



GRANDATION CAPITAL

RESEARCH DEPARTMENT

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Companies mentioned in this report
(price as 1/14/19 market close)

Ticker	Price 1/14/19	MTD Δ
NKE.N	76.09	2.6%
AEO.N	19.83	2.6%
COLM.O	82.62	-1.7%
LULU.O	139.73	14.9%
ELY.N	16.18	5.8%
TIF.N	85.36	6.0%
KORS.N	40.22	6.1%
TPR.N	36.14	7.1%
SKX.N	24.97	9.1%
UAA.N	19.71	11.5%
GOOS.N	47.06	7.6%

What's happening?

- **China released slumped trade data of December.** On 1/13/19, China released Dec'18 trade data as total exports of \$221.25bn, down 4.4% YoY and down 1.4% MoM and total imports of \$164.19bn, down 7.6% YoY and down 10% MoM. The data increased the concerns on economic slowdown in China and hit DOW by -200 points on 1/14 market open (**downside: ▼ for China Concept**).
- **YETI delivered a healthy Q4'18 results.** On 1/11/19, YETI released preliminary Q4'18 results with revenue of \$241.2mn well above consensus of \$227mn and EPS of \$0.88-0.9 well above consensus of \$0.79-0.82. Also, YETI raised 2019 EPS to \$0.94 vs. consensus of \$0.93 (**upside: ▲ for YETI**).
- **LULU raised Q4'18 guidance.** On 1/14/19, LULU released a new Q4'18 guidance with revenue of \$1.14-1.15bn vs. prior \$1.115-1.125bn, up 2.2% and diluted EPS of \$1.72-1.74 vs. prior \$1.64-1.67, up 4.5%. Given the positive

RETAIL INDUSTRY REPORT

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VOLUME 2, ISSUE 3

China's economic is slowdown; watch out our upcoming initiation on AEO. The U.S.-China trade talk is underway, and market is expected positive outcomes; however, volatility on China Concept Stock is still high. Meanwhile, the U.S. experiences the longest shutdown in the history, counting to 25 days as of 1/15/19, left out 800,000 federal workers without pay in the fourth week. During shutdown, market cannot access the real-time macroeconomic data, and we believe this provides negative impact on the market. Unlike TMT industry experiencing lowering Q4'18 guidance continuously, retail companies, such as LULU and AEO, raise or reiterate upper bound of Q4'18 guidance.

Key stock takeaways: Entering 2019, DOW exits bear market, up 3% YTD and down 0.5% WOW: 5 straight rallies on DOW send a positive signal for 2019. With trade talk underway and expectation on rate release, we see the stock market gets less volatile now. **Retail Industry:** S&P Retail Index was closed at 43.99 on Dec 31, down 11.3% MTD and down 11% YTD, while DOW was closed at 23.327.46 on Dec 31, down 8.7% MTD and 5.6% YTD. **Individual stocks:** the stocks we monitor in retail sector have sustained in recent sell-offs. Entering to 2019, the top three returns are LULU, UAA and SKX.



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outlook of upcoming Q4'18 earning, LULU's stock is up 4.5% on that day. We reiterate our buy on LULU with PT of \$154 ([see our initiation on LULU here](#)) (upside: ▲ for LULU).

- **AEO updated Q4'18 guidance.** On 1/14/19, AEO provided an update on Q4'18 guidance with comp sale increasing by 6% QoQ. In addition, AEO announced the completion of 7.3mn repurchase program with a total of \$144mn.
- **M released Nov/Dec sales results and cut Q4'18 guidance.** On 1/11/19, Macy delivered a disappointing holiday comp sale with only 0.7% increase. Meanwhile, M cut FY'18 EPS guidance to \$3.95-4 vs. prior of \$4.1-4.3, down 5.4%, and flat revenue vs. prior 0.3-0.7% growth in prior guidance. Due to the cut, Macy's stock slumped 17% on that day (downside: ▼ for M).
- **COLM announced closing in buyout of China joint Venture with Swire Resources Limited.** On 1/2/19, COLM completed its buyout of 40% remaining interest in COLM Commercial (Shanghai) from its joint venture partner, Swire Resources Limited and becomes the sold holder of its business in Chinese market. The buyout reflected COLM's dedication on Chinese market expansion (upside: ▲ for COLM).
- **NKE stretches into LULU's yoga line including Men's sector.** On 1/9/19, NKE announced to introduce first yoga apparel. NKE selected celebrities such as NFL linebacker Khalil Mack, NBA player Kevin Love and others to promote its new yoga apparel (upside: ▲ for NKE; downside: ▼ for LULU).

What's coming up?

