

U.S. Retail

INDUSTRY PRIMER

US Store Closures Monitor: 2018 On Track for Another Peak Square Footage Closure Year

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■ **2018 on Track for Another Peak Footage Closure Year:** Our 23-year Credit Suisse US Retail Store Closure Index shows the US retail industry is tracking to an annualized -59% YOY reduction in store unit closures in '18 (after hitting an all-time high in '17). That said, closures are skewing toward much bigger box concepts (Toys R Us, Sears, Sam's). *As such, despite lower unit closures in '18, we estimate the industry is actually on pace for another year of closure square footage at historic peak levels (in line with '17 levels). We expect elevated closures to remain a primary operational distraction and stock risk for the US retail space for several years.*

■ **Softlines: The BONT Share-Grab (KSS Has the Most to Gain).** So far, Softlines closures have slowed and Hardlines is contributing more to industry closures in '18. But Bon-Ton (\$2.5B rev d-store) recently announced closure of all 260 stores—contributing 26% of industry footage closure in '18 to date. *In the near-term, we expect a lengthy liquidation (perhaps through August)—which could cause volatility for nearby competitors.* Our proprietary analysis shows that 76% of BONT stores have a KSS within 5-miles (Sears 69%, JCP: 58%, M: 24%). Importantly, BONT has a very similar customer to KSS (59% also shop at KSS vs. JCP: 52%, M: 50%, Sears: 23%, per Kantar). KSS has been successfully capturing sales from JCP/M closures—which helped drive +6% SSS in 4Q17. We estimate that a +10% capture of nearby BONT closure sales could add +100bp to KSS SSS. At face value, the same 10% capture could add +120bp for JCP, but JCP has more exposure than KSS to malls with “dual-anchor closure risk” as Sears/BONT falter *(Sears has largest % of its fleet in the same mall as BONT—and we fear BONT's failure could be the catalyst for a faster Sears collapse).*

■ **Hardlines/Broadlines Closures are Accelerating.** Hardlines/Broadlines closures have been concentrated from Toys R Us, Sam's, Home Furnishings & Sporting Goods (where ecom and more aggressive price competition have been increasing). Home store closings are accelerating as more share shifts online and their own online sales cannibalize store sales. PIR is closing 25 stores, BBBY 40 (vs. 16 last year), WSM is closing net 10 in '18 (30 gross, vs. net 2 openings last year), and potentially 80 more over the next 3-years. MIK will close its 94 Aaron Brothers/custom framing stores. Sporting Goods consolidation has slowed following large bankruptcies in '16/'17 (though product distribution continues to widen to alternative channels – a key risk). Large Sports incumbents are finally slowing growth; DKS plans net openings of 19 vs. 46 in 2017, while HIBB will be a net closer of ~25 locations (vs. one net opening in '18). Toys R Us is expected to close ~700 toy & baby stores, a potential benefit for the mass merchants including Target based on their store overlap and mix [\(as discussed recently in our report on the topic\)](#). Finally, in the Mass space, WMT is closing 63 Sam's (of the 660 stores), with up to 12 to be converted into warehouse facilities. Sears/Kmart closures continue.

■ **Food & Drug: Survival of the fittest...** Early 2018 saw closures ramp

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materially within the Food & Drug channel, paced largely by the announced bankruptcy and restructuring of Southeastern Grocers. Beyond SEG, recent announcements by Tops Market and SVU's exit of its Farm Fresh banner all point to a potential increase in conventional supermarket closings going forward. Competition from discounters as well as online players should only accelerate and we see relevance in an omnichannel world as limited to only the strongest players. Whereas the traditional grocers are seemingly disadvantaged, this does not preclude stronger supermarkets that are priced right and leaning into their online capabilities from taking more than their fair share of sales up for grabs. As detailed in our KR initiation ([Link](#)), market share gains within the traditional food channel alone can serve as a meaningful tailwind for medium-term sales.

Credit Suisse's Proprietary 23-Year US Retail Store Closure Index

2018 on Track for Another Peak Footage Closure Year

Our 23-year Credit Suisse US Retail Store Closure Index suggests that store unit closures are on track for a slower year in 2018 compared to 2017. Our index shows that the US retail industry is tracking to an annualized -59% YOY reduction in store unit closures in 2018 (after hitting an all-time high in 2017).

That said, our index points to two important dynamics in early 2018:

- 1) Closures are skewing to Hardlines/Broadlines categories (after a big Softlines closure year in 2017—led by department stores); and
- 2) Closures are skewing toward much bigger box concepts (Toys R Us, Sears, Sam's).

To the point about skewing toward bigger box concepts...despite lower unit closures in 2018-to-date, we estimate the industry is actually on pace for another year of closure square footage at historic peak levels (in line with 2017 levels).

Bottom Line: *We expect elevated closures to remain a primary operational distraction and stock risk for the US retail space for several years.*

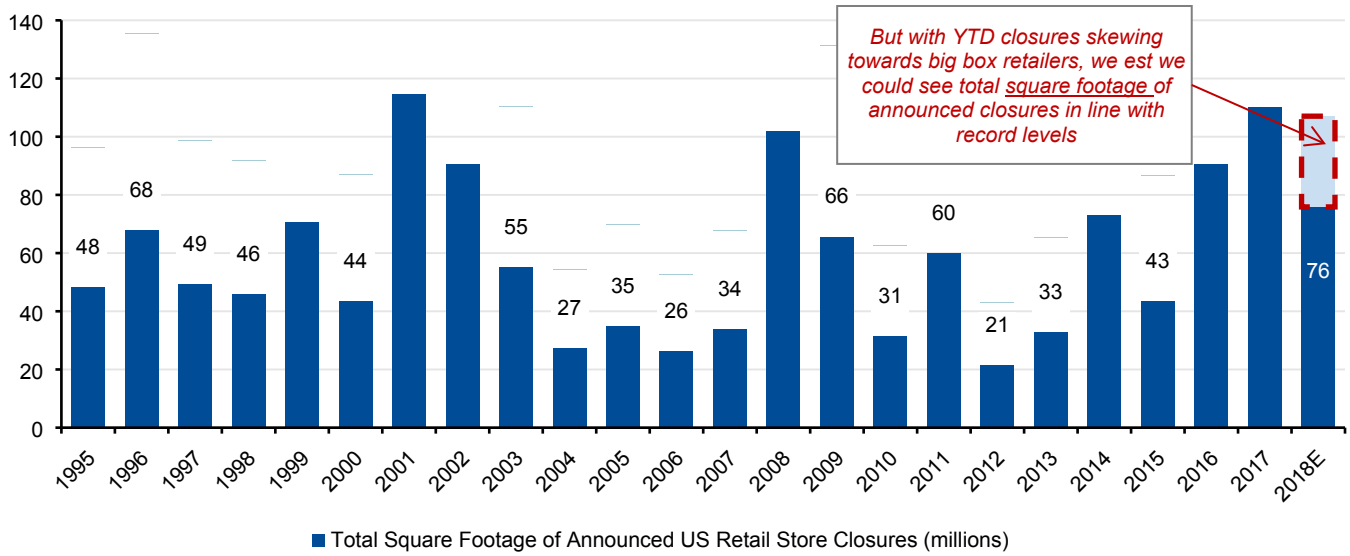
Figure 1: Credit Suisse U.S. Retail Store Closure Index: Number of Announced Total Unit Closures



