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PRESENTATION

Operator

Greetings and welcome to the Express, Inc. fourth quarter and fiscal year 2015 earnings call. At this time, all participants are in listen only mode. A brief question and answer session will follow the formal remarks. If anyone requires operator assistance during this call, please press *0 on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Marisa Jacobs, Vice President of Investor Relations. Thank you. You may begin.

Marisa Jacobs - *Express, Inc. - VP of IR*

Thank you. Good morning and welcome to our call. I'd like to open by reminding you of the Company's Safe Harbor provisions. Any statements made during this conference call, except those containing historical facts, may be deemed to constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual future results may differ materially from those suggested in forward looking statements due to a number of risks and uncertainties, all of which are described in the Company's filings with the SEC, including today's press release. Express assumes no obligation to update any forward looking statements or information except as otherwise required by law.

In addition, during this call, we will make reference to adjusted net income and adjusted earnings per diluted share, which are non-GAAP measures.

Information necessary to reconcile these non-GAAP measures to reported net income and earnings per diluted share can be found in our press release.

With me today are David Kornberg, President and CEO, Matt Moellering, Executive Vice President and COO, and Perry Pericleous, Senior Vice President and CFO.

I'm now going to turn the call over to David. He will be followed by Perry and then we'll turn to Q&A.

David Kornberg - *Express, Inc. - President & CEO*

Thank you, Marisa. Good morning and thank you for joining us.

The fourth quarter and the year were both successful. When I first spoke to you in 2015, I laid out our priorities and we subsequently executed against them. The balanced growth I emphasized was achieved, and we delivered strong product, used promotions with restraint and managed inventories carefully to grow our top line and comparable sales, and to improve our margins. Together, these actions enabled us to significantly boost our profitability and set the stage for further gains in 2016.

For the fourth quarter, our sales increased by 5%, our comparable sales increased by 4%, and our operating income grew 21%, which in turn lifted our operating margin by 160 basis points to 12.1%. Our diluted EPS grew 37% to $0.67. It was gratifying to turn in a performance that once again exceeded our guidance, and marks our fourth consecutive quarter of year over year growth.

For the year as a whole, our sales increased by 9%, our comparable sales increased by 6%, our operating income grew 52%, which lifted our operating margin by 250 basis points to 8.8%, and our adjusted diluted EPS grew 79% to $1.45. Our strong cash flow enabled us to continue investing in our business, while also enhancing our capital structure for the benefit of our shareholders. To this end, during 2015, we used $215 million to redeem our outstanding debt and repurchase $69 million worth of our common stock.

Given these positive results, I'd like to address what we have achieved and how we have incorporated these processes into our operating principles.

We achieved many successes last year, and I believe Express is set up to continue winning. Let me explain why.

In 2015 we made some fundamental changes to the way in which we operate our business.

First, our product composition was modified to incorporate more fashion items and to flow in newness more often. Product categories were expanded and new collections were introduced. We now cover a broader spectrum of our customers' wardrobe needs, and intend to continue down this path.

Second, we introduced new disciplines around product testing, inventory management and speed to market. Collectively, these are bringing better product to our customers faster, reducing fashion risk and ensuring a tighter control of inventory and open to buy dollars.

Third, we adopted a 360 degree approach to marketing and focused on many new branding activities to drive engagement with our customers. We are also partnering with key influencers, which is elevating the image of Express. While much was accomplished last year, we have significant opportunities to further build awareness and familiarity as it relates to the Express brand, and we will pursue these opportunities.

Fourth, we continue to upgrade our systems and processes. Significant omni-channel opportunities lie ahead once we transition to new foundational systems.

Fifth, we introduced new financial disciplines that created a more balanced financial architecture. We focused on top line growth, product margin expansion, and expense discipline to ensure that every dollar spent has a clear purpose and that every project undertaken will deliver an appropriate return on the investment. We believe this ongoing focus on our financial architecture will drive consistent profitable growth for years to come.

Sixth and last, we focused on strengthening our balance sheet by repaying our debt. We also returned excess cash to shareholders through our share repurchase program. Our pristine balance sheet provides us with financial flexibility to pursue growth opportunities and to continue enhancing shareholder returns.

Those items represent just a few of the many changes put in place. Express as it is functioning today is quite different than the Express organization of the past. For example, we believe:

that our fashion and our brand are more relevant and appealing to our customers,

we are more efficient and adaptable,

we are more financially disciplined, and

we are more technologically capable.

The shopping habits and priorities of millennials have been written about in countless articles. They're technologically astute, fashion savvy and want to wear things that make them feel confident. Each new collection is comprised of carefully curated items which exemplify the best of the new season. We have a strong value proposition and are proud of our high quality and fair prices.

And while today's customers may shop differently than in the past, they still like to shop - in stores and on-line. We believe one of our competitive advantages is that we offer customers the chance to shop across channels. In fact, many online only brands are opening stores to give customers a chance to experience their product, and the human touch, first hand.

Change is a constant in our industry and our focus is on providing our customers with the best possible store and e-commerce experiences. When our terrific product is supported by new systems, we will use omni-channel tools to bring increased flexibility to the shopping experience and new capabilities to customize shopper's interactions with Express. Our management team is fully committed to the concept of continuous improvement to ensure we remain highly relevant and successful.

At this time I would like to review our more detailed roadmap for 2016, beginning with our key business initiatives.

We drove store productivity higher in 2015 by delivering excellent product and a great customer experience. We expect continued gains for 2016, and we'll get there by continuing to deliver compelling product with high emotional content, providing a steady stream of newness to keep the collection fresh, expanding our capsule collections and further improving the customer experience. We will continue to use promotions with restraint, and focus on storytelling that lets our customers know "what's now" and that demonstrate how to create looks which simultaneously speak to their individuality and incorporate the best styles of the season.

