

INSIGHTS

PLANNING FOR BACK-TO-SCHOOL



After the year-end holidays, the back-to-school season is the second largest sales period of the year. Cotton's presence at retail is higher during back-to-school months than at any other time of the year—75% of all apparel contains cotton versus a yearly average of 70%. This is not surprising, as cotton-rich products such as denim jeans and T-shirts factor prominently in back-to-school wardrobes. Forecasters are optimistic about the 2010 back-to-school season even though comparable store sales have trended downwards across the apparel sector thus far into the summer. Their optimism is due in part to the fact that back to school shopping is largely need-based. According to Cotton Incorporated's Lifestyle Monitor™ survey, 63% of consumers said they were planning to purchase back-to-school clothing because their children's clothes did not fit.

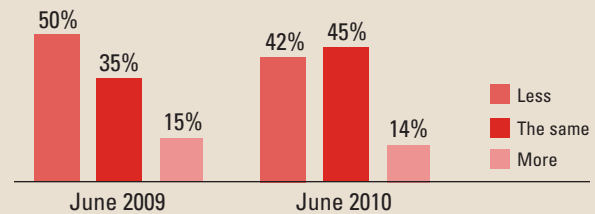
While retail inventories are still conservative, apparel imports are rising in preparation for the fall shopping season. Coming off of a negative April, total apparel imports in May 2010 were up 8.4% over the previous month, and cotton-dominant imports were up 5.7% (OTEXA). While retailers generally increase inventories across all apparel categories in preparation for back-to-school, the increase in denim jeans imports at this time of year is more robust and markedly more consistent historically than for any other category. This year is no exception - May denim jean imports were up 51% from April following six consecutive months of negative numbers, making it the second highest increase on record behind May 2005.

KEY INSIGHTS

- Most families plan to shop for back-to-school clothing because their children have outgrown their clothing, making back-to-school shopping difficult to put off.
- Consumers may be anticipating the discounts of the back-to-school season, with more consumers planning ahead for purchases and looking to stretch their dollars.
- Mass merchants are the most popular destination for families shopping for back-to-school clothing.
- Data from the Lifestyle Monitor™ suggests parents will spend an average of \$215 on children's back-to-school clothing.
- Denim jeans continue to be a "must have" – 80% of consumers who plan to buy back-to-school clothing plan to buy jeans.

APPAREL BUDGETS STABILIZING

Amount of money consumers have to spend on apparel compared to previous year



Cotton Incorporated's Lifestyle Monitor™ survey, 2010

STRATEGIC SHOPPERS

Fewer consumers are reporting that they have less money to spend on apparel this year compared to last year, according to consumer outlook data from the Lifestyle Monitor™. In addition, an increasing percentage of consumers report that the amount of money they have to spend on clothing is unchanged from the previous year, encouraging evidence that apparel budgets may be stabilizing.

At the same time, consumers have adopted new shopping behaviors, such as pre-planning their clothing purchases, which could affect their back-to-school apparel spending. In 2010, 92% of consumers plan to buy back-to-school clothing before the first day of school, an increase over the decade average of 85%. Consumers who tend to plan their purchases generally spend less than shoppers who buy on impulse. This behavior will likely extend to the back-to-school shopping season; respondents to the Lifestyle Monitor™ survey said they plan to spend 6% less than they did last year. When asked why they shop early, 31% of consumers cited convenience (i.e., "to prepare" or "easier before school begins"), but a noteworthy 20% said their primary motivation was taking advantage of back-to-school sales or tax-free shopping.

EARLY BIRD SHOPPERS DOMINATE

Consumers planning to buy back-to-school clothing before the first day of school

92%

Cotton Incorporated's Lifestyle Monitor™ survey, 2010

PLANNING FOR BACK-TO-SCHOOL

In keeping with this spending sensitivity, mass merchants are still the most popular destination for back-to-school clothes shopping. Among consumers with children and teens, 62% plan to purchase most of their children's back-to-school clothing at mass merchants this fall. Other channels will have the opportunity to capture sales. Half of consumers will shop at chain stores, 40% at specialty stores, 25% at department stores, and 23% at off-price stores.