Source: Company data, Credit Suisse estimates

Note: 2018 YTD through April 20, 2018. 2018E based on YTD unit closures, annualized based on average % of annual closures completed YTD as % of total closures over the past 23 years. Represents announced strategic store closure plans (vs. ongoing "course of business" store closures) based on date of announcement. Includes stores that sell goods: Softlines, Broadlines, Hardlines and Food & Drug. Does not include stores that sell services: Restaurants

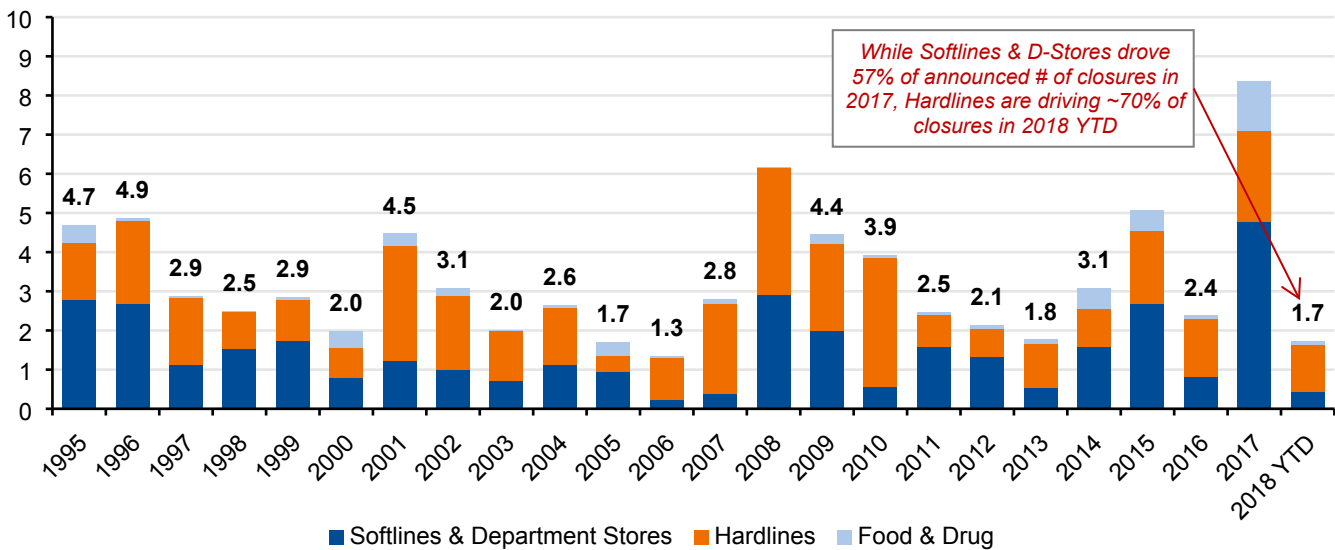
Figure 2: Credit Suisse U.S. Retail Store Closure Index: Announced *Total Square Footage of Closures*



Source: Company data, Credit Suisse estimates

Note: 2018 YTD through April 20, 2018. 2018E based on YTD unit closures, annualized based on average % of annual closures completed YTD as % of total closures over the past 23 years. Remaining 2018E closure square footage beyond YTD estimated based on average closure store size over the past 23 years. Represents announced strategic store closure plans (vs. ongoing "course of business" store closures) based on date of announcement. Includes stores that sell goods: Softlines, Broadlines, Hardlines and Food & Drug. Does not include stores that sell services: Restaurants

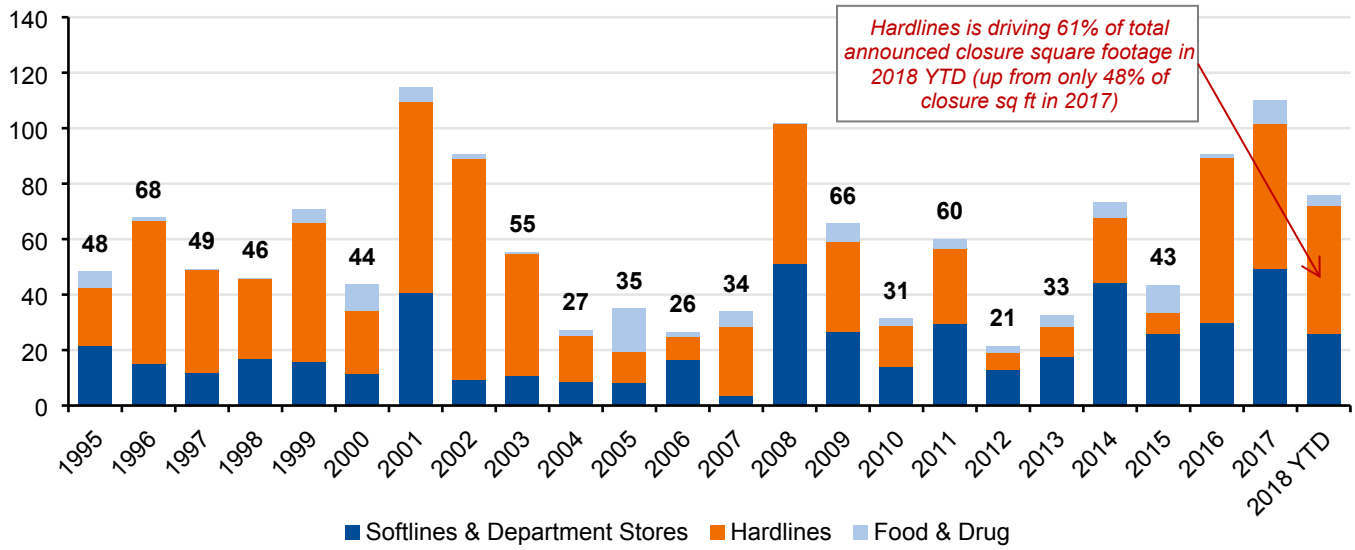
Figure 3: Credit Suisse U.S. Retail Store Closure Index: # of Total Announced *Unit Closures by Category*



