CFRA

Industry Surveys

Retail (Apparel)

APRIL 2023

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CHARTS & FIGURES

NEW THEMES

What’s Changed: Although consumer sentiment is currently improving, it remains depressed and significantly below 2019 levels.
See page 13.

What’s Changed: The biggest change that retailers are making to their business is how they reach the younger consumer generation. Read more on page 14.

EXECUTIVE SUMMARY

Since March 2020, when Covid-19 first emerged in the U.S., retailers have had to change the way they do business in order to survive. Some failed and were forced into bankruptcy, while others quickly pivoted and adapted to the new normal. As we emerge from the pandemic, retailers emerge with higher operating margins and healthier balance sheets. These retail companies invested heavily in their e-commerce platforms and provided consumers innovative ways to shop and receive their products. CFRA believes we will now return to a market with winners and losers as stimulus fades and inflation impacts consumer wallets. We maintain our neutral outlook for the Retail (Apparel) industry.

The Hybrid Model Is Here to Stay

With lockdowns and restrictions put into place across the globe during the pandemic, apparel retailers had to innovate and pivot in order to get their products to consumers. Buy online, pick-up in-store (BOPIS), curbside pick-up, and buy online ship from store allowed retailers to reach their customers with little to no contact. Now, lockdowns have been lifted and restrictions are few and far between. Yet, apparel retail companies are still having success with this new hybrid model. E-commerce revenue continues to grow while some consumers are returning to the store to browse or pick up online orders. It is no secret that companies that can do both well have outperformed in recent years and demand much higher multiples because of their high margins and a strong mix between e-commerce and brick-and-mortar sales. It took a pandemic for many other retailers to see just how important the hybrid approach is.

Inflation Changing Consumers' Appetite?

In March 2023, the Consumer Price Index rose 5.0% Y/Y, and down from the previous summer highs. As prices rise more quickly than wages, shifts in consumers' appetite will inevitably come, causing many consumers to turn to discount stores to pursue promotions and warehouse stores where they can buy in bulk. The Federal Reserve has taken drastic measures to tighten financial conditions over the past year, which should impact the consumer in 2023. The consumer savings rate has been well below historical levels over the past 12 months while credit card debt continues to rise, which we expect will eventually creep into retail sales and change where consumers shop. We expect off-price retailers to continue momentum as more consumers trade down and seek out deals in 2023.

Supply Chains to Help Margins in 2023?

Retail inventories are now above pre-pandemic levels, which is helping to ease some supply chain pressures. The Federal Reserve now sees the U.S. at full employment, which should help ease some of the supply chain constraints alongside higher inventory. For now, raw material and input prices have eased along with lower freight costs, which should be tailwinds for retailers in 2023 after being strong headwinds in 2022. We expect supply chain pressures to continue to ease as consumer demand continues to fall, bringing them back to normal operating levels and potentially below if a recession ensues due to tightening financial conditions. Elevated inventory benefits the off-price retailers who purchase old inventory from other retailers at a fraction of the cost.

2023 Sales Forecast

CFRA anticipates sales to slump throughout 2023 as consumer spending fades and retailers lap tough comps from 2021 and 2022. Even after a muted 2022, we see sales at apparel retailers to continue to trend down in the low single digits compared to 2022. We expect 2023 to be similar to 2019, where strong brands with consistent growth lead the pack. Overall, the Retail (Apparel) industry is dealing with higher inventory levels, which pressures margins, and the consumer is now fully aware of higher costs. We expect 2023 to be a tough year for retailers as consumer sentiment remains low and inventory is above historical levels, leading to elevated promotions.

CFRA Industry Snapshot www.cfraresearch.com

RETAIL (APPAREL)

Outlook: Neutral

MARKET CAP BREAKDOWN

(as of March 31, 2023)

RANK NO.	COMPANY NAME	MARKET CAP ($ billion)
1	The TJX Companies	90.3
2	Ross Stores	36.3
3	Foot Locker	3.7
4	The Gap	3.7
5	Victoria's Secret & Co	2.7
	Others*	15.7

Source: CFRA, S&P Global Market Intelligence.
*Others with a market cap of at least $2 billion include American Eagle Outfitters, Urban Outfitters, and Boot Barn Holdings.

ETF FOCUS

XLY Consumer Discretionary Select Sector SPDR	AUM ($M) 13,860	Expense Ratio 0.10
VCR Vanguard Consumer Discretionary	AUM ($M) 4,037	Expense Ratio 0.10
XRT SPDR S&P Retail	AUM ($M) 401	Expense Ratio 0.35
RTH VanEck Vectors Retail	AUM ($M) 147	Expense Ratio 0.35

BY THE NUMBERS

0.2% Y/Y decline in March 2023 for clothing and accessory store sales

3.5% Unemployment rate in March 2023, down from 14.8% in April 2020

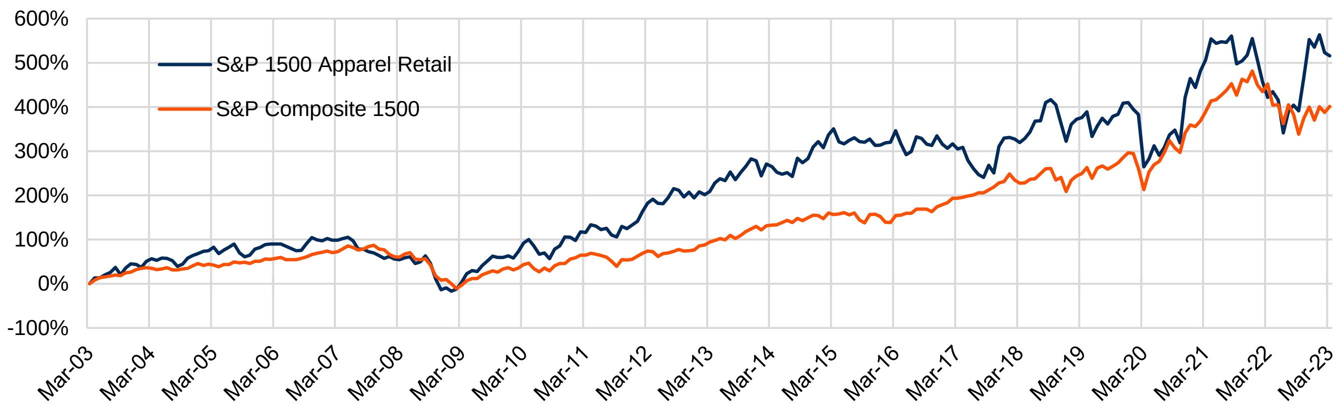
3.3% Inflation in apparel Y/Y in March 2023

1.6% Estimated U.S. GDP growth in 2023

10.8% Y/Y increase in February 2023 for advanced retail inventories

4.6% Personal savings rate in February 2023

20-YEAR INDEX PERFORMANCE

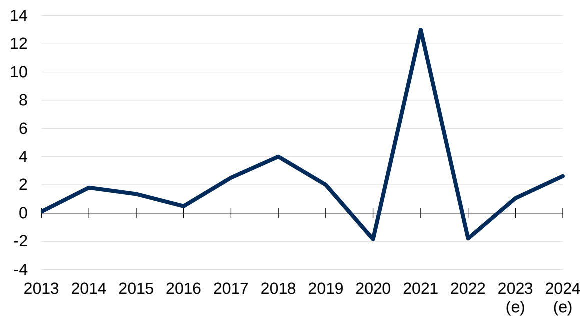


Source: CFRA, S&P Global Market Intelligence.

FINANCIAL METRICS

Median Same-Store Sales

(percent change, Y/Y)

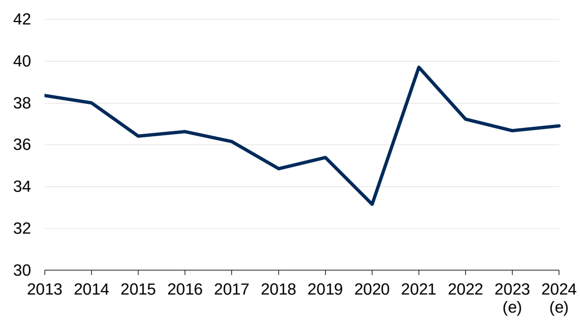


e-Estimate
Source: CFRA, S&P Global Market Intelligence.

- Same-store sales saw incredible growth in 2021 as the pandemic eased and government stimulus was abundant. Before the pandemic, median same-store sales at apparel retailers saw low single-digit growth, in line with U.S. GDP.
- Same-store sales for constituents in the industry declined 1.8% in 2022 as store visits suffered amid a poorer economic outlook caused by unruly inflation. In 2023 and 2024, we project same-store sales to recover marginally by 1.1% and 2.6%, respectively, as consumer confidence gradually recovers.

Median Gross Margin

(percent)

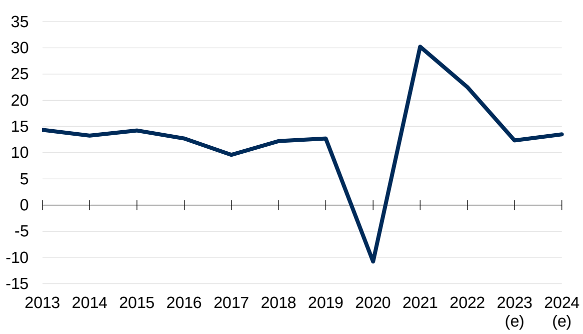


e-Estimate
Source: CFRA, S&P Global Market Intelligence.

- Industry gross margins had trended downward even before the pandemic due to the high fixed cost of operating brick-and-mortar stores and low sales growth due to stiff competition from e-commerce companies.
- After recovering to 39.7% in 2021 from a pandemic-low of 33.2%, the industry gross margin continues to slide to 37.2% in 2022 amid a tough economic environment and elevated inventory levels across the industry.
- We project the median gross margin to stabilize at 36.7% this year and 36.9% in 2024 as consumers grapple with the current inflationary environment.

Median Return on Equity (ROE)

(percent)

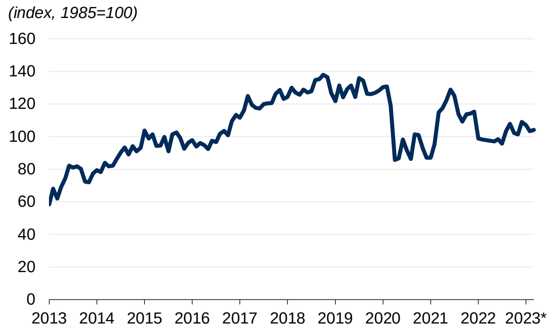


e-Estimate
Source: CFRA, S&P Global Market Intelligence.

- We estimate median ROE to stabilize later this year after last year's plunge. The drastic decline in 2022 was due to the high base amid a recovery year in 2021.
- Looking ahead, we expect ROE to return to a more normal level in 2023 and 2024 after an above average 2021 and 2022 as the consumer had excess savings due to large government stimulus.

KEY INDUSTRY DRIVERS

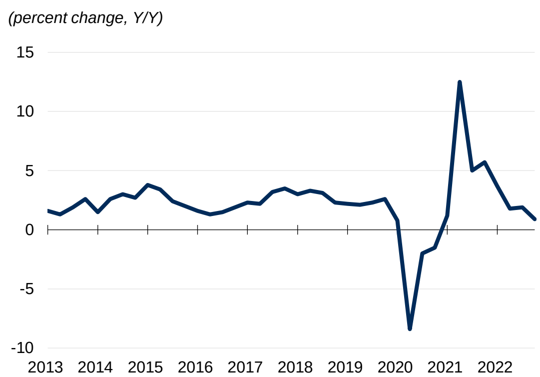
Consumer Confidence Index



*Data through March 2023.
Source: The Conference Board.

- After the consumer confidence index (CCI) rebounded near pre-pandemic levels in 2021, it continued to decline in the first half of 2022 amid market uncertainty stemming from inflation concerns, the effects of the Ukraine-Russia war, and interest rate hikes.
- However, the CCI stabilized within the 102-109 range since the second half of 2022. Improvement in consumer confidence will support spending, but rising inflation and interest rate hikes still pose risks to economic growth in the short term, according to the Conference Board.

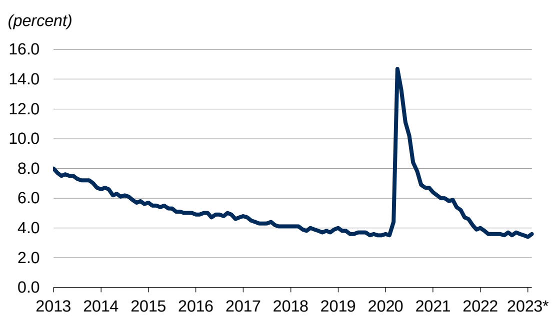
U.S. Real GDP



Source: Bureau of Economic Analysis.

- The U.S. economy expanded by 0.9% in 2022 after a 5.9% recovery in 2021. Action Economics forecasts U.S. GDP to recover by 1.6% in 2023 and 1.5% in 2024.
- Global GDP grew 3.4% last year after a 6.2% post-pandemic recovery. We expect recovery to be more conservative in the coming years, with 2.7% and 3.1% in 2023 and 2024, respectively.

U.S. Unemployment Rate



*Data through February 2023.
Source: Bureau of Labor Statistics.

- The U.S. unemployment rate rose to a high of 14.7% in April 2020 but has since recovered to pre-pandemic levels.
- The figure reached a low of 3.4% in January 2023 and has since hovered around that figure. The recovery was supported by a fast-recovering economy, which in turn increased labor demand.
- We expect the unemployment rate to increase to 4.1% through 2023 due to a significant slowdown in economic growth as the risk of a recession looms.