Date	Ticker	Company Name	Event	Location	Note
1/14/19	NA	NA	ICR Conference	Orlando, FL	Global Investment conference
1/18/19	TIF	Tiffany	Nov/Dec Sales Release	NYSE	N/A

Data Tracker:

- **We added a table to track China's trade data (Exhibit 1).** China released December trade data on 1/13/19 with imports down 7.6% YoY and exports down 4.6% YoY.
- **We added an estimated earning schedule table (Exhibit 2).** Based on last year's schedule, we expect ELY, GOOS and SKX begin to release Q4'18 and FY'18 earnings results in Feb'19.
- **Consensus Book (Exhibit 3):** We changed our consensus book to estimates surprise method to provide accurate indicators on companies' performance.
- **Stock performance (Exhibit 4-7):** Entering to Jan'19, S&P Retail Index outperformed S&P 500. LULU and UAA were up 14.9% and 11.5% MTD, respectively.
- **We added a table to track the S&P Retail Index vs. S&P 500 (Exhibit 8-9).** In 2018, S&P Retail Index outperformed S&P 500 by 3.1%.
- **Short interest tracker (Exhibit 10):** The latest short interest data with an 12/31/18 settlement was released on 1/14/19. Short interest, when compared with the 12/30/18 settlement data is up 1.72% for TIF and up 0.78% for GOOS.
- **Currency Tracker (Exhibit 11-15):** Entering to 2019, USD has depreciated against the CNY, CAD, JPY, EUR and GBP.



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Exhibit 1: China trade data---- On 1/13/19, China released Dec'18 trade data as total exports of \$221.25bn, down 4.4% YoY and 1.4% MoM and imports of \$164.19bn, down 7.6% YoY and 10% MoM. The data increased the concerns on economic slowdown in China



Source: CGA; Grandatio

Exhibit 2: Estimated earning schedule----Based on last year's schedule, we expect EBAY, FB, AMZN and BABA to release Q4'18 and FY 2018 earnings results at the end of January 2019

Next Earnings Schedule (Est)	Company	Ticker	Comment/Pre-earning Announcement
2/5/2019	Callaway Golf Co	ELY.N	
2/5/2019	Capri Holdings Ltd	KORS.N	
2/5/2019	Tapestry Inc	TPR.N	
2/6/2019	Skechers USA Inc	SKX.N	
2/6/2019	Canada Goose Holdings Inc	GOOS.N	
2/7/2019	Columbia Sportswear Co	COLM.O	
2/12/2019	Under Armour Inc	UA.N	
3/6/2019	American Eagle Outfitters Inc	AEO.N	update Q4'18 guidance
3/14/2019	Tiffany & Co	TIF.N	
3/20/2019	Nike Inc	NKE.N	
3/28/2019	Lululemon Athletica Inc	LULU.O	raise Q4'18 guidance

Source: Thomson Reuters, Grandation



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Exhibit 3: Consensus Book of Q3'18---- Below indicates the percentages of surprise between actual results and the street consensus.

Ticker	Company Name	Earnings Release	Revenue	GM	EBITDA	EBIT	EPS
ELY.N	Callaway Golf Co	10/24/2018	4.8%	1.6%	115.6%	234.0%	1731.5%
KORS.N	Capri Holdings Ltd	11/7/2018	-0.5%	0.4%	1.9%	4.4%	15.3%
TPR.N	Tapestry Inc	10/30/2018	1.9%	0.6%	1.0%	-2.2%	6.6%
SKX.N	Skechers USA Inc	10/18/2018	-3.6%	-0.4%	-1.2%	3.1%	13.0%
GOOS.N	Canada Goose Holdings Inc	11/14/2018	16.9%	5.9%	69.3%	72.9%	90.3%
COLM.O	Columbia Sportswear Co	10/25/2018	-0.1%	0.8%	3.3%	4.3%	10.7%
UAA.N	Under Armour Inc	10/30/2018	1.8%	1.5%	49.8%	78.8%	103.5%
AEO.N	American Eagle Outfitters Inc	12/11/2018	-1.5%	0.4%	-2.6%	-2.2%	0.9%
TIF.N	Tiffany & Co	11/28/2018	-3.7%	0.4%	-5.0%	-9.4%	-0.4%
NKE.N	Nike Inc	12/20/2018	2.1%	0.6%	-	6.2%	13.0%
LULU.O	Lululemon Athletica Inc	12/6/2018	1.4%	1.8%	3.0%	3.4%	7.9%

Source: Thomson Reuters, Grandation

Exhibit 4: Stock Performance----Entering to Jan'19, S&P Retail Index outperformed the S&P 500. LULU and UAA were up 14.9% and 11.5% MTD, respectively.

Ticker	Name	Price 1/14/19	Market Cap (\$bn)	WTD	MTD	YTD
Index:						
xrt	Spdr S&P Retail Etf	43.51	0.50	-0.7%	6.2%	6.2%
.SPX	Standard & Poor's Corp	2596.26	NA	-0.5%	3.0%	3.0%
Companies:						
lulu.o	Lululemon Athletica Inc	139.73	18.50	5.7%	14.9%	14.9%
uaa.n	Under Armour Inc	19.71	8.42	0.2%	11.5%	11.5%
skx.n	Skechers USA Inc	24.97	3.95	-1.2%	9.1%	9.1%
goos.n	Canada Goose Holdings Inc	47.06	5.17	-1.6%	7.6%	7.6%
tpr.n	Tapestry Inc	36.14	10.47	-0.6%	7.1%	7.1%
tif.n	Tiffany & Co	85.36	10.41	-0.5%	6.0%	6.0%
ely.n	Callaway Golf Co	16.18	1.53	-0.9%	5.8%	5.8%
nke.n	Nike Inc	76.09	119.75	0.1%	2.6%	2.6%
aeo.n	American Eagle Outfitters Inc	19.83	3.50	0.7%	2.6%	2.6%
kors.n	Capri Holdings Ltd	40.22	6.04	0.0%	0.0%	0.0%
colm.o	Columbia Sportswear Co	82.62	5.70	0.1%	-1.7%	-1.7%