DEFINITELY DENIM

Denim jeans continue to hold status as a key back-to-school item for children and teens alike. For shoppers buying clothing for their children, 80% planned to buy jeans, ranking this as a back-to-school cotton staple alongside shirts and tops (83%) and socks (73%).

Retailers prepare for back-to-school jeans shoppers by allotting more floor space to jeans and knit shirts, offering a greater assortment and better prices. During the third quarter, retailers and brands targeting teens allocate a greater share of the sales floor to denim jeans than those targeting older consumers. Cotton Incorporated's Retail Monitor™ survey reveals that, on average, prices for denim jeans are significantly lower during this period. The average retail price for jeans drops from \$37 in the first two quarters of the year to \$34 in the third quarter, and then rises to \$38 in the fourth quarter.

MORE JEANS "ON SALE" DURING Q3

% of denim jeans "on sale" by retail channel

| | Fall | Year Round Average |
|---------------------|------|--------------------|
| Mass | 42% | 28% |
| Chain | 89% | 85% |
| Department Store | 42% | 52% |
| Specialty | 32% | 37% |
| All Retail Channels | 62% | 59% |

Cotton Incorporated's Retail Monitor™ survey, 2010

Data from the Retail Monitor™ shows that during the back-to-school period, 62% of jeans are on sale, compared to an average of 59% during the rest of the year. Among all retail channels, chain stores offer the greatest percentage of denim jeans "on sale" during back-to-school, with 89% of their jeans listed at a sale price. Other stores such as department and chain stores do not offer more jeans on sale during this time. According to the Lifestyle Monitor™, consumers shopping for most of their denim jeans at department and specialty stores are more likely than shoppers of other stores to say they generally pay full price rather than wait for sales.

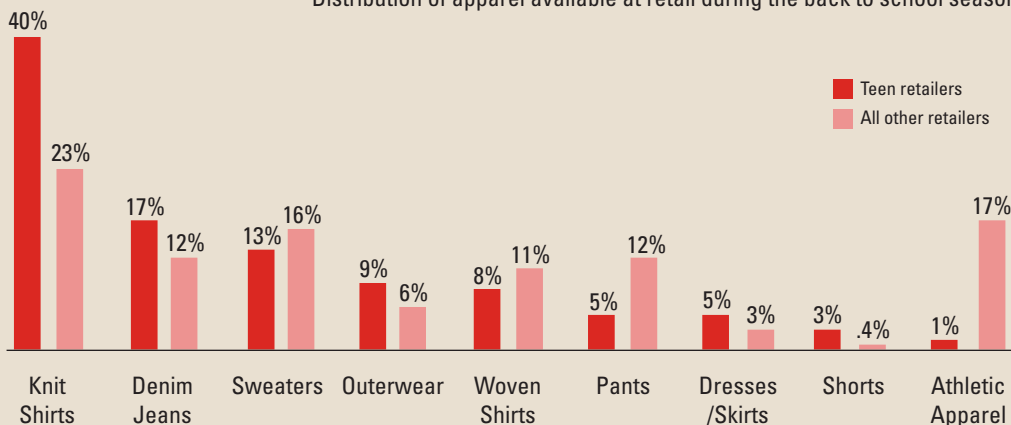
FORWARD FACING

With lagging summer sales and anxiety about holiday performance, competition for the back-to-school consumer dollar will be fierce. Even after a cautious summer, there may be pent-up demand, as well as the steadfast shopping

forces that drive back-to-school clothing purchases, like growth spurts and new fashions. Although consumers are planning to spend less on back-to-school clothing this year than last, they'll stretch their dollars with pre-planning and strategic shopping. Jeans continue to have the potential to move customers into stores and capture sales, especially if merchants continue to offer the sales incentives and new products that forward-looking consumers have been planning for.

BACK-TO-SCHOOL FLOOR SPACE FOCUSED ON KNIT SHIRTS AND DENIM

Distribution of apparel available at retail during the back to school season



Cotton Incorporated's Retail Monitor™ survey, 2010