INDUSTRY TRENDS

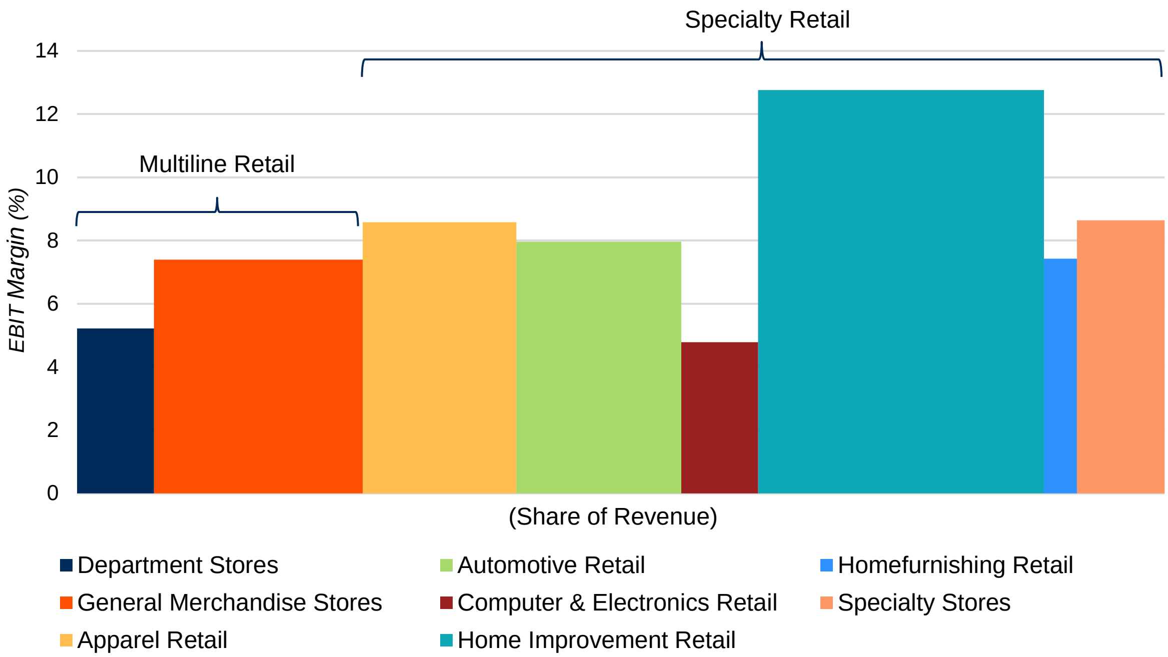
We have a neutral stance on the Retail (Apparel) industry. Here are our thoughts on key themes affecting this industry.

Competitive Environment

INDUSTRY PROFIT SHARE MAP

Over the past five years, the Multiline Retail industry (consisting of department stores and general merchandise stores) and the Specialty Retail industry (consisting of apparel retail, automotive retail, computer & electronics retail, home improvement retail, home furnishing retail, and specialty stores) averaged 53.7% and 25.3% revenues of the entire Consumer Discretionary sector, respectively. The EBIT margins for the industries are 6.7% and 9.5%, respectively.

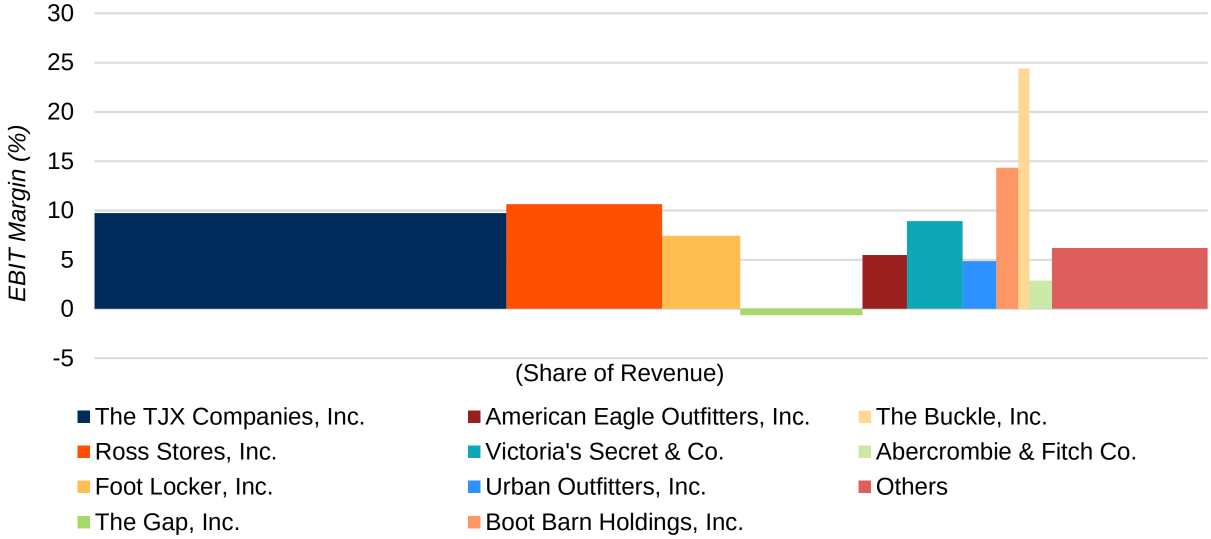
PROFIT SHARE MAP OF THE MULTILINE AND SPECIALTY RETAIL SUB-INDUSTRIES
(5-year average)



Source: CFRA, S&P Global Market Intelligence.

Within the Apparel Retail sub-industry, TJX contributed the largest share of industry revenue (37.5%) in the 12 months ended March 2023. The company's revenue had been on a rising trend for the three years prior to the pandemic. Ross Stores, the second largest revenue contributor to the sub-industry, had a revenue share of 14.0% during the same period. The retailer had a spectacular revenue growth of 50.9% in 2022 due largely to its off-price business model, which tends to flourish in an inflationary environment.

PROFIT SHARE MAP OF THE APPAREL RETAIL SUB-INDUSTRY
(twelve months through March 2023)



Source: CFRA, S&P Global Market Intelligence.

PORTER'S FIVE FORCES

◆ **Threat of New Entrants (High)** – Firms lacking competitive advantage may see their business being replicated.

◆ **Threat of Substitutes (Moderate)** – Products that offer new value propositions to customers will generally prevail.

◆ **Bargaining Power of Buyers (High)** – Customers generally seek the best possible product at the lowest possible price.

◆ **Bargaining Power of Suppliers (High)** – Firms generally obtain their raw materials from numerous suppliers. Suppliers in more dominant positions could lower a firm's margins.

◆ **Degree of Rivalry (Moderate)** – Firms are required to either continuously innovate or adopt low pricing strategies to compete for market share.

Shifts in E-commerce and Logistics

Covid-19 accelerated a decade of change and made e-commerce essential to survive, prompting retailers to scramble to invest in technology and process enhancements to add and expand fulfillment options. Instead of a complete transition to a pure-play online store, many retailers had opted for a buy online, pick-up in store (BOPIS) model. Another variation is the curbside pick-up model, where purchases could be picked up from the parking lot, eliminating any physical contact. When combined with the buy online, return in store (BORIS) model, these strategies could be invaluable in the long run as they benefit both the retailer and their customers.

That is not to say that physical stores will become obsolete. The new normal in brick-and-mortar retail will embrace omnichannel values front-and-center. Retailers would record higher in-store transactions while doing what traditional retailers struggle to do – bring shoppers into their stores – where they are more likely to make impulse purchases. Shoppers, on the other hand, get to skip the checkout line and save on delivery costs. Walmart, for example, rolled out a reimagined store design, which includes new signage on the interior and exterior of the store that showcases the Walmart app icon to encourage customers to use the app while they shop. Stores also include self-checkout kiosks and Scan Go options, which allow consumers to manage their checkout by themselves.

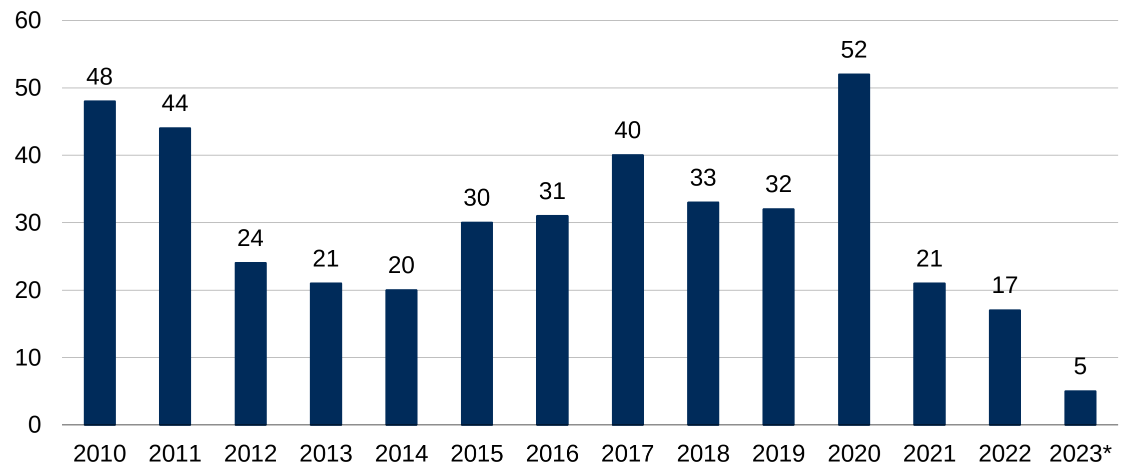
BOPIS and Ship-from-Store will also allow retailers to better compete with Amazon. BOPIS helps retailers cut shipping costs and bolster store foot traffic, while Ship-from-Store takes off the load from distribution centers and helps retailers keep pace with digital demand. Both are essential for retailers to compete with Amazon's same-day and next-day shipping options. Using a physical store to fulfill digital orders also helps retailers better manage inventory, save on logistics costs, and offset fixed store lease expenses.

As e-commerce continues to grow and become relevant, it is hard to imagine these companies growing their online presence more than in 2020. As the world comes out of the pandemic, it is likely to see those numbers grow similar to pre-pandemic levels as people get back out and shop more in person or use one of the hybrid options such as BOPIS or BORIS. Companies now realize they must give consumers the option to shop online in some variations.

The Fate of Retail

Following the long-term credit downgrades, layoffs, and store closures for various retailers, bankruptcy counts drastically increased for U.S. retailers in 2020. 2021 was a completely different story. As consumers returned in a strong fashion, bankruptcies dropped as quickly as they rose. U.S. retail bankruptcies totaled just 21 in 2021, less than half the previous year. As of 2022, the number of bankruptcies declined even more to only 17. The last time bankruptcies were this low was in 2010. As the pandemic forced shutdowns and restricted the consumer, retailers on the brink of bankruptcy shuttered while other retailers tapped the highly liquid debt markets and strengthened balance sheets with low-interest rate debt. Consumers returned towards the end of 2020 and into 2021 through 2022, pockets full of government stimulus and excess savings. Many retailers saw record quarters as consumers got vaccinated and returned to in-person shopping. The same retailers used their record cash flow to pay down debt and bolster their cash positions. However, it is still unclear on whether we are completely out of the woods. On top of the already alarming rate of inflation and interest rate hikes, recession draws near with every minute. Despite all that, consumers showed strong resilience in February 2023, with retail sales continuing to soar.

ANNOUNCED U.S. RETAIL BANKRUPTCIES

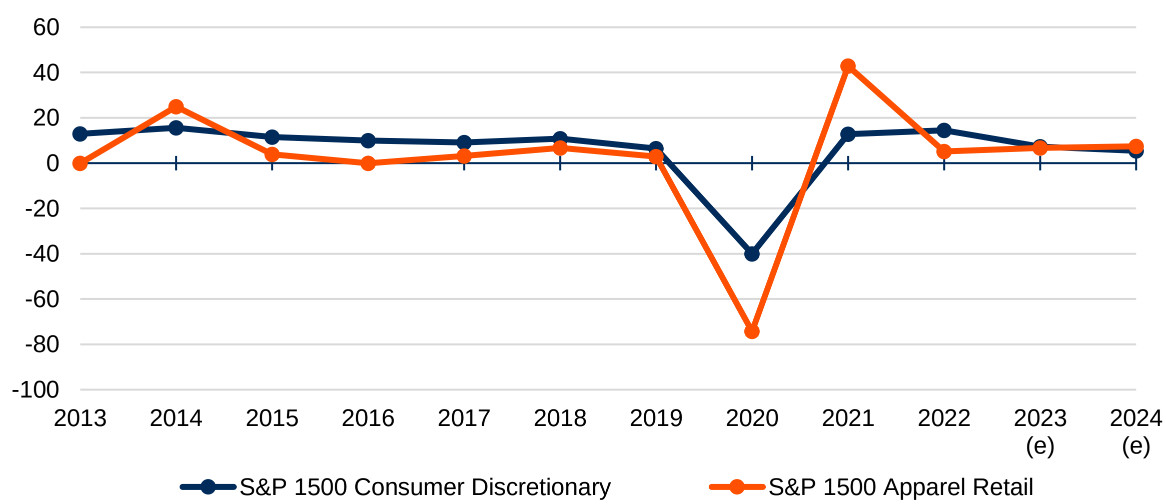


*Year-to-date through March 15.
Source: CFRA, S&P Global Market Intelligence.

Return to Dividend Growth

After a 42.9% surge, dividend growth for constituents in the S&P Composite 1500 Apparel Retail slowed to 5.2% in 2022, while dividends for the S&P Composite 1500 Consumer Discretionary grew by 14.5% (from 12.8% in 2021), according to data from S&P Global Market Intelligence. This comes as apparel companies start to conserve cash amid tougher economic conditions brought on by increased inflation and interest rates, which, in our opinion, may lead to a possible recession year. However, median dividends for apparel retailers are expected to increase by 6.8% this year once the economic dust has settled before another increase of 7.2% in 2024. Companies in the Consumer Discretionary sector are expected to increase by 7.3% and 5.4% in 2023 and 2024, respectively.

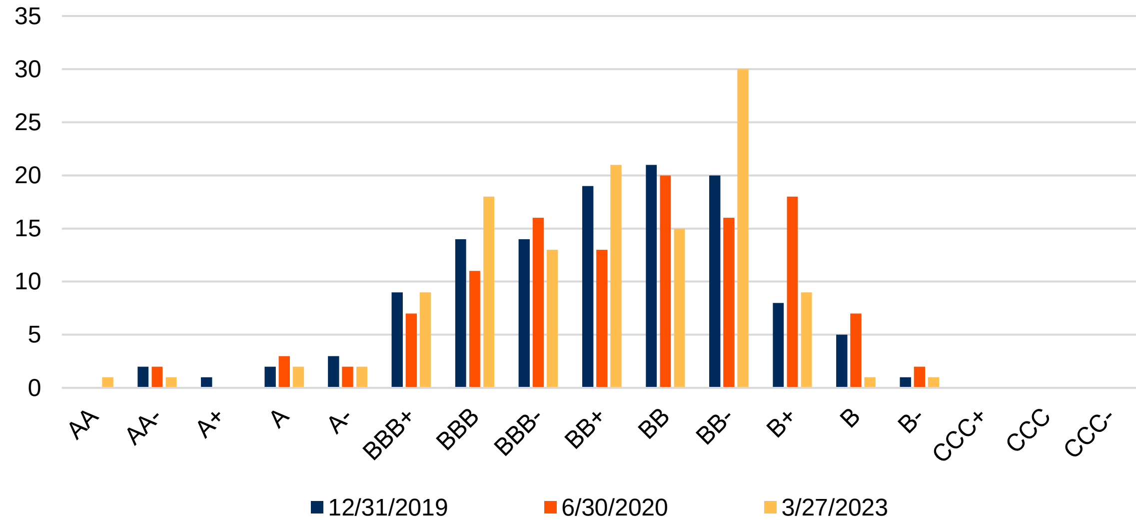
DIVIDEND GROWTH
(percentage change)



Source: CFRA, S&P Global Market Intelligence.

