

## RealMoney Investment & Trading Ideas



### JWN: Mixed Shopping Bag

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*Updated from 8:09 a.m. with earnings results*

Shares of **Nordstrom** (JWN) rose in the regular session and then tacked on another 1.2% after hours. Frankly, I don't agree with such a positive response.

There are two reasons for my opinion. First, Nordstrom guided down rather dramatically for fiscal year 2008 earnings per share. Second, I am concerned about the credit card portfolio.

I have a few pet peeves when it comes to corporate financial management. One of those issues I have is when retailers rely on credit card revenue to bolster their results for the basic business. Clearly, JWN has violated this point, but until now it has been able to gloss over it because it has delivered positive results to the bottom line. Now the tide has turned, and JWN is paying the piper.

Another observation I have about JWN is that, increasingly, people who are not "high-end" shoppers, or as JWN phrases them, "prime" or "super-prime," are shopping up to JWN rather than down to lesser competition.

This is hurting the company, because not only did it enjoy the trade up in good times, but it will get hit with the slough off of the nontraditional shopper and perhaps trade down of other shoppers during more difficult times.

With all that criticism of JWN that I highlighted above aside, an argument could be made that JWN is cheap on a valuation basis. It is quite possible that even with the lowered guidance, JWN is worth close to \$40 a share, and is just oversold and washed out.

In the end, I think you can make a case to buy, sell, hold or avoid the stock. You can choose your own strategy, but I will stay on the sidelines until the credit issues pass or the company can begin to grow at a sustainable level once again.

### Earnings Release and Conference Call

Nordstrom reported four-quarter EPS of 92 cents on net revenue of \$2.51 billion. For the full year, JWN earned \$2.88 on net revenue of \$8.83 billion. Excluding gains from the one-time sale of a brand, JWN earned \$2.79. Share-repurchase activity helped fourth-quarter EPS by 6 cents.

Same-store sales for the quarter declined 0.7%, on target with management expectations. For the year, same-store comps rose 3.9% while total sales rose 3.1%. Fourth-quarter comps at full line stores declined 2%; they grew 6% for rack sales and rose 12% for online store sales.

Currently, JWN has 102 stores and plans to have 140 to 150 by 2015. During 2008, JWN plans to open eight new stores, relocate one and remodel six. The newest store in Miami was opened two weeks ago. In two weeks, the first Hawaii location will be opened in Honolulu.

Gross profit rate declined by 60 basis points for the quarter on the back of inventory markdowns. Inventories declined 6% year over year per square foot

to \$47.

SG&A rates improved 68 basis points due to lower incentive costs.

The credit card business historically contributed 5% to 7% to earnings, but softening credit trends negatively impacted 2007 earnings by approximately 11 cents. Delinquency rates increased 54 basis points year over year to 2.6%, below the industry average of 4.3%. Write-offs increased 139 basis points to 4.4% despite over 90% of clients being categorized as "prime" or "super-prime."

During the fourth quarter, JWN repurchased 11 million shares at an average cost of \$34 (the stock closed at \$36.98 Monday). The current authorization runs for two years and has \$1.4 billion remaining.

### **Fiscal Year 2008 Guidance**

- Same store sales -2% to flat
- EPS in the range of \$2.75 to \$2.90 (consensus is at \$2.98)
- Gross profit rate will decline 30 to 60 basis points
- SG&A will rise 60 to 80 basis points

### **Preview**

Upscale retailer **Nordstrom** (JWN) is scheduled to report fourth-quarter and full-year 2007 EPS for the periods ended Jan. 31, 2008, after the market closes on Monday.

Analysts expect Nordstrom to earn 88 cents per share on net sales of \$2.53 billion for the quarter. In the year-ago quarter the company earned 89 cents per share on net sales of \$2.63 billion. For the full year, the company is expected to earn \$2.98 per share vs. \$2.77 in 2006.

Nordstrom has certainly felt the impact of the sluggish economy and a weak holiday shopping season. While normally not lumped in with the general apparel merchandisers, recently, even the high-end chains have felt some pressure. This is clearly reflected in the stock price of Nordstrom, which is off dramatically from its 2007 high of \$59.50. The shares closed at \$36.00 at the end of last week's activity.

I always find Nordstrom to be a bit of an enigma. I never know which company will show up: the growing and well-managed inventory Nordstrom or the Nordstrom that disappoints.

Stay tuned.

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*At the time of publication, Rothbort had no positions in the stocks mentioned, although positions can change at any time.*

*Scott Rothbort has over 20 years of experience in the financial services industry. In 2002, Rothbort founded LakeView Asset Management, LLC, a registered investment advisor based in Millburn, N.J., which offers customized individually managed separate accounts, including proprietary long/short strategies to its high net worth clientele.*

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