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## BUSINESS:

### Saks Swings To 1Q Profit As Sales, Margins Rebound

By RACHEL DODES

Saks Inc. (SKS) swung to a profit in the quarter ended May 1 and improved its margins, as the luxury-goods retailer said customers returned to buying full-priced merchandise.

The New York-based chain said sales were strong across women's apparel, footwear and jewelry, in contrast to last year, when such categories languished amid the recession.

(This story and related background material will be available on The Wall Street Journal Web site, [WSJ.com](http://WSJ.com)).

Stephen Sadove, chairman and chief executive of the company, said in an on a conference call Tuesday that the company probably gave up some sales because it kept inventories so low.

"A year and a half ago...people were asking me, 'Will anyone ever pay full price again?'," he said. "Now you're in a situation where...there's a return to scarcity, which is what luxury goods are all about."

The company reported a fiscal first-quarter profit of \$18.8 million, or 11 cents per share, compared with a net loss of \$5.1 million, or 4 cents a share, a year earlier. Analysts polled by Thomson Reuters were projecting earnings of 5 cents a share for the quarter. Sales rose 6.9% to \$667.4 million. First quarter sales at stores open for at least a year increased 6.1%, the company's first quarterly increase following eight consecutive quarters of declines.

High-end retailers such as Saks have seen sales improve, as the rise in stock markets earlier this year left luxury buyers more confident about their net worths. Saks now expects sales at stores open at least a year to grow by a mid-single digits percentage, compared with its February view for a low- to mid-single-digit increase.

"Luxury retail tends to track stock market performance," said Michael McNamara, vice president of research and analysis at MasterCard SpendingPulse, which tracks all forms of payment. "Last year, the market bottomed out. Since then, it has performed very well, and there has been a corresponding increase in luxury retail sales."

SpendingPulse found that luxury goods posted a 15.5% sales increase in April, following a 22.7% spike in March on strong Easter sales. Bain & Co. last month boosted its global luxury-goods sales growth view to 4% for this year, from its October forecast for a 1% increase.

Stock markets have been more volatile since the quarter ended, including the May 6 plunge in U.S. markets, and Saks was cautious in its outlook. Mr. Sandove said "the overall environment remains uncertain" and pledging to remain "fiscally conservative."

Saks is continuing to prune its retail portfolio, even as it expands its Off Fifth outlet division. On Monday, Saks said it would close its Charleston, S.C. store, marking the third closure announced in the past few months. The company previously said it was shuttering its Portland, Ore., and San Diego stores. Mr. Sandove said in the conference call that there are a "very small" number of additional stores that may be closed, and that the company is currently negotiating with landlords.

"Saks...already got a jump on competitors such as Bloomingdale's and Lord & Taylor, which are just getting into outlet stores," said **Faith Hope Consolo, Chairman of Prudential Douglas Elliman Real Estate**. "I still believe that any 'mother ship' closings will be geared more toward the smaller resort stores which could be cannibalizing each other."

J.P. Morgan Chase & Co. (JPM) analyst Charles Grom wrote in a research report that the company's results were "impressive" given the lower level of discounting in the quarter. For example, this year's "Friends & Family" event featured a 20% discount, compared with 25% last year.

Gross margin rose to 43.1% from 38.7%, exceeding the company's projection, on inventory management and a reduction in discounting. Inventories on May 1 were down

9.9% from a year earlier. Mr. Sadove said that the company will selectively increase inventory levels in the second half of the year, as sales levels have exceeded forecasts.