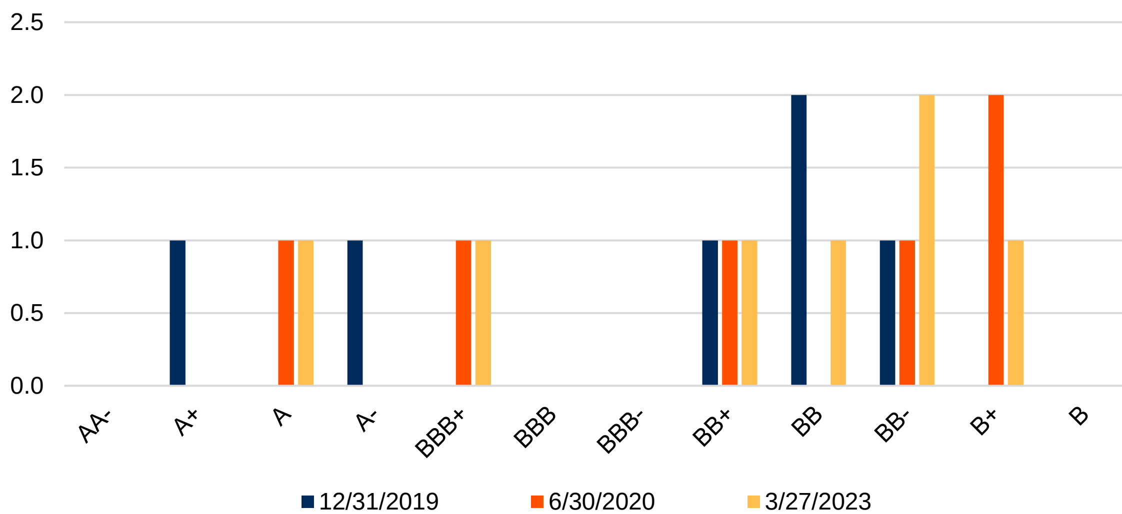
Rating Upgrades
As of March 2023, industry ratings have largely recovered from pandemic lows but have yet to return to pre-pandemic levels. Much of the delay could be attributed to the unruly inflation, which led the Federal Reserve to adopt a multi-stage interest rate hike. The increased financial cost meant that profit margins and cash flow would inevitably take a hit, thus lowering a company's credit rating. The same is true for the Retail (Apparel) industry. In addition to the interest rate hike, apparel retailers are also experiencing slowing consumer and elevated promotional activity. In the next 12 months, we foresee stable ratings even in the event of a recession as apparel retailers have done well to improve balance sheets through debt repayment and inventory rationalization.

CREDIT RATINGS FOR THE CONSUMER DISCRETIONARY SECTOR



Source: CFRA, S&P Global Market Intelligence.

CREDIT RATINGS FOR THE APPAREL RETAIL INDUSTRY



Source: CFRA, S&P Global Market Intelligence.

Operating Environment

Here we highlight the hottest trends in apparel retail:

U.S. Employment Rebounds as Companies Struggle to Find Workers
The U.S. unemployment rate hit its highest level in April 2020 at 14.8% after employers laid off workers in anticipation of the economic impact of the impeding pandemic. Since then, the U.S. has recovered rapidly, gaining hundreds of thousands of jobs a month on average and bringing the unemployment rate down to 3.4% in January 2023. In March 2023, the unemployment rate remained little changed at 3.5%, and still near all-time lows. Furthermore, a larger labor pool could reduce inflation as employers can hire workers from the sidelines instead of competing with other employers by providing workers with higher wages, and could help in taming the inflation, according to CNBC.

Supply Chains Back to Normal?
Covid-19 shocked supply chains across the globe, and many manufacturing and transport companies laid off workers as uncertainties took hold. Manufacturing facilities shut down or reduced capacity and transport companies canceled routes or pivoted to different businesses. Raw material plants also shuttered as demand went away. Inventories at Clothing and Clothing Accessory Store retailers grew for a short time before starting to fall as consumers returned. As demand returned, these same companies couldn't bring back workers fast enough to keep up with demand. Now the issues are shifting and inventory levels are elevated, which should ease supply chain pressures over the next 12 months as companies order less and work off older inventory. We expect supply chains to normalize and could be a tailwind for retailers if freight and input costs also ease.

Inflation Takes Hold but Is Expected to Slowly Cool on Rising Interest Rates
As the government supported the economy and spent trillions to help Americans through the pandemic, demand spiked and supply struggled to catch up. Inflation began to emerge and hit the consumer. In June 2022, the total Consumer Price Index (CPI) rose 9.1% from the prior year; 2022 saw the highest inflation level since 1981. CPI excluding food and energy in June 2022 rose 5.9% from the prior year. The Federal Reserve has since tightened monetary policy to a much more restrictive stance to help slow demand and cool inflation. As of March 2023, CPI fell to 5.0% for all items and 5.6% for all items less food and energy. We expect inflation data to continue to cool as the Federal Reserve continues to raise rates. We believe this remains a double-edged sword that will bring inflation down over time while also leading to a recession.

Depressed Consumer Sentiment?
In February 2023, the University of Michigan Consumer Sentiment Index improved to 67.0, up from 50.0 in June – the lowest level since the survey began. Although consumer sentiment is improving, it remains depressed and significantly below 2019 levels of 90+. This leading economic indicator shows that consumers are not optimistic about the current economic conditions as interest rates rise, food prices remain elevated, and savings rates remain depressed.

Omnichannel as the New Normal
As the pandemic kept consumers from shopping in person, retailers had to pivot and figure out new ways to bring their products to the consumer. BOPIS, curbside pick-up, and buy online ship from store allowed retailers to reach their customers with little to no contact. Now, lockdowns have been lifted, and restrictions are few and far between in the U.S. Yet, apparel retail companies are still having success with this new hybrid model. E-commerce revenue continues to grow while consumers return to the store to browse or pick up online orders. It is no secret that companies that can do both well have outperformed in recent years. They use their retail locations to fill online orders either by shipping from stores or have the customer pick it up from the retail location through one of the methods listed above.

How Millennials and Gen Z Shoppers Are Shaping the Industry

Millennials and Generation Z (Gen Z) are today's youngest – and largest – consumer generation. While most millennials are well into their income-earning years, Gen Z members are only beginning to enter the workforce. Despite so, the two generations will make up an increasing share of consumer spending as their wealth grows. As such, retailers are increasingly aware of their shopping patterns, which will greatly affect how companies do business.

The younger generation is deeply concerned with social and environmental matters, which many consider to be the defining issues of the world today. They are more likely to demonstrate their beliefs through how they purchase, giving preference to companies that are congruent with their beliefs and avoiding those that are not. According to a survey conducted by McKinsey, two-thirds of the respondents said they would change brands based on the company's position on divisive subjects, avoid them, or even engage in a boycott.

In response, businesses are incorporating social and environmental concerns into their offerings. While there is little doubt about the positive effects of such measures, failure to properly navigate the risks and repercussions associated with the causes that some companies advocate can significantly impact their business – more on this in the topics below.

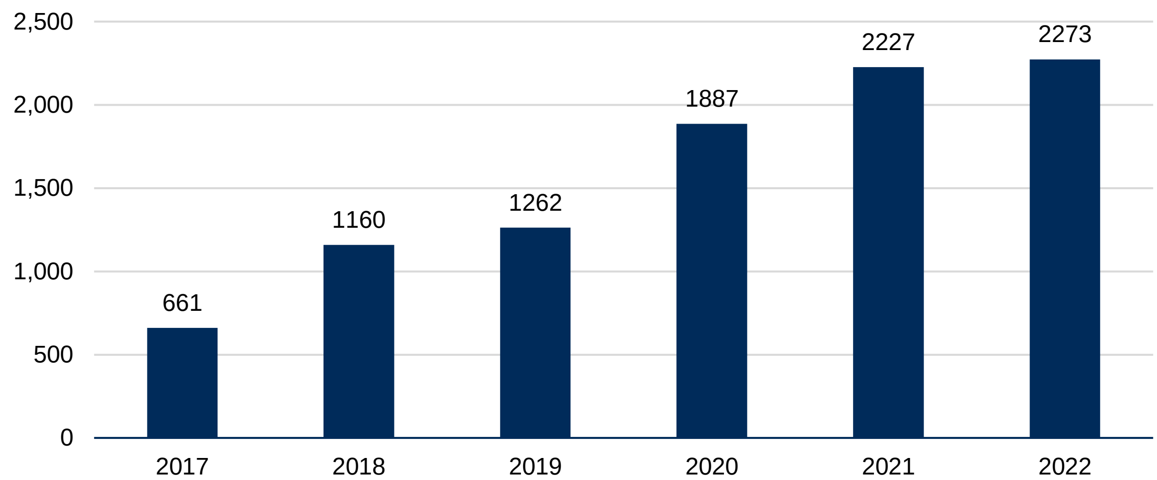
The biggest change that retailers are making to their business is how they reach these younger generations. Companies experiencing the most success have pivoted a large portion of their marketing budget to new social media campaigns where they are better able to target consumers and drive sales. These companies leverage social media influencers to drive grassroot campaigns and inform consumers about products through video reviews. Successful retailers have shifted a significant portion of their budget to these social media marketing campaigns.

Inclusivity and Diversity Are Business Imperative

We believe apparel retailers can differentiate themselves from the competition by embracing inclusivity and diversity, as both often come in tandem. According to a CFRA analysis, "inclusivity" boosts profitability, and we expect EPS growth of "inclusive" retailers to outpace the broader retail industry. In our view, retailers that align their mission and product to convince consumers that brands are "inclusive" will be the ones that survive and flourish.

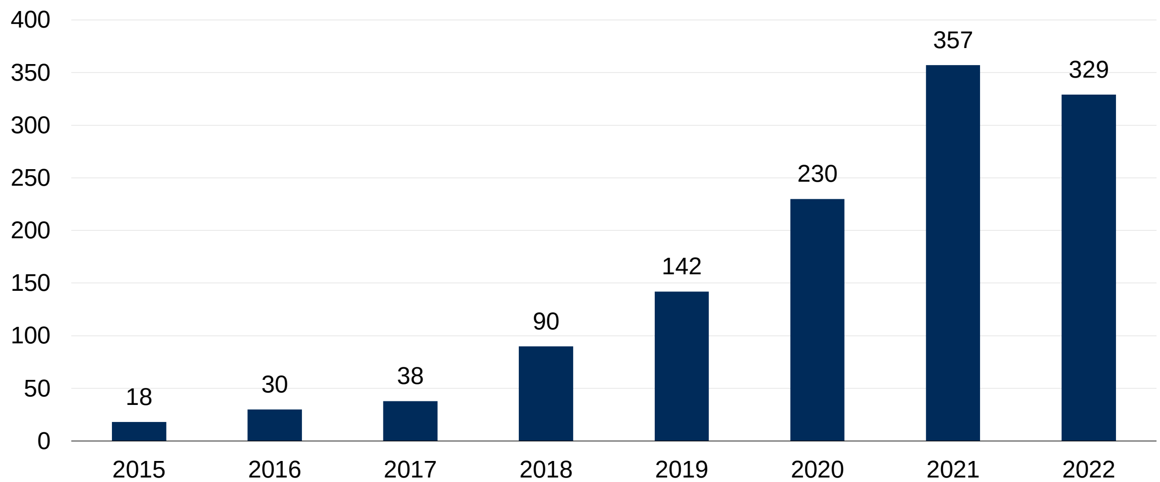
Google search trends for "inclusivity" are at an all-time high, and more companies than ever are trying to convince stakeholders that they feature "inclusive" brands. CFRA found that Interest Over Time for "inclusivity" has increased more than eightfold over the past five years. CFRA also examined SEC filings, investor presentations, and transcripts of roughly 7,500 S&P Global Market Intelligence-covered U.S. retailing companies for the word "inclusivity" and found that volumes have ticked up significantly over the past five years. The term "inclusivity" appeared in 329 SEC filings, investor presentations, and retailing transcripts in 2022. This is compared to 357 times for the full-year 2021 and merely 38 times for 2017.

U.S. RETAIL: ‘INCLUSIVITY’ VOLUMES IN GOOGLE WEB SEARCH FOR BUSINESS & INDUSTRIAL



Source: CFRA, S&P Global Market Intelligence.

U.S. RETAIL: ‘INCLUSIVITY’ VOLUMES IN FILINGS, INVESTOR PRESENTATIONS, AND TRANSCRIPTS



Source: CFRA, S&P Global Market Intelligence.

As important as inclusivity is, incorporating diversity is also important for retailers. Consumer awareness of diversity has increased throughout the decade but was further elevated by a number of controversial cases in the U.S. in the last few years. Hence, retailers’ inclusivity & diversity (I&D) practice could influence consumer preferences and loyalty.

One significant market category of inclusivity that is on the rise is plus-size apparel. According to Vogue Business, retail market research firm NPD claims that the market for plus-size apparel is growing at nearly twice the overall market rate. The apparel market sees more stores and brands embracing size-inclusive clothing by including plus-size clothing lines into their offerings range. However, meeting the market demand is not easy; there is a cost – production cost, that is – associated with plus-size clothing. Extended sizes cost more as more fabric is needed to produce plus-size garments, where factories may involve specialized manufacturing techniques. Covid-19 has also affected some brands producing size-inclusive clothing – one of them being Loft, a women’s apparel chain once favored by the plus-size community. Just three years after introducing its plus-size collection, Loft announced in March 2021 that it would stop offering plus-size apparel. The exit may have resulted from Loft's plus line failing to deliver enough sales and/or margin as it shrank its stock keeping units during the pandemic, according to RetailWire.