Source: Company data, Credit Suisse estimates

Note: 2018 YTD through April 20, 2018. 2018E based on YTD unit closures, annualized based on average % of annual closures completed YTD as % of total closures over the past 23 years. Represents announced strategic store closure plans (vs. ongoing "course of business" store closures) based on date of announcement. Includes stores that sell goods: Softlines, Broadlines, Hardlines and Food & Drug. Does not include stores that sell services: Restaurants

Figure 4: Credit Suisse U.S. Retail Store Closure Index: Announced Total Square Footage of Closures

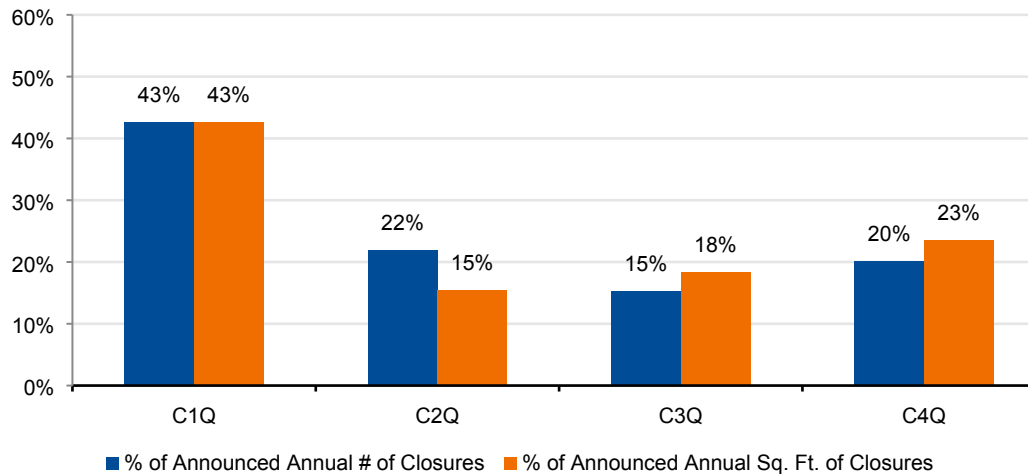


Source: Company data, Credit Suisse estimates

Note: 2018 YTD through April 20, 2018. 2018E based on YTD unit closures, annualized based on average % of annual closures completed YTD as % of total closures over the past 23 years. Remaining 2018E closure square footage beyond YTD estimated based on average closure store size over the past 23 years. Represents announced strategic store closure plans (vs. ongoing "course of business" store closures) based on date of announcement. Includes stores that sell goods: Softlines, Broadlines, Hardlines and Food & Drug. Does not include stores that sell services: Restaurants

On average, 43% of store closure announcements occur in calendar 1Q (based on 23 years of data)

Figure 5: Credit Suisse U.S. Retail Store Closure Index: % of Annual Unit Closures / Sq. Ft. of Closures by Quarter



Source: Company data, Credit Suisse estimates

Note: Represents announced strategic store closure plans (vs. ongoing "course of business" store closures) based on date of announcement. Includes stores that sell goods: Softlines, Broadlines, Hardlines and Food & Drug. Does not include stores that sell services: Restaurants

The BONT Factor: KSS Most to Gain

Bon-Ton, a \$2.5 billion revenue department store chain, recently announced closure and liquidation of all 260 stores. On our math, the Bon-Ton closures are contributing 26% of total announced US retail industry closure square footage in 2018-to-date.

Based on our industry conversations, we expect a lengthy liquidation (Bon-Ton's liquidation sale started last week and could last all the way through August)—which could cause volatility for nearby competitors.

The key is determining which retail chain has the most to gain after Bon-Ton's stores are finally closed. We looked at the data through several lenses.

Kohl's has the Closest Proximity to Bon-Ton's Store Fleet...

Our proximity analysis shows that 76% of Bon-Ton stores have a Kohl's store within five miles (we consider 5-miles a proxy for a trade zone). By comparison, only 69% of Bon-Ton stores have a Sears within five miles, 58% have a JCPenney, and 24% have a Macy's within five miles.

...And Kohl's Core Customer is Most-Similar to Bon-Ton's Customer

Separately, our analysis of Kantar's consumer survey data shows that Bon-Ton's customer is very similar to Kohl's customer. Based on our analysis, 59% of Bon-Ton customers also cross-shop at KSS compared to just 52% that also shop at JCPenney, 50% that also shop at Macy's, and 23% that also shop at Sears.

Kohl's Has Done a Good Job Grabbing Share Amid Competitor Closures

Importantly, Kohl's has been doing a good job of targeting and capturing sales from competitors closing stores nearby. In fact, Kohl's listed share capture from nearby closures as a key driver of its outsized +6% same store sales growth rate in 4Q17.

The Bon-Ton Share Capture Math, and “Dual-Anchor Closure Risk” Malls

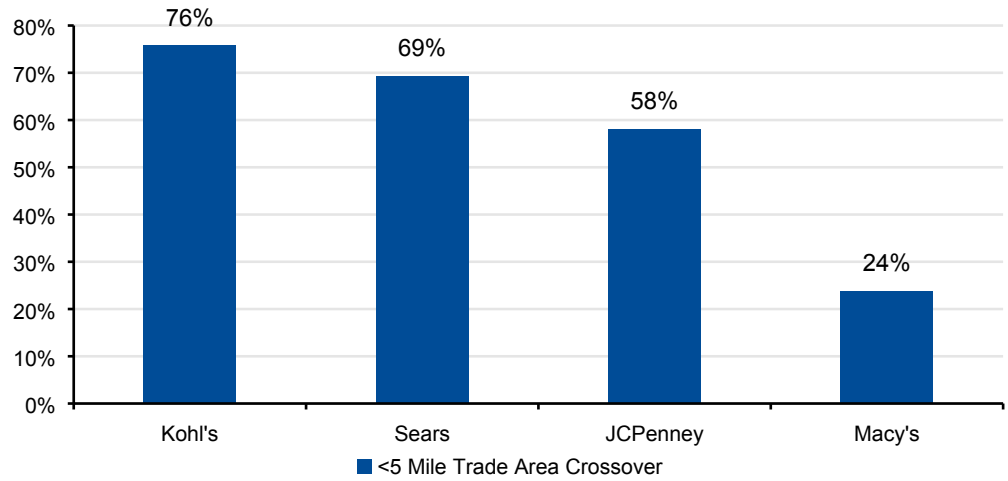
After the liquidation sale and all Bon-Ton stores close, we estimate that a +10% capture of nearby Bon-Ton closure sales could add as much as +100bp to Kohl's annualized SSS.