Source: Thomson Reuters, Grandation



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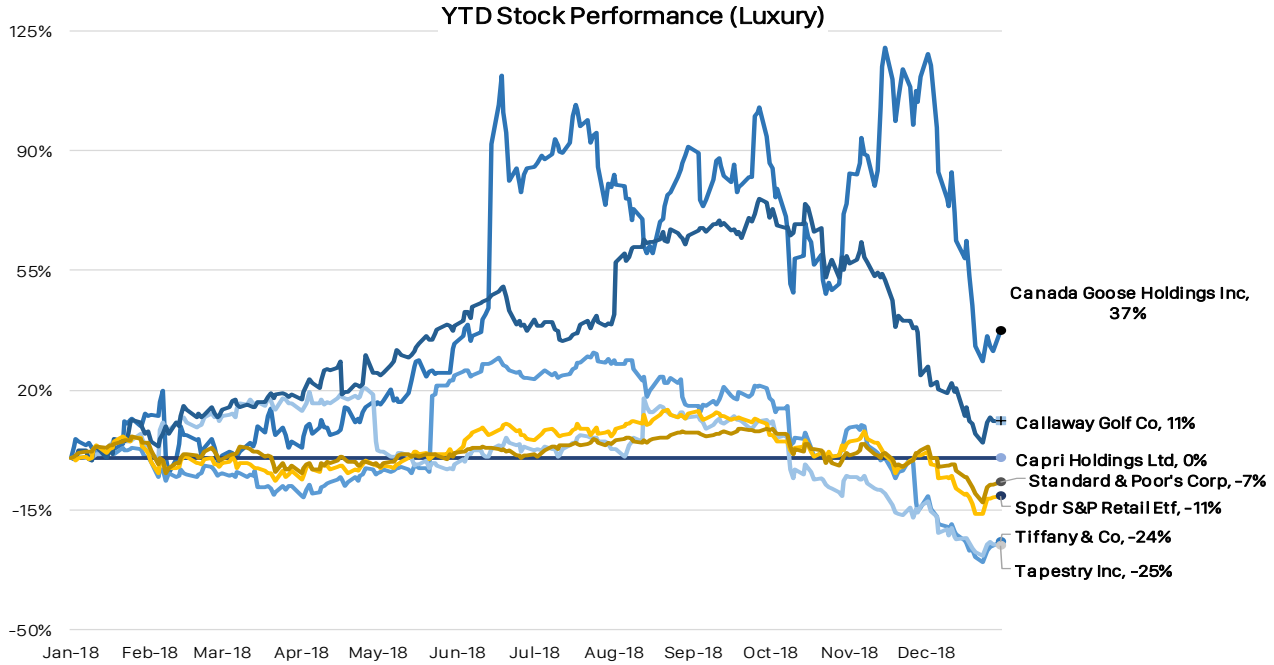


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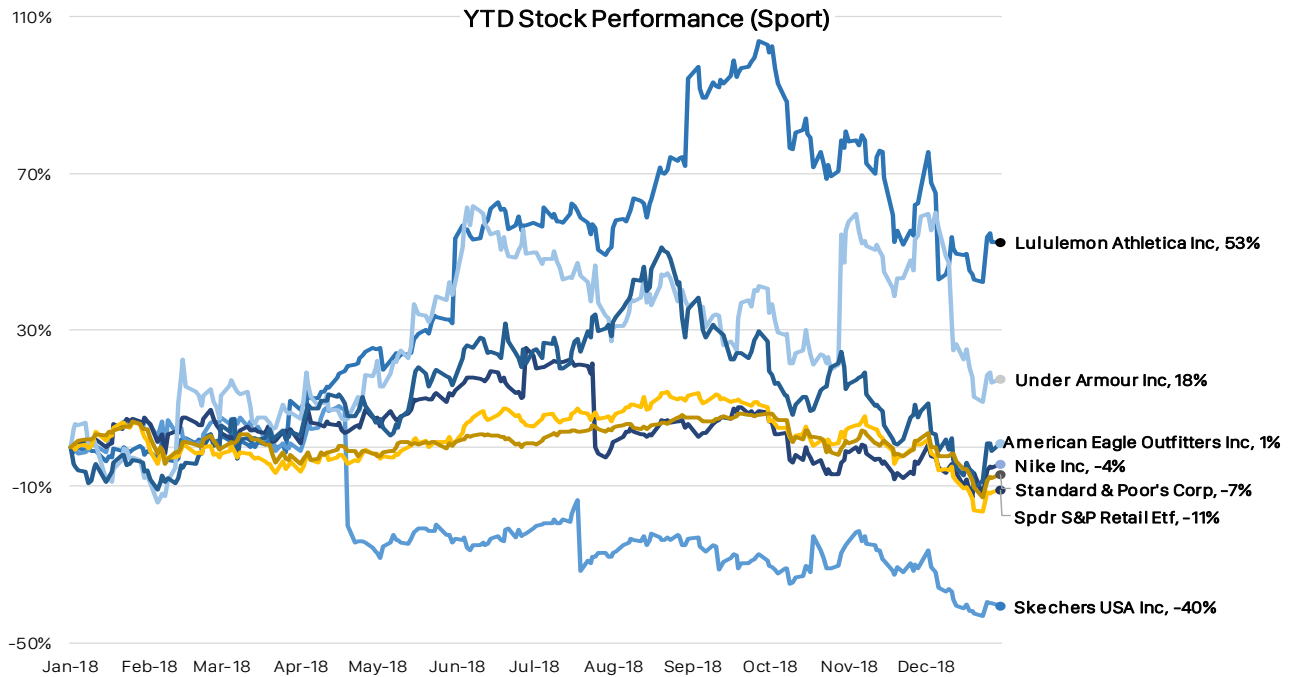
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Exhibit 5: In 2018, the most gain in luxury sector is GOOS, up 37% YTD.



