

Luxury Goods

US high-end Department Stores remain very soft in Jan 09 - ALERT

- **US high end Department Stores reported very soft Jan 09 trading, broadly in line with Dec 08.** Same-store sales were down 24.4% at Neiman Marcus, down 23.7% at Saks (much worse than JPME -15% and consensus -17%), down 11.4% at Nordstrom (vs JPME -13% and consensus -14%). Nordstrom, the only one to have given Q4 09 (Nov 08 - Jan 09) SSS guidance, came out at the high end of its -16% to -13% guidance range at -12.5%.
- Consumers continue to favour promotions and based on aggressive markdowns and promotional activity, both Saks and Neiman Marcus expect a significant GM contraction in the quarter ending Jan 09. Nordstrom had stated at the time of its Dec 08 release that they expected to miss their previous guidance for Q4 EPS \$0.35-0.45.
- **Those poor Jan SSS figures will be no major surprise** for the following reasons: 1) Jan 09 releases come after already dire Oct-Dec 08 SSS in US high-end Department Stores. 2) Jan is a self-purchasing month while Nov-Dec were gift-giving months, so Jan trading was expected to be tougher than the holiday season. 3) The sales season kicks off around Thanksgiving in the US, hence Jan is not as key a month as it is for European retailers; this is even more true this year, as sales started even earlier in order to get rid of heavy inventories.
- We expect H1 09 trading to be tough for European Luxury names on tough comps and low reorders.
- European Luxury companies that have given a preliminary Jan trading update so far (namely Swatch and Bulgari) have commented on a sequential improvement in Own Stores sales in Jan 09 vs Nov-Dec 08. Sales growth still remains in negative territory at Bulgari own stores while it is up at Swatch according to press interviews of the CEO. However, Own Stores is only c15% of group sales at Swatch, and total sales (incl Wholesale orders) were still down yoy. We would make two comments on these Retail trends: 1) Three and a half weeks trading is not enough to conclude on a recovery trend at the consumer-end 2) Wholesale is the channel that has shown the steepest deterioration to date (worse than Retail), due to cautious reordering and financing constraints from third-party retailers.

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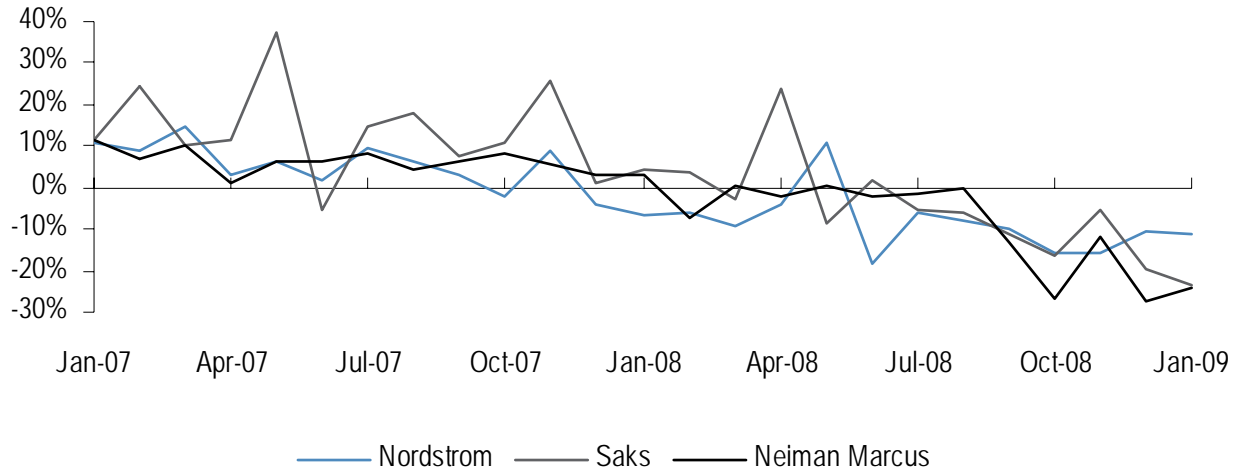
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Figure 1: US high-end Department Stores Same Store Sales

% yoy



Source: Company reports.

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