

Specialty Retailing

July Comp Preview and Overviews of Our Stocks

- **July comps for the 11 monthly reporters expected at down 4% to 5% compared to a 1% gain last year. Tax-free shifts and later back-to-school estimated to cost month 1% to 2% this year.**
- **We are lowering our July comp estimates for AEO and WTSLA. We are raising them for TJX and PLCE (per PLCE pre-announcement last week).**
- **Sprinting to the end of the quarter: During the last week of July, ANF's concepts broke price on its new back-to-school floor set, GPS's concepts ran 30% off friends & family event, and PLCE ran a 25% off the entire store event.**
- **And so 2Q comes to a close: We see risk to consensus EPS numbers at AEO, ANF, and CTRN, and best chance for upside at ARO, CHS, GYMB, JCG, and MW.**
- **As for potential 3Q guidance, we see risk to consensus EPS numbers at AEO, ANF, LTD, and HOTT.**
- **Is the suspense killing you too? We are just a month away from the start of the two-year negative stacks for the retailers. September comps will be the first real evidence if the bulls' top-line recovery thesis is taking hold.**
- **On the greed/fear side of our stocks right now, CHS, TJX, and COH are the most loved, while ANF, BKE, and LTD are most unloved looking for a positive catalyst.**

Specialty Retailing

Brian J. Tunick^{AC}

(1-212) 622-6449

brian.tunick@jpmorgan.com

Christopher Kim

(1-212) 622-6482

chris.kim@jpmorgan.com

Evren Dogan Kopelman, CFA^{AC}

(1-212) 622-6576

evren.d.kopelman@jpmorgan.com

Anna A. Andreeva^{AC}

(1-212) 622-6577

anna.a.andreeva@jpmorgan.com

J.P. Morgan Securities Inc.

See page 10 for analyst certification and important disclosures.

J.P. Morgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Table 1: J.P. Morgan July Same-Store-Sales Estimates

	EOM vs. BOM Expectations	JPM EOM Expectations	This Year JPM BOM Expectations	Sell-Side Consensus	July 2008	Last Year Aug. 2008	Sept. 2008
Abercrombie & Fitch (ANF)	--	(28.0) to (30.0)	(28.0) to (30.0)	(27.0)	(7.0)	(11.0)	(14.0)
Aeropostale (ARO)	--	11.0 to 13.0	11.0 to 13.0	10.0	13.0	13.0	5.0
American Eagle Outfitters (AEO)	▼	(6.0) to (8.0)	(5.0) to (7.0)	(8.7)	(7.0)	(5.0)	(6.0)
Buckle (BKE)	--	9.0 to 11.0	9.0 to 11.0	11.3	20.9	22.0	19.7
Children's Place (PLCE)	▲	(4.0) to (6.0)	(8.0) to (10.0)	(0.8)	0.0	0.0	2.0
Gap (GPS)	--	(9.0) to (11.0)	(9.0) to (11.0)	(8.6)	(11.0)	(8.0)	(11.0)
Hot Topic (HOTT)	--	(9.0) to (11.0)	(9.0) to (11.0)	(8.5)	(2.1)	(2.7)	(1.8)
Limited Brands (LTD)	--	(10.0) to (12.0)	(10.0) to (12.0)	(11.5)	(5.0)	(7.0)	(6.0)
Ross Stores (ROST)	--	(1.0) to 1.0	(1.0) to 1.0	0.2	4.0	3.0	(2.0)
TJX (TJX)	▲	1.0 to 3.0	0.0 to 2.0	1.1	3.0	1.0	1.0
Wet Seal (WTSLA)	▼	(9.0) to (11.0)	(6.0) to (8.0)	(7.5)	(8.2)	(8.7)	(7.5)
Co's. Reporting Qtrly Only			July '09E		July '08A		
Ann Taylor (ANN)			(21.0) to (23.0)		(10.8)		
bebe (BEBE)			(29.2)A		(5.6)		
Charlotte Russe (CHIC)			(3.6)A		(6.5)		
Charming Shoppes (CHRS)			(12.0) to (14.0)		(10.0)		
Chico's (CHS)			(1.0) to (3.0)		(15.9)		
Christopher & Banks (CBK)			(18.0) to (20.0)		(13.0)		
Citi Trends, Inc. (CTRN)			(5.0) to (7.0)		6.5		
Coach, Inc. (COH) (U.S. only)			(6.1)A		6.7		
Coldwater Creek (CWTR)			(12.0) to (14.0)		(13.7)		
Dress Barn (DBRN)			0.0 to 2.0		(2.0)		
Gymboree (GYMB)			(4.0) to (6.0)		1.0		
J. Crew Group (JCG)			(6.0) to (8.0)		(0.4)		
Jos A. Bank (JOSB)			3.0 to 5.0		6.8		
Men's Wearhouse (MW) (U.S. only)			(3.0) to (5.0)		(8.0)		
Pacific Sunwear (PSUN)			(22.0) to (24.0)		(1.0)		
Talbots (TLB)			(15.0) to (17.0)		(11.7)		
Tiffany & Co. (TIF) (U.S. only)			(31.0) to (33.0)		(4.0)		
Tween Brands (TWB)			(10.0) to (12.0)		(8.0)		
Urban Outfitters (URBN)			(6.0) to (8.0)		13.0		
Ulta (ULTA)			(1.0) to (3.0)		3.7		
Zale Corp (ZLC)			(17.0) to (19.0)		6.1		

Source: Company reports and J.P. Morgan estimates.