Productivity will be further enhanced as we continue to implement our store rationalization program, which calls for us to close 50 retail stores between fiscal 2015 and 2017, primarily at natural lease expirations. We are well on our way. 27 stores were closed during fiscal 2015 and another 17 are scheduled to close during fiscal 2016. In fact, 13 stores have already been closed since the fiscal year began.

We expect continued growth in our e-commerce business during 2016. All of the in-store product is offered online. Additionally, we offer product extensions in the form of additional colors and sizes of product. Beyond that, we will continue to carry on-line exclusives, which enable us to project the Express lifestyle free from space constraints. Our men's branded third party products represent an example of this approach.

From an operational standpoint we will continue upgrading the e-commerce experience. We have enormous opportunities to take advantage of segmentation and greater personalization. That could mean many things, for example, disseminating more personalized email or delivering customized page views in response to customer searches.

In conjunction with the deployment of our new Order Management System, we are also relocating our customer service engagement center and our e-commerce fulfillment center. Specifically, our customer service engagement center was just successfully moved to a new facility run by a leader in this space.

By late Spring, we expect to have completed the move of our e-commerce fulfillment center to Northern Kentucky. This newly built facility is operated by another best in class provider.

We expect to realize multiple benefits from these two moves. We now offer expanded round the clock customer service coverage that will better support customer inquiries. And the new fulfillment center will be better equipped to respond to volume fluctuations during peak seasons and to reduce package transit times.

Turning to outlets, we continue to be extremely pleased with the performance of the Express Factory Outlet stores. New stores are doing well and the stores open for more than a year are generating positive comps. We expect this to continue throughout 2016. We will continue to open new locations at a steady pace. We ended 2015 with 81 outlet stores, and have currently identified 21 locations for new outlets in 2016, 19 of which will be new stores and two of which will be retail store conversions.

The made for outlet formula is working well for us, and we are carefully maintaining product differentiation between our retail and outlet stores to meet the specific needs of the Express customer.

I want to touch briefly on our international operations. We have been moving with great care in this area, continuing to evaluate and refine our own priorities as it relates to our international presence and the allocation of our resources. A number of decisions have been made recently, which I want to share with you.

Specifically at this time we are going to concentrate on the Americas, rather than pursue franchise relationships across the globe. We have two franchise relationships in place in this region, spanning Mexico and Latin America, and based on our performance in these regions and our broad appeal, we believe we have opportunities to grow our business there over the long term. This is where we intend to focus our efforts.

As a direct result of this decision, we are winding down our activities in the Middle East and South Africa. The termination of these agreements will not be material to our results and we believe that we should focus our resources on higher return activities. We sincerely appreciate all of the work and commitment by those franchisees on behalf of our brand. We look forward to working with our remaining franchisees to expand our presence in the Americas.

The ability to advance our business initiatives is tied to our operational skill. Last year I unveiled our top priorities and as noted previously, we made important progress against each of them.

For 2016, they will remain key areas of focus. Specifically, we will continue to evolve our high performance culture to support our people and attract the best new talent. We will continue to provide an exceptional brand and customer experience across all touch points. Our work to transform and upgrade our systems and processes is continuing. And, of course, from a financial standpoint, we expect our positive comp trend to continue. We also intend to deliver additional operating margin gains, moving closer to our near term double digit operating margin goal.

Now I'd like to turn to our product, which is the heart of our business.

The women's fall collection was extremely strong, with several categories seeing their best year ever. The men's business was mixed, with some categories growing nicely, while others lagged behind. Our hindsighting continues to provide us with valuable lessons, which we have applied to our spring collection. We also feel confident that we have identified the key trends for spring, and have designed collections which appropriately interpret those trends for our customers. Customers are responding favorably to our spring product.

We are continuing to emphasize fashion and newness across the women's business, and we believe there is real potential to grow categories such as shoes, swim, and our performance active line, Express Core, in the future. We will unveil a new Edition collection in June, and we continue to be encouraged about the brand enhancing aspects of this elevated capsule collection. I also want to note that we recently unveiled our new women's fragrance, Amaze. It has only been available for a few weeks so far, but we are very pleased with the launch.

On the men's side our suiting business continues to grow. And while our chino business has been growing, we are seeing renewed interest in denim. We also see a large opportunity across the knit top side of our men's casual business.

And just last week, we rolled out a men's version of our successful 111 collection. It launched in 50 stores and on line. Like the women's product it is soft, casual and easy to wear. We expect it to appeal to all of our guys, making this a great new casual offering for us. The collection carries attractive price points, starting at $19.90, and we intend to exclude promotions from the collection to preserve the merchandise margins.

Turning to marketing, in late February we launched the Express Yourself campaign. We are once again using targeted TV spots in addition to print. This time around, we collaborated with the world recognized fashion photographers Inez and Vinoodh to create a campaign featuring the high profile model, Natasha Poly.

Throughout the year, we intend to continue working with additional high profile models, celebrities and bloggers who do a terrific job of showcasing our product and building buzz among consumers.

In terms of our men's brand ambassadors, we couldn't have been happier with Steph Curry, but our time with him has come to an end. We're equally excited about our newest men's brand ambassador - Kris Bryant. The 24-year-old Chicago Cubs Third Baseman was the 2015 National League Rookie of the Year. He is an inspirational individual and a perfect representation of our brand.

Of course the programs I just called out make up a small piece of a much larger marketing initiative. Other activities will be taking place throughout the year, with each one designed to bring new customers into the brand and deepen our relationship with our existing customers.

