollarama Group LP*</b> 8.875%	Sr Sub Nts	NR	15-Aug-12	B2/B-	200.0	97	10.03%	850bp	C\$ 158.2	4.2x	na	
FRN's	Sr PIK Nts	NR	15-Aug-12	B3/B-	200.0	86 1/2	16.02%	1,501bp	C\$ 158.2	4.2x	na	
<b>Dollar General Corp.</b> 10.625%	Sr Nts	Hold	15-Jul-15	B3/B-	1175.0	107	8.52%	654bp	\$1,015.1	4.3x	na	
11.875%	Sr Sub Nts	Hold	15-Jul-17	Caa1/B-	725.0	107 1/2	10.17%	748bp	\$1,015.1	4.8x	na	
<b>Duane Reade, Inc.</b> FRN's	Sr Sec Nts	Hold	15-Dec-10	Caa1/CCC+	210.0	98	7.47%	601bp	\$89.4	6.8x	na	
9.750%	Sr Sub Nts	Hold	01-Aug-11	Caa3/CC	195.0	88 3/4	16.49%	1,547bp	\$89.4	7.4 x	na	
<b>Eye Care Centers of America, Inc.</b> 10.750%	Sr Sub Nts	Buy	15-Feb-15	B2/B-	152.0	100	10.74%	897bp	\$99.8	4.0x	na	
<b>Gamestop Corp.*</b> 8.000%	Guar Nts	Hold	01-Oct-12	Ba1/BB+	580.0	100 1/2	7.74%	665bp	\$847.7	2.5x	4.5x	
<b>GNC Corp.</b> FRN's	Sr Nts	Buy	15-Mar-14	Caa1/CCC	300.0	81 1/2	11.56%	978bp	\$221.6	5.7x	na	
10.750%	Sr Sub Nts	Buy	15-Mar-15	Caa2/CCC+	110.0	88	13.87%	1,125bp	\$221.6	6.0x	na	
<b>HSN, Inc.</b> 11.25%	Sr Sec Nts	NR	01-Aug-16	Ba3/BB-	240.0	93 1/2	12.67%	949bp	\$150.5	2.1x	NA	
<b>JCPenney **</b> 5.750%	Sr Nts	Hold	15-Feb-18	Ba1/BB	300.0	85 2/3	8.10%	483bp	\$1,441.0	2.2x	5.3x	
6.375%	Sr Nts	Hold	15-Oct-36	Ba1/BB	700.0	69 5/7	9.50%	514bp	\$1,441.0	2.2x	5.3x	
7.650%	Debs	Hold	15-Aug-16	Ba1/BB	200.0	95 7/8	8.43%	550bp	\$1,441.0	2.2x	5.3x	
7.950%	Debs	Hold	01-Apr-17	Ba1/BB	285.0	97 2/7	8.43%	536bp	\$1,441.0	2.2x	5.3x	
7.125%	Debs	Hold	15-Nov-23	Ba1/BB	255.0	88 3/7	8.54%	476bp	\$1,441.0	2.2x	5.3x	
7.400%	Debs	Hold	01-Apr-37	Ba1/BB	326.0	77	9.82%	544bp	\$1,441.0	2.2x	5.3x	
7.625%	Debs	Hold	01-Mar-97	Ba1/BB	500.0	66	11.55%	446bp	\$1,441.0	2.2x	5.3x	
8.000%	Nts	Hold	01-Mar-10	Ba1/BB	506.0	101 1/7	6.07%	575bp	\$1,441.0	2.2x	5.3x	
9.000%	Nts	Hold	01-Aug-12	Ba1/BB	230.0	103 2/3	7.61%	611bp	\$1,441.0	2.2x	5.3x	
6.875%	Nts	Hold	15-Oct-15	Ba1/BB	200.0	94 3/5	7.99%	524bp	\$1,441.0	2.2x	5.3x	
<b>Limited Brands</b> 8.500%	Sr Nts	NR	15-Jun-19	Ba2/BB	500.0	93 5/7	9.49%	593bp	\$1,027.6	3.9x	5.5x	
5.250%	Sr Nts	NR	01-Nov-14	Ba3/BB	500.0	84 1/3	9.05%	651bp	\$1,027.6	3.9x	5.5x	
6.900%	Sr Nts	NR	15-Jul-17	Ba3/BB	700.0	83 4/5	9.88%	674bp	\$1,027.6	3.9x	5.5x	
6.950%	Sr Nts	NR	01-Mar-33	Ba3/BB	350.0	67 1/2	10.77%	657bp	\$1,027.6	3.9x	5.5x	
7.600%	Sr Nts	NR	15-Jul-37	Ba3/BB	300.0	70	11.11%	672bp	\$1,027.6	3.9x	5.5x	
6.125%	Nts	NR	01-Dec-12	Ba3/BB	300.0	96	7.49%	582bp	\$1,027.6	3.9x	5.5x	
<b>Macy's **</b> 5.750%	Guar Nts	Buy	15-Jul-14	Ba2/BB	496.5	85	9.60%	713bp	\$2,575.0	3.7x	5.2x	