July Comparable-Store Sales Outlook

Abercrombie & Fitch (ANF/Neutral): We expect July comps to be down 28% to down 30% compared to a negative 7% last year and a negative 11% comp on a two-year basis. On a two-year basis, the adult division is against flat comps, Hollister negative 18% comps, and kids negative 16% comps. Our estimates are based on comps down in the high 20s/low 30s each at adult A&F, Hollister, and kids' divisions. Two-year comparisons are ten points easier, but there are not a lot of catalysts this month given back-to-school taking place later every year and tax-free shifts out of July into August (likely two points of pressure to this month's comps for ANF). We think some of the new fashion items in women's are selling through at full price (plaid shirts, dresses, skirts), but the company didn't buy deep enough into some of those categories to move the needle. We were encouraged by AURs down only 3% in June despite decent amount of clearance activity and "now" value price points on basics, and assuming AURs hold up in July, we expect 2Q09 gross margins to decline by similar amount as in 1Q09 (down 340 bps)—which is a little better than some investors expecting gross margins to decline by 400 bps+. A&F and Hollister ran a denim promotion in final week of the month with select washes offered at 30%-40% off. In addition, it looked like week 4 saw Hollister run sale on 60% of new back-to-school items and ANF on 20%. Price adjustments were 20% to 40% lower. ANF has shown no comp improvement in the past few months despite one-year comparisons getting easier, and we are concerned this business could still be posting comps in negative 20s at least through the 3Q09 (not negative high-teens comps that most of the sell-side seems to be modeling). We recently has meeting at company headquarters and walked away believing that there's a big change in thinking happening at ANF and in the long run, the company is making the right steps to fix the business (finally more fashion-relevant product, closing 50+ stores in the core A&F concept, and expense management). ANF is one of the most controversial stocks in our coverage right now with record-high short interest levels as investors are concerned that comps could get worse in the near term as the new fashion/value strategy takes time and aspirational brands continue to be challenged. The stock is up over 25% in the past few weeks as the stock was flattish on negative 32% comps last month which is telling of where expectations bar is.

Aeropostale (ARO/Neutral): We expect July comps to be up 11% to 13% compared to a 13.0% comp last year and a 1.1% comp on a two-year basis. On a two-year basis comparisons are eleven points easier this month, and we expect strong double-digit comps to continue as the brand momentum continues to be very strong. Stores were running all tops half off promotion as well as BOGO free on graphics and polos. Denim should be a big opportunity this back-to-school for the company, and we think the new denim assortment looks very strong. It also looks like the company doesn't plan to be the lowest "guy in town" with its denim pricing, with some styles ticketed at \$50 (will likely get promoted at \$35), which is above AEO highlighting its denim under \$30 assortment. July is a bigger month than June from profitability standpoint, and assuming ARO again comps up double digits, we think the company could raise 2Q09 guidance by another \$0.02-\$0.04. We expect ARO to be able to continue gaining share vs. AEO and ANF for back-to-school as the product looks very trend-right and value proposition continues to be more compelling. At close to \$650/sq ft, sales productivity is the highest in our coverage universe and in company history and we think will continue to be the biggest overhang on the stock, although merchandise margins likely have some room given allocation and sourcing initiatives. ARO's multiple expanded recently with the stock

setting a new 52-week high, although the stock continues to be cheap trading at 12x our 2009 EPS estimates and we think earnings could continue to have upside to over \$3.00 this year.

American Eagle Outfitters (AEO/Neutral): We expect July comps to be down 6% to 8% compared to a negative 7% last year and a negative 13% on a two-year basis. Two-year comparisons are ten points easier this month. We think after June results AEO was running closer to the low end of its 2Q09 EPS guidance (range of \$0.12-\$0.15), and if July improves to down mid-single digits, we think the company could earn closer to \$0.13-\$0.14 (Street at \$0.14 now). We think the new back-to-school assortment looks much improved compared to previous flows and expect the women's category to again perform better than men's driven by new denim, dresses, and fashion tops. AEO is making a big push in denim for back-to-school with a new NYC graphic tee promo started in week three of the month (get a free t-shirt when you buy any full price pair of jeans, which otherwise retails at \$19.50) and free shipping on denim online. In addition, AEO brought back its best-selling Artist jean with improved fits and washes offered at a range of price points starting at \$29.50. Men's continues to be challenging, mostly as a result of tough multi-year comparisons and not a lot of fashion trends in men's right now (although we think denim is positive in men's). Men's is also lapping a tougher comparison this month (up high single digits vs. up low single digits in June). The stock has recovered from the sub-\$13 level after reporting June results, and better July would be another indication that fundamentals are moving in the right direction, although we think 3Q09 EPS estimates look too aggressive. AEO has one of the biggest 4Q gross margin opportunities in our space as gross margins fell by over 1,100 bps last year.

