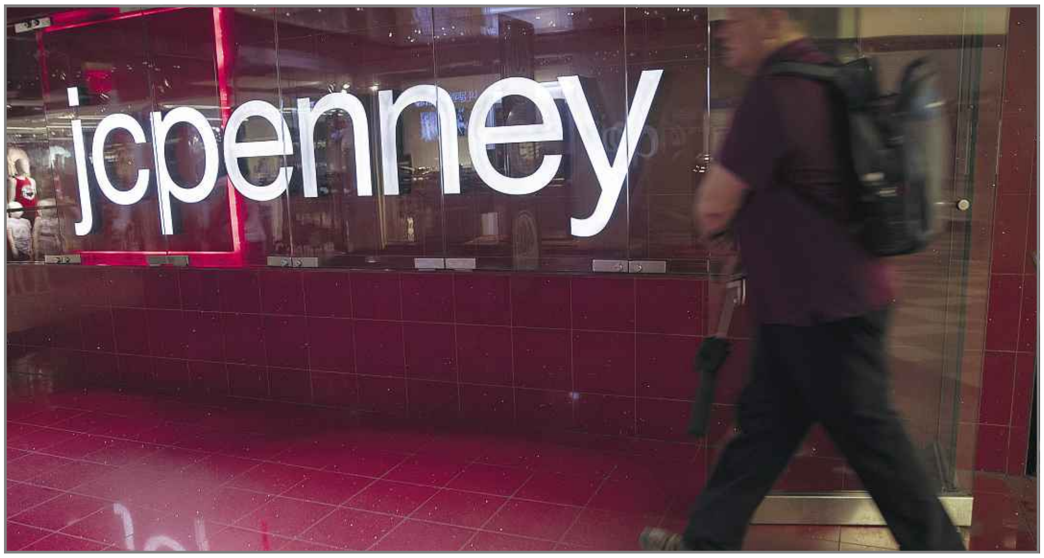
Department store woes multiplying

The Associated Press



AP / MARY ALTAFFER

A customer enters the J.C. Penney store in Manhattan on Tuesday. The retailer reported a quarterly loss in excess of $150 million, or 48 cents per share, worse than Wall Street expectations.

The outlook for department stores got murkier Tuesday after J.C. Penney and Kohl's reported fiscal first-quarter results that showed they struggled at the start of the year.

Penney, which has been trying to turn around its business for several years after a disastrous reinvention plan, reported a wider than expected loss and sales declines during the quarter. Kohl's sales momentum took a pause during the quarter as well, and it cut its fiscal 2020 profit outlook as it struggled with slumping sales. It cited damp weather that cut into sales of spring clothing and a competitive environment in discounted home goods.

The downbeat reports from the mid-priced department stores announced Tuesday, were in contrast to Macy's performance, reported last week, when the department store's first-quarter profit smashed Wall Street estimates. Macy's also put up its sixth consecutive quarter of increases in comparable store sales — or sales in stores open a year — fueled by its robust online business after a three-year sales slump. However, it's still facing challenges to attract shoppers.

Department stores have been trying to reinvent themselves as more shoppers go online. They've also been hurt by increasing competition from the likes of T.J. Maxx and other off-price stores. T.J. Maxx's parent reported on Tuesday strong results that topped Wall Street estimates, indicating that shoppers continue to be drawn to its treasure hunt experience.

"The middle market is collapsing," says Steve Dennis, a strategic retail adviser. "They're fighting so many headwinds."

Department stores are facing the threat of escalating trade wars with China that could mean higher prices on clothing and other goods.

J.C. Penney and Kohl's both said there's been minimal impact from the tariffs already in effect, but they say the fourth round has them especially worried. Their comments echoed that of executives from Macy's and Walmart last week.

Kohl's Corp., based in Menomonee Falls, Wisconsin, reported first-quarter net income of $62 million, or 38 cents per share. Earnings, adjusted for asset impairment costs, came to 61 cents per share, missing the average Street estimate of 67 cents per share. The department store operator posted revenue of $4.09 billion in the period, also falling short of forecasts of $4.2 billion. Kohl's now expects full-year per-share earnings in the range of $5.15 to $5.45, down from a previous range of $5.80 to $6.15. Analysts expect $6.03 per share for the year, according to FactSet estimates.

