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Dana Telsey
Chief Executive Officer
212.584.4606
dtelsey@telseygroup.com

TAG TELSEY ADVISORY GROUP

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EXECUTIVE SUMMARY
Macroeconomic Update.
> The economy is showing signs of stabilization, but the recovery remains slow.
> Focus remains on developments abroad, particularly in Europe.

Retail Industry Trends.
> Traditional retail distribution channels have become less relevant.
> Alternative distribution channels (outlet, international, e-Commerce, home shopping, travel retail) are being explored by retailers.

Consumer Shopping Behavior.
> US consumer remains bifurcated, evidenced by strength in the high- and low-end.
> Consumers continue to gravitate toward promotions, focus on value, and use of mobile technology while shopping.

2012 Retail Outlook.
> 2012 will be a challenging year for retailers: 2H12 expected to be stronger than 1H12.
> Differentiation, multi-channel initiatives, speed to market, and an expanded customer demographic focus will be critical to succeed.
MACROECONOMIC UPDATE
Retailers continue to operate in a challenging macroeconomic environment.

> Recent economic data points suggest some stabilization.

> We expect the health of the US economy and financial markets to be driven by:

- Macro uncertainty in other markets abroad.

- Key indicators of strength domestically (e.g. output, price levels).

RETAIL INDUSTRY TRENDS
Growth through alternative distribution channels has allowed retailers to build stronger brand awareness than would be possible purely through stores.

- **Outlet channels** have resonated with consumers focusing on value in their shopping.

- **International locations** are increasingly sought after by retailers to diversify their presence outside the US.

- **e-Commerce** and **mobile technology** allow browsing and shopping from anywhere at anytime, while also functioning as a marketing tool.

- **Home shopping** has been a popular channel for consumers considering the product assortment and increasing value that shoppers are placing on convenience.

- **Travel retail** continues to represent an important growth driver of the global luxury goods sector.
Outlets are becoming an increasingly important channel for retailers.

> Most important growth strategy along with e-Commerce for many apparel retailers.
> A margin driving opportunity.
> Largely fashion-oriented apparel and footwear.

**PAST**

**Clearance Model**

> Excess and irregular inventory.
> Outside metropolitan areas.
> Largely tourist customer base.
> Different tenants than traditional malls.

**TODAY**

**Profitable Distribution Channel**

> Made-for-outlet product up to 85% of mix.
> More seasonally appropriate.
> Closer proximity to well-populated areas.
> More local repeat shoppers.
> More traditional mall retailers.
International expansion is the next frontier for retailers to support long-term sales and earnings growth.

- Global expansion is particularly important given the slow growth prospects in the US, inflationary pressures, and domestic footprint saturation.
- Benefits: top-line growth, gross margin expansion, diversification, and economies of scale.
- Challenges: product execution risk, varying labor laws, and talent / infrastructure investments.

**SELECTED INTERNATIONAL GROWTH RETAILERS**

- Abercrombie & Fitch
- Coach
- Guess
- Gap
- Target
- Tiffany & Co.
US online sales expected to grow to $279 billion in 2015 from $157 billion in 2009.

> Requires investment in human and financial capital.
> Discounters, dollar stores, and grocery retailers less threatened.

Source: Forrester Market Research.
Home shopping retailers are well-positioned in the current environment to meet consumers’ demands and take share of total US retail sales.

- Exclusive merchandise.
- A diverse product assortment.
- Beyond just shopping.
- Efforts to reach a new demographic.

### % Exclusive Merchandise Assortment

<table>
<thead>
<tr>
<th>RETAILER</th>
<th>% EXCLUSIVE OF TOTAL</th>
</tr>
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<tbody>
<tr>
<td>QVC</td>
<td>75%</td>
</tr>
<tr>
<td>HSN</td>
<td>70%</td>
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</table>

### Mainstream Designers

- B MAKOWSKY
- BCBG
- DOONEY & BOURKE
- KATHY
- RACHEL ZOE
- Vera Bradley

The home shopping channel offers consumers and brands many advantages.
Travel retail continues to represent an important growth driver of global luxury goods.

- Mainland Chinese tourists expected to drive growth (90 million tourists over the next 3 – 4 years).
- Flocking to other parts of Asia (Hong Kong, Macau, and Singapore) and Europe (London and Paris) to buy high-end goods.
- “Winners” will be those with strong global brand cachet and an established presence in key gateway cities worldwide.

