

OUTLOOK

Retailers have been able to grow their top lines, despite a cooling off of consumer spending. However very few have been able to translate those sales into profits. Whether this is due to heavy discounting to clear excess stock or higher costs, or both, there is growing concern about brands and retailers being unable to survive another year like 2022.

Outperforming the Market

Gap Inc (USA) reported Q3 reported net sales rose 2.4% year-on-year to \$4.04 billion.



Gap returns to profitability

- The retailer reported \$282 million in net income, a welcome improvement from last year's \$152 million net loss.

The company wrote off \$53 million in impairment charges related to its Yeezy Gap brand.

Hugo Boss (Germany) reported Q3 sales rose 18% year-on-year to \$925 million. Profits rose 8% to \$91 million. Full year sales are forecast to hit a record \$35 billion.

Chicos FAS (USA) reported Q3 net sales rose 14.3% to \$518.3 million, on top of 29.1% growth in last year's third



Chico's shows another strong quarter

quarter. Net income increased 4.7% to \$24,619 million.

Next (UK) reported retail sales were up by 3.1% in the quarter ended Oct. 29. Full price sales were up 0.4%.



Next sales increase despite tough market

Next maintained its guidance for full-year pre-tax profit of £840 million (\$956 million), up 2.1% on the year.

Mamas & Papas (UK) reported that sales rose more than a third to £126 million (\$143 million) in the year to March 2022. Pre-tax profits surged 466% to £6.8 million (\$7.7 million) from £1.2 million a year ago.

- In the six months through September, sales rose 17% year-on-year.

TJX (USA) reported net income rose 3.9% to \$1.063 billion for the quarter ended Oct. 29.

- Sales fell 2.4% to \$12.2 billion, just missing estimates of \$12.3 billion

Dollar Tree (USA) reported Q3 sales rose 8.1% to \$6.9 billion. Net income increased 23.1% to \$266.9 million.

- The retailer opened net 59 new stores.
- Net sales increased 7.1% to \$20.60 billion for the first nine months of the year. Net income improved 33.1% to \$1.16 billion.

Profit Pressure

Under Armour (USA) reported revenue grew 1.8% to about \$1.6 billion in the quarter ending Sept. 30. Net income fell 23% to \$89.6 million year-on-year (adjusted net income was \$92 million).

- The company warned that full year revenue growth would be in

the low single digits, down from the previous forecast of 5% to 7% growth.

- North American revenue fell by more than 2% while international revenue was up 7%.
- Wholesale revenue increased 4 percent to \$948 million, and direct-to-consumer revenue decreased 4 percent to \$577 million
- By category, footwear revenue grew 14% percent to \$376 million, apparel fell 2% to \$1 billion and accessories dropped 12% to \$111 million.

Walmart (USA) reported Q3 sales grew 8.2% to \$153 billion, surpassing Wall Street's projections and raising its full-year outlook.



Walmart faces profit pressure

- Walmart posted a net loss of \$1.8 billion, down from a profit of \$3.11 billion a year ago.

Canada Goose (Canada) cut its fiscal 2023 sales expectation to around \$882 million from \$1 billion. The company cited weak sales in Asia-Pacific where it earned 20.3% of its Q2 revenue.

Target (USA) reported Q3 Target's net income fell 52% to \$712 million.

- Total revenue increased 3.4% to \$26.52 billion.
- Q3 is normally Target's largest, most profitable quarter.

Marks & Spencer (UK) said sales rose 8.8% to £5.6 billion (\$6.9 billion) in the six months to October 1, but underlying pre-tax profits sank 23.7% to £205.5 million (\$251 million). The company's profits were pulled down by its Ocado online grocery joint venture that fell into the red, as well as holding off passing on cost increases to customers.

- M&S said it was currently trading well, with clothing sales up 4.2%.
- The retailer warned of 'gathering storm' with 2023 likely to be more challenging.

Ralph Lauren (USA) reported Q2 net income rose 5% to \$1.6 billion. Net sales in Asia rose 17% to \$316 million, despite a weaker economy in China. Net income fell 21.7% to \$151 million, from \$193 million a year ago. Q2 inventory was up 36% compared with last year.

Ross Stores (USA) reported Q3 net income of \$342 million, down 11.5% year-on-year. Revenue was \$4.6 billion, on par with last year.

- Ross expects Q4 sales to be flat to down 2%.

Dick's Sporting Goods (USA) reported Q3 sales rose 7.7% to \$2.959

billion beating analysts expectations. Net income fell 28% to \$228 million, from \$317 million a year ago.



Dick's Sporting Goods faces economic headwinds

Warby Parker (USA) reported Q3 revenue rose 8.3% year-on-year to \$148.8 million. Losses narrowed to \$23.8 million, a 74% improvement over last year.

Tapestry Inc (USA) has lowered its fiscal 2023 revenue forecast to \$6.5

billion to \$6.6 billion, down from the prior outlook of around \$6.9 billion. The company cited weak spending in China as the key obstacle.

Poor Performers

Qurate Retail Group (USA) reported Q3 revenue fell 13% year-on-year. Sales at Zulily, its e-commerce division, fell 39%, but improved from Q2 where sales declined 45%.

- Zulily's operating losses reached \$403 million, 10 times above the same period last year.
- Qurate's total operating losses exceeded \$2.6 billion, from a \$274 million profit last year.
- Revenue at its shopping channels QVC and HSN fell 8%.
- Sales rose 8% at its catalogs - Frontgate, Ballard Designs, Grandin Road and Garnet Hill.

Macy's (USA) reported Q3 net income fell 54% to \$108 million. Net

Inventory vs Sales: Q3 2022 (% chg y-o-y)

In Q3 brands and retailers managed to reduce some of the massive inventories they were carrying in Q2. However inventories were still high relative to sales.