At face value, the same 10% capture could add +120bp for JCP—due to JCP's similarly close proximity, but also partly due to JCP's lower sales base. So based on the data alone, JCP has a significant share gain opportunity as Bon-Ton stores close.

That said, JCP has more exposure than Kohl's to malls that now have “dual-anchor closure risk” as Sears/BONT falter (Sears has largest percentage of its fleet in the same malls as Bon-Ton stores). We fear that Bon-Ton's failure could be the catalyst for a faster Sears collapse. And while JCP has done a nice job positioning itself for Sears' losses (e.g. JCP has built out appliance category pads in many of its stores), we think the longer-term risk of those malls becoming undesirable destinations (vs off-mall centers that have a Kohl's or even an off-pricer like TJX/ROST/BURL) is a bigger stock issue than any near-term share capture opportunity.

**76% of BONT Stores
have a Kohl's store
nearby...**

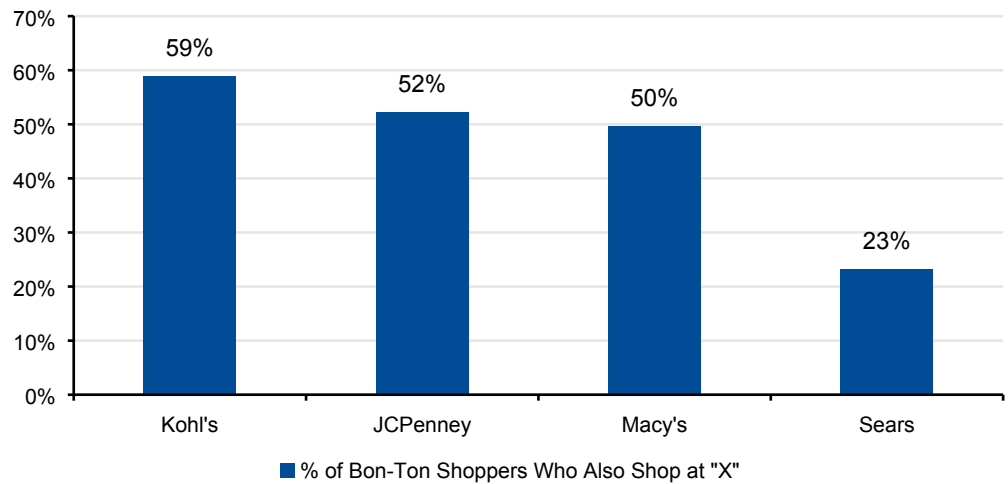
Figure 6: BONT Store Crossover - <5 Mile Trade Area



Source: Thinknum, Credit Suisse estimates
 How to Read: 76% of BONT stores (all banners) have a Kohl's store within 5 miles

... and 59% of Bon-Ton shoppers also cross-shop at Kohl's

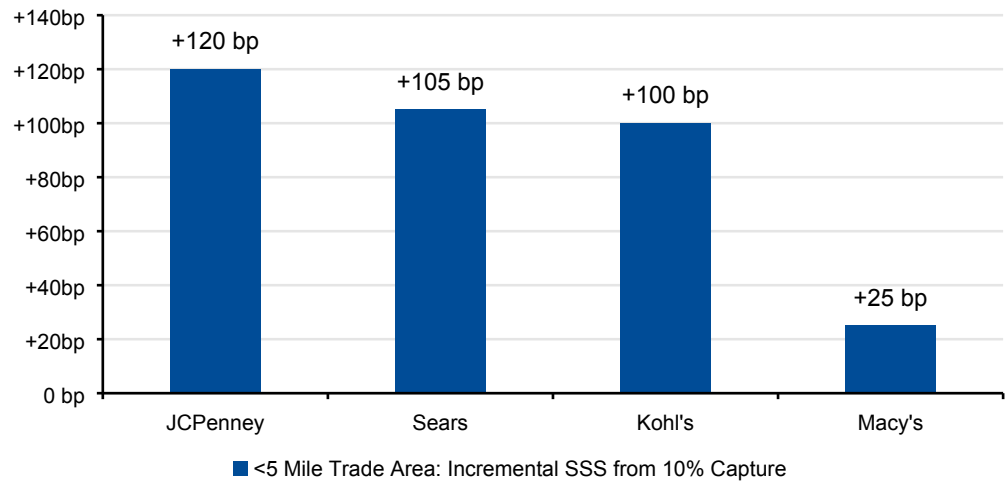
Figure 7: Bon-Ton Shopper Crossover



Source: Kantar Retail IQ
 How to Read: 59% of Bon-Ton shoppers also shopped at Kohl's in 2017

...and every 10% of closure sales captures could add +100bp to KSS SSS

Figure 8: Incremental SSS from 10% BONT Closure Capture - <5 Mile Trade Area



Source: Company data, Thinknum, Credit Suisse estimates

Note: Total share opportunity based on BONT revenues multiplied by % of respective d-store fleet within a 5-mile radius. Assumes 10% closure sales capture divided by respective d-store total revenue base to arrive at potential SSS impact.

Companies Mentioned (Price as of 20-Apr-2018)

- Bed Bath & Beyond** (BBBY.OQ, \$17.14, NEUTRAL, TP \$20.0)
- Burlington Stores, Inc.** (BURL.N, \$133.26, OUTPERFORM, TP \$146.0)
- Dick's Sporting Goods** (DKS.N, \$31.66, NEUTRAL, TP \$35.0)
- Hibbett Sports** (HIBB.OQ, \$25.15, UNDERPERFORM, TP \$16.5)
- J. C. Penney Company, Inc.** (JCP.N, \$2.9, UNDERPERFORM[V], TP \$2.5)
- Macy's Inc.** (M.N, \$29.96, NEUTRAL[V], TP \$31.0)
- Michaels Companies** (MIK.OQ, \$18.29, OUTPERFORM, TP \$26.0)
- Pier 1 Imports Inc.** (PIR.N, \$2.64, UNDERPERFORM[V], TP \$2.0)
- Ross Stores, Inc.** (ROST.OQ, \$77.32, OUTPERFORM, TP \$88.0)
- Supervalu Inc.** (SVU.N, \$14.36, UNDERPERFORM[V], TP \$15.0)
- The Kroger Co.** (KR.N, \$24.12, OUTPERFORM, TP \$28.0)
- The TJX Companies, Inc.** (TJX.N, \$82.48, NEUTRAL, TP \$85.0)
- Walmart Inc.** (WMT.N, \$86.98, NEUTRAL, TP \$102.0)
- Williams-Sonoma** (WSM.N, \$48.97, UNDERPERFORM, TP \$48.0)