Source: Thomson Reuters, Grandation

Exhibit 6: In 2018, LULU, up 53% YTD, outperformed retail sector, down 11% YTD.



Source: Thomson Reuters, Grandation



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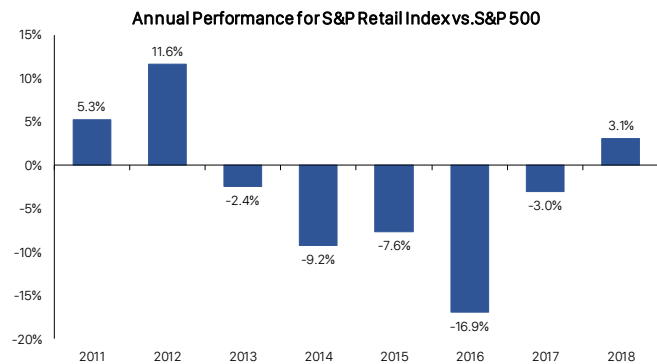


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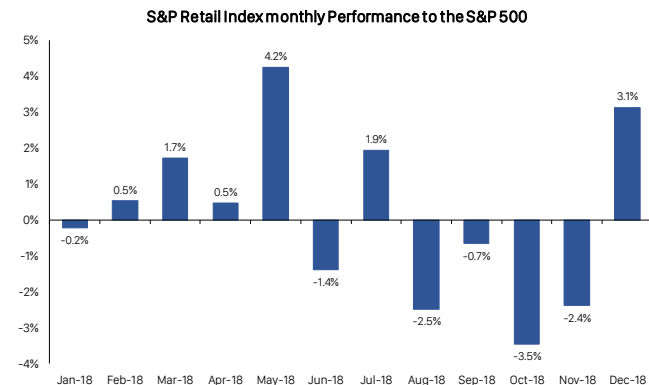
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Exhibit 7: Entering to 2018, S&P Retail Index outperformed S&P 500 by 3.1%.



Source: Thomson Reuters, Grandation

Exhibit 8: In 2018, S&P Retail Index monthly performance is in line with S&P 500 overall.



Source: Thomson Reuters, Grandation

Exhibit 9: Short Interest Tracker. ----The latest short interest data with an 12/31/18 settlement was released on 12/26/18. Short interest, when compared with the 12/14/18 settlement data is up 1.72% for TIF and 0.78% for GOOS.

Ticker	Company	3mon avg daily volume	Short Interest	Days To Cover	Company Shares	Free Float	% of Free Float	Short interest /Float	Short interest /Float vs. Prior (% change)
nke.n	Nike Inc	2,042,404	11,847,773	1.40	1,573,797,545	1,243,825,428	98.8%	0.95%	0.13%
aeo.n	American Eagle Outfitters Inc	1,130,267	15,811,890	2.79	176,432,192	166,444,004	94.3%	9.50%	-0.59%
colm.o	Columbia Sportswear Co	355,001	961,745	2.82	69,005,295	31,032,906	41.8%	3.10%	0.17%
lulu.o	Lululemon Athletica Inc	2,561,060	5,331,896	1.73	132,403,995	104,555,615	85.3%	5.10%	-0.47%
ely.n	Callaway Golf Co	312,672	7,225,268	5.00	94,502,035	88,402,082	93.4%	8.17%	0.50%
tif.n	Tiffany & Co	432,151	8,471,291	3.20	121,897,160	120,757,601	99.1%	7.02%	1.72%
kors.n	Capri Holdings Ltd	748,795	3,958,016	1.15	150,232,617	143,276,113	95.4%	2.76%	-0.83%
tpr.n	Tapestry Inc	1,014,600	6,616,338	1.60	289,795,992	289,296,354	99.8%	2.29%	0.41%
skx.n	Skechers USA Inc	580,487	11,239,330	4.55	158,043,570	130,681,657	97.6%	8.60%	-0.70%
uaa.n	Under Armour Inc	1,418,000	32,349,123	5.33	448,366,397	187,012,716	99.6%	17.30%	0.38%
goos.n	Canada Goose Holdings Inc	448,128	5,209,637	2.09	109,675,380	48,013,799	84.4%	10.85%	0.78%