Buckle (BKE/Neutral): We expect July comps to be up 9%-11% compared to 21% last year and 29% on a two-year basis. BKE has about 90 stores across the ten states pushing out their tax-free events into August from July (25% of the store base, double most teen retailers at 15% of the store base on average), and we expect negative impact from the shift to be about mid-single digits (vs. low single digits for most of the teen space). Historically, July tends to be a weaker month than June for BKE as back-to-school shopping doesn't start until August/September, and July becomes more of a clearance-driven month. The one offset could be Affliction promo (receive a free t-shirt when spend \$100 on Affliction, Obey, Sinful) that moved from June last year to July this year. Stores also ran a denim event at the beginning of July—receive a free bag with the purchase of two pairs of jeans, which was anniversaried from last year (last year's event included a free t-shirt). Negative comp in men's (with transactions declines for the past two months) as BKE laps ticket-driven Affliction/Obey comparisons is the biggest fear on the stock right now, although June was the toughest monthly comparison for the men's category. BKE is still posting some of the better fundamentals in our space, but 22% margins this year are record-high for the company as well as our group. In addition, inventories are being managed up high single/low double digits in the back half, just as comps are slowing. We expect the company to "only" come in line with consensus EPS for 2Q09.

Children's Place (PLCE/Neutral): We expect July comps to be down 4% to down 6% (down 1% to down 3% excluding roughly one point of currency impact and two points attributable to online sales) compared to positive 2% last year and negative 1% comp on a two-year basis. The company pre-announced last week with a wider loss for 2Q09, although weaker fundamentals were offset by the announcement

that proxy fight is finally behind the company and PLCE will buy half of ex-CEO's stake (9% buyback). Stores ran the Monster Sale with additional 40% off most of the month which was moved to additional 50% off in the final week of July. In the final week of the month stores ran 25% off the entire store for two days to clear through remaining inventories as July was a few points below plan. The company should have a back-half opportunity given IMUs (the biggest drag to merchandise margins in the first half) expected to be up 75-100 bps (more so in 4Q09), currency pressure alleviating, and more expense opportunities, although two-year comparisons are still tough (especially in October). PLCE could announce a new CEO in the next 90 days now that the proxy battle is behind them.

Gap (GPS/Neutral): We expect June comps to be down 9% to 11% (Old Navy down 6-8% and Gap Domestic down 11-13%) compared to down 11% on a one-year and down 18% on a two-year basis. We note that the company anniversaried its "Give and Get" friends and family event from July 30th through August 2nd—30% off during four days this year which compares to a 25% discount for three days last year.

- **Gap North America** faces a 6% comp decline last year and a 4% decline on a two-year basis. Gap inventory levels remained relatively lean (down 12% psf at the end of the 1Q). We believe that business remains relatively stable as reception to its new floorset (set during the week of June 16th—similar to LY) remains modestly positive. The division continued to featured a under \$20 denim event and an "up to 50% off" sale event during the beginning of the month and moved to transitional fall product by week two. The division also featured a soft launch of its new 1969 premium denim program on July 27th. The company plans to support this launch with a marketing campaign in August.
- **Old Navy** faces a 16% comp decline last year and an 18% decline on a two-year basis. With better than expected sales trends in April and May, we believe that comps may remain under pressure in July, particularly during the beginning of the month as the division lacked the depth of clearance merchandise. We would expect merchandise margins, in contrast, to be above last year's levels. After nearly five years of negative comps, investors are hoping that ON (nearly 50% of sales) will be able to drive both sales and margin at this value-priced chain. We believe that momentum is beginning to pick up and customers are responding to the company's renewed focus on "Family, Fashion, and Value" while re-jiggering their pricing architecture to more appropriately match the current environment and the promotional cadence among competitors while introducing productivity-enhancing lines such as yoga. We believe that these factors are contributing to much better traffic trends vs. the 12% declines LY.
- **Banana Republic** faces a 8% comp decline last year and a 7% decline on a two-year basis. The division featured a 25% off Thank You event for BR card-holders mid-month. BR has remained the most promotional division at Gap, Inc. as customers have not been responding well to the merchandise assortment. However, with much of the focus on the Old Navy business, we believe that major changes to this division (which represents less than 20% of sales) will not likely occur until we see continued stabilization at the ON division.

