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RETAIL SUMMARY REPORT

Retail:

Sales of clothing have increased sharply in recent months. Significantly, profit margins in apparel are greater than for most other lines of merchandise. In addition, a long term trend toward trading up to better quality items has resumed. The combination of both factors is likely to boost consumer spending to a greater degree than analysts currently calculate. On the negative side, the lowest-priced chains carrying mainly basic items probably will be adversely impacted by these trends. Several discounters and dollar store organizations are the most obvious examples.

More favorably, mall-oriented concerns which take the lead in fashion for customers by carrying more advanced or different items should be able to increase sales and profits at accelerating rates over the next two to four quarters. Specifically, we look for such companies as **Federated (FD - \$51.48)**, **J. C. Penney (JCP - \$31.65)** and **Talbots (TLB - \$34.43)** to benefit significantly. Moreover, Penney is likely to realize substantial proceeds from the sale of the large Eckerd drugstore division and, in addition, probably will sell the pharmacy benefits management unit separately, perhaps for as much as \$800-\$900 million.

We continue to recommend purchase of all three firms and project a rise in the multiple accorded earnings for each firm. Moreover, we expect analysts estimates to be increased sharply as sales are reported each month.

Analyst's Certification: I Alan M. Silverman certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. I do have a long position in the shares of J.C Penney.

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