Sustainability Is Shifting Fashion

The quest for ever-increasing sales compelled fast-fashion retailers to deliver new styles at a record pace. This has an undesirable effect on the environment as shoppers churn through clothes faster than ever. Most of the growing number of used clothes end up in dumpsters as technologies to recycle and repurpose old textiles are still relatively inefficient. According to a study by the World Resource Institute, a staggering $400 billion worth of clothes are discarded prematurely every year. Fortunately, growing consumer awareness of the impact that fashion has on our planet has prompted fashion houses to respond by increasing the usage of more sustainable materials.

The success of e-commerce and concerns over sustainability have given rise to a slew of online apparel subscription services. Apparel rental services such as Rent the Runway enhance the sustainability aspect of the industry by offering a vast selection of outfits to cater to the ever-changing taste in fashion with the added benefit of providing access to otherwise unaffordable dresses. Sustainability concerns have also brought on the emergence of "slow fashion" and resale evolution. The emphasis on "seasonless fashion" continues to trend upward in the last several years, with Saint Laurent, Gucci, and Vogue no longer following the traditional fashion calendar. Overproduction and short product lifecycles are key factors contributing to retail's detrimental environmental effects.

Recommerce (second-hand fashion e-commerce) may not be a viable solution for food stores, but it is crucial for the apparel industry, which accounts for 10% of global carbon emissions. ThredUp, one of the largest online resale platforms for women's and kids' apparel, shoes, and accessories, is at the forefront of this. Big fashion houses are no exception, as H&M, Burberry, and Patagonia are also launching their own recommerce programs. The global second-hand apparel market is expanding much faster than the overall global apparel market, with the former growing three times faster than the latter. The exponential growth was mostly contributed by North America, with an expected growth rate of 800% more than the overall apparel market. On top of that, U.S. second-hand apparel market is expected to more than double in 2026 to reach $82 billion, with a CAGR of 18.6% for the 2021-2026 period, according to ThredUp.

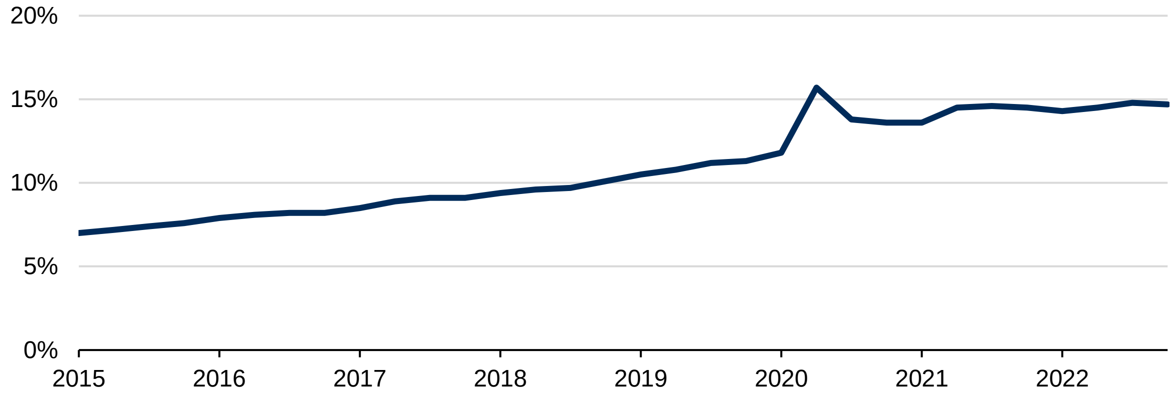
Furthermore, the so-called circular fashion movement has accelerated rapidly as more shoppers became aware of clothing production's environmental impact. Circular models such as recycling, reselling, and take-back schemes appeal to Gen Z as they satisfy their hunger for novelty while also addressing environmental concerns. These factors, coupled with a reduction in consumer spending power during the pandemic, would likely drive demand for pre-owned items. In fact, according to data by ThredUp, more pre-owned clothes were sold during the pandemic than any other time, thus increasing the supply and luring more consumers into the ecosystem.

Big Retailers, Small Stores

It is no secret that many consumers love to shop, and they would love it even more if it meant being able to do so whenever and wherever convenient. On top of that, they also want flexibility on how their orders are fulfilled. Thankfully, e-commerce and other supporting processes, such as fast shipping and electronic data interchange (EDI), make such demands possible.

In capitalizing on such trends, big retailers like Inditex and H&M moved part of their businesses online in an omnichannel strategy. In fact, according to the latest data compiled by the U.S. Census Bureau, e-commerce sales surged to a new high of 15.7% of all sales within the country in the second quarter of 2020. However, the figure subsequently decreased to 13.6% by the first quarter of 2021 before recovering to 14.7% of total sales in the fourth quarter of 2022. It is worth noting that aggregated e-commerce sales are now much higher than pre-Covid-19 levels as consumer habits shifted during the pandemic. In our opinion, the changes are here to stay.

U.S. E-COMMERCE SALES AS A PERCENTAGE OF TOTAL



Source: CFRA, U.S. Census Bureau, eMarketer.

Part of the omnichannel strategy entails setting up more stores to cover a wider geographical area. Those smaller format stores don't just increase a retailer's visibility but also function as part of a bigger plan to cater to the BOPIS and BORIS models. BOPIS and BORIS are invaluable concepts in that they benefit both the retailers and their customers. Retailers would record higher in-store transactions while doing what traditional retailers struggle to do – bring shoppers into their stores – where they are more likely to make impulse purchases. Shoppers, on the other hand, get to skip the checkout line and save on delivery costs.

Stay-at-Home Economy Will Endure Covid-19

Many saw a bigger portion of their lives drastically shifted online during the pandemic. Such trends gave rise to the stay-at-home economy, driven by the acceleration of e-commerce amid lockdown and social distancing measures. Fast forward three years later, what many perceived as convenience before the outbreak (*e.g.,* digital shopping, in-home entertainment, etc.) are now necessities. Accordingly, CFRA thinks consumers will be slow to break away from these patterns even when things return to normal. Our reasons are as follows:

The need to work or connect with the outside world for social or entertainment purposes has led many to invest in technologies that would enable such. As time goes by, they would find other uses for such technologies and remain in the ecosystem, albeit at a lower rate, once outdoor activities are permitted again. E-commerce companies, on the other hand, have made large investments to improve supply chain and fulfillment, thereby increasing their efficiency and lowering the cost of products. As the network effect becomes more established, consumers would likely benefit more, thus changing how they work, play, shop, and learn. Non-store retailers have continued to show resilience after incredible years during the pandemic and show no sign of slowing growth.

The Thrill of the Hunt Will Persist

We see investment opportunities in off-price apparel retailers, namely The TJX Companies and Ross Stores, because of their unique positioning amid higher inflation that would impact consumer wallets. We also like the sub-industries' gear toward a value-conscious consumer, notably during a softer macroeconomic environment, which will increase the allure of the hunt. Back in 2021, the U.S. saw unprecedented demand and strong consumer spending. But now, consumers are being impacted by sky-high prices, which we see pushing more and more consumers to off-price stores looking for discounts.

Many shoppers are also drawn to The TJX Companies and Ross Stores for the thrill of the hunt. They feel the euphoria of spotting branded items at half their retail price and may be compelled to purchase (on impulse), knowing the item may no longer be available the next time they look for it. The success of off-price retailers lies very much in their ability to source the right goods at the right price. The idea of product scarcity and the ever-changing supply of inventory also work to a retailer's advantage.

M&A Environment

According to S&P Market Intelligence, global merger & acquisition (M&A) activity for the Consumer Discretionary sector plunged in 2022 after an 88.2% pandemic recovery in 2021. Total transactional value in 2022 was $194.2 billion, a year-over-year decline of almost 45%, while the deal count decreased by 10.1% to 4,652 deals. Deal-making activity deteriorated further as of April 5, 2023, as total deals plunged another 48.4% compared to the prior year, with total value dropping even steeper at 57.9% to $32.6 billion. We attribute this downtrend to a couple of reasons: 1) equity market depreciation has lowered valuations for sellers and decreased the buying power of equities for purchasers; 2) borrowing costs surged alongside rising interest rates; and 3) the ongoing geopolitical issues and recessionary fears marred the near-term economic outlook.

While M&A activity in the U.S. Apparel Retail industry has not been very active in size and volume, we think this could change due to delayed economic recovery as financially weak companies may seek M&A as an alternative to bankruptcy or liquidation. Companies in financial trouble may also find themselves targets of private equity firms, which attempt to turn companies around and resell at a profit.

Even though M&A activity in the Apparel Retail industry has remained lukewarm since 2021, it is worth acknowledging the two biggest deals that went on during the period. Naver Corporation, a South Korea search giant, acquired Poshmark for $1.6 billion in January 2023. In this all-cash deal, Naver intends to apply its technical prowess to integrate its online community, such as the Naver Café, with Poshmark's burgeoning social shopping platform. The long-term goal is to grow Poshmark's business in markets where Naver has significant holdings. One other completed deal during the period was footwear retail giant Footlocker's acquisition of industry peer Eurostar, or WSS, for $750 million in cash to further expand its footprint in the U.S.

M&A ACTIVITY IN THE U.S. APPAREL RETAIL INDUSTRY*
(arranged by year and transaction size, in $, millions)

COMPLETION DATE	ACQUIRER	TARGET	SIZE ($ MILLION)
2023			
1/5/23	Naver Corporation	Poshmark	1,637
2022			
8/19/22	Sterling Jewelers	Blue Nile	398
2021			
9/17/2021	Foot Locker Retail	Eurostar	750
3/17/2021	JD Sports Fashion	DTLR Villa	495
2020			
12/14/20	Genesis Holdings	Shoe Palace/Nice Kicks	681
12/23/20	Premium Apparel	Brand Assets of Ascena Retail Group	540
9/1/20	Authentic Brands Group; SPARC Group	Substantially All The Global Business Operations of Brooks Brothers Group	325
2019			
11/1/19	B. Riley Financial; Authentic Brands Group	Assets of Barneys New York	271
1/4/19	Farfetch Limited	Stadium Enterprises	250
2/2/19	Ames Watson Capital	Hat World and Certain assets of GCO Canada and Flagg Bros. of Puerto Rico	101

*Transaction size over $100 million.
Source: CFRA, S&P Global Market Intelligence.

HOW THE INDUSTRY OPERATES

Retailing includes all business activities that involve the sale of goods and services to consumers for personal, family, or household use. Retailers also sell their goods and services to businesses, large and small, for commercial and industrial purposes.

The Retailers

BROADLINE RETAIL

The broadline retail industry comprises two sub-industries: department stores and general merchandise stores.

Department Stores
Department stores engage in retailing a wide range of merchandise, typically arranged in separate departments, with no single line predominating. Such merchandise includes apparel, furniture, home furnishings, appliances and selected additional items, such as paint, hardware, toiletries, cosmetics, photographic equipment, jewelry, toys, and sporting goods.

The North American Industry Classification System (NAICS) categorizes department stores in terms of business structure – department stores and discount department stores.

◆ **Department stores.** Comprises establishments that sell various merchandise lines, such as apparel, jewelry, home furnishings, and linens, and provide departmental customer checkout service and customer assistance.

◆ **Discount department stores.** Comprises establishments that sell a wide range of general merchandise, excluding fresh, perishable foods, and have central customer checkout areas, generally in the front of the store. Additional cash registers may be located in one or more individual departments. Kohl’s is an example of a discount department store.

CFRA categorizes department stores in terms of merchandise sold – full-line department stores and specialty department stores.

◆ **Broadline department stores.** These retailers (both online and physical) offer a broader array of merchandise than do specialty department stores. In addition to apparel, such stores may also have departments selling appliances, electronics, cookware, sheets, towels, and giftware. Macy’s and Nordstrom are examples of broadline department stores.

General Merchandisers
General merchandisers carry a much broader assortment of merchandise than most department stores and are unique in that companies have the physical and human capital of retailing a large assortment of goods from a fixed point-of-sale location.

The NAICS categorizes general merchandisers as follows:

◆ **General merchandise stores.** Comprises establishments primarily engaged in retailing new goods in general merchandise stores (except department stores). These establishments retail a general line of new merchandise, such as apparel, automotive parts, dry goods, hardware, groceries, housewares, and home furnishings, with no one merchandise line predominating.

◆ **Warehouse clubs and supercenters.** Comprises establishments primarily engaged in retailing a general line of groceries, including a significant amount and variety of fresh fruits, vegetables, dairy products, meats, and other perishable groceries, in combination with a general line of new merchandise, such as apparel, furniture, and appliances.

◆ **All other general merchandise stores.** Comprises establishments primarily engaged in retailing new goods in general merchandise stores (except department stores, warehouse clubs, superstores, and supercenters). These establishments retail a general line of new merchandise, such as apparel, automotive parts, dry goods, hardware, housewares, or home furnishings, and other lines in limited amounts, with none of the lines predominating.

CFRA does not further categorize general merchandisers.

SPECIALTY RETAIL

Specialty retailers sell products in specific merchandise categories, such as apparel, footwear, office supplies, home furnishings, sports equipment, books, jewelry, and so forth.

Despite the proliferation of large chains and superstore formats, the specialty retailing landscape remains fragmented, with thousands of small- to medium-sized businesses, often catering to local tastes and preferences. Because specialty retailing generally requires less start-up capital than other industries, it continues to offer opportunities for entrepreneurs with new product ideas.

Given their heavy concentration in a particular product or service category, the performance of specialty retailing companies is often less sensitive to broader macroeconomic and retail trends than is the case for general merchandisers. On the other hand, specialty retailers may be more susceptible – for better or worse – to shifts in narrowly defined cultural, lifestyle, or demographic factors.

The NAICS categorizes specialty retailers as follows:

◆ **Clothing and clothing accessories stores.** Comprises establishments that retail new clothing and clothing accessories from fixed point-of-sale locations. (This group is covered in this industry survey.)

◆ **Motor vehicle and parts dealers.** Comprises establishments that retail motor vehicles and parts from fixed point-of-sale locations. Establishments in this sub-sector typically operate from a showroom and/or an open lot where the vehicles are on display. The display of vehicles and the related parts require little by way of display equipment. (This group is covered in CFRA's *Retail (Non-Apparel)* industry survey; automobile manufacturers are covered in CFRA's *Automobile Manufacturers* industry survey.)

◆ **Electronics and appliance stores.** Comprises establishments that retail new electronics and appliances from point-of-sale locations. Establishments in this subsector often operate from locations that have special provisions for floor displays requiring special electrical capacity to accommodate the proper demonstration of the products. (This group is covered in CFRA's *Retail (Non-Apparel)* industry survey; consumer electronics and appliance makers are covered in CFRA's *Household Durables* industry survey.)