7.875%	Guar Nts	Buy	15-Jul-15	Ba2/BB	650.0	95 1/9	8.95%	625bp	\$2,575.0	3.7x	5.2x	
5.900%	Guar Nts	Buy	01-Dec-17	Ba2/BB	1100.0	82 1/7	9.30%	630bp	\$2,575.0	3.7x	5.2x	
8.500%	Sr Nts	Buy	01-Jun-10	Ba2/BB	76.0	100 2/3	7.63%	722bp	\$2,575.0	3.7x	5.2x	
10.625%	Sr Nts	Buy	01-Nov-10	Ba2/BB	150.0	102	8.98%	837bp	\$2,575.0	3.7x	5.2x	
6.625%	Sr Nts	Buy	01-Apr-11	Ba2/BB	500.0	97	8.58%	775bp	\$2,575.0	3.7x	5.2x	
7.450%	Sr Nts	Buy	15-Sep-11	Ba2/BB	150.0	96 1/4	9.40%	833bp	\$2,575.0	3.7x	5.2x	
5.350%	Sr Nts	Buy	15-Mar-12	Ba2/BB	1100.0	92	8.77%	745bp	\$2,575.0	3.7x	5.2x	
8.000%	Sr Nts	Buy	15-Jul-12	Ba2/BB	200.0	95 4/7	9.74%	826bp	\$2,575.0	3.7x	5.2x	

Coupon	Desc.	Recom.	Maturity	Ratings	Amount Outst.	Recent Quotes			LTM EBITDA	Adj Net Debt/ LTM EBITDAR	TEV/ EBITDA
						Bid	YTW	Spread			
5.875%	Sr Nts	Buy	15-Jan-13	Ba2/BB	350.0	88	10.04%	830bp	\$2,575.0	3.7x	5.2x
7.625%	Sr Nts	Buy	15-Aug-13	Ba2/BB	125.0	87 1/4	11.65%	963bp	\$2,575.0	3.7x	5.2x
7.500%	Sr Nts	Buy	01-Jun-15	Ba2/BB	100.0	89 3/4	9.84%	717bp	\$2,575.0	3.7x	5.2x
7.450%	Sr Nts	Buy	15-Oct-16	Ba2/BB	125.0	85 2/3	10.30%	733bp	\$2,575.0	3.7x	5.2x
7.450%	Sr Nts	Buy	15-Jul-17	Ba2/BB	300.0	86 4/9	9.95%	681bp	\$2,575.0	3.7x	5.2x
6.650%	Sr Nts	Buy	15-Jul-24	Ba2/BB	300.0	65 3/4	11.49%	768bp	\$2,575.0	3.7x	5.2x
6.790%	Sr Nts	Buy	15-Jul-27	Ba2/BB	165.0	68	10.88%	694bp	\$2,575.0	3.7x	5.2x
7.000%	Sr Nts	Buy	15-Feb-28	Ba2/BB	300.0	72	10.45%	648bp	\$2,575.0	3.7x	5.2x
6.700%	Sr Nts	Buy	15-Sep-28	Ba2/BB	200.0	69 5/6	10.35%	636bp	\$2,575.0	3.7x	5.2x
6.900%	Sr Nts	Buy	01-Apr-29	Ba2/BB	400.0	65 1/2	11.30%	728bp	\$2,575.0	3.7x	5.2x
8.750%	Sr Nts	Buy	15-May-29	Ba2/BB	61.2	67 1/6	13.55%	953bp	\$2,575.0	3.7x	5.2x
6.900%	Sr Nts	Buy	15-Jan-32	Ba2/BB	250.0	64 5/8	11.25%	710bp	\$2,575.0	3.7x	5.2x
6.700%	Sr Nts	Buy	15-Jul-34	Ba2/BB	400.0	65 2/3	10.65%	639bp	\$2,575.0	3.7x	5.2x
8.125%	Sr Nts	Buy	15-Aug-35	Ba2/BB	76.0	53 7/9	15.39%	1,108bp	\$2,575.0	3.7x	5.2x
7.875%	Sr Nts	Buy	15-Aug-36	Ba2/BB	108.4	65 1/2	12.28%	793bp	\$2,575.0	3.7x	5.2x
6.375%	Sr Nts	Buy	15-Mar-37	Ba2/BB	500.0	64 1/4	10.30%	592bp	\$2,575.0	3.7x	5.2x
<b>Michael's Stores, Inc*</b>											
10.000%	Sr Nts	Hold	01-Nov-14	Caa2/CCC	750.0	83	14.73%	1,219bp	\$477.0	7.2x	na
11.375%	Sr Sub Nts	Hold	01-Nov-16	Caa3/CCC	400.0	67 3/4	19.94%	1,696bp	\$477.0	8.1x	na
0.000%/13.000%	Sub Nts	Hold	01-Nov-16	Caa3/CCC	469.4	37	26.04%	2,305bp	\$477.0	8.1x	na
<b>NBTY, Inc.</b>											
7.125%	Sr Sub Nts	Hold	01-Oct-15	B1/BB	200.0	94	8.38%	564bp	\$257.4	3.6x	9.1x
<b>Nebraska Book Co. (&amp; NBC Acquisition Co.)</b>											