Let me conclude with a few observations. I've been in my current role for over a year now and it's been a wonderful experience. The changes we put in place last year enabled us to deliver better product, a better customer experience and significantly improved financial results. They also set the stage for continued success.

We continue to deliver the fashion our customers want and to drive the best possible experience for our customers, whether they are shopping in our retail stores, on line via desktop, tablet or mobile devices, or visiting our outlet stores. We are bringing new discipline to our sourcing and inventory management practices and are enforcing a heightened level of financial discipline across the organization. Beyond this heightened process and production discipline lie additional opportunities related to collections such as Express 111, Edition and our third party brands. In the aggregate, these and other initiatives mentioned earlier this morning provide a platform for improved shareholder returns.

Finally, I want to share with the entire Express team that I am profoundly grateful for their support, hard work and terrific results, and for their advocacy on behalf of this amazing company and brand.

I'd like now to turn the call over to Perry.

Perry Pericleous - *Express, Inc. - SVP, CFO & Treasurer*

Thank you, David. Good morning everyone. I want to join David in noting how pleased I am with our fourth quarter results. The game plan we adopted at the beginning of 2015, to approach growth in a disciplined and balanced way, contributed to last year's successes. And, it will remain as a foundation for growth in 2016.

With respect to the fourth quarter, I'm going to spend a minute on financial highlights.

Net sales grew by 5%. Comparable sales grew by 4%, which exceeded our guidance.

We grew merchandise margin by 180 basis points through a stronger fashion assortment, inventory discipline coupled with improved speed in our supply chain, and discipline around promotional activity.

Buying and occupancy as a percent of sales improved by 50 basis points, as our 4% comp enabled us to leverage costs.

Collectively, merchandise margin and buying and occupancy improvements enabled us to expand gross margin by 230 basis points.

SG&A came in at 21.9% of net sales. As expected, we deleveraged SG&A by 90 basis points as a result of performance related incentive compensation, outlet openings and IT investments.

We had another quarter of significant operating income and margin gains. Operating income rose 21% to $93 million. This led to a 160 basis point gain in operating margin, which came in at 12.1%.

Net income grew by 34% to $56 million. Diluted earnings per share climbed 37% during the quarter, to $0.67.

I am equally pleased with our performance for fiscal 2015, as the momentum of the first quarter continued throughout the year. In total, net sales of $2.4 billion increased by 9% and we generated a 6% increase in comparable sales.

The top line growth coupled with various operating initiatives enabled us to grow merchandise margins by 200 basis points and B&O by 130 basis points, which resulted in a gross margin of 33.8%, a gain of 330 basis points. Lastly, operating margin improved by 250 basis points to get us to an 8.8% rate, and adjusted diluted EPS grew by 79% to $1.45. So, it was a year of substantial progress.

Our balance sheet remains very healthy. Cash and cash equivalents at year end were $187 million versus $346 million last year. As a reminder, we used $215 million to redeem our Senior Notes early in 2015, erasing all debt from our balance sheet.

We also invested $69 million in fiscal 2015 to repurchase common stock under our share repurchase plans, with $47 million of that amount repurchased during the fourth quarter.

Fiscal 2015 capital expenditures came in at $115 million.

Year-end inventory totaled $255 million representing a 6% increase over the same time last year. This included approximately $51 million of Express Factory Outlet inventory, a significant portion of which relates to new stores. With respect to our retail business, inventory decreased 5% in the aggregate. We are comfortable with both the level and composition of our inventory.

Next, let me turn to our IT projects. Our systems implementations are on track to roll out as discussed on our last call. Specifically, the new Order Management System is expected to be launched in May. The Retail Management and Enterprise Planning systems are scheduled to come on line in late July.

By the end of July, we will have the vast majority of our systems related investments behind us. One final program still to be undertaken is our assortment planning system, which is scheduled to come on line in 2017. At that time, we will have completed the last major project in our multi-year systems upgrade. As our teams become progressively more comfortable working with these systems and more fully utilize their enhanced capabilities, we expect to realize both operational and financial benefits over the next couple of years.

The final topic I want to address is our guidance for the first quarter and Fiscal 2016.

For the first quarter of 2016, we currently expect:

to deliver low single digit comparable sales growth;

adjusted net income in the range of $20 million to $22 million; and

adjusted EPS in the range of $0.25 to $0.28 per diluted share.

Since the year began, we have repurchased approximately $42 million of our common stock, which brings our first quarter estimated diluted share count to 79.9 million shares. These latest share repurchases leave $30 million remaining in our $100 million share repurchase program.

I also want to inform you of an item that will impact our first quarter GAAP results. We recently entered into an agreement with the landlord of our Times Square store allowing the landlord to market the space and terminate our lease early if or when an alternative tenant is identified. Upon execution of this agreement in Q1, we recorded an expense of approximately $11 million which will impact our GAAP net income. Because of the one-time nature of this expense, it is not included in our guidance.

If the landlord actually terminates the lease early, additional accounting entries and certain cash payments will be triggered including the reversal of the straight line rent accrual related to the store.

This will result in future period income of approximately $9 million. Therefore, the aggregate 2016 impact is expected to be less than a $2 million loss and could spread over multiple quarters of the year, depending upon the timing of the potential transaction. I want to reiterate that due to the non-recurring nature of this transaction, we have excluded its impact from our first quarter and fiscal 2016 guidance.

Turning to fiscal 2016, we expect:

Comparable sales to increase in the low single digit range;

Adjusted net income to range from $125 million to $137 million,

Adjusted EPS to range from $1.56 to $1.71 per diluted share based on 80.1 million diluted shares outstanding.