J.C. Penney Co. reported a quarterly loss of $154 million, or 48 cents per share. Losses, adjusted for one-time gains and costs, came to 46 cents per share. That's worse than the per-share loss of 39 cents Wall Street was expecting, according to a survey by Zacks Investment Research. The company's revenue was $2.56 billion, down 5.6 percent. Same-store sales fell 5.5 percent.

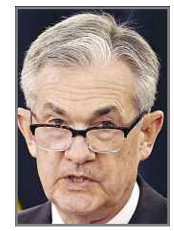
Kohl's shares tumbled more than 12 percent to $55.15 at Tuesday's market close; J.C. Penney's shares fell nearly 7 percent at the close to $1.07.

Powell wary of corporate debt growth

The Associated Press

WASHINGTON — Federal Reserve Chairman Jerome Powell said that the central bank is closely monitoring a sharp rise in corporate debt but currently does not see the types of threats that triggered the 2008 financial crisis.

In remarks in Fernandina Beach, Florida on Monday, Powell said views about riskier corporate debt — known as leveraged lending — range from "this is a rerun of the subprime mortgage crisis" to "nothing to worry about here." He said his view lies somewhere in the middle. The risks currently are "moderate," Powell said.



Jerome Powell

His comments followed a Fed report earlier this month that showed riskier corporate debt had grown by 20 percent in 2018 to $1.1 trillion, prompting the attention of regulators.

Investors are attracted to the riskier corporate debt because it pays higher returns than the very low rates they can receive on safer debt. Much of this debt is grouped together and used to back securities known as collateralized loan obligations.

Powell said that much of this borrowing, because it is "financed opaquely, outside the banking" system, has prompted concerns it could "pose a new threat to financial stability," just as similar debt instruments that bundled subprime mortgages helped to trigger the 2008 crisis.

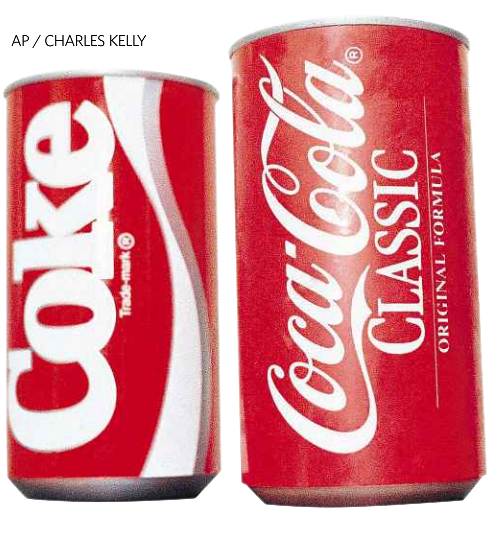
However, Powell said he believes regulators learned the lessons of the 2008 crisis.

"The financial system today appears strong enough to handle potential business-sector losses, which was manifestly not the case a decade ago with subprime mortgages," Powell said.

Improvements in banking regulation, such as annual stress tests for the nation's biggest banks, have allowed regulators to make sure banks are in a position to withstand even a serious economic downturn, he said.

NEW COKE IS BACK, THANKS TO NETFLIX'S 'STRANGER THINGS'

AP / CHARLES KELLY



"Stranger Things" takes viewers back to 1985, year of the change to New Coke, left.

The Associated Press

Coca-Cola drinkers will get a chance to relive one of the company's darker chapters as New Coke makes a comeback under a partnership with the Netflix drama "Stranger Things," the companies announced Tuesday.

Season 3 of the show will take place in the summer of 1985, when Coca-Cola changed its formula for Coke. New Coke was considered one of the biggest marketing blunders of all time and the new version was dropped after 79 days, though sales of the original Coca-Cola rebounded.

"The summer of 1985 did in fact change everything for us with the introduction of New Coke, which was also arguably one of the biggest pop culture moments of that year," said Oana Vlad, director of Coca-Cola Trademark, Coca-Cola North America.

Workers had to retrieve the New Coke recipe from the safe for the "Stranger Things" partnership.

"All told, everything took about six months and was top secret," said Peter Shoemaker, director of sparkling category commercialization.

Workers also had to re-create the logo and the slightly different Coke red for the cans from more than 30 years ago.

Beginning Thursday, Coca-Cola will release a limited number of cans of New Coke as part of a "Stranger Things" package. An "upside-down" Stranger Things-inspired vending machine will also pop up in select cities this summer to dispense free cans of New Coke for a limited time.