

February 24, 2010

Discounters Dollar Tree, TJX Top Views As Shoppers Continue To Spend Carefully

By Marilyn Much

Top discounters TJX and Dollar Tree kept up their winning streak, with Q4 results Wednesday that easily topped views as they lured shoppers with bargains. Apparel chains Chico's and Limited also capped the year on a high note.

Dollar Tree ([DLTR](#)) shares surged 12% and TJX ([TJX](#)) 3%, both to new highs. Limited Brands ([LTD](#)) rose early and late; Chico's ([CHS](#)) fell 3 cents. The S&P Retail Index rose 2% to its best close since September 2008.

Value-oriented chains ruled in the recession as cautious shoppers of all income levels have tried to stretch theirs wherever they can. Off-price retailer TJX and Dollar Tree, which sells every item for \$1 or less, remain top performers.

Still In The 'Sweet Spot'

"Dollar Tree and TJX are in a sweet spot," said Ken Perkins, president of Retail Metrics. "As we continue to unwind from the worst recession we've seen since the Great Depression, consumers are flocking to discount-oriented and off-price retailers looking to stretch every dollar and seeking out value."

Dollar Tree earned \$1.52 a share in Q4, up 32% vs. a year ago and 8 cents ahead of Wall Street's forecast. Sales climbed 12% to \$1.56 billion, slightly above forecasts.

Same-store sales grew 6.6% vs. a year ago as traffic rose 5.7% and the average ticket grew 0.8%.

Textiles, household products and toys were hot sellers.

Dollar Tree did a good job managing expenses and with better sourcing, says Joe Feldman, senior retail analyst at Telsey Advisory Group.

Its gross margin climbed to 37.1% from 35.6% a year ago. Operating margin rose to 14% from 11.9%.

Meanwhile, TJX profit rocketed 71% to 94 cents a share, 3 cents above views. Credit aggressive inventory management and cost-cutting efforts, said CEO Carol Meyrowitz in a statement.

TJX sells name brands and designer goods at big discounts via seven off-price chains, including T.J. Maxx and Marshalls. Sales grew 10% to \$5.94 billion, just shy of forecasts of \$5.98 billion.

"TJX has offered very in-demand brands like Ralph Lauren at very reasonable prices to other stores," said Perkins.

Transactions rose considerably as TJX drew in new customers from all income levels, Meyrowitz said.

Consolidated same-store sales surged 12% from a year ago.

TJX will raise its dividend to 15 cents a share, effective with June's payout. It also said it plans to up its capital spending and buy back \$900 million to \$1 billion in shares.

Chico's FAS earned 10 cents a share in Q4 vs. a 14-cent loss a year ago. Wall Street expected 9 cents.

Sales rose 17% to \$435.7 million. The retailer runs Chico's and White House/Black Market, which sell casual-to-dressy clothes and accessories. It sells intimate apparel via its Soma Intimates chain.

Chico's started to turn the corner in Q2. It's been showing nice gains ever since. Q4 consolidated comps shot up 14.6% vs. last year's 13% fall. Chico's brand comps rose 11.8%, the first Q4 gain since 2005.

"It's all about product," said analyst Liz Pierce of Roth Capital Partners. "The core Chico's business has shown improvement starting in Q2 into a very strong finish in Q4."

Chico's saw fewer markdowns, which means the product resonated with customers, she adds. It enjoyed a strong showing in denim and woven tops and in jewelry.

Pierce credits Cynthia Murray, named Chico's brand president a year ago, with changes that have helped propel growth.

Overall, the retailer got a lift from good expense controls and inventory management.

Chico's also initiated its first-ever quarterly dividend.

"Broadly speaking, retailers are coming in and beating expectations by really wide margins this quarter," said Perkins.

The 43% of retailers that have reported have topped views by an average 8.3% vs. the usual 2.9%.

After the market close, Limited Brands reported Q4 EPS of \$1.01, up 49% vs. a year earlier. It beat views by just 3%, but that's after sharply raising guidance last month. Shares rose 3% late after climbing 3% ahead of results.

"Retailers have done a fantastic job of managing their expenses and maintaining their margins," Perkins said. "Most of the sales have flowed through to the bottom line."