As 2015 began, we spoke with you about our objective of returning to double digit operating margins within the next few years. This was off a base of 6.3% in 2014. We laid out a multi-year path that included approximately 200 basis points of merchandise margin gains, approximately 100 basis points of B&O leverage and approximately 100 basis points of SG&A leverage.

What we actually accomplished in 2015 was to grow our operating margin by 250 basis points, to close out the year at 8.8%. Merchandise margin alone increased by 200 basis points and B&O leveraged by 130 basis points. We are certainly pleased to have reached our target in those two areas more quickly than anticipated.

On a full year basis for 2016, we expect a slight increase in our merchandise margin. We will continue to pursue opportunities to drive additional gains in the future by focusing on optimizing inventory levels, leveraging our new systems once they go live to have the right product in the right places, and by advancing our omni-channel initiatives. We believe these additional margin benefits should materialize in 2017 and beyond.

Moving on to B&O, additional leverage is expected in 2016, although the magnitude is expected to be more modest than last year based on our 2016 comparable sales expectations.

We anticipate that SG&A as a percentage of sales will remain relatively flat, as we continue to invest in outlets, marketing activities and our IT programs, and absorb the impact of higher levels of depreciation once the OMS and RMS systems are brought on line. In summary, we expect to generate higher operating margins in 2016 and further advance towards our goal of achieving 10% operating margins within a few years.

Lastly, in terms of guidance, our capital expenditures are expected to range from $110 million to $115 million as we continue investing in new outlet stores and our IT systems overhaul.

At this time, I would like to turn the call back to David.

David Kornberg - *Express, Inc. - President & CEO*

Thank you Perry.

2015 was a strong year. We introduced a set of initiatives designed to improve our performance and to return Express to a growth trajectory. We executed against each of them, which encompassed such diverse tasks as delivering more compelling product with emotional content, reducing promotions and expanding the brand reach.

Of course, with 2015 behind us, what matters is what we do this year. I want to assure you that everyone in this organization is laser focused on the importance of continuing to enhance the Express brand, driving sales, comps and earnings growth, and maintaining a high degree of discipline across all facets of our operations. We believe we have laid out a path to advance us on our journey towards a double digit operating margin and enhanced shareholder value.

Before beginning our Q&A, Marisa has one quick announcement.

Marisa Jacobs - *Express, Inc. - VP of IR*

Thank you David. I would like to request that Q&A participants limit themselves to one question and one follow up so that we can get to everyone in the queue.

Operator, please open the lines so that we can begin the question and answer portion of the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Adrienne Yih, Wolfe Research.

Adrienne Yih - *Wolfe Research - Analyst*

Congratulations on a great year and a great end to the year. And quite frankly what sounds and looks like the momentum is continuing. So David, I actually saw the TV ad the other night, it looks great.

I was just wondering if you could talk about the timing, the marketing spend, ad spend, and the timing of that this year over last year given the earlier spring break. Are there any dollar differences or duration differences there?

And then, Perry, the $11 million -- this is my follow-up -- is it on the gross margin, is it an occupancy expense or is it a one-time operating expense down in SG&A?

And then can you help us -- after the first quarter, how do we look at the gross margin underlying trend? I assume it's going to be up just given everything you talked about. But can you quantify that for us? Thank you so much.

David Kornberg - *Express, Inc. - President & CEO*

Hi, Adrienne, it is David. First of all in terms of the TV ad, we don't go into the specific marketing spend and how we are going to apportion it by month. But really in terms of our overall marketing spend, we don't see that changing for the quarter or for the year as a percentage of the total. And we see it somewhere around the 5% of total mark. It's an exciting ad, and it is going to be running all the way through the end of March.

Adrienne Yih - *Wolfe Research - Analyst*

Great.

Perry Pericleous - *Express, Inc. - SVP, CFO & Treasurer*

So in regards to your question around the $11 million, $7 million will be in the B&O and $4 million will be below the operating income line but above profit before taxes. As far as gross margin goes, we would expect to expand gross margin for 2016.

Adrienne Yih - *Wolfe Research - Analyst*

Fantastic. Best of luck.

Operator

John Morris, BMO.

John Morris - *BMO Capital Markets - Analyst*

My congratulations to everybody as well both on the quarter and the year, really a lot of progress, guys.

David Kornberg - *Express, Inc. - President & CEO*

Thanks, John.

John Morris - *BMO Capital Markets - Analyst*

First question, David, you walked through the initiatives, which was really helpful, for the coming year and obviously you have already been doing some of those. But I think it was maybe point number two. Can you give us a little bit more color on the one referring to testing and speed to market -- how that has changed and or is changing specifically as it relates to flows and fashion newness?

And then maybe a little bit more color on the men's business, where we are seeing a fair amount of improvement here even as we begin the year, in things like EXP Core, the tech polo shirts, really a lot of newness there. And what to expect and what those initiatives are in men's?

David Kornberg - *Express, Inc. - President & CEO*

Great. Okay, so I will start off briefly with the men's business. Yes, we are delivering a lot more newness in men's. We are taking a lot of the learnings that we have achieved on the women's side of the business over the past year and we are applying that to the men's side of the business. So it is the frequency of the introduction of newness, it is going to be a lot of the collection.

But in addition it is focusing on making progress in our existing businesses on the men's side. I am encouraged by what we are seeing going into Q1 on men's, which is the good news. And we plan to continue down that path. One Eleven has only been out for a week in men's, but I'm very pleased in terms of the sales that we are seeing. Your first question was really about testing and what changes we have made to that process?

John Morris - *BMO Capital Markets - Analyst*

Yes.

David Kornberg - *Express, Inc. - President & CEO*

Overall, we are still testing 70% to 75% of the units that we sell. So that hasn't changed at all. I think that we are really focused on testing the core key items that are driving the total business, and we are not allowing that to prevent us from introducing newness as quickly as possible and ensuring that we are absolutely on the mark and on point with fashion.