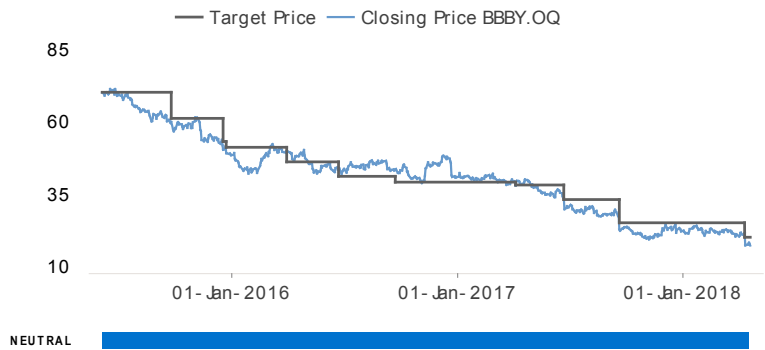
Disclosure Appendix

Analyst Certification

Michael Binetti and Seth Sigman each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Bed Bath & Beyond (BBBY.OQ)

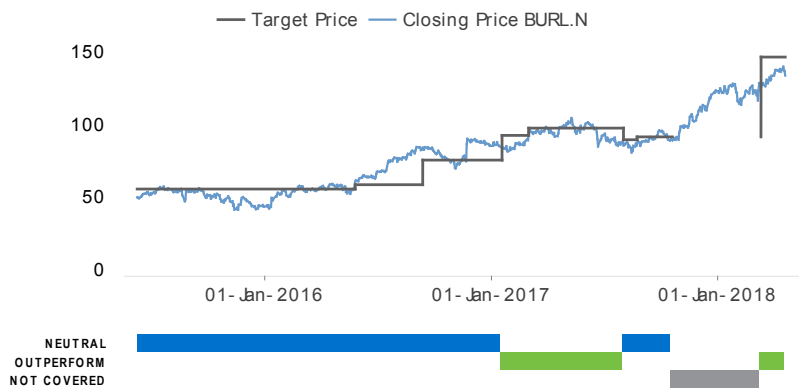
BBBY.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
05-Jun-15	69.81	70.00	N
25-Sep-15	59.79	61.00	
18-Dec-15	50.16	53.00	
23-Dec-15	48.97	51.00	
30-Mar-16	49.59	46.00	
22-Jun-16	43.18	41.00	
22-Sep-16	43.43	39.00	
05-Apr-17	37.80	38.00	
22-Jun-17	33.74	33.00	
20-Sep-17	22.74	25.00	
11-Apr-18	21.50	20.00	



* Asterisk signifies initiation or assumption of coverage.

3-Year Price and Rating History for Burlington Stores, Inc. (BURL.N)

BURL.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
09-Jun-15	49.35	55.00	N
26-May-16	60.03	58.00	
12-Sep-16	83.48	75.00	
02-Dec-16	88.76	75.00	*
18-Jan-17	84.32	92.00	O
02-Mar-17	94.59	97.00	
02-Aug-17	85.05	89.00	N
24-Aug-17	86.11	91.00	
20-Oct-17	88.54		NC
12-Mar-18	125.54	146.00	O*



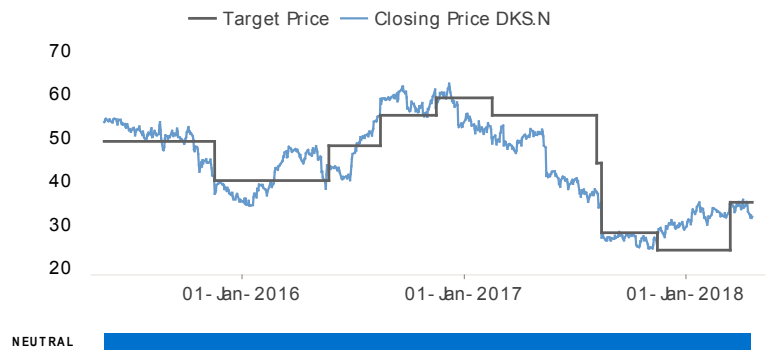
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Effective July 3, 2016, NC denotes termination of coverage.

3-Year Price and Rating History for Dick's Sporting Goods (DKS.N)

DKS.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
19-May-15	53.43	49.00	N
17-Nov-15	36.96	40.00	
23-May-16	42.07	48.00	
16-Aug-16	58.76	55.00	
16-Nov-16	57.80	59.00	
16-Feb-17	48.50	55.00	
07-Aug-17	37.35	44.00	
15-Aug-17	26.87	28.00	
15-Nov-17	26.86	24.00	
15-Mar-18	34.82	35.00	

* Asterisk signifies initiation or assumption of coverage.



3-Year Price and Rating History for Hibbett Sports (HIBB.OQ)

HIBB.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
22-May-15	46.33	42.00	U
10-Aug-15	45.56	40.00	
20-Nov-15	33.30	30.00	
11-Feb-16	30.21	25.00	
26-Apr-17	26.35	24.00	
24-Jul-17	13.10	14.00	
18-Aug-17	10.90	11.00	
17-Nov-17	17.10	13.50	
19-Mar-18	23.25	16.50	

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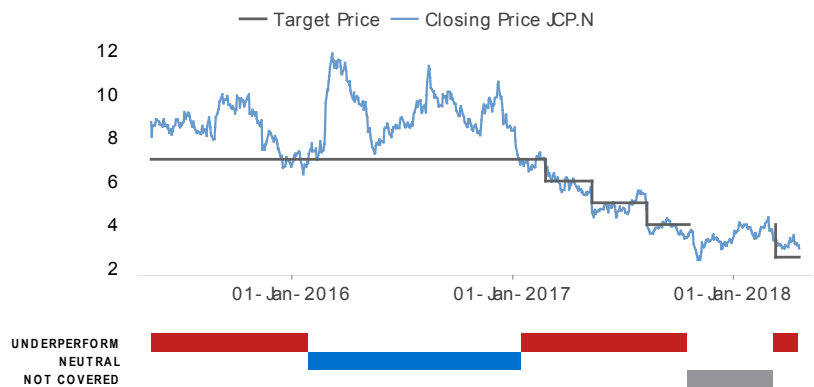


3-Year Price and Rating History for J. C. Penney Company, Inc. (JCP.N)

JCP.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
13-May-15	8.71	7.00	U
29-Jan-16	7.26	7.00	N
02-Dec-16	9.81	7.00	*
18-Jan-17	6.81	7.00	U
24-Feb-17	6.46	6.00	
12-May-17	4.55	5.00	
11-Aug-17	3.93	4.00	
20-Oct-17	3.61		NC
12-Mar-18	3.25	2.50	U*