◆ **Furniture and home furnishings stores.** Comprises establishments that retail new furniture and home furnishings from fixed point-of-sale locations. Establishments in this sub-sector usually operate from showrooms and have substantial areas for the presentation of their products. Many offer interior decorating services in addition to the sale of products. (This group is covered in CFRA's *Retail (Non-Apparel)* industry survey; makers of furniture and home furnishings are covered in CFRA's *Household Durables* industry survey.)

◆ **Building material and garden equipment and supplies dealers.** Comprises establishments that retail new building material and garden equipment and supplies from fixed point-of-sale locations. Establishments in this sub-sector have display equipment designed to handle lumber and related products and garden equipment and supplies that may be kept either indoors or outdoors under covered areas.

(This group is covered in CFRA's *Retail (Non-Apparel)* industry survey as well as in CFRA's *Household Durables* industry survey.)

◆ **Food and beverage stores.** Comprises establishments that retail food and beverage merchandise from fixed point-of-sale locations. Establishments in this sub-sector have special equipment (*e.g.*, freezers, refrigerated display cases, refrigerators) for displaying food and beverage goods. They have staff trained in the processing of food products to guarantee the proper storage and sanitary conditions required by regulatory authority. (This group is covered in CFRA's *Food & Staples Retailing – U.S.* and *Food Retail – Europe* industry surveys.)

◆ **Health and personal care stores.** Comprises establishments that retail health and personal care merchandise from fixed point-of-sale locations. Establishments in this sub-sector are characterized principally by the products they retail, and some health and personal care stores may have specialized staff trained in dealing with the products. (This group is covered in CFRA's *Food & Staples Retailing – U.S.* and *Retail (Non-Apparel)* industry surveys.)

◆ **Gasoline stations and sporting goods.** Comprises establishments that retail automotive fuels (*e.g.*, gasoline, diesel fuel, gasohol, alternative fuels) and automotive oils or retail these products in combination with convenience store items. These establishments have specialized equipment for storing and dispensing automotive fuels. (This group is covered in CFRA's *Food & Staples Retailing – U.S.* and *Retail (Non-Apparel)* industry surveys.)

◆ **Hobby, musical instrument, and book stores.** Comprises establishments that are engaged in retailing and providing expertise on the use of sporting equipment or supplies for other specific leisure activities, such as needlework and musical instruments. Book stores are also included in this subsector. (This group is covered in CFRA's *Retail (Non-Apparel)* industry survey.)

◆ **Miscellaneous store retailers.** Establishments in this sub-sector include stores with unique characteristics, such as florists, used merchandise stores and pet supply stores. (This group is covered in CFRA's *Retail (Non-Apparel)* industry survey.)

◆ **Non-store retailers.** Comprises establishments that retail merchandise using methods, such as the broadcasting of infomercials, the broadcasting and publishing of direct-response advertising, the publishing of paper and electronic catalogs, door-to-door solicitation, in-home demonstration, selling from portable stalls, and distribution through vending machines. Establishments in this sub-sector include mail-order houses, vending machine operators, home delivery sales, door-to-door sales, party plan sales, electronic shopping, and sales through portable stalls (*e.g.,* street vendors, except food). Establishments engaged in the direct sale (*i.e.,* non-store) of products, such as home heating oil dealers and newspaper delivery service providers, are included in this sub-sector. (This group is covered, in part, in CFRA's *Interactive Media & Services* industry survey.)

CFRA categorizes specialty retailers as follows:

◆ **Apparel retail.** Comprises establishments that retail new clothing and clothing accessories from fixed point-of-sale locations such as The TJX Companies and Ross Stores.

◆ **Automotive retail.** Comprises establishments that retail new electronics and appliances from point-of-sale locations such as O'Reilly Automotive and AutoZone.

◆ **Computer and electronics retail.** Comprises establishments that retail new electronics and appliances from point-of-sale locations such as Best Buy and GameStop.

◆ **Home improvement retail.** Comprises establishments that retail home improvement products from fixed point-of-sale locations such as Home Depot and Lowe's.

◆ **Homefurnishing retail.** Comprises establishments that retail home furnishings from fixed point-of-sale locations such as Williams-Sonoma and RH.

◆ **Other specialty stores.** Establishments in this sub-sector include stores with unique characteristics, such as Ulta Beauty and Tractor Supply Company.

The Merchandise

Merchandise is a retailer's most valuable asset and can be classified as either soft goods or hard goods.

HARD GOODS

There are three types of hard goods: hardlines, hardline consumables, and seasonal hardlines. The hardlines category is comprised of electronics, hardware and paint, small appliances, stationery/office supplies, and impulse merchandise. Hardline consumables include health and beauty aids, over-the-counter medicines, cosmetics, candy and tobacco, paper goods, and pet supplies. In the seasonal hardlines category are sporting goods, toys, lawn and garden equipment, automotive supplies, and seasonal and holiday merchandise.

SOFT GOODS

The soft goods category comprises apparel, accessories, sheets, towels, and other linens. Apparel covers three types of merchandise: fashion, basic and fashion-basic.

◆ **Fashion merchandise.** This merchandise is subject to the whims of the customer and has a short selling season. Because individual fashions go in and out of style, demand is cyclical. To order fashion merchandise requires long lead times. Up to a year before a garment enters a store, buyers begin to search for pending fashion directions. With vendors, they explore themes, trends and colors, and analyze fashion markets the world over. Initial orders are placed months before the actual selling season. That said, with retailers focused on delivering newness to customers, order lead times are shortening.

◆ **Basic merchandise.** Basic or staple items are relatively unchanging in both style and demand, and include apparel such as underwear, T-shirts, and jeans. Because basic merchandise is not subject to the whims of the latest "hot" fashion trends and is part of everyday use, demand remains steady. This predictable demand means that the ordering process for basic items does not require long lead times.

◆ **Fashion-basic merchandise.** This merchandise falls somewhere in between the other two categories. It comprises basic items with some fashion element, such as broken-in chinos or a t-shirt with a trim – characteristics that necessitate a production cycle longer than what is needed for a simple basic item.

Behind the Scenes: Inventory Management

Retailers form the link between the producer of goods and the consumer. Getting the merchandise that customers want to buy is critical to their success. Doing it profitably is essential for their survival. Today's retail giants are large corporate structures with comprehensive merchandise and financial information systems that conform to their own strategic plans.

The type of products carried also affects the retailers' inventory management in various ways, from order lead times to distribution methods. For instance, different product classes typically sell at different speeds and with varying predictability. In addition, while all retailers hold merchandise in their stores as inventory, large retail chains also keep goods in distribution centers.

Getting the Goods
The ordering and tracking of some 100,000 individual items (stock keeping units, or SKUs) department by department does not happen by chance. Merchandise must be ordered, shipped, delivered, and stocked. Stores must be staffed, payrolls met, and merchandise advertised. Financial management and real estate strategies are essential.

Because sales are derived from inventory, ensuring a large stock of well-selected merchandise is essential. A merchandise plan is developed by the retailer's buyer based on the company's corporate objectives (*i.e.,* goals for sales, expense levels, margins, and profitability) while considering consumer spending patterns and the economic outlook. The buyer is then responsible for planning which goods to stock and in what quantities that are consistent with the merchandise plan. The company's sales forecasts are based on three to five years' worth of sales data anchored to the retailer's sales figures from the preceding year.

Other steps in formulating a merchandise budget include a plan for merchandise price reductions, such as markdowns for promotions, special sales, and buying errors (merchandise that customers do not want). Variation in seasonal demand is another important consideration.

Technology-guided Inventory Management
The ability to anticipate fashion trends will always be key in retailing, and it is a distinctly human skill needed to succeed in this business. Nonetheless, quantitative accounting is also important. Successful retailing demands sophisticated planning and technology so that decisions can be made based on information rather than pure intuition. This is particularly true for large chains competing in major metropolitan markets across the nation.

As retailing technology has evolved, such technologies have become powerful competitive tools. Accurate information on retail prices, SKUs, and the aging of inventory are being captured, and sales trend data are then used to plan procurement, thus shortening distribution cycles.

The computerization of purchasing orders, invoice processing, and credit card authorization has significantly streamlined operations. Retailers improve their in-stock positions by sharing sales information with vendors and by allowing them to automatically replenish stocks. This ensures the availability of merchandise while meeting customers' buying patterns and preferences. Automatic replenishment increases profitability by boosting sales while lowering cost by enhancing vendors' manufacturing cycle.

◆ **Inventory planning/management.** Perpetual inventory systems enable retailers to leverage point-of-sale (POS) data to improve sales forecasting, as well as merchandise planning and allocation. By collecting and analyzing sales at the SKU level – *i.e.,* brand, size, style, and color – and by location, retailers can improve in-stock levels on the most popular items, and reduce inventory positions on slower-selling assortments. The ability to lower markdown risk by planning assortments based on customer preferences is particularly important for fashion apparel retailers, as particular looks tend to be "in" for only one or two selling seasons.

The ability to deliver the right product, at the right time and in the right locations, enables retailers to drive full-price sales, improve profitability and build customer satisfaction and loyalty. Close collaboration with key vendors on assortment planning and inventory replenishment also provides retailers with opportunities to establish competitive advantages and to improve market share.

◆ **Quick response programs.** A quick response program is part of the inventory management system in which manufacturers assume responsibility to stock a retailer's stores. The goal is to ensure the availability of merchandise in store while maintaining a lean inventory. Vendors will assume part of the inventory expense, historically one of a retailer's highest costs.

Electronic data interchange (EDI) is the technology used to support quick response programs and it employs interconnected computer terminals between retailer and vendor, allowing large amounts of information to be transmitted. This up-to-the-minute report on a store's sales is then relayed to the manufacturer.

With access to precise retail sales data, the manufacturer can tailor its production to consumer demand. The data recorded by barcode scanners in an EDI system are also used for automatic (or just-in-time) reordering, enabling a manufacturer to restock a retailer's shelves quickly. In addition to providing for automatic replenishment, EDI makes distribution and shipping information processing more efficient.

Intermediate Steps in the Supply Chain

Retailers operate one or more distribution centers serving stores across the country, which act as an intermediate point between manufacturers (vendors) and retail stores. As a retailer expands into new regions, additional distribution centers may be needed. In state-of-the-art distribution centers, merchandise are sorted, tracked, and distributed in a highly automated manner. Automation allows for a more accurate count of inventory and quicker reordering when goods are in short supply, thus maintaining optimal in-stock positions at the store level. Centralized purchasing and distribution systems also permit store employees to spend more time on customer service and store presentation.

Merchandise arrive from vendors pre-distributed by store location, ready to be split into shipments at the distribution center. From the distribution center, products are shipped to stores on an as-needed basis. This distribution system, called cross-docking, streamlines the supply chain from vendor to POS. Cross-docking reduces handling and storage of inventory, improves transit time, and lowers transportation costs.

Pricing the Goods

In pricing merchandise, the retailer determines the "initial mark-on" – the difference between an item's cost and its retail price, usually computed as a percentage of the retail price. For example, if an item costs $100 and the retailer sells it for $200, the initial dollar mark-on is $100 and the mark-on percentage is 50% ($100 ÷ $200 = 0.5 or 50%). Retailers can raise their merchandise margin by increasing the initial mark-on. In times of sharp price competition, they may lower it. In the case of a fast-selling item, a retailer may raise the price by adding another price increase, called a "markup."

When merchandise does not appeal to customers, the retailer must reduce prices to move it and make room for new – and hopefully more salable – items. The term "markdown" is used when a retail price is lowered. Markdowns help to clear out inventories and to draw customers into stores. Merchants always plan for some price reductions, especially during season-ending clearances, but excessive markdowns erode profitability.

HOW TO ANALYZE A COMPANY IN THIS INDUSTRY

While individual companies' sales depend on the specific products they offer, overall industry demand is driven by general economic trends. A good starting point when analyzing specialty and multiline retailers is to assess the current macroeconomic environment, with emphasis on trends in employment, and consumer income and spending. The state of the economy in general, and consumer income and spending in particular, influence the amount of money consumers are willing or able to spend on clothing and accessories. Demographic and lifestyle trends also can be important determinants of consumer demand.

At CFRA, we recommend a top-down approach to valuation.

Industry Drivers

◆ **Consumer confidence.** The Conference Board, a not-for-profit research group, conducts the most widely followed consumer confidence survey by polling 5,000 representative U.S. households to gauge consumer sentiment. This measure is expressed as an index, in which 1985 is used as a base year (1985=100). Compiled from monthly surveys of consumer attitudes, the index has two components: the present situation index, which measures consumers' feelings about their current economic condition; and the expectations index, which tracks consumers' feelings about the future. Any reading above 90 is considered strong, according to The Conference Board.

When consumer confidence is high or rising, it is often accompanied by increased spending and borrowing. Conversely, when consumers are uncertain about the future, they may reduce or postpone expenditures.

◆ **Disposable personal income.** Reported each month by the DOC, this measure tracks the growth in consumers' after-tax income. When personal income is gaining ground, consumers generally become more willing to loosen their purse strings. Conversely, when disposable income levels advance at a lackluster pace or not at all, consumers are less willing to spend. They may trade down to less expensive products, or postpone or forgo purchases, particularly big-ticket items.

◆ **Consumer price index.** The consumer price index (CPI) is released monthly by the U.S. Bureau of Labor Statistics (BLS). It measures changes in the prices of commodities, fuel oil, electricity, utilities, telephone services, food, and energy in the U.S. The core CPI smooths out the index by removing the volatile food and energy categories.

Company Analysis

After gaining an understanding of the industry's drivers, an analyst should then focus on company-specific analysis. Company-specific analysis focuses on a range of factors – both qualitative and quantitative – and should be used to evaluate a firm's strengths and weaknesses, as well as assess its overall position within the overall retail landscape.

QUALITATIVE MEASURES

Evaluating a Company's Competitive Stance
Investors evaluating companies in this industry have the advantages of being able to test merchandise quality, compare it with alternatives, and assess the selling environment in terms of customer service and visual accoutrements.

When visiting a retail location, things to note include how much square footage a store devotes to selling particular products compared with competitors, whether merchandise appears to be selling at full or discounted prices, merchandise display formats, and how complete collections appear. Also important are overall traffic trends and the average age of the typical shopper. In addition, one should observe the degree of merchandise differentiation from competing brands across distribution channels because consumers shop multiple channels – discount, specialty, luxury retailers, and mass merchandisers. Although the operations in one or two stores may not be indicative of the entire chain, the investor can get a general understanding of a retailer's store concept and how effectively it is being implemented.