Having said that, our inventory discipline is enabling us to get more newness in more frequently and clearly our supply chain agility is also helping us as well. So we are fast tracking product and we are able to do that because of some of the platforming of fabrics that we've been doing over the past year. When I talk about that, I really mean pre-positioning fabrics and capacity so that we are able to get into it very, very quickly.

John Morris - *BMO Capital Markets - Analyst*

Thanks. Good luck for the rest of spring.

David Kornberg - *Express, Inc. - President & CEO*

Thanks a lot, John.

Operator

Simeon Siegel, Nomura.

Simeon Siegel - *Nomura Securities - Analyst*

Congrats on a strong year and a good start to this one.

David Kornberg - *Express, Inc. - President & CEO*

Thanks, Simeon.

Simeon Siegel - *Nomura Securities - Analyst*

So, David, with the success of the new capsules this year and the disciplined promotions, can you talk about your thoughts around AUR and maybe the longer-term merch margin opportunities?

And then, Perry, it sounds like the full-year guidance embeds costs in the coming year from systems, I think you called it depreciation. Did the guidance embed any of the benefits as those systems go live? Thanks.

Perry Pericleous - *Express, Inc. - SVP, CFO & Treasurer*

So, Simeon, to answer your first question around what we have seen in Q4 in terms of AUR trends and overall metrics, in Q4 what we have seen is our UPT increasing, we have seen conversion increase during Q4, and we saw some slight traffic declines during the Q4.

To answer the second part of your question regarding whether our guidance expects any merchandise margin improvements because of the system implementations, at this point, the 2016 guidance does not contemplate any of the benefits of the system implementations. And that is in the prepared remarks, where we mentioned slight increases in merchandise margin in 2016.

Matt Moellering - *Express, Inc. - EVP & COO*

And Simeon, we do believe -- this is Matt -- we do believe there is opportunity for margin expansion with these new systems over time. What we are doing is taking a crawl, walk, run approach to these systems given the complexity of the system implementations. And so, we want to get the systems up and stabilized and then start to enjoy the benefits associated with them.

But these new systems can be a significant enabler for us over the long-term. We believe that with these new systems we will be able to plan at a much more granular level by channel, getting the product to the customer where they want it and how they want it. This also lays the foundation to enable us to start to implement the omni-channel initiatives that are out there that should also improve margin as well as top-line sales.

And finally, personalization and segmentation will be enabled by these new system implementations as well. And we have been investing in content management systems to go along with these RMS and OMS implementations. And we are in the process of knitting all of these together for a pilot in Q4 and then a launch in the first half of 2017 when we can really start enjoying some of these benefits.

Simeon Siegel - *Nomura Securities - Analyst*

Perfect, thanks a lot, guys. Best of luck for the rest of the year.

David Kornberg - *Express, Inc. - President & CEO*

Thank you.

Operator

Neely Tamminga, Piper Jaffray.

Neely Tamminga - *Piper Jaffray - Analyst*

Congratulations on phenomenal results last year, David and team. I have a question on men's. So you characterize men's as being somewhat mixed last year. Was it as easy as a tops versus bottoms sort of dynamic, that maybe there was more opportunity in tops versus bottoms?

And I guess where we are going with this is, with One Eleven being primarily a tops driven sort of initiative, is there a possibility to see a pretty significant reacceleration here in the men's business overall? And then a follow-up question for Perry, again, on D&A for 2016 for this year, what are we planning for D&A as well as tax rate? That would be great. Thanks.

David Kornberg - *Express, Inc. - President & CEO*

So in answer to your first question, Neely, the response would be yes and yes. It is really a tops -- it has been a tops-related issue and I think that One Eleven gives us big opportunity. We have made progress -- we are starting to show signs of making really good progress in men's shirts driven by our casual assortment. But we are also seeing it in terms of our wear to work side as well.

So, overall, I am encouraged by what I am seeing across all of tops. So whether it is in woven shirts, whether it is in knit tops or whether it is in graphic tees. Perry.

Perry Pericleous - *Express, Inc. - SVP, CFO & Treasurer*

So, as it relates to the depreciation and amortization for 2016, we are planning the year a bit higher than where it came in in 2015. We are expecting depreciation to be at approximately $85 million. And as it relates to our overall tax rate for the year, we're expecting the tax rate to be approximately 39%.

Neely Tamminga - *Piper Jaffray - Analyst*

Thank you. Best wishes.

Operator

Jay Sole, Morgan Stanley.

Jay Sole - *Morgan Stanley - Analyst*

My first question, David, is about the Express active line that you mentioned, the new line. Can you tell us a little bit about what that line might be like and how it differs from some of the stuff you did a couple years ago? And then secondly on CapEx, can you talk about the $110 million to $115 million, how that breaks up into spending by outlets and IT systems and some of the other initiatives. Where do you see CapEx going forward into 2017 and beyond? Thank you.

David Kornberg - *Express, Inc. - President & CEO*

Jay, sorry, you broke up when you were talking about active. Could you just repeat that part of the question?

Jay Sole - *Morgan Stanley - Analyst*

Oh, sorry, David. I just wanted to know what you can tell us about that line. Like what it might look like, like the fabrications or different style it might have and how it compares to stuff that was from a couple years ago that was active inspired?

David Kornberg - *Express, Inc. - President & CEO*

Right. Well, I think we have made real progress on our EXP Core. We launched it in January in 120 stores. The stores that had it last year, which I think was 30 stores comped their business very well in January. And based on the reads that we are seeing, we are optimistic about expanding that line further. So we are very pleased.