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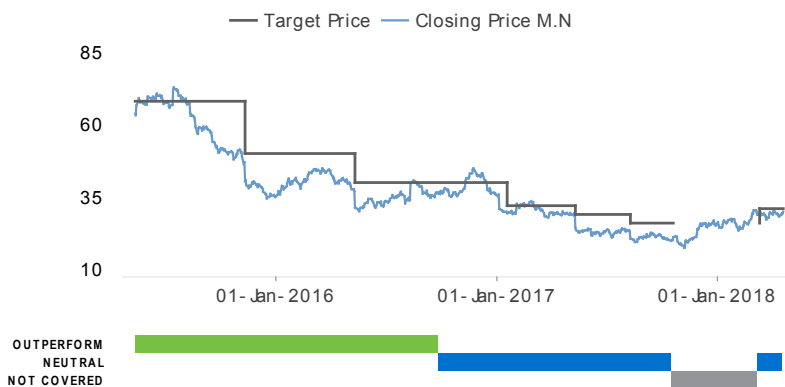


3-Year Price and Rating History for Macy's Inc. (M.N)

M.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
13-May-15	63.73	68.00	O
11-Nov-15	40.44	50.00	
11-May-16	31.38	40.00	
28-Sep-16	36.10	40.00	N
02-Dec-16	42.48	40.00	*
18-Jan-17	29.44	32.00	
11-May-17	24.35	29.00	
10-Aug-17	20.67	26.00	
20-Oct-17	21.17		NC
12-Mar-18	28.76	31.00	N*

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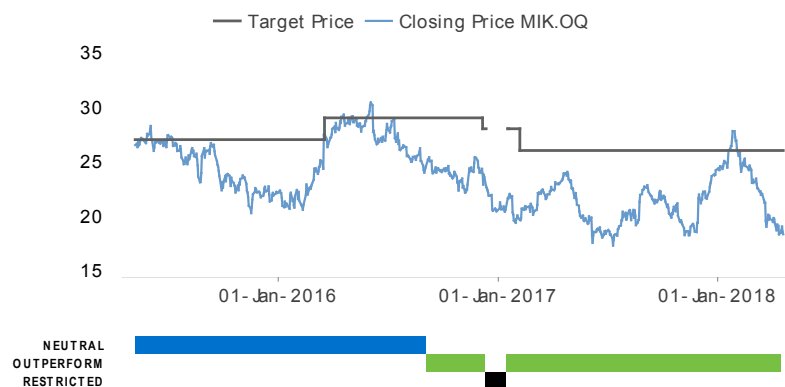
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3-Year Price and Rating History for Michaels Companies (MIK.OQ)

MIK.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
08-May-15	26.50	27.00	N
18-Mar-16	27.50	29.00	
06-Sep-16	25.15	29.00	O
06-Dec-16	23.85	28.00	
12-Dec-16	22.66		R
17-Jan-17	21.62	28.00	O
06-Feb-17	19.62	26.00	

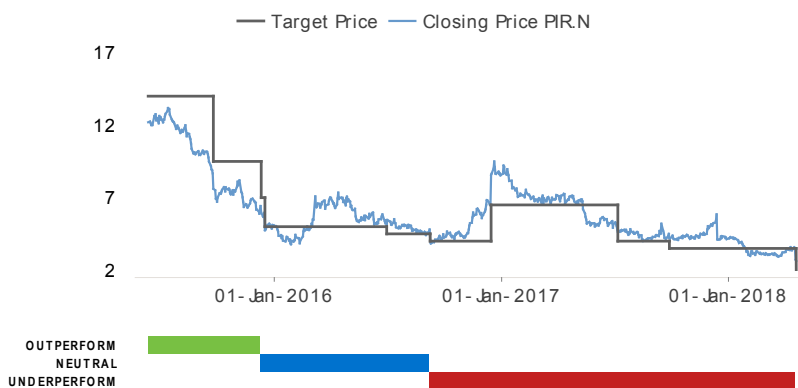
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3-Year Price and Rating History for Pier 1 Imports Inc. (PIR.N)

PIR.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
12-Jun-15	12.20	14.00	O
25-Sep-15	7.61	9.50	
11-Dec-15	5.96	7.00	N
17-Dec-15	4.75	5.00	
30-Jun-16	5.14	4.50	
08-Sep-16	4.08	4.00	U
15-Dec-16	8.57	6.50	
07-Jul-17	4.64	4.00	
28-Sep-17	4.20	3.50	
20-Apr-18	2.64	2.00	

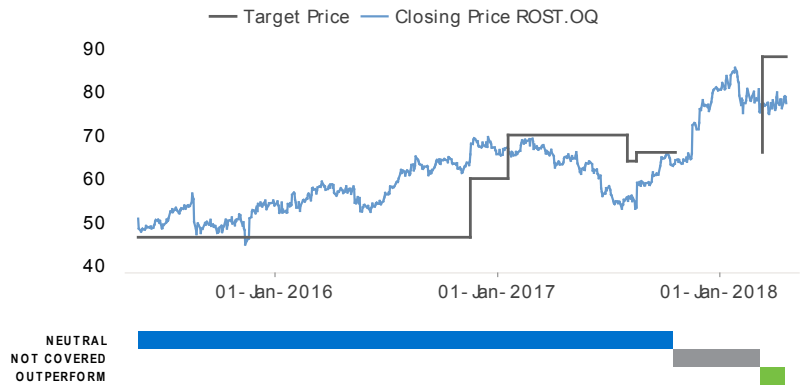
* Asterisk signifies initiation or assumption of coverage.