GLOBAL LUXURY BRANDS FOCUSED ON TRAVEL RETAIL

- Burberry
- Hermès
- LVMH
- Richemont
- Tiffany & Co.
CONSUMER SHOPPING BEHAVIOR
We continue to see a bifurcated consumer during the recovery.

> Improving labor market should accelerate consumer spending at low-end.
Promotional activity continues to drive traffic.
> Deepness of discounts and square footage allocated to clearance remains elevated in specialty stores and department stores.

Consumers are more focused on value versus price.
> Robust traffic at off-price retailers (e.g. Ross Stores, TJMaxx).
> “Treasure Hunt” that gained momentum during the recession and early stages of the recovery still appeals to consumers today.

Mobile technology continues to be leveraged, allowing consumers to shop anywhere.
> “Opt in” to receive location-based marketing updates on new arrivals and promotions.
> Mobile wallets allowing sales terminals to take orders and call for sales associates, scour for exclusive offers, and store personal information.
2012 RETAIL OUTLOOK
Following cash accumulation during the downturn, retailers are looking to grow their footprints in the near-term.

- **Off-Price** growth – expectations for continued consumer focus on value.
- **Specialty apparel** growth – needed to display newness and differentiated merchandise.
- **Luxury** growth – selected retailers remain focused on wallet share of high-end consumers.

### STORE AND SQUARE FOOTAGE GROWTH ACROSS SECTORS

<table>
<thead>
<tr>
<th>Sector</th>
<th>Y-O-Y STORE GROWTH %</th>
<th>Y-O-Y SQUARE FOOTAGE GROWTH %</th>
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</thead>
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<tr>
<td>Off-Price Average</td>
<td>4.6%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Specialty Apparel Average</td>
<td>7.4%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Luxury Average</td>
<td>1.7%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Footwear Average</td>
<td>-3.2%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Discounters Average</td>
<td>4.1%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Department Stores Average</td>
<td>1.8%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Supermarkets Average</td>
<td>1.0%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Hardlines Average</td>
<td>1.5%</td>
<td>2.1%</td>
</tr>
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Source: Company filings, TAG estimates.

Note: Data is sorted by 2012E store growth.
Top-line gains, excluding price increases, depend on either creating a “want” or filling a need.

- Sephora at J.C. Penney.
- Simply Vera at Kohl’s.
- Miraculous Bra at Victoria’s Secret.
- Yoga classes at lululemon.
- Free alterations at Buckle.
- Apple at Target.
Retailers leveraging more than one channel (e.g. multi-channel retailers) are well-positioned.

> Several touch points to a customer demographic allows more opportunities to complete transactions and build better brand recognition.
Competitive dynamics in retail creates the “need for speed”.

**CURRENT**
- 6 – 9 months lead time.
- Huge inventory risk.
- Inability to meet fickle consumer needs.

**FUTURE**
- Minimized markdowns, improvement in lost sales, differentiation among competitors.
- Retailers following in the steps of Forever 21, H&M, Zara, etc.

Enhanced inventory management systems

More insight into consumer / fashion trends.
TARGETING NEW CUSTOMERS

February 29 – March 2, 2012

Retailers are increasingly broadening their definitions of “target customer demographic” to capitalize on a growing children’s population.

> Aéropostale
- Casual clothing and accessories focusing on elementary school kids 7 – 12 years-old.
- Offers trend-right merchandise at compelling values.

> American Eagle
- On-trend, high-quality clothing and accessories for children 2 – 10 years-old.
- Focuses on great fit, value, and style.

> Gymboree
- Wholesome, age-appropriate fashion for newborns through size 14.
- Stores reflect an upscale store experience at value prices (25 – 30% lower than Gymboree).

> J. Crew
- Apparel and accessories for toddlers through size 14.
- Reflects same style and quality of J. Crew brand.
While once rare, there is an increasing number of examples where technology has dis-intermediated brands, companies, and industries.

> While we have highlighted specific brands and companies, the impact of technology extends much broader and has impacted entire industries.

> Book stores.

> CD’s and movies.

> Film stores.

> Video rental.
The retail landscape remains split among solid operators and those experiencing challenges.

**“WINNERS”**

- Investing in people, stores, and brand.
- Innovating products and service.
- Growing product expansion and extension, new concepts, and financial rewards.

**“CHALLENGED”**

- Increased Turnover.
- Sameness.
- Reduced Investment.
- Declining Financial Results.