And I think that the reason we are seeing progress particularly in that line is the fashion we are offering. But, in addition to the fashion, is the fit. We have made major improvements to the fit of the garments. And she is responding very, very well indeed to it. So, we are optimistic about what it offers us for the future. Perry?

Perry Pericleous - *Express, Inc. - SVP, CFO & Treasurer*

As it relates to the CapEx, in 2016, we expect approximately $60 million to be spent on real estate and the remainder to be spent on our IT initiatives and miscellaneous other projects. And we think the real estate, a lot of that money is going to be spent on remodeling stores as well as our new outlet locations.

As it relates to our go-forward capital expenditures, we would expect in 2017 the capital expenditures to come closer to about $100 million mark. And thereafter, based on today's plans, it is to be below the $100 million mark, between $90 million and $100 million.

Jay Sole - *Morgan Stanley - Analyst*

Got it. Thanks so much.

Operator

Betty Chen, Mizuho.

Betty Chen - *Mizuho Securities - Analyst*

My question is about additional sourcing opportunities and then the product extensions. On average how should we think about the margin profile of core, swim, fragrance, etc., relative to the existing business in terms of merch margin opportunity? Thanks.

David Kornberg - *Express, Inc. - President & CEO*

So, we have made real progress, Betty, in terms of speed. Over the past year we have reviewed and scrutinized all our processes really around the responsibilities, the positioning, the calendars that we use and we have delivered significant improvements in speed and improved our vendor collaboration.

So, I think that yes there are still major opportunities. We are constantly looking at ways in which we can improve it. We targeted certain departments over the past year and we have seen major benefits in those departments as a result of the work that we have done. And this year we are looking to expand that further.

Perry Pericleous - *Express, Inc. - SVP, CFO & Treasurer*

So, as it relates to the specific categories and margins, our expectation is for the overall merchandise margin to be similar to the overall Company's merchandise margin.

Betty Chen - *Mizuho Securities - Analyst*

Great, thank you so much. Best of luck.

David Kornberg - *Express, Inc. - President & CEO*

Thank you.

Operator

Janet Kloppenburg, JJK Research.

Janet Kloppenburg - *JJK Research - Analyst*

Good morning, everyone. Congratulations, great year, great quarter. I was wondering if you could help us understand the impact that One Eleven might have on comps this year. I think it was only in a handful of stores in the first quarter and maybe not that many in the second quarter. And also, the product line has been broadened significantly since it was first introduced. So could we look for that to be a comp motivator for the rest of the year?

And when you think about your new product category introductions, could they be as sizable as One Eleven has turned out to be? And, Perry, if I look at your guidance at the high-end and incorporate a flat SG&A rate, I think gross margin is going to have to be up anywhere from 40 to 60, 70 basis points -- well, 50 to 70. And I'm wondering how much of that might be from leverage and occupancy and how much of that might be from improved merchandise margin and AUC benefit? Thank you.

David Kornberg - *Express, Inc. - President & CEO*

So Janet, just to be clear, you asked whether One Eleven could be a comp driver throughout the year. We are very --.

Janet Kloppenburg - *JJK Research - Analyst*

Well, I think it was only in a few stores and not anywhere and the SKU count was much smaller.

David Kornberg - *Express, Inc. - President & CEO*

Yes, we rolled it out in July to the chain last year and in March it was in 50 stores and online. Clearly we are delighted with the performance that we have seen from One Eleven and we expect that to continue. But we have built all of this into our guidance for the quarter and for the year in terms of the way in which we placed it.

In terms of new categories -- new categories as big as One Eleven, yes. We are seeing terrific growth in shoes, we see swim as a great opportunity for us go forward. And as I said earlier on the call, we are going to deliver another collection of Edition in June. And we see that is also an opportunity for us go forward. Perry?

Perry Pericleous - *Express, Inc. - SVP, CFO & Treasurer*

So, Janet, the overall 2016 guidance, to your point, assuming with SG&A being flat, we are expecting B&O to leverage given our comp guidance, call it approximately 50 basis points. And then we expect the overall gross margin being up between 50 to 70 basis points, given the merchandise margin expansion that we have currently anticipated for 2016.

Now I did mention during the call that we are expecting modest merchandise margin expansion, but that doesn't necessarily mean that we are not going to continue to look for opportunities to expand our margins by pulling back on promotions and also through improved product offering. At this point, we are not expecting any improvements driven by AUC.

Janet Kloppenburg - *JJK Research - Analyst*

So you don't expect AUC improvement because of cotton?

Perry Pericleous - *Express, Inc. - SVP, CFO & Treasurer*

At this point we are expecting AUC to be relatively flat given the mix of the merchandise within our assortment and also the fact we are moving towards more synthetics.

Janet Kloppenburg - *JJK Research - Analyst*

Okay, thank you very much.

Operator

Marni Shapiro, The Retail Tracker.

Marni Shapiro - *The Retail Tracker - Analyst*

Hi everybody, congratulations. The stores have looked absolutely fantastic.

David Kornberg - *Express, Inc. - President & CEO*

Thank you, Marni.

Marni Shapiro - *The Retail Tracker - Analyst*

Can you just give us a quick update on the rolling out of all of these systems. How is it or when will it start to impact the loyalty program and your credit card? And I am curious what the penetration is of the loyalty program today?

Matt Moellering - *Express, Inc. - EVP & COO*

So, we have implemented some of the foundational systems on the financial side, HR side and on the warehouse management side of the business successfully already. The big programs we have remaining are enterprise planning and RMS, and our retail management system.

Those should be complete by the end of July. And once we get them up and stabilized, we will then start to use that as a foundation for other activities, as I talked about, such as the omni-channel initiatives. So the real benefits most likely will come in late 2016, but we are really counting on them to start coming in in 2017.