GPS management continues to reiterate their focus on gross profit dollars for 2009 (through markdown/inventory management) as the macro environment remains challenging and there are mixed signs that the merchandising strategies are

delivering more consistent results, especially at Old Navy. We note that any stabilization/improvement at the ON division could translate to significant EPS upside (we estimate 1% of comp = \$0.02 to EPS, all else equal). Should the turn at ON be real, it should make the company's goal of driving both operating margins and ROIC higher toward recent peaks (11-12% EBIT margins and 500bps on ROIC) much easier. In addition, better average unit costing and smarter investment decisions on capex dollars should also help to improve FCF. Ending the year with close to \$1.7bn in cash and no debt along with its 9% FCF yield make GPS very popular with the long-only crowd as it is viewed more as a relative "safe haven".

Hot Topic (HOTT/Neutral): We expect July comps to be down 9% to 11% on top of negative 2.1% and negative 9.5% comps on a two-year basis. At Hot Topic, the music licensed business is lapping a positive 2% comp, accessories a positive 4% comp, women's a negative 8% comp, and men's a negative 6% comp. Tax-free shifts are expected to be two point drag to comps this month. July should see a lift from Harry Potter and Transformers, although stores had both of these licenses for the past month and we think had some of that business pulled forward in June. July could benefit from Michael Jackson t-shirts (three SKUs) and additional Twilight product (although we think HOTT may have bought too heavily into Twilight ahead of New Moon movie release in November). In women's, difficult bottoms comparisons continue to weigh on comps as stores are still clearing out some of the colored denim (which is now at 75% off). Inventories continue to be too high at up low single digits at the end of 2Q09—vs. comps down high single digits. The stock is up after the company missed June comps and cut 2Q09 EPS guidance by 50% as investors are focusing on back-half catalysts including New Moon (more accessories this time—higher-margin) and Halloween falling on Saturday this year. In the absence of top-line growth, HOTT becomes more about tighter expense management. We think the Street's 3Q09 estimates for flattish earnings growth are too optimistic. The stock is trading at 23x our EPS estimate, which seems too rich given margins contracting.

Limited Brands, Inc. (LTD/Neutral): We expect July comps to be down 10% to 12% compared to a 5% decrease last year and a down 8% on a two-year basis. Management guidance is for negative low-double-digit comps for the month.

- **Victoria's Secret** faces a 6% comp decline (and a 10% decline on a two-year basis). In July, VS featured a refresh of the Perfect One bra while Pink moved to a back-to-school theme mid-month with a mini dog gift with purchase offer. Inventory levels at the beginning of the month were down 8% psf (and down 29% on a two-year basis), which is a relatively good sign that the supply chain systems roll-out is proceeding as planned. The company's guidance calls for mid- to high-single-digit declines in inventory by the end of the 2Q. In attempts to increase the value proposition at VS, we note that the company began featuring sharper price points including cotton bras at 2 for \$40 compared to its current average bra price closer to \$45. In addition, the company plans to re-launch Body by Victoria in August at about a \$30 price point as well as a new sub-brand called Victora (which will also likely be a more value-oriented line that would fit between Pink and its core intimates collection).
- **Bath & Body Works** faces a 5% comp decline (and a 7% decline on a two-year basis). BBW featured a "Refresh" theme in July building on the momentum from the signature collection restage with a relaunch of coconut lime verbena. The division also featured the launch of its new American Grown collection, a new foaming body wash, the True Blue Spa Morocco collection, and the launch of its

Fragrant Waters spray collection—a substantial amount of newness that should help drive traffic in the upcoming months. The company featured a free True Blue Spa item with \$15 purchase as well as free travel size Signature Collection item with any purchase at the end of the month. In addition, we believe that BBW continued to see strength in its Anti-Bac collection—particularly given the media attention around the H1N1 “swine” flu.

In addition to the overall lack of demand in the discretionary space, we believe that the competition has heated up with specialty apparel retailers now increasing their penetration in the intimates and body care spaces. Although we received several key positive data points including: **1)** an additional \$250 million in SGA reduction over the next couple of years; **2)** tighter capex budget (\$200 million vs. prior \$350 million guidance); **3)** continued inventory prudence; and **4)** relaxation of its financial covenants, it appears that expectations have quickly reverted from the negative to positive despite the fact that nearly 100% of LTD’s full year profits are now likely to come in the Holiday quarter this year.

Ross Stores (ROST/Overweight): We expect ROST’s July comps to be flat compared to a 4% increase last year and a 5% increase on a two-year basis. The company’s guidance is for flattish comps. ROST’s recent comp trends have been strong and ahead of expectations likely due to: i) fresher merchandise (quicker turns); ii) better buying (e.g., investing into trending categories, buying closer to need, growing the number of merchants); iii) higher tax refunds; and iv) share gains from retailers like Mervyn’s that went out of business. ROST’s EBIT margins continue to expand beyond the five-year average. Our EBIT margin estimate of 8.5% for ’09 is above the five-year avg. of 7.0%, but below the 9.0% ROST averaged in the early part of the decade. The margin recovery story at ROST is now in the later innings and as a result, we think the multiple investors are willing to pay for ROST could be under pressure as EBIT margins move beyond 8%. However, we believe the upward EPS revisions could continue given the strong comp momentum combined with lean inventories. At the end of last month, ROST’s average in-store inventories were down about 16% and we believe will be down double digits for most of the year. ROST is one of the few retailers delivering strong double-digit earnings growth in this environment—Q1 EPS was up 21% and we forecast 23% EPS growth in ’09.