Because of the glut of apparel and accessories offerings, any characteristic that favorably distinguishes a company and its products gives it a competitive advantage in the marketplace. Such traits can include the following:

◆ **Brand names.** In this industry, a strong and recognizable brand name is the key to success and drives store (and website) traffic. Through marketing efforts, companies try to create a well-known brand name that consumers will identify with a high-quality or fashionable product. Brand loyalty is built over time as companies support advertising and promote brand awareness.

◆ **Product differentiation.** A company can also create a competitive advantage by differentiating its product line from that of its competitors. Differentiation allows a company to charge higher prices and generate brand loyalty among consumers. This practice is gaining in importance as basic merchandise becomes increasingly indistinguishable to consumers. In reality, a company does not have to create a markedly different product, but it must create a perception of difference. Companies can cultivate an aura of difference through marketing, using advertising to create a brand image.

◆ **Customer demographics and target market.** Growth potential depends primarily on three factors: the size of the target market for the company's products, the market's growth rate, and the company's market share. It is important to identify the firm's target customers and assess whether the company is successfully addressing their needs and wants from both a marketing and design standpoint. If the firm targets a narrow demographic group, such as senior citizens or teenagers, it is also crucial to evaluate the ramifications of expected changes in the segment's population growth.

For category-dominant companies in an established segment, sales growth is typically driven by gains in market share rather than by overall market growth. Companies operating in emerging or fast-growing segments often benefit from growth in total market sales.

◆ **Distribution.** What distribution channels does the company use? Has it recently expanded or narrowed its distribution system? If it has consolidated its distribution infrastructure, has it realized any operating synergies by doing so?

Expanding the channels of distribution can reduce retailers' reliance on any particular channel. Companies must choose channels with some thought to the targeted consumer groups, and the desired price points and brand images. For example, a company trying to sell first-quality designer clothes in a mass-market outlet could dilute its brand irreparably.

◆ **Assessing management.** In the specialty and multiline retail businesses, as in most industries, a company with a superior management team can distinguish itself from its peers by creating successful competitive strategies. For apparel and accessories companies, in addition to top management, lead designers and merchandising and procurement officers should also be evaluated.

When evaluating a management team's ability to create, recognize, analyze, and act on market opportunities, several questions should be asked. What is management's financial and operating philosophy? How long have the senior managers been with the company? What are the managers' track records, both individually and working as a team? If managers have taken control recently, what was their previous experience? Has the company been adept at integrating acquisitions? Do growth strategies make sense considering the current environment and the company's particular situation? Are management's interests aligned with those of its shareholders?

QUANTITATIVE MEASURES

Quantitative factors in the company analysis include trends in same-store sales, revenues, gross profit and operating margins, inventory, receivables, and payables.

Same-store Sales

Specialty and multiline retailers typically report same-store (or comparable store) sales on a quarterly and annual basis. In theory, this metric allows investors to determine the level of sales growth from increased sales in existing stores versus the amount of sales growth from new store openings. Same-store sales growth is an important indicator of a company's longer-term growth potential, especially as the rate of new store openings begins to slow.

> ***Watch Out!*** *As a non-GAAP measure, same-store sales growth is subject to considerable company discretion both in terms of how it is calculated and how often the methodology is revised. Look out for changes in definition of same-store sales, lack of definition of same-store sales and unusual volatility in same-store sales.*

Revenues

A company's sales growth should be compared with that of its competitors and the overall market. It is important to determine what is driving sales growth. Is it pricing, volume gains, or acquisitions? Is the sales growth broad-based or driven by only a few categories? Is the company gaining market share or just riding the market's overall growth?

> ***Watch Out!*** *The estimates for establishing certain reserves can be used by management to manipulate revenue, earnings, and margins. Analysts should pay attention to allowance for doubtful accounts to gross accounts receivable, and inventory reserve (including spoilage) to total inventory. We view a decrease in any of these reserve metrics as an unsustainable boost to margins and could create tough year over year comparisons.*

Gross Profit Margin

Gross margin is calculated as gross profit (net sales minus the cost of goods sold) expressed as a percentage of net sales. It generally reflects a company's product mix and its operational efficiency. The cost of goods sold comprises a number of items other than merchandise, including purchasing, warehousing, freight, occupancy, and insurance costs, and can vary from company to company.

Watch Out! *The inventory obsolescence reserve is an estimate that is based on the expected salability of current inventory. Inventory obsolescence provisions are generally included in cost of sales and are subject to a high degree of management discretion. A large inventory charge would hurt earnings in the current period but could lead to higher margins and earnings if, as a result of the charge, a company reduces its inventory obsolescence provision in subsequent periods. Additionally, if a company sells this reserved inventory in later periods it would receive a boost to gross margins and earnings as the cost basis for the product would be artificially low.*

Operating Profit Margin

Operating profit margin is calculated as gross profit minus operating expenses, expressed as a percentage of net sales. Operating expenses typically include selling, general, and administrative (SG&A) expenses, and exclude interest payments and other non-operating expenses. Companies can widen their operating margin by using resources more efficiently, allowing fixed costs to be spread across greater volumes.

Watch Out! *Some companies offer credit to some of their customers through store branded credit cards. Companies who offer such credit cards derive additional revenues from finance charges, late fees and other credit card related activities, as well as third-party merchant fees to the extent that the credit cards are accepted by other merchants. There are significant expenses, primarily bad debt expense and operations and marketing expenses associated with these revenues. Look out for any changes in classification policy in which selling, general and administrative expenses may be understated due to inclusion of expenses for credit card operations.*

Inventory

The importance of the planning, buying, and controlling of merchandise inventory cannot be overstated. An analyst should consider inventory growth and turnover to assess how well the company is managing its inventory.

◆ **Inventory growth.** Merchandise held in inventory is an asset on the balance sheet, and its year-over-year change can be measured. Any growth in inventory should be in line with that of same-store sales and units. A significant rise from the year-earlier quarter might reflect the opening of new stores, which would require additional inventory. However, if new store growth has been minimal, it may be a warning that stores are overstocked and vulnerable to a high level of markdowns.

◆ **Inventory turnover.** The speed with which inventory is sold – or "turns" – indicates whether goods are selling well relative to the average amount of inventory kept in stock and is calculated as cost of goods sold divided by year-end inventory. The turnover rate should be consistent with the company's business and comparable to other manufacturers in the same business segment.

◆ **Inventory-to-forward sales.** The level of inventories can also be assessed by comparing current inventory levels against the six-month forward revenue guidance or consensus estimates.

Watch Out! *U.S. GAAP allows considerable flexibility in choosing an inventory costing method, including the first-in, first-out (FIFO) method, the last-in, first-out (LIFO) method and the average cost method. During inflationary periods, a company using FIFO will report higher margins and higher inventory than those using LIFO or average cost. Analysts should further note that a decline in the LIFO reserve (a LIFO liquidation) generally represents an unsustainable boost to earnings as older, lower-cost inventories flow through the income statement. Look out for a change in inventory accounting policies and rising inventory levels relative to cost of goods sold.*

Watch Out! *Shrink (the difference between recorded amount of inventory and physical inventory; especially pertinent in the Specialty Retail industry) and inventory reserves are subject to management estimates and can be used by companies to manipulate earnings. It is important to determine whether there have been any significant declines in inventory reserves relative to gross inventory or changes in shrink reserve as a percentage of sales, as it may suggest earnings manipulation absent an alternative explanation from the company.*

Receivables

Receivables are the lifeblood of cash flow. An analyst should consider receivables turnover and allowance for doubtful accounts relative to gross receivables to assess how well the company is issuing credit to its customers and collecting funds in a timely manner.

◆ **Receivables turnover.** Receivables turnover is calculated as net sales divided by year-end accounts receivable. It generally reflects how efficiently a firm is collecting its sales that were made on credit. A decrease in receivables turnover could signify late quarter sales, extended payment terms or increased collection risk, while an increase could signify an aggressive collections department or a conservative credit policy.

Watch Out! *There are many available tactics management can use to accelerate revenue, some of which include allocating a higher proportion of transaction price to elements delivered upfront in contracts with multiple deliverables or performance obligations, faster recognition of deferred revenue, large shipments at period-end, a change in revenue recognition policy and a change in interpretation of the revenue recognition policy. Often times, the acceleration of revenue can be identified by monitoring changes in accounts receivable. Look out for growth in accounts receivable (or unbilled accounts receivable).*

Payables

Accounts payable management is crucial to ensure suppliers and credits receive timely payments and maximum capital is freed up for other purposes.

◆ **Payables turnover.** Payables turnover is calculated as total purchases made from suppliers divided by year-end accounts payable. It generally reflects the speed with which a company pays its suppliers. A decrease in payables turnover signifies that a company is taking longer to pay off its suppliers than in previous periods, perhaps an indication of an increase in bargaining power or a worsening of the company's financial condition. An increase in payables turnover signifies a company is paying off its suppliers at a faster rate than prior periods, perhaps a reflection of tighter collection policies, or a discount of rebate from vendors for earlier payment.

Watch Out! *Some companies engage in supplier financing, aka reverse factoring. There are several variations of these programs, but basically, a company arranges for a financial institution to pay its suppliers and the company repays the financial institution later. This effectively lengthens the supplier payment terms and thus improves working capital. However, operating cash flows can be overstated if the cash payment to the financial institution is presented as financing outflows rather than operating cash flows, which would be the case if the company pays the supplier directly. Furthermore, companies may not reclassify accounts payable under reverse factoring programs into financial liabilities, which may understate leverage ratios.*

GLOSSARY

Athleisure—The summation of athletics and leisure and refers to activewear designed for athletic activities but worn for casual purposes.

BOPIS—Buy online, pick-up in store.

BORIS—Buy online, return in store.

Brand—A name that identifies the goods of one seller.

Brick-and-mortar stores—Traditional or physical stores where products can be marketed and sold.

Buyer—The person responsible for the merchandising operations of a retail outlet or of a specific department.

E-commerce—Marketing and selling of products and services via the internet or online social networks.

Electronic data interchange (EDI)—The technology used to support quick response programs and employs interconnected computer terminals between retailer and vendor.

Hard goods—Refers to less personal items, such as appliances or sports equipment. Hardlines are essentially synonymous with consumer durables.

Markdown—A reduction in the retail price of an item, expressed as a percentage of the original price of the merchandise.

Markup—An increase in the retail price of an item, expressed as a percentage of the original price of the merchandise.

Omnichannel—A multichannel approach that gives consumers greater flexibility and options in how, when, and where they shop (*i.e.*, mobile phones, tablets, social media).

Point-of-sale (POS) terminal—A kind of cash register that transacts and monitors all sales at checkout through a computer database.

Quick response programs—A part of the inventory management system in which manufacturers assume responsibility to stock retailers' stores.

Soft goods—Refers to goods that are literally soft, such as clothing and bedding.

Stock keeping unit (SKU)—A single merchandise item, as measured for inventory management purposes.

Superstore—A retail store that is larger than a traditional retail store and offers a wide assortment of products, typically at prices favorable to the consumer.

Upcycling— Also known as creative reuse, it is the process of transforming by-products, waste materials, useless, or unwanted products into new materials or products of better quality and environmental value.

INDUSTRY REFERENCES

PERIODICALS

Vogue Business
voguebusiness.com
An online fashion industry publication operating in more than 60 countries.

MARKET RESEARCH FIRMS

451 Research
451research.com
Through its Uptime Institute operating unit, the company provides research for data center operators.

Coresight Research
coresight.com
Provides future-focused analysis and consulting to organizations navigating the intersection of retail, technology, and fashion.

Daymon Worldwide
www.daymon.com
Provides consumables retailing services and primarily engages in branding, sourcing, and commercializing customized retail solutions.

Edited
edited.com
Helps retailers make better decisions and drive sales through AI-driven market data, research, and analytics.

Groundwork Collaborative
groundworkcollaborative.org
A civic and social organization dedicated to advance economic worldview, broadly shared prosperity, and opportunity for all.

International Council of Shopping Centers
icsc.com
Global trade association of the shopping center and retail real estate industries.

McKinsey & Company
mckinsey.com
Provides strategy and consulting services, such as advising on acquisitions and developing a plan to restructure a sales force.

Technavio
technavio.com
Leading market research company with global coverage.

The NPD Group, Inc.
npd.com
Market research firm specializing in consumer purchasing and behavior.

World Resource Institute
www.wri.org
A global research organization that spans more than 60 countries, it turns big ideas into action at the nexus of environment, economic opportunity, and human well-being.

GOVERNMENT AGENCIES

Federal Reserve Board
federalreserve.gov
The U.S. central bank promotes the effective operation of the U.S. economy and, more generally, the public interest.

New York City Department of Consumer Affairs
nyc.gov/consumers
Protects and enhances the daily economic lives of New Yorkers to create thriving communities. It licenses more than 81,000 businesses in more than 50 industries and enforces key consumer protection, licensing, and workplace laws.

U.S. Bureau of Labor Statistics
bls.gov
A division of the U.S. Department of Labor. It is the principal fact-finding agency of the federal government in the broad fields of labor, economics, and statistics. Its major programs include the consumer price, producer price, and employment cost indices and the national compensation survey.

U.S. Department of Commerce
commerce.gov
This Cabinet-level department is responsible for various government agencies that monitor and regulate U.S. commerce. Among its many divisions are the Census Bureau and the Bureau of Economic Analysis.

CORPORATE INFORMATION

U.S. Securities and Exchange Commission (SEC)—EDGAR
sec.gov/edgar/searchedgar/companysearch.html
Archive of corporate filings with the federal SEC, including 10-Ks and 10-Qs. In addition, most general retailers operate their own corporate and e-commerce websites.

Congressional Budget Office
cbo.gov
Federal agency within the legislative branch of the U.S. government that provides budget and economic information to Congress.