Source: Thomson Reuters, Grandation

Exhibit 10: Valuation/Comp Sheet

Ticker	Company	Market Cap (\$bn)	Price 1/14/19	Revenue Growth		EPS		FCF Yield	EV /Sales	EV /EBITDA	PE		PEG	Div. Yield			
				YTD Δ	MTD Δ	This yr /Last yr	Next yr /this yr				FY0	FY1			FY1	FY1	LTM
nke.n	Nike Inc	119.75	76.09	2.6%	2.6%	7.9%	7.5%	2.65	3.14	3.2%	2.9x	20.2x	29.6x	28.7x	24.3x	1.8x	1.2%
aeo.n	American Eagle	3.5	19.83	2.6%	2.6%	6.4%	6.1%	1.47	1.61	7.8%	0.7x	6.2x	12.5x	13.4x	12.2x	1.0x	2.8%
colm.o	Columbia Sports	5.7	82.62	-1.7%	-1.7%	10.0%	8.2%	3.62	4.07	3.2%	1.8x	13.7x	36.4x	22.8x	20.3x	1.7x	1.2%
lulu.o	Lululemon Athle	18.5	139.73	14.9%	14.9%	22.9%	13.8%	3.70	4.36	2.3%	4.9x	21.8x	41.9x	35.7x	30.3x	1.3x	NA
ely.n	Callaway Golf Co	1.53	16.18	5.8%	5.8%	18.1%	34.5%	1.06	1.06	6.9%	1.0x	9.6x	13.0x	15.5x	15.4x	NA	0.2%
tif.n	Tiffany & Co	10.41	85.36	6.0%	6.0%	8.2%	4.4%	4.77	5.18	2.9%	2.3x	10.4x	18.2x	18.0x	16.6x	1.5x	2.6%
kors.n	Capri Holdings Lt	6.04	40.22	6.1%	6.1%	8.7%	20.1%	5.02	4.85	11.2%	1.2x	5.8x	10.1x	8.0x	8.3x	NA	NA
tpr.n	Tapestry Inc	10.47	36.14	7.1%	7.1%	4.8%	5.2%	2.79	3.09	7.7%	1.8x	8.3x	14.8x	13.0x	11.8x	1.2x	3.7%
skx.n	Skechers USA In	3.95	24.97	9.1%	9.1%	11.9%	9.6%	1.84	1.99	5.6%	0.6x	6.3x	14.2x	13.7x	12.7x	NA	NA
uaa.n	Under Armour In	8.42	19.71	11.5%	11.5%	4.1%	4.0%	0.22	0.33	1.5%	1.7x	26.5x	NA	90.0x	59.8x	1.5x	NA
goos.n	Canada Goose H	5.16	47.06	7.6%	7.6%	38.0%	25.3%	1.31	1.67	NA	7.5x	31.0x	67.7x	48.4x	37.7x	1.4x	NA

Source: Thomson Reuters, Grandation



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Exhibit 11: Currency Tracker----Entering 2019, the USD has depreciated against the CNY, CAD and JPY but flat EUR and GBP.

Currency	1/14/19	1/7/19	WoW Δ	YTD Δ	YoY Δ
USD/EUR	0.872	0.872	0.0%	-1.2%	6.9%
USD/JPY	108.160	108.700	-0.5%	-0.7%	-2.1%
USD/CNY	6.767	6.850	-1.2%	-1.4%	5.2%
USD/GBP	0.777	0.783	-0.7%	-2.0%	7.2%
USD/CAD	1.328	1.330	-0.1%	-2.2%	6.9%
USD/INR	70.750	69.781	1.4%	1.1%	11.4%

Source: Thomson Reuters, Grandation

Exhibit 12: CNY vs. USD is up 1.2% WoW to 6.77.

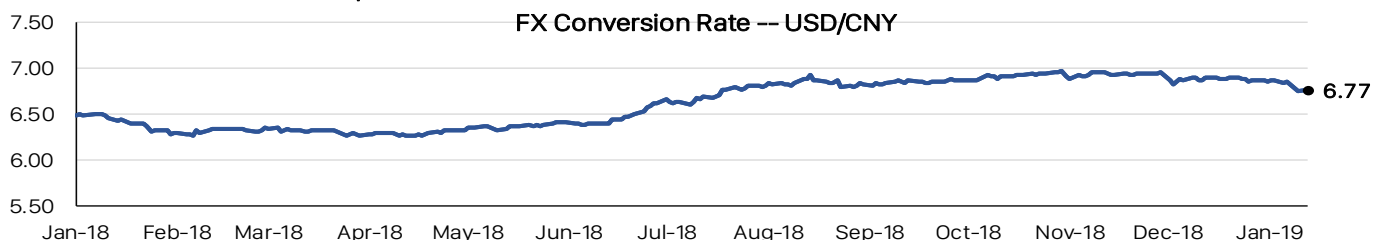


Exhibit 13: EUR vs. USD is flat WoW to 0.87.