TJX Companies (TJX/Neutral): We expect TJX’s July comps to be up 1% to 3% compared to a 3% comp increase last year and a 6% increase on a two-year basis (all in constant currency). The company’s guidance is for flat to up 2%, both on a consolidated basis and at Marmaxx. Comps have accelerated at TJX in recent months (despite a tough June comparison) and we think there could be some upside again this month. We estimate that foreign currency exchange rates adversely impacted sales growth by approximately three percentage points in July (similar to June, but a smaller negative impact than the past nine months)—the British pound averaged \$1.64 versus \$1.99 last year, down 18%, and the Canadian dollar averaged \$0.89 versus \$0.99 last year, down 10%. Canada and the UK each represent approximately 12-13% of total sales. According to management, a 1% impact to comps from currency is \$0.02 to EPS. By division:

- **Marmaxx** faces a 2% comp increase (3% increase on a two-year basis);
- **Winners/HS** faces an 8% comp increase (18% increase on a two-year basis);
- **HomeGoods** faces a 2% comp decline (7% increase on a two-year basis);

- **T.K. Maxx** faces a 6% comp increase (13% increase on a two-year basis); and
- **A.J. Wright** faces a 7% comp increase (11% increase on a two-year basis).

TJX's comps came in ahead of our expectations for the past several months which combined with lean inventories (planned down LSD-MSD per store) and disciplined expense management drove upward revisions in earnings estimates. Our EBIT margin assumption for '09 of 8.5% is above TJX's ten-year average and five-year peak EBIT margin of 7.9%, driven by the recent comp strength and strong merchandise margins. We think our estimate for Marmaxx operating margin of 10.6% for '09 is relatively full, however smaller divisions HomeGoods and AJ Wright have further room for margin expansion. The strong FCF generation (we are forecasting nearly \$1B for '09) should enable TJX to continue to repurchase stock. The company plans to repurchase \$625 million of stock in '09 (of which \$375 million is related to redeeming the convertible notes).

The Wet Seal, Inc. (WTSLA/Overweight): We expect July comps to be down 9% to down 11% vs. a negative 4.4% comp last year and a negative 11.6% comps on a two-year basis. At Wet Seal, we expect negative 10%-12% comps (on top of negative 1.8% last year and negative 7.8% on a two-year basis). Top-line deceleration at this division is self-inflicted with misses in fashion tops and dresses, and stores are expected to be better inventoried this month. At Arden B., volatility in sales is being offset by merchandise margin improvement. After strong April and May (comps up 6% and 11%), this division comped down 10% in June. Inventory shortages in dresses and tops (as this division didn't buy for double-digit comps) and higher ticket comparisons (as Arden B. cut price points in January by 25%) are the two reasons for comp deceleration. Transactions continue trending up double digits (up 20% in June and up 30% in May), which gives us confidence that this division is working. Although top line could continue to be erratic, we expect Arden B. to be accretive in 2Q09 and make \$0.10 this year. The stock has underperformed the group lately as investors are questioning whether recent merchandise challenges at Wet Seal are indicative of bigger issues with this business.

Companies reporting quarterly:

Chico's, FAS (CHS/Neutral): We expect 2Q comps to be down 1-3% compared to a down 15.9% last year and a down 21% on a two-year basis. We believe sales trends continue to improve at the core Chico's business at down low single digits (vs. down 19% LY) as well as at WHBM to the mid-single-digit positive territory (vs. down 12% LY) for the quarter. With inventory levels down nearly 15% psf (on an adjusted basis), we believe that the company has been able see improved merchandise margin, despite some promotional activity during the quarter (which was limited to key items and general clearance activity vs. much broader-based markdowns last year) at the Chico's division. At WHBM, we believe that the overall positive trend likely continued (as management noted during their analyst event in June) and featured a minimal promotions during the month. WHBM featured a clearance event through mid-July and transitioned to early fall merchandise and highlighted embellished denim and ultra-feminine dresses. While the company does have much low-hanging fruit (new management, recent inventory declines, expense reductions, getting Soma to profitability, as well as online growth), the company has set a high bar with mid-teen margins and \$1.00 in EPS over the next 2-3 years compared to -1% EBIT margins and a loss of \$0.03 in 2008.

The Gymboree Corp. (GYMB/Neutral): We expect 2Q09 comps to be down 3% to 5% vs. up 1% last year and up 6% on a two-year basis. GYMB significantly raised 2Q09 guidance ahead of July which is Gymbucks redemption month (historically the most important month of the quarter from sales and profitability standpoint), and we expect further upside to this quarter's estimates. Stores were running Gymbucks redemption (save \$25 on every \$50 you spend through 7/26) as well as save up to 50% on select back-to-school styles. It sounds like the company is very pleased with Crazy 8 (which comped positive in 1Q09) and we think this new business could cut losses in half (if not more) this 2Q09. At the almost 15% we expect this year, GYMB's operating margins are the highest in company history, although the company continues to have several earnings drivers between ongoing IMU benefits and SG&A controls at the store level in payroll and supply expenses. Next year will become about better Crazy 8 scale and we expect the company to accelerate new store openings above 25 stores this year.