COMPARATIVE COMPANY ANALYSIS

					Operating Revenues															
					Million $							CAGR(%)			Index Basis (2011=100)					
Ticker		Company		Yr. End	2022	2021	2020	2019	2018	2017	2016	10-Yr.	5-Yr.	1-Yr.	2022	2021	2020	2019	2018	2017
APPAREL RETAIL																				
ANF	§	ABERCROMBIE & FITCH CO.	#	JAN	3,697.8	3,712.8	3,125.4	3,623.1	3,590.1	3,492.7	3,326.7	(1.1)	2.2	18.8	111	112	94	109	108	105
AEO	†	AMERICAN EAGLE OUTFITTERS, INC.	#	JAN	4,989.8	5,010.8	3,759.1	4,308.2	4,035.7	3,795.5	3,609.9	4.9	6.8	33.3	138	139	104	119	112	105
ASNA	§	BOOT BARN HOLDINGS, INC.	#	MAR	0.0	1,488.3	893.5	845.6	776.9	677.9	629.8	24.3	18.8	66.6	0	236	142	134	123	108
CAL	§	CALERES, INC.	#	JAN	2,968.1	2,777.6	2,117.1	2,921.6	2,834.8	2,785.6	2,579.4	1.3	1.5	31.2	115	108	82	113	110	108
CHS	§	CHICO'S FAS, INC.	#	JAN	2,142.0	1,809.9	1,324.1	2,037.9	2,131.1	2,282.4	2,476.4	(1.9)	(6.1)	36.7	86	73	53	82	86	92
DSW	§	DESIGNER BRANDS INC.	#	JAN	3,315.4	3,196.6	2,234.7	3,492.7	3,177.9	2,805.6	2,718.3	4.7	3.3	43.0	122	118	82	128	117	103
EXPR	§	FOOT LOCKER, INC.	#	JAN	8,759.0	8,968.0	7,554.0	8,005.0	7,939.0	7,782.0	7,766.0	4.8	2.9	18.7	113	115	97	103	102	100
FL	[]	GENESCO INC.	#	JAN	2,384.9	2,422.1	1,786.5	2,197.1	2,188.6	2,127.5	2,020.8	0.6	3.7	35.6	118	120	88	109	108	105
GCO	§	GUESS?, INC.	#	JAN	2,687.4	2,591.6	1,876.5	2,678.1	2,609.7	2,363.8	2,190.5	(0.4)	3.4	38.1	123	118	86	122	119	108
LB	[]	ROSS STORES, INC.	#	JAN	18,695.8	18,916.2	12,531.6	16,039.1	14,983.5	14,134.7	12,866.8	8.2	8.0	50.9	145	147	97	125	116	110
ROST	[]	SHOE CARNIVAL, INC.	#	JAN	1,262.2	1,330.4	976.8	1,036.6	1,029.7	1,019.2	1,001.1	5.7	5.9	36.2	126	133	98	104	103	102
SCVL	§	THE BUCKLE, INC.	#	JAN	1,345.2	1,294.6	901.3	900.3	885.5	913.4	974.9	2.0	5.8	43.6	138	133	92	92	91	94
TLRD	§	THE CATO CORPORATION	#	JAN	759.3	769.3	575.1	825.3	829.7	850.0	956.6	(1.9)	(4.3)	33.8	79	80	60	86	87	89
BKE	§	THE CHILDREN'S PLACE, INC.	#	JAN	1,708.5	1,915.4	1,522.6	1,870.7	1,938.1	1,870.3	1,785.3	1.1	1.4	25.8	96	107	85	105	109	105
CATO	§	THE GAP, INC.	#	JAN	15,616.0	16,670.0	13,800.0	16,383.0	16,580.0	15,855.0	15,516.0	1.4	1.4	20.8	101	107	89	106	107	102
PLCE	§	THE TJX COMPANIES, INC.	#	JAN	49,936.0	48,550.0	32,137.0	41,717.0	38,972.9	35,864.7	33,183.7	7.7	7.9	51.1	150	146	97	126	117	108
GPS	[]	URBAN OUTFITTERS, INC.	#	JAN	4,795.2	4,548.8	3,449.7	3,983.8	3,950.6	3,616.0	3,545.8	6.3	5.1	31.9	135	128	97	112	111	102
TJX	[]	ZUMIEZ INC.	#	JAN	958.4	1,183.9	990.7	1,034.1	978.6	927.4	836.3	7.9	7.2	19.5	115	142	118	124	117	111

Note: Data as originally reported. CAGR-Compound annual growth rate. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the following calendar year.
Souce: S&P Capital IQ.

				Net Income																
				Million $							CAGR(%)			Index Basis (2011=100)						
Ticker	**Company**		**Yr. End**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**10-Yr.**	**5-Yr.**	**1-Yr.**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
APPAREL RETAIL																				
ANF	§ ABERCROMBIE & FITCH CO.	#	JAN	2.8	263.0	(114.0)	39.4	74.5	7.1	4.0	6.2	131.5	NM	71	6,648	NM	995	1,884	179
AEO	† AMERICAN EAGLE OUTFITTERS, INC.	#	JAN	125.1	419.6	(209.3)	191.3	261.9	204.2	212.4	10.7	14.6	NM	59	198	(99)	90	123	96
ASNA	§ BOOT BARN HOLDINGS, INC.	#	MAR	0.0	192.5	59.4	47.9	39.0	28.9	14.2	NA	68.4	224.1	0	1,356	418	338	275	203
CAL	§ CALERES, INC.	#	JAN	181.7	137.0	(439.1)	62.8	(5.4)	87.2	65.7	18.7	15.9	NM	277	209	(669)	96	(8)	133
CHS	§ CHICO'S FAS, INC.	#	JAN	109.0	46.2	(360.1)	(12.8)	35.6	101.0	91.2	(10.5)	(12.7)	NM	119	51	(395)	(14)	39	111
DSW	§ DESIGNER BRANDS INC.	#	JAN	162.7	154.5	(488.7)	94.5	(20.5)	67.5	124.4	(1.2)	4.4	NM	131	124	(393)	76	(16)	54
EXPR	§ FOOT LOCKER, INC.	#	JAN	342.0	893.0	323.0	491.0	541.0	284.0	664.0	12.4	6.1	176.5	52	134	49	74	81	43
FL	[] GENESCO INC.	#	JAN	71.9	114.9	(56.4)	61.4	(51.9)	(111.8)	97.4	2.2	3.3	NM	74	118	(58)	63	(53)	(115)
GCO	§ GUESS?, INC.	#	JAN	149.6	171.4	(81.2)	96.0	14.1	(7.9)	22.8	(4.3)	49.7	NM	657	753	(357)	422	62	(35)
LB	[] ROSS STORES, INC.	#	JAN	1,512.0	1,722.6	85.4	1,660.9	1,587.5	1,362.8	1,117.7	10.1	9.0	1917.5	135	154	8	149	142	122
ROST	[] SHOE CARNIVAL, INC.	#	JAN	110.1	154.9	16.0	42.9	38.1	18.9	23.5	19.4	45.8	868.6	468	659	68	182	162	81
SCVL	§ THE BUCKLE, INC.	#	JAN	254.6	254.8	130.1	104.4	95.6	89.7	98.0	5.3	21.1	95.8	260	260	133	107	98	92
TLRD	§ THE CATO CORPORATION	#	JAN	0.0	36.8	(47.5)	35.9	30.5	8.5	47.2	(5.5)	(4.8)	NM	0	78	(101)	76	65	18
BKE	§ THE CHILDREN'S PLACE, INC.	#	JAN	(1.1)	187.2	(140.4)	73.3	101.0	84.7	102.3	9.7	12.8	NM	(1)	183	(137)	72	99	83
CATO	§ THE GAP, INC.	#	JAN	(202.0)	256.0	(665.0)	351.0	1,003.0	848.0	676.0	(11.1)	(17.7)	NM	(30)	38	(98)	52	148	125
PLCE	§ THE TJX COMPANIES, INC.	#	JAN	3,498.0	3,283.0	90.0	3,272.2	3,059.8	2,607.9	2,298.2	8.2	7.4	3547.8	152	143	4	142	133	113
GPS	[] URBAN OUTFITTERS, INC.	#	JAN	159.7	310.6	1.2	168.1	298.0	108.3	218.1	5.3	7.3	25030.7	73	142	1	77	137	50
TJX	[] ZUMIEZ INC.	#	JAN	21.0	119.3	76.2	66.9	45.2	26.8	25.9	12.3	35.7	56.5	81	461	294	258	175	103

Note: Data as originally reported. CAGR-Compound annual grow th rate. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the follow ing calendar year.
Souce: S&P Capital IQ.

Ticker		Company		Yr. End	Return on Revenues (%) 2022	2021	2020	2019	2018	2017	Return on Assets (%) 2022	2021	2020	2019	2018	2017	Return on Equity(%) 2022	2021	2020	2019	2018	2017
APPAREL RETAIL																						
ANF	§	ABERCROMBIE & FITCH CO.	#	JAN	0.1	7.1	NM	1.1	2.1	0.2	0.1	8.9	NM	1.1	3.1	0.3	1.3	30.2	NM	3.9	6.4	0.8
AEO	†	AMERICAN EAGLE OUTFITTERS, INC.	#	JAN	2.5	8.4	NM	4.4	6.5	5.4	3.7	11.1	NM	5.7	13.8	11.2	8.3	33.4	NM	15.1	20.7	16.7
ASNA	§	BOOT BARN HOLDINGS, INC.	#	MAR	0.0	12.9	6.6	5.7	5.0	4.3	NA	16.0	6.4	5.2	6.1	4.9	0.0	38.7	16.6	16.4	16.3	14.6
CAL	§	CALERES, INC.	#	JAN	6.1	4.9	NM	2.2	NM	3.1	9.9	7.4	NM	2.6	NM	5.9	48.0	52.4	NM	9.7	NM	13.1
CHS	§	CHICO'S FAS, INC.	#	JAN	5.1	2.6	NM	NM	1.7	4.4	9.2	3.9	NM	NM	3.5	9.3	39.1	23.9	NM	NM	5.8	16.0
DSW	§	DESIGNER BRANDS INC.	#	JAN	4.9	4.8	NM	2.7	NM	2.4	8.1	7.7	NM	3.8	NM	4.7	38.3	47.1	NM	12.2	NM	7.1
EXPR	§	FOOT LOCKER, INC.	#	JAN	3.9	10.0	4.3	6.1	6.8	3.6	4.3	11.0	4.6	7.5	14.2	7.2	10.5	29.6	12.3	19.7	21.5	10.9
FL	[]	GENESCO INC.	#	JAN	3.0	4.7	NM	2.8	NM	NM	4.9	7.4	NM	3.7	NM	NM	11.9	19.7	NM	9.1	6.5	4.2
GCO	§	GUESS?, INC.	#	JAN	5.6	6.6	NM	3.6	0.5	NM	6.2	6.7	NM	4.0	0.9	NM	25.9	29.2	NM	13.3	1.9	NM
LB	[]	ROSS STORES, INC.	#	JAN	8.1	9.1	0.7	10.4	10.6	9.6	11.3	12.6	0.7	17.8	26.1	23.8	36.2	46.9	2.6	49.8	50.0	47.0
ROST	[]	SHOE CARNIVAL, INC.	#	JAN	8.7	11.6	1.6	4.1	3.7	1.9	11.1	19.1	2.5	6.8	9.1	4.6	22.5	40.6	5.3	14.3	12.5	6.0
SCVL	§	THE BUCKLE, INC.	#	JAN	18.9	19.7	14.4	11.6	10.8	9.8	30.4	32.6	15.4	12.0	18.1	16.7	73.9	71.8	33.1	26.7	24.4	21.8
TLRD	§	THE CATO CORPORATION	#	JAN	0.0	4.8	NM	4.3	3.7	1.0	0.0	5.8	NM	5.2	6.1	1.7	0.0	14.7	NM	11.3	9.5	2.4
BKE	§	THE CHILDREN'S PLACE, INC.	#	JAN	NM	9.8	NM	3.9	5.2	4.5	NM	18.0	NM	6.2	13.9	9.0	NM	117.4	NM	26.7	25.6	17.5
CATO	§	THE GAP, INC.	#	JAN	NM	1.5	NM	2.1	6.0	5.3	NM	2.0	NM	2.6	12.5	10.6	NM	9.6	NM	10.2	30.0	28.0
PLCE	§	THE TJX COMPANIES, INC.	#	JAN	7.0	6.8	0.3	7.8	7.9	7.3	12.3	11.5	0.3	13.6	21.4	18.6	56.6	55.5	1.5	59.5	60.0	54.0
GPS	[]	URBAN OUTFITTERS, INC.	#	JAN	3.3	6.8	0.0	4.2	7.5	3.0	4.3	8.2	0.0	5.1	13.8	5.5	9.0	19.3	0.1	11.4	21.4	8.3
TJX	[]	ZUMIEZ INC.	#	JAN	2.2	10.1	7.7	6.5	4.6	2.9	2.8	13.8	7.6	7.3	8.5	5.4	4.8	23.4	15.0	15.4	12.0	8.1

Note: Data as originally reported. CAGR-Compound annual grow th rate. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the follow ing calendar year.
Souce: S&P Capital IQ.