Marni Shapiro - *The Retail Tracker - Analyst*

So even things like the loyalty programs, that all falls into 2017?

Matt Moellering - *Express, Inc. - EVP & COO*

So we have a loyalty program out there right now. What we are really focused on is working on personalization and segmentation of marketing activities. And we have implemented a new content management system, a new campaign management system along with a new customer data hub. Those are already in place and we are working on knitting those together, which is the last step of the process in conjunction with the RMS and enterprise planning and OMS initiatives.

Once we get all those together, it should give us an ability to significantly increase the personalization and segmentation of our marketing activities, which should not only increase the effectiveness of the spend in those areas, but also improve the effectiveness of the customer experience as well.

Marni Shapiro - *The Retail Tracker - Analyst*

Okay, thanks, guys.

David Kornberg - *Express, Inc. - President & CEO*

Marni, in addition to that, you know our NEXT loyalty program is very strong and it accounts for a significant amount of our sales. We are continuing to make improvements to that and we are going to enhance it this year further. So we are very pleased with what we have seen from the NEXT program, and believe it is going to get stronger go forward.

Marni Shapiro - *The Retail Tracker - Analyst*

That is what I was trying to get at. It seems like it is still underdeveloped relative to the marketing breadth that the brand has pushed over the last year.

David Kornberg - *Express, Inc. - President & CEO*

Yes. But we believe that it is a big opportunity for us go forward. And it counts for a significant amount of our sales and a significant amount of our customers. And obviously, we continue to introduce new people to it. But we believe that there are enhancements and improvements that we are going to be making to it which will make it even better, and that is going to be over the next year.

Marni Shapiro - *The Retail Tracker - Analyst*

That is great. Best of luck this spring, guys.

Operator

Lindsay Drucker Mann, Goldman Sachs.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

I just wanted to follow up, given your comp sales target for the year, on how are you planning your inventories? And then secondly, as it relates to the flagship, you gave us some really helpful details on what the financial implications could be. But is there a bit more you can tell us about store productivity or profitability to help us handle the model in the event that you do end up closing that flagship store in New York?

Perry Pericleous - *Express, Inc. - SVP, CFO & Treasurer*

So in terms of the inventory question, we don't provide guidance for the inventory. But, directionally, if you look at the retail inventory, we would expect it to be flat to down throughout the year for the corresponding BOMs. What was the second part of your question, Lindsay?

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

I wanted to talk about the financial implications of the flagship in New York. If you do end up giving that lease back, beyond just the charges related to that and the impact of not paying rent, how do we think about profitability or the productivity? How productive how profitable is that store for you?

Perry Pericleous - *Express, Inc. - SVP, CFO & Treasurer*

So we don't go into specific detail regarding any of our stores. And the decision with Times Square to give the landlord the ability to market the space has to do with the fact that the store didn't meet our initial expectations. However, we believe right now, it is the right thing to give the landlord the opportunity to look for other tenants.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Okay, great. One last one. Do you have an ultimate outlet store target for the US?

Perry Pericleous - *Express, Inc. - SVP, CFO & Treasurer*

Yes, we believe that from an outlet standpoint a 150 store fleet is appropriate for us.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Great, thanks so much.

Perry Pericleous - *Express, Inc. - SVP, CFO & Treasurer*

Thank you.

Operator

Susan Anderson, FBR.

Susan Anderson - *FBR Capital Markets - Analyst*

Congrats on a really good quarter and good year. I wanted to get some more color on denim. I think you guys said that you saw renewed interest on the men's side. Maybe if you could talk about what you are seeing on the women's side. And then, also if you have any color or some early learnings on what consumers are responding well to for spring and if there is anything they are not resonating with. Thanks.

David Kornberg - *Express, Inc. - President & CEO*

Okay, so women's continues to be strong in terms of what we are seeing. We are seeing progress across the board in knits, woven tops, denim, dresses, casual pants, and our accessories business is doing very well across all categories, including footwear. And as I mentioned earlier on the call, Amaze has gotten off to a really great start in terms of the launch that we have seen there. So overall, I feel very good about what we are seeing in terms of the product go forward for spring.

In terms of some of the trends that we are seeing, it sounds strange to say it, but it really is a combination of the 1970s, the 1980s and the 1990s in terms of the trends that are out there.

In terms of what is not resonating, there are areas where we may be a little bit too far in front of the customer, like possibly with culottes. But overall by and large, the product is absolutely on the mark and is very good indeed. So we are seeing some very good results.

Susan Anderson - *FBR Capital Markets - Analyst*

Good, sounds great. Good luck next quarter.

David Kornberg - *Express, Inc. - President & CEO*

Thank you.

Matt Moellering - *Express, Inc. - EVP & COO*

Thank you.

Operator

Richard Jaffe, Stifel.

Richard Jaffe - *Stifel Nicolaus - Analyst*

Thanks very much, guys, and my compliments too, to a very strong quarter. If you could just provide some detail for SG&A and gross margin improvement across the quarters, and then talk for a minute about the omni-channel opportunity. It is obviously very robust already. I'm wondering how you see it continuing to grow dramatically. Is it the factory outlet business coming online? Or is it another factor? Thank you.

Perry Pericleous - *Express, Inc. - SVP, CFO & Treasurer*

So looking at the overall gross margin/SG&A improvement, we expect consistent gross margin improvement throughout the quarters for 2016. And as far as SG&A goes, we would expect SG&A to be relatively flat throughout the quarters.

Matt Moellering - *Express, Inc. - EVP & COO*

For your second question on omni-channel initiatives, given the system constraints which will be addressed here shortly, we currently do not offer customers reserve online pickup in-store, for example. We also aren't able to ship from store today, which could help relieve some pockets of inventory that may need to be liquidated.