Urban Outfitters, Inc. (URBN/Neutral): We expect 2Q09 comps to be down 6% to 8% vs. positive 13% last year and positive 18% on a two-year basis. This 2Q09 has the toughest comparison on a one-year basis, although similar to 3Q09 on a two-year basis. At core Urban Outfitters, we expect negative high-single-digit comps (on top of positive 19% last year and positive 16% on a two-year basis). Urban lapped its toughest comparison in July, and stores stepped up promotions with \$5 and \$10 and \$15 sale to clear through remaining spring/summer assortments. Clearance inventories looked in decent shape, and we think the new fall assortment is an improvement compared to spring/summer product, which should better position this division for back-to-school. The company is increasing investment in its own BDG brand at this division, with the opportunity to grow the own brand penetration to 50% of the mix from 30% today. At Anthropologie, we expect negative mid-single-digit comps on top of positive 7% on a one-year basis and positive 21% on a two-year basis. This business seems to be in better shape than Urban with accessories (20% of the mix) still driving the business, while execution in apparel has also improved compared to 1Q09. Similar to what we are hearing from other retailers, fashion continues to do well (no price sensitivity), especially in dresses which are in year two of strong results. Without counting on positive comps, URBN has levers to pull on the margin side with improvement in IMUs and markdown rates as the company continues to improve its supply chain and shrinks the production calendar. We think the stock is intriguing below \$20 at 18-19x our 2010 EPS estimates.

Companies Recommended in This Report (all prices in this report as of market close on 31 July 2009)

Abercrombie & Fitch (ANF/\$28.59/Neutral), Aeropostale (ARO/\$36.40/Neutral), American Eagle Outfitters (AEO/\$14.39/Neutral), Chico's FAS, Inc. (CHS/\$11.47/Neutral), Citi Trends, Inc. (CTRN/\$29.20/Neutral), Coach, Inc (COH/\$29.59/Neutral), Hot Topic, Inc. (HOTT/\$7.73/Neutral), J. Crew Group, Inc. (JCG/\$28.16/Neutral), Limited Brands, Inc. (LTD/\$12.94/Neutral), Men's Wearhouse (MW/\$21.61/Neutral), Ross Stores (ROST/\$44.07/Overweight), The Buckle Inc. (BKE/\$30.94/Neutral), The Children's Place (PLCE/\$32.79/Neutral), The Gap, Inc. (GPS/\$16.32/Neutral), The Gymboree Corporation (GYMB/\$39.78/Neutral), The Wet Seal, Inc (WTSLA/\$3.30/Overweight), TJX Companies (TJX/\$36.23/Neutral), Urban Outfitters (URBN/\$24.04/Neutral)

Analyst Certification:

The research analyst(s) denoted by an "AC" on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an "AC" on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