Ticker	Company		Yr. End	Current Ratio 2022	2021	2020	2019	2018	2017	Debt/Capital Ratio(%) 2022	2021	2020	2019	2018	2017	Debt as a % of Net Working Capital 2022	2021	2020	2019	2018	2017
APPAREL RETAIL																					
ANF	§ ABERCROMBIE & FITCH CO.	#	JAN	1.4	1.5	1.7	1.6	2.4	2.5	29.6	26.6	26.6	17.8	19.6	19.3	91.1	61.6	49.0	51.6	38.2	39.7
AEO	† AMERICAN EAGLE OUTFITTERS, INC.	#	JAN	1.4	1.7	1.8	1.4	1.9	2.0	0.6	19.3	23.0	0.0	0.0	0.0	2.7	61.5	49.0	0.0	0.0	0.0
ASNA	§ BOOT BARN HOLDINGS, INC.	#	MAR	0.0	1.6	1.7	1.2	1.8	1.6	NA	4.8	21.8	55.5	39.7	51.3	NA	13.9	71.8	331.7	139.0	226.6
CAL	§ CALERES, INC.	#	JAN	0.9	0.8	0.9	1.0	1.1	2.0	72.2	89.7	111.5	55.9	63.9	21.5	NM	NM	NM	1510.1	432.9	47.4
CHS	§ CHICO'S FAS, INC.	#	JAN	1.1	1.0	0.9	1.0	1.8	1.9	12.7	30.9	47.4	7.4	9.0	7.5	76.3	1482.5	NM	249.2	27.4	21.7
DSW	§ DESIGNER BRANDS INC.	#	JAN	1.2	1.2	1.0	1.3	2.1	2.7	39.2	35.4	52.8	20.9	16.1	0.0	182.7	145.2	976.0	86.1	32.5	0.0
EXPR	§ FOOT LOCKER, INC.	#	JAN	1.6	1.4	1.7	2.0	3.3	4.1	10.7	10.8	0.0	4.7	4.7	4.7	43.4	62.7	0.0	10.2	7.1	6.5
FL	[] GENESCO INC.	#	JAN	1.6	1.6	1.7	1.4	2.6	2.7	6.9	2.5	5.5	2.3	7.1	9.4	21.2	5.6	12.5	9.8	12.5	19.8
GCO	§ GUESS?, INC.	#	JAN	1.6	1.6	1.6	1.7	2.0	2.4	39.6	32.2	35.3	28.6	2.1	2.1	85.1	67.5	66.1	62.5	3.4	3.2
LB	[] ROSS STORES, INC.	#	JAN	1.9	1.8	1.7	1.3	1.7	1.6	36.4	37.7	42.7	8.5	8.6	9.3	75.2	75.3	89.8	42.8	22.4	25.5
ROST	[] SHOE CARNIVAL, INC.	#	JAN	3.0	2.9	2.7	2.7	4.8	5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SCVL	§ THE BUCKLE, INC.	#	JAN	1.9	1.6	2.1	2.2	4.1	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TLRD	§ THE CATO CORPORATION	#	JAN	1.4	1.5	1.6	1.8	2.6	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BKE	§ THE CHILDREN'S PLACE, INC.	#	JAN	0.9	1.0	0.8	0.8	1.3	1.8	161.7	81.8	145.3	72.6	15.5	4.5	NM	NM	NM	NM	47.0	7.3
CATO	§ THE GAP, INC.	#	JAN	1.4	1.3	1.5	1.4	2.0	1.9	45.1	35.3	45.9	27.4	26.0	28.4	134.9	136.4	104.3	95.6	60.1	59.3
PLCE	§ THE TJX COMPANIES, INC.	#	JAN	1.2	1.3	1.5	1.2	1.5	1.7	31.0	35.9	47.8	27.3	30.7	30.2	132.9	120.2	108.0	128.5	76.0	66.4
GPS	[] URBAN OUTFITTERS, INC.	#	JAN	1.4	1.3	1.4	1.6	3.1	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TJX	[] ZUMIEZ INC.	#	JAN	2.3	2.4	2.7	2.6	3.5	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: Data as originally reported. CAGR-Compound annual grow th rate. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the follow ing calendar year.
Souce: S&P Capital IQ.

Ticker	Company		Yr. End	Price/Earnings Ratio (High-Low) 2022	2021	2020	2019	2018	2017
APPAREL RETAIL									
ANF	§ ABERCROMBIE & FITCH CO.	#	JAN	11 - 5	NM - NM	50 - 23	26 - 14	222 - 86	### - ###
AEO	† AMERICAN EAGLE OUTFITTERS, INC.	#	JAN	15 - 9	NM - NM	21 - 13	20 - 12	17 - 9	17 - 11
ASNA	§ BOOT BARN HOLDINGS, INC.	#	MAR	20 - 9	32 - 5	28 - 6	23 - 11	18 - 6	31 - 11
CAL	§ CALERES, INC.	#	JAN	8 - 4	NM - NM	20 - 10	NM - NM	17 - 11	24 - 14
CHS	§ CHICO'S FAS, INC.	#	JAN	18 - 6	NM - NM	NM - NM	38 - 17	19 - 9	24 - 14
DSW	§ DESIGNER BRANDS INC.	#	JAN	9 - 5	NM - NM	23 - 11	NM - NM	27 - 19	19 - 13
EXPR	§ FOOT LOCKER, INC.	#	JAN	8 - 5	15 - 6	14 - 8	13 - 9	35 - 13	16 - 10
FL	[] GENESCO INC.	#	JAN	9 - 5	NM - NM	13 - 8	NM - NM	NM - NM	15 - 10
GCO	§ GUESS?, INC.	#	JAN	12 - 7	NM - NM	17 - 10	155 - 88	NM - NM	85 - 45
LB	[] ROSS STORES, INC.	#	JAN	27 - 19	511 - 248	26 - 19	24 - 17	24 - 15	24 - 18
ROST	[] SHOE CARNIVAL, INC.	#	JAN	8 - 4	41 - 12	13 - 7	18 - 9	25 - 13	25 - 17
SCVL	§ THE BUCKLE, INC.	#	JAN	10 - 6	14 - 5	13 - 7	14 - 9	13 - 7	17 - 10
TLRD	§ THE CATO CORPORATION	#	JAN	12 - 6	NM - NM	13 - 8	21 - 9	80 - 38	23 - 15
BKE	§ THE CHILDREN'S PLACE, INC.	#	JAN	9 - 5	NM - NM	24 - 11	26 - 14	33 - 20	20 - 11
CATO	§ THE GAP, INC.	#	JAN	53 - 23	NM - NM	32 - 16	13 - 9	16 - 10	18 - 10
PLCE	§ THE TJX COMPANIES, INC.	#	JAN	28 - 23	936 - 490	23 - 18	23 - 15	20 - 16	24 - 19
GPS	[] URBAN OUTFITTERS, INC.	#	JAN	13 - 8	2505 - 1010	20 - 12	18 - 11	37 - 17	21 - 12
TJX	[] ZUMIEZ INC.	#	JAN	11 - 8	15 - 5	13 - 7	17 - 10	22 - 11	25 - 13

Ticker	Dividend Payout Ratio(%) 2022	2021	2020	2019	2018	2017	Dividend Yield(High-Low, %) 2022	2021	2020	2019	2018	2017
ANF	0	0	NM	131	72	767	0.0 - 0.0	0.0 - 0.0	10.0 - 0.0	5.8 - 2.6	5.1 - 2.7	9.0 - 4.2
AEO	52	27	NM	49	37	43	7.4 - 0.0	3.3 - 0.0	8.2 - 0.0	3.9 - 2.3	3.2 - 1.9	4.7 - 2.6
ASNA	0	0	0	0	0	0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
CAL	6	8	NM	18	NM	14	1.6 - 0.9	1.9 - 1.0	8.5 - 1.2	1.9 - 0.9	1.0 - 0.7	1.2 - 0.8
CHS	0	0	NM	NM	121	42	0.0 - 0.0	0.0 - 0.0	37.5 - 0.0	13.9 - 5.3	7.1 - 3.1	4.6 - 2.2
DSW	8	0	NM	77	NM	95	2.2 - 0.0	0.0 - 0.0	16.8 - 0.0	7.1 - 3.4	4.8 - 2.9	5.1 - 3.6
EXPR	44	11	23	33	29	55	6.6 - 2.6	3.0 - 1.2	8.8 - 1.4	4.5 - 2.3	3.4 - 2.3	4.2 - 1.5
FL	0	0	0	0	0	0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
GCO	35	21	NM	44	522	NM	6.2 - 3.7	4.3 - 1.5	11.5 - 1.9	5.7 - 2.0	6.2 - 3.5	9.3 - 5.0
LB	29	24	119	22	21	18	1.8 - 1.0	1.1 - 0.0	1.9 - 0.0	1.1 - 0.9	1.2 - 0.7	1.2 - 0.8
ROST	9	5	32	13	12	25	1.8 - 0.7	1.0 - 0.6	2.5 - 0.9	1.5 - 0.8	1.4 - 0.7	1.9 - 1.0
SCVL	28	26	23	49	51	54	26.2 - 8.8	18.2 - 6.2	16.8 - 0.0	13.3 - 7.0	15.1 - 9.7	12.8 - 4.1
TLRD	49548	27	NM	91	107	395	8.0 - 3.8	4.5 - 0.0	14.9 - 0.0	10.9 - 6.8	12.1 - 5.0	10.5 - 4.2
BKE	0	0	0	48	33	33	0.0 - 0.0	0.0 - 0.0	15.9 - 0.0	4.1 - 1.9	2.3 - 1.0	1.7 - 0.8
CATO	NM	88	0	104	37	43	7.3 - 2.6	3.0 - 0.0	7.0 - 0.0	6.3 - 3.3	3.9 - 2.6	4.3 - 2.6
PLCE	38	38	309	33	30	29	2.1 - 1.4	1.7 - 1.4	2.5 - 0.0	1.8 - 1.5	1.9 - 1.4	1.9 - 1.3
GPS	0	0	0	0	0	0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
TJX	0	0	0	0	0	0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0

Note: Data as originally reported. CAGR-Compound annual grow th rate. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the follow ing calendar year.
Souce: S&P Capital IQ.

				Earnings per Share($)						Tangible Book Value per Share($)						Share Price (High-Low, $)					
Ticker	Company		Yr. End	2022	2021	2020	2019	2018	2017	2022	2021	2020	2019	2018	2017	2022	2021	2020	2019	2018	2017
APPAREL RETAIL																					
ANF	§ ABERCROMBIE & FITCH CO.	#	JAN	0.05	4.20	(1.82)	0.60	1.08	0.10	14.18	15.59	15.01	16.86	18.25	18.22	42.09 - 14.02	48.97 - 20.25	23.82 - 7.42	30.63 - 13.58	29.69 - 15.28	19.11 - 8.81
AEO	† AMERICAN EAGLE OUTFITTERS, INC.	#	JAN	0.64	2.03	(1.26)	1.12	1.47	1.13	6.36	6.22	6.11	7.16	7.13	6.68	26.08 - 9.46	38.99 - 19.70	20.69 - 6.54	24.30 - 13.66	29.88 - 16.14	19.48 - 10.23
ASNA	§ BOOT BARN HOLDINGS, INC.		DEC	0.00	6.33	2.01	1.64	1.35	1.05	0.00	11.50	4.67	2.19	0.19	(1.53)	126.70 - 50.20	134.50 - 41.44	48.11 - 8.03	45.15 - 16.24	31.62 - 15.01	17.68 - 5.90
CAL	§ CALERES, INC.	#	JAN	4.92	3.56	(11.80)	1.53	(0.13)	2.02	5.14	1.84	(1.71)	2.03	1.62	8.27	31.13 - 17.82	29.36 - 14.12	23.98 - 3.12	32.28 - 14.30	41.09 - 26.63	34.34 - 22.39
CHS	§ CHICO'S FAS, INC.	#	JAN	0.88	0.37	(3.11)	(0.11)	0.28	0.79	2.51	1.63	1.20	3.33	3.80	4.08	7.31 - 3.80	7.29 - 1.52	4.46 - 0.91	6.46 - 2.33	10.90 - 4.42	15.50 - 6.96
DSW	§ DESIGNER BRANDS INC.	#	JAN	2.26	2.00	(6.77)	1.27	(0.26)	0.84	4.77	4.13	1.85	8.14	8.89	11.61	19.38 - 9.23	20.48 - 7.09	16.98 - 2.60	30.73 - 13.88	34.63 - 18.01	22.72 - 15.14
EXPR	§ FOOT LOCKER, INC.	#	JAN	3.59	8.61	3.08	4.50	4.66	2.22	22.31	20.52	25.09	22.11	20.80	19.41	47.42 - 23.85	66.71 - 38.90	43.07 - 17.46	68.00 - 33.12	59.40 - 38.17	77.86 - 28.42
FL	[] GENESCO INC.	#	JAN	5.66	7.91	(3.97)	3.92	(2.66)	(5.80)	42.90	38.73	33.20	31.28	32.01	34.83	72.34 - 37.54	73.72 - 27.80	48.86 - 5.52	53.20 - 31.65	51.85 - 31.25	65.70 - 20.90
GCO	§ GUESS?, INC.	#	JAN	2.18	2.57	(1.27)	1.33	0.16	(0.11)	9.15	9.37	7.89	9.19	9.83	10.72	24.87 - 14.27	31.12 - 19.56	23.58 - 3.64	23.28 - 13.34	26.95 - 14.17	18.30 - 9.56
LB	[] ROSS STORES, INC.	#	JAN	4.38	4.87	0.24	4.60	4.26	3.55	12.51	11.54	9.23	9.79	8.98	8.03	120.39 - 69.24	134.22 - 103.62	124.16 - 56.30	117.58 - 81.80	104.35 - 73.76	81.48 - 52.85
ROST	[] SHOE CARNIVAL, INC.	#	JAN	3.96	5.42	0.56	1.46	1.23	0.58	17.20	14.05	10.60	10.61	9.90	9.07	41.71 - 19.43	46.21 - 18.04	20.97 - 6.28	20.92 - 10.74	22.50 - 10.51	14.19 - 7.54
SCVL	§ THE BUCKLE, INC.	#	JAN	5.13	5.16	2.66	2.14	1.97	1.85	7.61	6.37	8.12	7.99	8.12	8.09	46.67 - 26.50	57.10 - 28.42	33.50 - 11.76	28.52 - 14.81	29.65 - 17.51	25.00 - 13.50
TLRD	§ THE CATO CORPORATION	#	JAN	0.00	1.65	(2.01)	1.46	1.23	0.34	11.66	12.47	11.42	13.55	13.30	13.48	18.00 - 8.40	19.89 - 8.93	17.98 - 6.07	19.73 - 11.85	26.88 - 10.76	31.35 - 12.20
BKE	§ THE CHILDREN'S PLACE, INC.	#	JAN	(0.09)	12.59	(9.59)	4.68	6.01	4.67	7.17	11.05	1.35	10.86	19.87	27.52	83.77 - 29.20	113.50 - 47.88	72.50 - 9.25	116.84 - 53.62	161.65 - 87.05	147.50 - 92.95
CATO	§ THE GAP, INC.	#	JAN	(0.55)	0.67	(1.78)	0.93	2.59	2.14	5.31	6.54	6.53	8.32	8.87	7.56	19.06 - 7.79	37.63 - 15.84	26.99 - 5.26	31.39 - 15.11	35.68 - 24.25	35.24 - 21.02
PLCE	§ THE TJX COMPANIES, INC.	#	JAN	2.97	2.70	0.07	2.67	2.43	2.02	5.32	4.90	4.66	4.77	3.95	3.90	81.17 - 53.69	76.94 - 61.15	68.89 - 32.72	61.69 - 43.80	56.64 - 36.41	40.46 - 33.22
GPS	[] URBAN OUTFITTERS, INC.	#	JAN	1.70	3.13	0.01	1.67	2.72	0.96	19.45	18.10	15.10	14.85	14.10	12.02	30.82 - 17.81	42.10 - 24.40	32.86 - 12.28	34.83 - 19.63	52.50 - 31.20	35.86 - 16.19
TJX	[] ZUMIEZ INC.	#	JAN	1.08	4.85	3.00	2.62	1.79	1.08	17.26	18.67	18.56	15.27	12.79	10.94	49.98 - 18.86	55.10 - 35.57	39.26 - 13.13	35.68 - 18.38	32.70 - 17.57	23.10 - 11.43

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Souce: S&P Capital IQ.

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