Things of that nature, we do not have those capabilities from an omni-channel standpoint yet. And once we have these new systems implemented we will be able to start to go down the path of offering some of these services to our customers.

Richard Jaffe - *Stifel Nicolaus - Analyst*

And if you could just follow on with the factory outlet opportunity.

Matt Moellering - *Express, Inc. - EVP & COO*

Well, we are not looking at this time to offer factory outlet product online.

Richard Jaffe - *Stifel Nicolaus - Analyst*

Okay, thank you.

Operator

Roxanne Meyer, MKM Partners.

Roxanne Meyer - *MKM Partners - Analyst*

Great, thanks. I actually have two follow-ups. First as a follow-up to Janet's question, you have obviously had a ton of success with your One Eleven and now you have got Edition, you have got Core. I'm just wondering over the next few years how you think about the balance of all of these new collections relative to the legacy collections? How big can all these new collections be as a percent of the mix?

And then secondly on inventory, I'm just wondering if you could help us think about how much more room there is for inventory to be a driver of expanded merchandise margin performance over the next few years, and if there are any targets you can share in terms of improving turn? Thanks a lot.

David Kornberg - *Express, Inc. - President & CEO*

Okay, so your first question is how big some of the new collections can be as a percentage of the total mix. We are really in the exploratory phase at the moment in terms of how we take this forward. Clearly all three of them have the potential to be growth initiatives for us and we are looking into it. We are building on them, we are taking it in slow steps.

You will see in some of our stores how big One Eleven has become. And we continue to see it as a really big opportunity within the Express store as a way of increasing the productivity of our footprint as it is today. So very excited by what we are seeing there, very excited by what we are seeing in Edition and Core. But I would reiterate, we are in the exploratory phases of how we advance those go forward.

In terms of inventory as a driver of merchandise margin, we still see that there is opportunity go forward. We are focused on the optimization of our inventory, as we have been for the past year, but we are putting an even greater emphasis on it in 2016, and we believe that there are merchandise margin gains to be had there as well. But we are not going to go into the specifics of what that is.

Perry Pericleous - *Express, Inc. - SVP, CFO & Treasurer*

One thing that I would add is that system implementations will help enhance the inventory optimization that we have in place.

Roxanne Meyer - *MKM Partners - Analyst*

Okay, great. Thanks for the color and best of luck.

Operator

Rebecca Duval, BlueFin Research.

Rebecca Duval - *BlueFin Research - Analyst*

Congratulations also. David, I just want to understand really quickly, you talked about the initiatives and there have been a lot of questions on these capsules. But when you talk about expanding the capsules, you are referring obviously to One Eleven and Edition, but does that also encompass some of the product extensions? And are you considering, or could we look for, some additional capsules like Edition that are more short-term capsules on a go-forward basis?

And then the second question is also on this whole IT implementation. Obviously I understand the benefits of omni-channel, but is this also going to have a more granular effect on store segmentation in terms of inventory? And is that something that we can expect to see this year or is that something that we are looking for in 2017 as well? Thank you.

David Kornberg - *Express, Inc. - President & CEO*

Okay, starting with your first question, Rebecca, in terms of expanding capsules. Yes, it is about expanding capsules, but it is also about product extensions. So when we look at some of the results that we've seen in footwear, we see that footwear is also a major opportunity for us go forward in terms of expanding the footprint in our stores and online as well.

One Eleven, as I said on the previous question, I believe is a very, very big opportunity for us as a business. But as I said to Roxanne, we are very much in the exploratory stages there. And as Matt said earlier in answer to a question, it is really a crawl, walk, run approach that we are taking.

We tested it in 50 stores, we rolled it out to the chain last July. We broadened the assortment this spring. We are doing various tests this spring in terms of placement within the store and we are seeing some really great results from that. And we are literally taking it each day as it comes. But, yes, I do believe that there is big opportunity around that and there is big opportunity around general innovation within the business.

So you talked about Edition and One Eleven, yes, there could be other line extensions that we do go forward. And other new lines that we deliver into the store and online as well. But we are in the imagining stages of that, and we are working on it every day. I'll ask Matt to answer the next question.

Matt Moellering - *Express, Inc. - EVP & COO*

So from a systems perspective, just for perspective, the current systems that we are operating with, which we are about to get off of here in a few months, the remaining systems, these are systems that are 20 to 25 years old, extraordinarily old systems. When you step back and look at the planning we currently do by channel, e-commerce we plan as a single store in our planning system because that is the only ability we have today.

When we started running our outlet business, we effectively had only two departments for men's and women's combined, to plan for our outlet business. It is a very difficult customized system that we have to plan the product and the allocation in today.

These new systems will give us much more granularity to plan by individual channel, and get down to the store level as well, to enable us to really sharpen where we put product and how we liquidate product as well. So we think there are significant opportunities. But again, these opportunities, given that the systems -- some are going in at the beginning of May and some are going in at the end of July, a lot of the benefits will come in 2017 and 2018.

Rebecca Duval - *BlueFin Research - Analyst*

That is very helpful. Thank you and best of luck.

Matt Moellering - *Express, Inc. - EVP & COO*

Thank you.

David Kornberg - *Express, Inc. - President & CEO*

Thanks, Rebecca.

Perry Pericleous - *Express, Inc. - SVP, CFO & Treasurer*

Thank you.

Operator

Thank you. We have no further questions at this time. I would now like to turn the floor back over to management for closing comments.

David Kornberg - *Express, Inc. - President & CEO*

This concludes our call for today. Thank you for joining us this morning and for your ongoing interest in Express.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.