8.625%	Sr Sub Nts	Buy	15-Mar-12	Caa1/CCC	175.0	74	22.06%	2,075bp	\$72.3	5.6x	na
0.000%/11.000%	Sr Disc Nts	Buy	15-Mar-13	Caa2/CCC	77.0	25	69.88%	6,807bp	\$72.3	6.3x	na
<b>Neiman Marcus Group, Inc.</b>											
7.125%	Debs	Hold	01-Jun-28	B3/BB-	125.0	61	12.57%	859bp	\$370.9	4.7x	na
9.000%	Sr Nts	Hold	15-Oct-15	Caa2/B-	717.1	58	18.82%	1,607bp	\$370.9	6.4x	na
10.375%	Sr Sub Nts	Hold	15-Oct-15	Caa3/CCC+	500.0	55 1/2	24.70%	2,195bp	\$370.9	7.5x	na
<b>Rent-A-Center, Inc.</b>											
7.500%	Sr Sub Nts	Buy	01-May-10	B2/B+	75.4	100	7.48%	710bp	\$357.0	4.4x	5.6x
<b>Rite Aid Corp.</b>											
9.750%	Sr Sec Nts	Buy	12-Jun-16	B3/B+	410.0	100 1/8	9.73%	705bp	\$992.4	3.6x	7.6x
10.375%	Sr Sec Nts	Buy	15-Jul-16	Caa2/B-	470.0	90 1/2	12.45%	953bp	\$992.4	3.6x	7.6x
7.500%	Sr Sec Nts	Buy	01-Mar-17	Caa2/B-	500.0	77 3/4	12.04%	899bp	\$992.4	3.6x	7.6x
8.625%	Sr Nts	Buy	01-Mar-15	Caa3/CCC	500.0	65	19.03%	1,642bp	\$992.4	6.7x	7.6x
9.375%	Sr Nts	Buy	15-Dec-15	Caa3/CCC	410.0	65	19.06%	1,627bp	\$992.4	6.7x	7.6x
9.500%	Sr Nts	Buy	15-Jun-17	Caa3/CCC	810.0	65	17.95%	1,483bp	\$992.4	6.7x	7.6x
6.875%	Debs	Buy	15-Aug-13	Ca/CCC	200.0	64 1/2	20.03%	1,801bp	\$992.4	7.2x	7.6x
7.700%	Debs	Buy	15-Feb-27	Ca/CCC	300.0	39 1/4	20.65%	1,673bp	\$992.4	7.2x	7.6x
6.875%	Nts	Buy	15-Dec-28	Ca/CCC	150.0	39 1/4	18.46%	1,446bp	\$992.4	7.2x	7.6x
<b>Saks, Inc.</b>											
9.875%	Nts	Hold	01-Oct-11	Caa1/B-	141.6	98 1/4	10.77%	968bp	(\$9.7)	15.9x	-129.3x
<b>Sally Holdings LLC</b>											
9.250%	Sr Nts	Hold	15-Nov-14	B3/B	430.0	99 1/2	9.37%	682bp	\$342.4	5.3x	8.3x
10.500%	Sr Sub Nts	Hold	15-Nov-16	Caa1/B-	280.0	99 1/4	10.64%	765bp	\$342.4	5.8x	8.3x
<b>Toys R Us, Inc.</b>											
10.750%	Sr Sec Nts	Hold	15-Jul-17	B3/B+	950.0	97	11.33%	819bp	\$967.0	6.3x	na
7.625%	Nts	Hold	01-Aug-11	Caa1/CCC+	500.0	92	12.19%	1,118bp	\$967.0	6.3x	na
7.875%	Nts	Hold	15-Apr-13	Caa1/CCC+	400.0	81 1/2	14.44%	1,259bp	\$967.0	6.3x	na
7.375%	Nts	Hold	15-Oct-18	Caa1/CCC+	400.0	70	13.05%	964bp	\$967.0	6.3x	na
<b>Yankee Candle Co., Inc.</b>											
8.500%	Sr Nts	Hold	15-Feb-15	B3/B-	325.0	82	13.16%	1,055bp	\$182.2	5.5x	na
9.750%	Sr Sub Nts	Hold	15-Feb-17	Caa1/CCC+	200.0	76	15.19%	1,214bp	\$182.2	6.3x	na

Source: Company reports and J.P. Morgan estimates. Note: Ratios are calculated using EBITDAR, and Adjusted Debt (Net Debt + Rent x 8). TEV calculations are based off Thursday stock prices.

\*\* Macy's and JCPenney covered by Virginia Chambless

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