



Buy COST - \$117
Sell Short GPS - \$40.80
Sell Short – TCS - \$24.75

Recommendation:

Reasons For Recommendations

We are bearish on the consumer, hence our short positions in Kohl's-KKS, and Walmart -WMT. Today we are recommending adding two more retail shorts on **Gap Stores-GPS** and **The Container Company -TCS**. Both of these retailers have had poor sales and we expect more of the same. However, a few retailers are turning in better performance, hence our long position in JC Penny -JCP. Today we are adding another retailer to our long portfolio, **Costco Wholesale Corporation – COST \$117**.

Full reports to follow on each, but here are the highlights/lowlights:

COST - \$117: Price target \$145

- **Year over Year sales up 10% in June.**
- **Same store sales up 6% domestically.**
- **Same store sales up 7% internationally.**
- **Profits made from membership fees, not products, so products are priced very competitively.**
- **Membership renewal rate of over 90% in the U.S. and Canada = Loyal customers.**

GPS \$40.80:

- **June same store sales down 2% after rising 7% a year earlier.**
- **Total sales up only 1% year over year versus up 7% a year earlier.**
- **Old Navy Global doing better, up 7% but down from up 13% a year earlier.**
- **Banana Republic Global same store sales down 7% versus up 5% a year earlier.**
- **Results clearly slowing but stock up from \$39 YTD**
- **Price target \$30**



TCS \$24.75:

- **Missed on both top line and bottom line.**
- **Total sales up 9%, but store count was up 10% from 60 stores to 66 stores.**
- **Stores not growing same store sales.**
- **Lost \$0.07 last quarter versus a loss of \$0.07 a year earlier.**
- **Company looking for about \$0.50 in earnings, which makes this retailer trading at near 50 times this years earnings for a company with stores that are not growing.**
- **Earnings estimates being cut.**
- **While the stock price is down a lot from its high of \$47, it should never have traded that high in the first place and is still very overvalued.**
- **Merchandise is overpriced and competing products can be purchased far cheaper.**
- **Price target \$17.**