3-Year Price and Rating History for Ross Stores, Inc (ROST.OQ)

ROST.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
21-May-15	50.78	46.50	N
17-Nov-16	65.53	60.00	
02-Dec-16	67.36	60.00	*
18-Jan-17	66.90	70.00	
02-Aug-17	55.65	64.00	
17-Aug-17	53.33	66.00	
20-Oct-17	64.23		NC
12-Mar-18	76.43	88.00	O *

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3-Year Price and Rating History for Supervalu Inc. (SVU.N)

SVU.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
28-Apr-15	69.23	73.50	N
28-Jul-15	56.98	63.00	
01-Oct-15	49.21	52.50	
13-Jan-16	35.56	42.00	
27-Jul-16	32.34	35.00	
17-Oct-16	37.10	42.00	
19-Oct-16	32.06	35.00	
11-Jan-17	31.01	28.00	
05-Jun-17	27.79		NC
17-Apr-18	15.71	15.00	U *

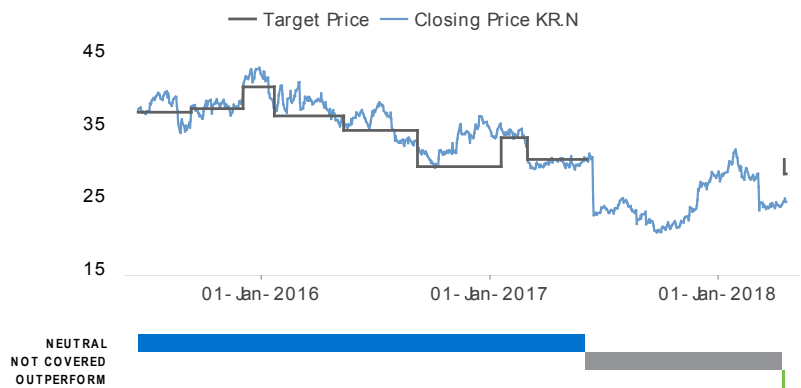
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3-Year Price and Rating History for The Kroger Co. (KR.N)

KR.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
18-Jun-15	36.77	36.50	N
11-Sep-15	37.29	37.00	
03-Dec-15	39.91	40.00	
22-Jan-16	37.12	36.00	
12-May-16	34.89	34.00	
07-Sep-16	31.32	29.00	
19-Jan-17	34.26	33.00	
02-Mar-17	30.67	30.00	
05-Jun-17	30.09		NC
17-Apr-18	24.23	28.00	O *

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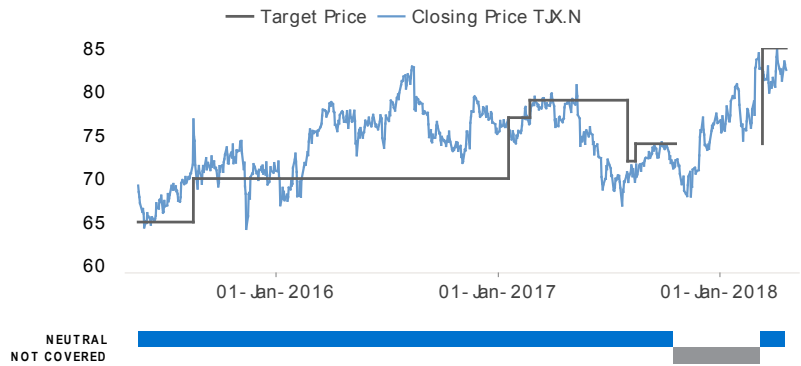


3-Year Price and Rating History for The TJX Companies, Inc. (TJX.N)

TJX.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
19-May-15	69.19	65.00	N
18-Aug-15	76.78	70.00	
02-Dec-16	77.10	70.00	*
18-Jan-17	76.68	77.00	
22-Feb-17	76.35	79.00	
02-Aug-17	70.51	72.00	
15-Aug-17	70.16	74.00	
20-Oct-17	72.09		NC
12-Mar-18	82.47	85.00	N *

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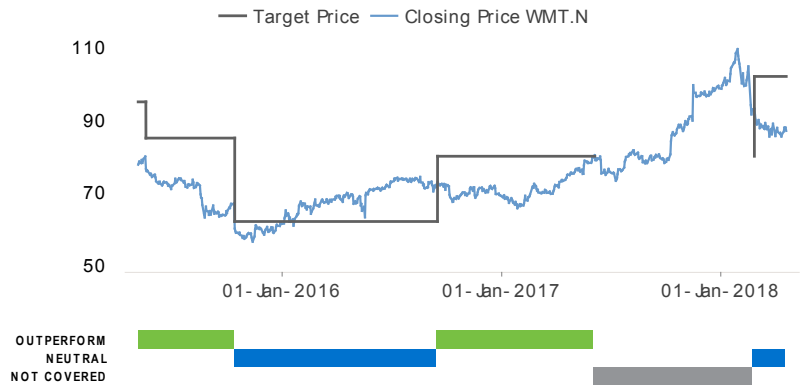


3-Year Price and Rating History for Walmart Inc. (WMT.N)

WMT.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
06-May-15	77.65	95.00	O
19-May-15	76.43	85.00	
14-Oct-15	60.03	62.00	N
16-Sep-16	72.87	80.00	O
05-Jun-17	80.26		NC
26-Feb-18	93.12	102.00	N *

* Asterisk signifies initiation or assumption of coverage.

Effective July 3, 2016, NC denotes termination of coverage.



3-Year Price and Rating History for Williams-Sonoma (WSM.N)

WSM.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
21-May-15	78.57	80.00	N
19-Nov-15	66.21	70.00	
19-Jan-16	50.01	55.00	
16-Mar-16	59.46	54.00	
27-Jun-16	49.56	50.00	
13-Mar-17	47.62	44.00	
12-Oct-17	48.89	44.00	U
15-Mar-18	55.03	48.00	

* Asterisk signifies initiation or assumption of coverage.



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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and Asia stocks (excluding Japan and Australia), ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR)

calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.

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Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

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Underperform/Sell*	13%	(52% banking clients)
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Target Price and Rating

Valuation Methodology and Risks: (12 months) for Bed Bath & Beyond (BBBY.OQ)

Method: Our Neutral rating and \$20 target price for BBBY reflects 9x our 2018 EPS estimate. Using this metric our target price multiple is a discount to other Hardline retailers with exposure to the housing market.

Risk: Investing in retail stocks entails certain risks: changes in consumer spending and its components, retail industry competition, and general market risk. Specific to BBBY, our Neutral Rating and our \$20 target price, risks are: Continued operating margin erosion, slowing square footage growth, a slowing housing market, and improved competition from Target, Wal-Mart, and the Off Price players.

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Burlington Stores, Inc. (BURL.N)

Method: Our \$146 target price is based on ~12.5x our CY19 EBITDA (in-line with BURL's current trading multiples) and implies ~21x our CY19 EPS. We rate the stock Outperform given the significant upside embedded in our price target.

Risk: Risks to our \$146 price target and Outperform rating include increasing competitive pressures in the off-price sector as existing players and new entrants accelerate expansion, changes in the availability of high quality inventory, and operational risk of expanding the Company's store fleet into new markets. BURL's high degree of leverage could also yield less flexibility to weather a cyclical downturn.

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Dick's Sporting Goods (DKS.N)

Method: Our \$35 target price and Neutral rating is based on a multiple of 12x our 2018 EPS estimate and margin outlook.