Much of Q3 sales were driven by promotions and discounts, while rising interest rates made it more expensive to carry inventory this quarter.

Company	Q2 Inventory	Q2 Sales	Q3 Inventory	Q3 Sales
Walmart	25.5%	8.4%	12.6%	8.8%
Target	36.1%	3.3%	14.4%	3.3%
Kohl's	47.6%	-8.5%	33.8%	-7.0%
TJX	39.3%	-1.9%	25.8%	-3.0%
Macy's	7.2%	0.8%	4.0%	-3.9%
Dillard's	7.2%	1.0%	7.8%	8.0%
Nordstrom	9.9%	12.0%	0.5%	-2.9%
Gap	37.0%	-8.0%	12.0%	2.4%
VF Corp*	92.0%	3.0%	88.0%	2.0%
Urban Outfitters	44.4%	2.2%	18.6%	3.9%
Abercrombie	70.6%	-7.0%	36.0%	-3.0%
Chicos FAS	67.8%	18.0%	9.5%	14.3%

*VF Corp Q1 & Q2 2023 Source: Company investor relations



Macy's Q3 was disappointing

sales fell 5.2% to \$5.230 billion. Despite the declines, both revenue and income beat analysts' expectations.

Kohl's (USA) income fell 60% to \$97 million for the quarter ended Oct. 29, from \$243 million.

- Net sales fell 7.2% to \$4.28 billion, beating estimates of \$4.07 billion.

Foot Locker (USA) reported Q3 net income of \$96 million, down 44% from \$152 million a year ago. Total sales decreased by 0.7%, to \$2.17 billion.

- Foot Locker opened 24 new stores during Q3.
- The retailer now expects 2022 sales to be down 4% to 5% for the year, an improvement over its previous outlook.

Joules (UK) is to appoint administrators after emergency fundraising talks failed.

American Eagle Outfitters (USA) reported Q3 earnings fell 46.6% to



American Eagle reported a challenging Q3

\$81.2 million, from \$152.2 million a year ago. Net revenue fell 2.4% to \$1.24 billion.

Mothercare (UK) reported that half-yearly profits fell to £0.4 million (\$0.48 million) from £3.6 million a year ago. Total revenues declined by 12 per cent to £162.1 million (\$196 million).

- Previously the brand saw 20-25% of its sales coming from the Russian market.
- Outside of Russia, franchise partner sales rose 15%.

Nordstrom (USA) reported Q3 sales fell 2.9% to \$3.4 billion, but beat analysts' expectations. The company reported a \$20 million loss, compared with a net income of \$64 million last year.

- Full-line Nordstrom sales fell 3.4% to \$2.3 billion. Off-price Rack fell 1.8% to \$1.2 billion.

Galeria (Germany) is once again launching insolvency procedures. For the second time in three years, the department store chain is seeking bankruptcy protection. At least one in three of its 131 German shops will have to close.

The retailer ran into trouble when the pandemic hit in 2020 but received government support. The government rescued the company a second time in early 2021 and in January this year the German state injected a further \$215 million. It argued that the department

stores have an important place in city centers.

Mergers & Acquisitions

Frasers Group (UK) has bought Gieves & Hawkes, one of London's oldest bespoke tailors.

Mash Holdings (Japan) is being acquired by private equity firm **Bain Capital** for about 200 billion yen (\$1.44 billion). Revenue reached 102.3 billion yen (\$70 billion) in the fiscal year through August 2022, of which about 90% came from the domestic market and the remaining 10% from overseas, per Reuters.



Gelato Pique acquired by Bain Capital

The company's Gelato Pique brand pajamas was launched in 2008, with a cosmetics line added in 2010.

The Tokyo-based company will use Bain's expertise to expand in overseas markets and is aiming to go public in the next three to five years, a spokesperson said.

Melon Fashion Group (Russia), which scrapped plans for an initial public offering (IPO) due to the conflict in Ukraine, will sell a stake to Russian telecoms-to-healthcare conglomerate Sistema for \$256 million.

Melon owns four mainly women's fashion brands - Zarina, Befree, Love Republic and Sela - and had 846 stores across Russia, Armenia, Kazakhstan and Belarus at the end of 2021.

- Sistema said it would acquire 47.7% of Melon from Swedish investment group Eastnine and East Capital Holding and some private

investors for a total of \$256 million.

- Despite current economic conditions in Russia, Melon is expected to benefit as foreign brands exit the market.

Victoria's Secret (USA) is acquiring DTC lingerie brand Adore Me (USA)



Victoria's Secret buys Adore Me

for \$400 million in cash. The brand is known for its body positivity.

Estee Lauder Cos. Inc. (USA) said it agreed to buy fashion label Tom Ford (USA) for \$2.8 billion, its biggest deal yet, adding a line of beauty products and apparel to the group's brand portfolio. Tom Ford entered into exclusive negotiations with Estee Lauder, beating competing bids from companies including Gucci owner Kering SA, the Financial Times reported.

V-Mart (India) to acquire online marketplace LimeRoad and invest \$18 million to scale the retailer and achieve sustained profitability, the companies said in a press release.

The companies will combine LimeRoad's fashion quotient, logistics efficiency, technology and data with V-Mart's strong retail presence through 410 stores across tier 2, 3, and 4 cities to build a profitable omni-channel value fashion retail platform.

"V-Mart is a leader in the price meets quality space. This partnership helps us fundamentally solve the quality conundrum at value prices online, and accelerate our vision of making the freshest of fashion accessible to our core customer through a uniquely rich online-offline experience," said Suchi Mukherjee, LimeRoad's founder.