Behind the Numbers

A monthly report for the retail CFO

Metrics That Matter the Most

Analysts view "return on assets" as an important ratio to compare company performance. A less conventional but perhaps more appropriate metric is return on net tangible assets, or operating margin divided by net tangible assets, expressed as a percentage. This metric reveals the company's "return" before non-operating expenses, such as interest, and excludes the impact of goodwill and other non-tangible assets. Some analysts believe the metric provides a better way to compare the productivity of competitors, in terms of how efficiently their hard assets are producing returns to all investors, since it minimizes both the impact of accounting for acquisitions and the impact of debt costs. High-flying apparel chain Chico's FAS leads the list reflecting the recently completed third quarter.

Operating Margin/Net Tangible Assets

General Merchandise	
Dollar General Corp.	3.50%
Wal-Mart Stores, Inc.	3.30%
J.C. Penney Co., Inc.	2.90%
BJ's Wholesale Club, Inc.	2.40%
Target Corp.	2.10%
Family Dollar Stores, Inc	1.90%
Costco Wholesale Corp.	1.90%
Sears Holdings Corp.	0.50%
Big Lots, Inc.	–1.80%
Specialty Apparel	
Chico's FAS, Inc.	9.60%
Pacific Sunwear of California	8.20%
American Eagle Outfitters	8.00%
Abercrombie & Fitch Co.	7.10%
The TJX Cos., Inc.	5.00%
AnnTaylor Stores Corp.	4.20%
The Gap Inc.	3.90%
Charming Shoppes, Inc.	1.60%
Drug	
Walgreen Co.	3.40%
Duane Reade	1.30%
Longs Drug Stores Corp.	1.10%
Rite Aid Corp.	–0.10%
Supermarket	
Publix Super Markets	4.60%
The Kroger Co.	2.30%
Safeway Inc.	1.80%
Albertson's	1.70%
Whole Foods Market	1.20%
Great Atlantic & Pacific Tea Co.	–3.50%
Hard Lines	
Williams-Sonoma, Inc.	3.30%
Cabela's Inc.	1.90%
Best Buy Co., Inc.	1.50%
Dick's Sporting Goods, Inc.	0.90%
The Sports Authority, Inc.	0.80%
Circuit City Stores, Inc.	0.10%
Pier 1 Imports, Inc.	–1.70%
Sharper Image Corp.	–5.20%
Home Centers	
Home Depot, Inc.	5.50%
Lowe's Cos., Inc.	4.20%

Source: CreditRiskMonitor

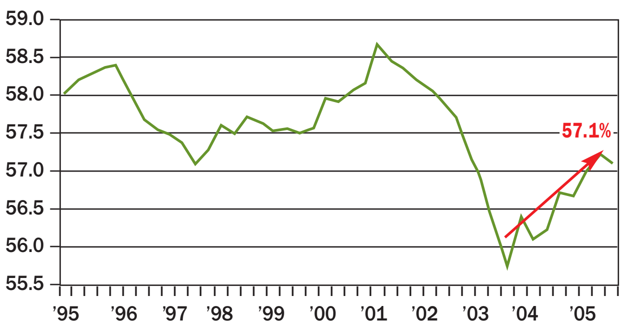
Number of the Month

Homeowners Equity: 57.1%

The home has become a cash machine for homeowners in recent years, with an increasingly substantial wealth effect resulting from soaring house prices and the ease with which homeowners have extracted equity from their homes. Even so, house price appreciation has been so strong that the dollar volume of equity extraction has not kept up with the actual equity amassed by households. The average amount of home equity owned by households is estimated to have risen by nearly a third over just the past two years. Hence, while the slowdown in house price appreciation will be a blow to cash flow and spending, the blow will be limited by past accumulation of equity. Recent home buyers may not have any equity to tap, but those who bought even just a few years ago likely will have equity, if they are willing to tap it despite higher interest rates.

House Price Appreciation Supports Wealth

Homeowners equity, % of house value



Source: Moody's Economy.com

Sears Surrenders Market Share

Sears Holdings Corp. doesn't normally report monthly sales for its Sears and Kmart banners, but it made an exception for the combined November and December holiday period. The results weren't pretty.

In the nine weeks ended Dec. 31, Kmart comparable-store sales increased a mere 1.0%. That's the relative good news. Domestic comps at Sears declined 11.9%. The double-digit decline at Sears reflected a "reduction in certain promotional events intended to improve gross margin and poor apparel sales due to weaker than anticipated customer response to fashion offerings."

Although part of the problem was the holiday assortment, which was locked in earlier in the year, the sales performance reflected poorly on chairman Edward Lampert's move toward a more hands-on management style, according to many retail analysts. Still, Sears expects to earn between $570 million and $635 million for its fourth quarter (ended Jan. 28), and improve its cash position to $3.5 billion.

"The Sears-Lampert story is quite interesting," said Richard Hastings, VP and senior retail sector analyst for Bernard Sands. "Nothing is what it seems." He said Sears priorities appear to be inventory per square foot, gross margin dollars per square foot and buying costs per square foot—not market share. A strategy of contracting inventory each year will certainly hurt comps, but Sears can continue to generate a profit and "shrink it all down until their next moves are established," Hastings said.