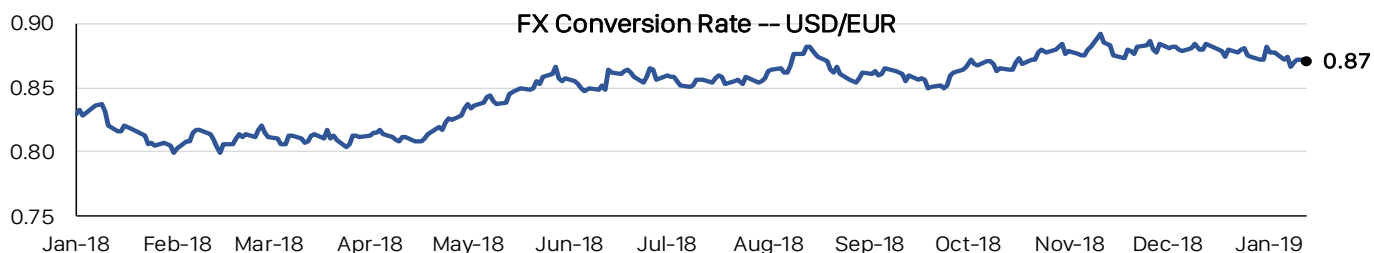


Exhibit 14: CAD vs. USD is up 0.1% WoW to 1.33.

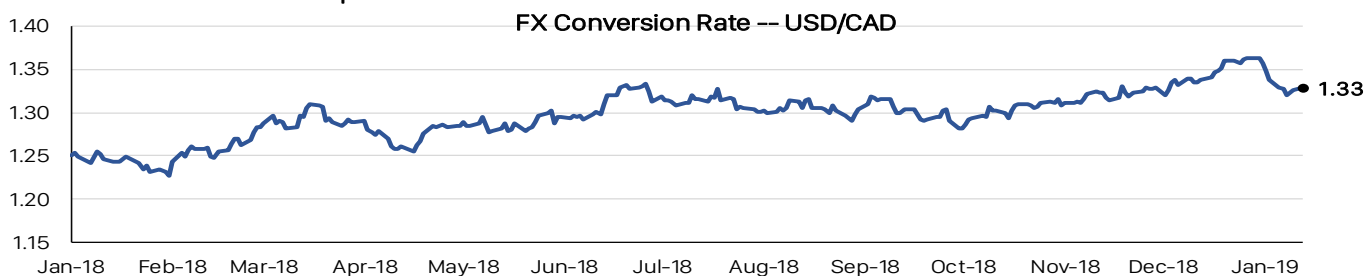
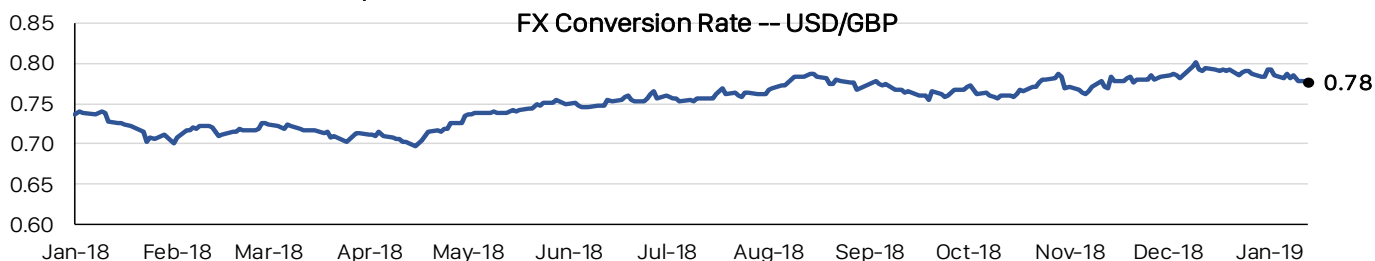


Exhibit 15: GBP vs. USD is up 0.7% WoW to 0.77.



Source: Thomson Reuters, Grandation



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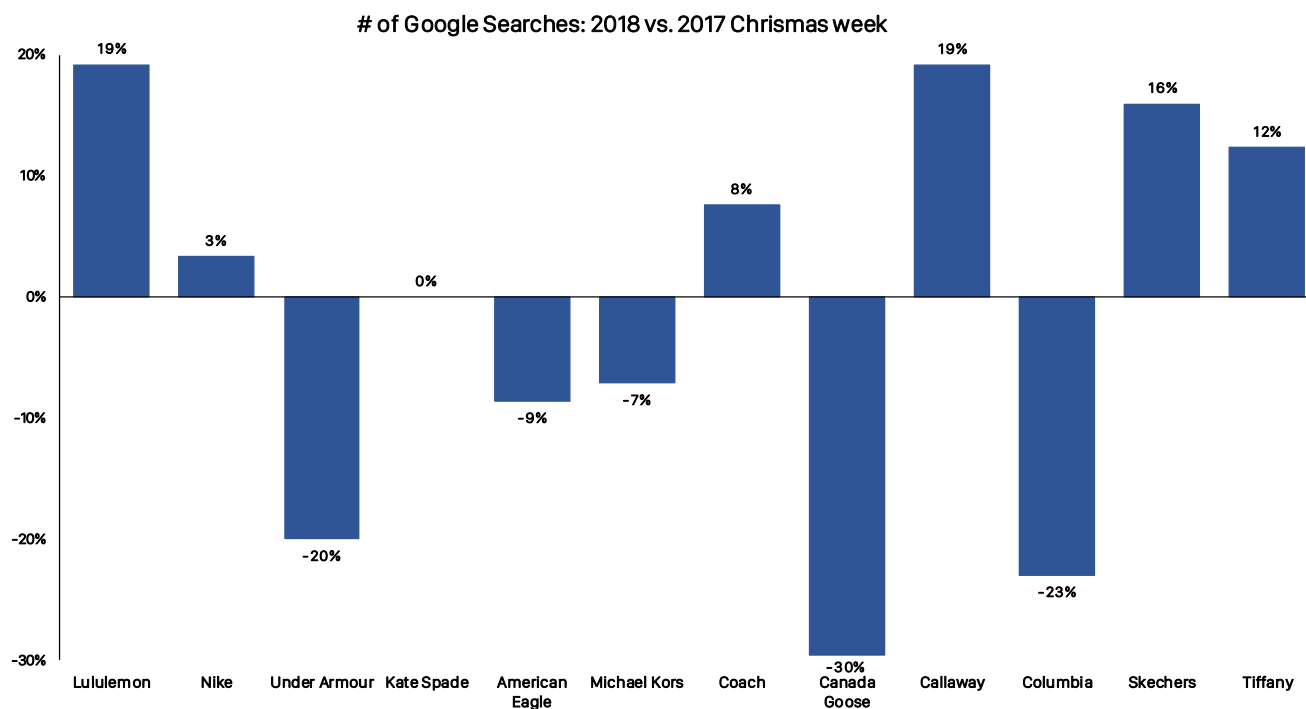