Risk: Risks to DKS's achievement of our \$35 target price and Neutral rating are increased competition in the sporting goods segment and lower pricing from competitors (including the discount store segment) to gain market share.

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Hibbett Sports (HIBB.OQ)

Method: Our Underperform rating and \$16.5 price target on HIBB reflects ~10x our 2018 EPS estimate of \$1.70

Risk: Investing in hardlines retail stocks entails certain risks: changes in consumer spending and its components, retail industry competition, and general market risk. Specific risks to HIBB's achievement of our \$16.5 target price and Underperform rating are increased competition in the sporting goods segment and lower pricing from competitors (including the discount store segment and vendor DTC) to gain market share.

Target Price and Rating

Valuation Methodology and Risks: (12 months) for J. C. Penney Company, Inc. (JCP.N)

Method: Our \$2.50 target price is based on ~5.5x our CY19E EBITDA ex-gains (in line with peer three-year average). We rate the stock Underperform given the significant downside embedded in our price target.

Risk: Risks to our \$2.50 target price and Underperform rating for JCP include attempts to improve the merchandise mix which could help boost sales and gross margins, new category launches which could help drive traffic to the stores, ongoing consolidation of the department store industry which could drive market share gains, and accelerations in low-income consumer spending.

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Macy's Inc. (M.N)

Method: Our \$31 price target is based on ~6x our CY19 retail EBITDA (ex-real estate gains) and ~11x our CY19 retail EPS (in-line with Macy's 3-year averages vs. peers). We believe Macy's will trade in line with its peer group, and accordingly, we have a Neutral rating.

Risk: Risks to our \$31 price target and Neutral rating for Macy's include changing macroeconomic/consumer trends, changes in industry competitiveness and promotions, ongoing execution of Macy's growth initiatives, and potential cash flow constraints from elevated leverage levels.

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Michaels Companies (MIK.OQ)

Method: Our \$26 target price for MIK reflects 11.5 our 2018 EPS estimate, with our Outperform rating is based on total return outlook relative to the rest of our coverage.

Risk: Risks to our \$26 target price and Outperform rating on MIK include the execution risk associated with sustaining positive comp growth after Rainbow Loom is cycled, leverage and rising rates, increasing competition from specialty players and e-commerce pureplays, and changes in consumer spending.

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Pier 1 Imports Inc. (PIR.N)

Method: Our \$2.00 target price implies a 5x multiple on our 2018 EBITDA. We have an Underperform rating on PIR given its total return outlook, continued underperformance relative to the industry, and the risk of more aggressive promotional activity which could derail margin improvement.

Risk: Key risks to our \$2.00 target price and Underperform rating include stronger consumer spending, market share gains, and better than expected margin expansion.

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Ross Stores, Inc (ROST.OQ)

Method: Our \$88 target price is based on ~12x our CY19 EBITDA (in-line with ROST's current trading multiples) and implies ~19x our CY19 EPS. We rate the stock Outperform given the significant upside embedded in our price target.

Risk: Risks to our \$88 price target and Outperform rating for ROST include increasing competitive pressures in the off-price sector as existing players and new entrants accelerate expansion, changes in the availability of high quality inventory, and operational risk of expanding the Company's store fleet into new markets.

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Supervalu Inc. (SVU.N)

Method: Our \$15 target price embeds a ~4.9x EV/EBITDA multiple on our FY20E EBITDA estimate of \$457 million. This is slightly above the level at which the stock currently trades on FY19E EBITDA and reflects our expected decline in EBITDA dollars once the Albertsons TSA has lapsed, but greater focus on the Wholesale business. We believe SVU will struggle to grow EBITDA in a material way over the course of our modeling period, as lost TSA revenues and continued pressure in the Retail business are unlikely to be fully offset by growth in the Wholesale segment. While we model growth in sales and profit dollars within Wholesale in the near term, we cannot ignore this segment's leverage to a customer base that is likely challenged, bringing longer-term growth into question. We rate SVU Underperform based on its potential return to our target price.

Risk: Risks to our Underperform rating and \$15 target price include improvement in domestic economic conditions, a softening competition from both brick-and-mortar and online players, improving health of the wholesale customers, and chance that the company, as a whole or in parts, could be sold.

Target Price and Rating

Valuation Methodology and Risks: (12 months) for The Kroger Co. (KR.N)

Method: Our \$28 target price and Outperform rating assume KR stock can trade at ~7x EV to 2019 EBITDA over the coming year (and closer to 6.7x when MEPP-related debt is considered), in-line with the company's five-year historical average and a continued discount to WMT. On P/E, this translates to ~12x forward earnings in 12 months, both below the five-year average and WMT at ~17.5x, on what we believe will be double-digit EPS growth in 2019 and 2020. The discount to WMT is an opportunity if KR can convincingly demonstrate omnichannel sales growth and resumed EBITDA growth beyond 2018.

Risk: Risks to our target price of \$28 and Outperform rating for KR include an already high competitive exposure to other non-traditional competitors, which is likely to increase, volatile investments in price, acceleration of product cost inflation or deflation, the macro environment weakening, and the potential distraction of integrating acquisitions.

Target Price and Rating

Valuation Methodology and Risks: (12 months) for The TJX Companies, Inc. (TJX.N)

Method: Our \$85 target price is based on ~10x our CY19E EBITDA (in-line with TJX' s five-year average vs. peers) and implies ~16x our CY19E EPS. We believe the stock will continue to trade in line with current levels, and accordingly, we have a Neutral rating.

Risk: Risks to our \$85 price target and Neutral rating for TJX include changing US macroeconomic trends, intensifying competition and increasing industry pricing pressures, execution risk of opportunistic buying and inventory management strategies, operational risk of expanding store fleet (both domestically and internationally), and additional risks associated with future M&A and other new investments.

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Walmart Inc. (WMT.N)

Method: Our Neutral rating and \$102 target price equates to 21x our FY19 EPS estimate, 19x our FY20 EPS estimate, supported by a weighted average using our sum of the parts that includes pure-play online players, relative valuation, and HOLT®.

Risk: Key risks to our \$102 target price, and Neutral rating include elevated valuation, potential for higher interest rates, less relative sales outperformance, elevated investments. Upside risks include stronger comps and e-commerce growth, stabilizing margins.

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Williams-Sonoma (WSM.N)

Method: Our Underperform rating and \$48 target price is based on a 11.5x P/E multiple and 6.0x EV/ EBITDA assigned to our 2018 estimates based on our projections of the company's long-term EPS growth and its relative competitive position.

Risk: The biggest risk to our Underperform Rating and \$48 target price is the potential for better than expected results driven by benefits from supply chain initiatives and faster sales growth driven by increased focus on digital advertising.

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