Important Disclosures

- **Market Maker:** JPMSI makes a market in the stock of Citi Trends, Inc., Hot Topic, Inc., Ross Stores, The Children's Place, The Gymboree Corporation, The Wet Seal, Inc, Urban Outfitters.
- **Lead or Co-manager:** JPMSI or its affiliates acted as lead or co-manager in a public offering of equity and/or debt securities for Abercrombie & Fitch, Limited Brands, Inc., TJX Companies within the past 12 months.
- **Client of the Firm:** Abercrombie & Fitch is or was in the past 12 months a client of JPMSI; during the past 12 months, JPMSI provided to the company investment banking services, non-investment banking securities-related service and non-securities-related services. Aeropostale is or was in the past 12 months a client of JPMSI. American Eagle Outfitters is or was in the past 12 months a client of JPMSI. Citi Trends, Inc. is or was in the past 12 months a client of JPMSI. Coach, Inc is or was in the past 12 months a client of JPMSI; during the past 12 months, JPMSI provided to the company investment banking services, non-investment banking securities-related service and non-securities-related services. Hot Topic, Inc. is or was in the past 12 months a client of JPMSI. J. Crew Group, Inc. is or was in the past 12 months a client of JPMSI; during the past 12 months, JPMSI provided to the company investment banking services. Limited Brands, Inc. is or was in the past 12 months a client of JPMSI; during the past 12 months, JPMSI provided to the company investment banking services and non-investment banking securities-related service. Men's Wearhouse is or was in the past 12 months a client of JPMSI; during the past 12 months, JPMSI provided to the company investment banking services, non-investment banking securities-related service and non-securities-related services. Ross Stores is or was in the past 12 months a client of JPMSI; during the past 12 months, JPMSI provided to the company non-investment banking securities-related service and non-securities-related services. The Children's Place is or was in the past 12 months a client of JPMSI; during the past 12 months, JPMSI provided to the company investment banking services and non-securities-related services. The Gap, Inc. is or was in the past 12 months a client of JPMSI; during the past 12 months, JPMSI provided to the company non-investment banking securities-related service and non-securities-related services. The Gymboree Corporation is or was in the past 12 months a client of JPMSI. The Wet Seal, Inc is or was in the past 12 months a client of JPMSI. TJX Companies is or was in the past 12 months a client of JPMSI; during the past 12 months, JPMSI provided to the company investment banking services, non-investment banking securities-related service and non-securities-related services. Urban Outfitters is or was in the past 12 months a client of JPMSI.
- **Investment Banking (past 12 months):** JPMSI or its affiliates received in the past 12 months compensation for investment banking services from Abercrombie & Fitch, Coach, Inc, J. Crew Group, Inc., Limited Brands, Inc., Men's Wearhouse, The Children's Place, TJX Companies.
- **Investment Banking (next 3 months):** JPMSI or its affiliates expect to receive, or intend to seek, compensation for investment banking services in the next three months from Abercrombie & Fitch, Coach, Inc, J. Crew Group, Inc., Limited Brands, Inc., Men's Wearhouse, The Children's Place, The Gap, Inc., TJX Companies.
- **Non-Investment Banking Compensation:** JPMSI has received compensation in the past 12 months for products or services other than investment banking from Abercrombie & Fitch, Coach, Inc, Limited Brands, Inc., Men's Wearhouse, Ross Stores, The Gap, Inc., TJX Companies. An affiliate of JPMSI has received compensation in the past 12 months for products or services other than investment banking from Abercrombie & Fitch, Aeropostale, American Eagle Outfitters, Citi Trends, Inc., Coach, Inc, Limited Brands, Inc., Men's Wearhouse, Ross Stores, The Children's Place, The Gap, Inc., The Gymboree Corporation, The Wet Seal, Inc, TJX Companies.

Important Disclosures for Equity Research Compendium Reports: Important disclosures, including price charts for all companies under coverage for at least one year, are available through the search function on J.P. Morgan's website <https://mm.jpmorgan.com/disclosures/company> or by calling this U.S. toll-free number (1-800-477-0406)

Explanation of Equity Research Ratings and Analyst(s) Coverage Universe:

J.P. Morgan uses the following rating system: **Overweight** [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] **Neutral** [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] **Underweight** [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] The analyst or analyst's team's coverage universe is the sector and/or country shown on the cover of each publication. See below for the specific stocks in the certifying analyst(s) coverage universe.

Coverage Universe: **Brian J. Tunick:** Abercrombie & Fitch (ANF), Aeropostale (ARO), American Eagle Outfitters (AEO), Ann Taylor Stores (ANN), Bebe Stores (BEBE), Chico's FAS, Inc. (CHS), Coach, Inc (COH), Hot Topic, Inc. (HOTT), J. Crew Group, Inc. (JCG), JoS. A. Bank Clothiers Inc (JOSB), Limited Brands, Inc. (LTD), Men's Wearhouse (MW), Pacific Sunwear of California, Inc. (PSUN), Ross Stores (ROST), TJX Companies (TJX), The Children's Place (PLCE), The Gap, Inc. (GPS), The Gymboree Corporation (GYMB), The Talbots, Inc. (TLB), Tiffany & Co (TIF), Tween Brands Inc. (TWB), Ulta Salon, Cosmetics & Fragrance, Inc. (ULTA), Urban Outfitters (URBN), Zale Corporation (ZLC)

Anna A. Andreeva: Charlotte Russe (CHIC), Fossil, Inc. (FOSL), Quiksilver, Inc. (ZQK), The Buckle Inc. (BKE), The Wet Seal, Inc (WTSLA)

Evren Dogan Kopelman, CFA: Citi Trends, Inc. (CTRN), Jones Apparel Group (JNY), Phillips-Van Heusen (PVH), Polo Ralph Lauren (RL), The Warnaco Group, Inc. (WRC), VF Corp. (VFC)

J.P. Morgan Equity Research Ratings Distribution, as of June 30, 2009

	Overweight (buy)	Neutral (hold)	Underweight (sell)
JPM Global Equity Research Coverage	36%	46%	18%
IB clients*	55%	56%	42%
JPMSI Equity Research Coverage	36%	52%	12%
IB clients*	77%	72%	60%

*Percentage of investment banking clients in each rating category.

For purposes only of NASD/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category.

Valuation and Risks: Please see the most recent company-specific research report for an analysis of valuation methodology and risks on any securities recommended herein. Research is available at <http://www.morganmarkets.com>, or you can contact the analyst named on the front of this note or your J.P. Morgan representative.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

Other Disclosures

J.P. Morgan is the global brand name for J.P. Morgan Securities Inc. (JPMSI) and its non-US affiliates worldwide.

Options related research: If the information contained herein regards options related research, such information is available only to persons who have received the proper option risk disclosure documents. For a copy of the Option Clearing Corporation's Characteristics and Risks of Standardized Options, please contact your J.P. Morgan Representative or visit the OCC's website at <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>.