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Appendix 1: We tracked this year's Christmas Week google search by retail brands vs. last year. Due to google trend, Lululemon and Callaway searches are up 19% and 19% YoY while searches for Canada Goose and Columbia Sportswear are down 30% and 23% YoY, respectively.



Source: Google Trends, Grandation

Appendix 2 Summary of retailers went bankruptcy in 2018. In 2018, over 13 retailers filed Chapter 11 for bankrupt, including famous retail chain Sears, David Bridal, Mattress Firms, Nine West and the Walking Company.

Date Announced	Company	Ticker	Filing	Proceeds
11/19/2018	David Bridal	N/A	Chapter 11	Reduce \$400mn debt from lenders
10/15/2018	Sears	SHLDQ	Chapter 11	Fail to make a \$134mn debt repayment
10/5/2018	Mattress Firm	N/A	Chapter 11	Restructure in 45-60 days
8/6/2018	National Stores	N/A	Chapter 11	close 74 of its 344 stores
8/3/2018	Gumps	N/A	Chapter 11	close
8/2/2018	Bookstone	N/A	Chapter 11	acquired by Quaker Oats
5/14/2018	Rockport	N/A	Chapter 11	acquired by PE firm Charlesbank Capital
4/6/2018	Nine West	N/A	Chapter 11	acquired by Authentic Brands Group
3/19/2018	Claire's	N/A	Chapter 11	eliminate debt
2/5/2018	Bon-Ton Stores	BONTQ	Chapter 11	execute a turnaournd plan
1/17/2018	Kiko USA	N/A	Chapter 11	close 24 of its 29 stores in the U.S.
1/9/2018	A'gaci	N/A	Chapter 11	Restructure
3/26/2018	The Walking Company	N/A	Chapter 11	Reach agreement on \$60mn equity investment

Source: Company Profile, Grandation



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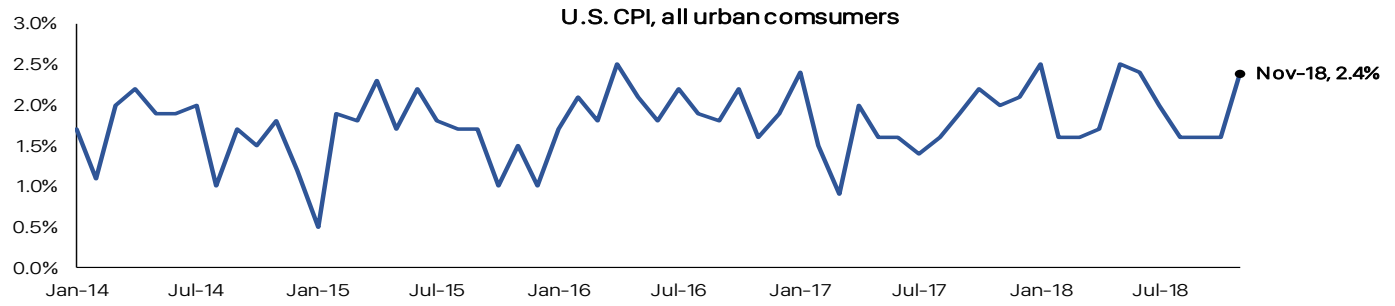