Legal Entities Disclosures

U.S.: JPMSI is a member of NYSE, FINRA and SIPC. J.P. Morgan Futures Inc. is a member of the NFA. JPMorgan Chase Bank, N.A. is a member of FDIC and is authorized and regulated in the UK by the Financial Services Authority. **U.K.:** J.P. Morgan Securities Ltd. (JPMSL) is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority. Registered in England & Wales No. 2711006. Registered Office 125 London Wall, London EC2Y 5AJ. **South Africa:** J.P. Morgan Equities Limited is a member of the Johannesburg Securities Exchange and is regulated by the FSB. **Hong Kong:** J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong. **Korea:** J.P. Morgan Securities (Far East) Ltd, Seoul branch, is regulated by the Korea Financial Supervisory Service. **Australia:** J.P. Morgan Australia Limited (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (ABN 61 003 245 234/AFS Licence No: 238066) is a

Market Participant with the ASX and regulated by ASIC. **Taiwan:** J.P.Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Bureau. **India:** J.P. Morgan India Private Limited is a member of the National Stock Exchange of India Limited and Bombay Stock Exchange Limited and is regulated by the Securities and Exchange Board of India. **Thailand:** JPMorgan Securities (Thailand) Limited is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Indonesia:** PT J.P. Morgan Securities Indonesia is a member of the Indonesia Stock Exchange and is regulated by the BAPEPAM. **Philippines:** J.P. Morgan Securities Philippines Inc. is a member of the Philippine Stock Exchange and is regulated by the Securities and Exchange Commission. **Brazil:** Banco J.P. Morgan S.A. is regulated by the Comissao de Valores Mobiliarios (CVM) and by the Central Bank of Brazil. **Mexico:** J.P. Morgan Casa de Bolsa, S.A. de C.V., J.P. Morgan Grupo Financiero is a member of the Mexican Stock Exchange and authorized to act as a broker dealer by the National Banking and Securities Exchange Commission. **Singapore:** This material is issued and distributed in Singapore by J.P. Morgan Securities Singapore Private Limited (JPMSS) [MICA (P) 132/01/2009 and Co. Reg. No.: 199405335R] which is a member of the Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore (MAS) and/or JPMorgan Chase Bank, N.A., Singapore branch (JPMCB Singapore) which is regulated by the MAS. **Malaysia:** This material is issued and distributed in Malaysia by JPMorgan Securities (Malaysia) Sdn Bhd (18146-X) which is a Participating Organization of Bursa Malaysia Berhad and a holder of Capital Markets Services License issued by the Securities Commission in Malaysia. **Pakistan:** J. P. Morgan Pakistan Broking (Pvt.) Ltd is a member of the Karachi Stock Exchange and regulated by the Securities and Exchange Commission of Pakistan. **Saudi Arabia:** J.P. Morgan Saudi Arabia Ltd. is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia (CMA) to carry out dealing as an agent, arranging, advising and custody, with respect to securities business under licence number 35-07079 and its registered address is at 8th Floor, Al-Faisalyah Tower, King Fahad Road, P.O. Box 51907, Riyadh 11553, Kingdom of Saudi Arabia.

Country and Region Specific Disclosures

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by JPMSL. Investment research issued by JPMSL has been prepared in accordance with JPMSL's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require that a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. JPMSAL does not issue or distribute this material to "retail clients." The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Germany:** This material is distributed in Germany by J.P. Morgan Securities Ltd., Frankfurt Branch and J.P.Morgan Chase Bank, N.A., Frankfurt Branch which are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for persons licensed by or registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months' prior.) J.P. Morgan Broking (Hong Kong) Limited is the liquidity provider for derivative warrants issued by J.P. Morgan International Derivatives Ltd and listed on The Stock Exchange of Hong Kong Limited. An updated list can be found on HKEx website: <http://www.hkex.com.hk/prod/dw/Lp.htm>. **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, JPMorgan Securities Japan Co., Ltd., will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between JPMorgan Securities Japan Co., Ltd., and the customer in advance. Financial Instruments Firms: JPMorgan Securities Japan Co., Ltd., Kanto Local Finance Bureau (kinsho) No. 82 Participating Association / Japan Securities Dealers Association, The Financial Futures Association of Japan. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul branch. **Singapore:** JPMSS and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by JPMSAL in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. JPMSAL does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of JPMSAL.

General: Additional information is available upon request. Information has been obtained from sources believed to be reliable but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively J.P. Morgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMSI and/or its affiliates and the analyst's involvement with the issuer that is the subject of the research. All pricing is as of the close of market for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. JPMSI distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Periodic updates may be provided on companies/industries based on company specific developments or announcements, market conditions or any other publicly available information. Clients should contact analysts and execute transactions through a J.P. Morgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

“Other Disclosures” last revised January 30, 2009.

Copyright 2009 JPMorgan Chase & Co. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of J.P. Morgan.