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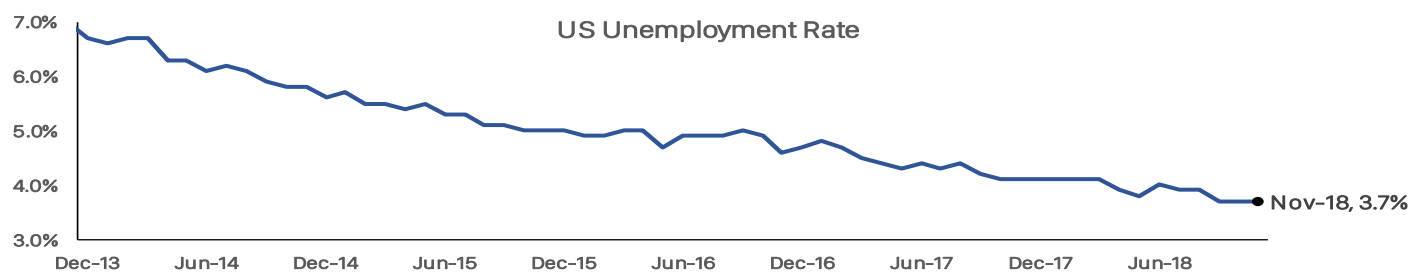
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Appendix 3 :The U.S. CPI table. November CPI is 2.4% for all urban consumers, flat MoM. On LTM basis, all items CPI increases 2.2% prior to seasonal adjustment.



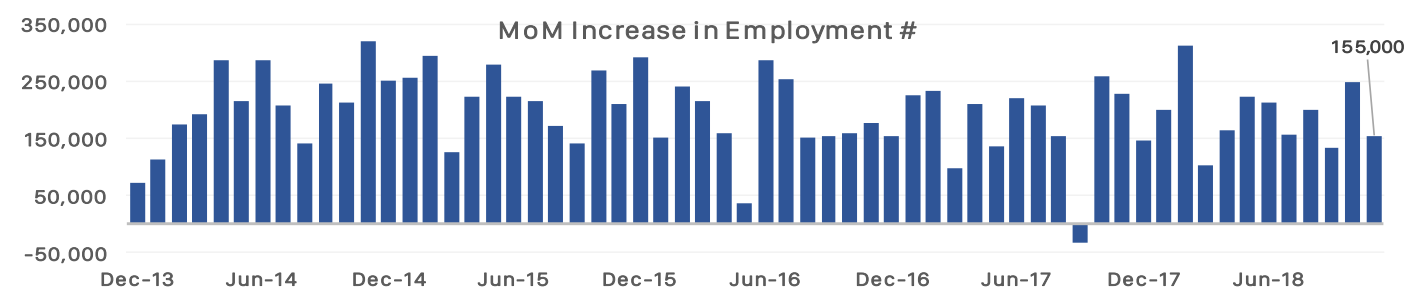
Source: Thomson Reuters, Grandation

Appendix 4 . The U.S. unemployment rate. In November 2018, the unemployment rate of United States reached to new low in the last 5 years at 3.7%, down 10.8% YoY, flat MoM.



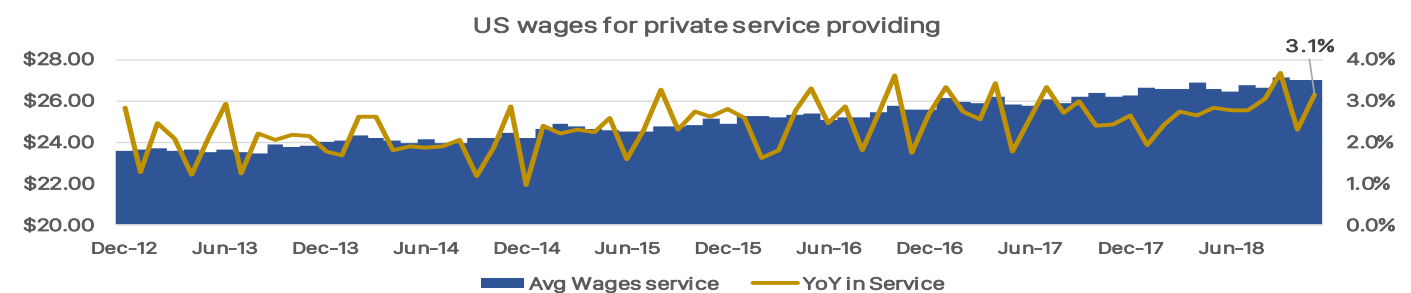
Source: Bureau of Labor Statistics, Grandation

Appendix 5: Total nonfarm payroll employment increased by 155,000 in November.



Source: Bureau of Labor Statistics, Grandation

Appendix 6: Hourly wage are up 2.3% MoM in service-providing in general and up 5.5% in clothing for Oct'18



Source: Company Profile, Grandation



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Rating on Investment Recommendations

Our rating system attempts to incorporate industry, company and/or overall market risks and volatilities; therefore, our investment recommendations on based on the security's 12-month price target from the date this report is issued.

- **STRONG BUY:** A rating, which at the time it is instituted and or reiterated, that indicates an expected return exceeding 25% over the next 12-month period.
- **BUY:** A rating, which at the time it is instituted and or reiterated, that indicates an expected return between 10% to 25% over the next 12-month period.
- **NEUTRAL:** A rating, which at the time it is instituted and or reiterated, that indicates an expected return between -10% to 10% over the next 12-month period.
- **SELL:** A rating, which at the time it is instituted and or reiterated, that indicates an expected return between -25% to -10% over the next 12-month period.
- **STRONG SELL:** A rating, which at the time it is instituted and or reiterated, that indicates an expected return exceeding -25% over the next 12-month period.

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