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PRESENTATION

Simeon Siegel - *Nomura Securities - Analyst*

Hey, guys, good afternoon. My name is Simeon Siegel; I cover retail luxury and accessories over at Nomura. It is my great pleasure to introduce the Express management team. We have David, Perry and Marisa up here.

Express is my favorite mall-based apparel retailer that just manages to keep getting cheaper on good numbers. So it is a nice pair that we like to see. But the reality is we now have our fourth consecutive guide up in a very difficult environment. And interestingly we see a very strong Q3 where, despite all the traffic issues we are hearing about in the mall, you have a positive store comp in addition to a very impressive all-in comp.

So, we get to hear from a company that in this environment is still benefiting and growing that store sales number which is so key, at the same time that we are seeing a flow through to the bottom line. They just came out and gave us an update, another guide up, with the strong holiday flowing through and we expect the consistency to continue. With that, David.

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

Simeon said he likes to see the guidance going up and the share price coming down. I really don't like to see that at all. And frankly today, I feel like the kid who goes home with a report card with all A's and his dad whacks him because he doesn't have an A+. So it is difficult to swallow today, but having said that, we are in this for the long term. We believe in this business. We are doing a lot of exciting things. As Simeon said, this is the fourth time this year that we have taken our guidance up. And we are very optimistic about the future and what it holds for Express.

So who is Express? Let me get past the formalities. We are one of the largest specialty apparel retailers in the United States. We had full-year 2014 net sales of \$2.2 billion and we are on track for mid-single-digit growth in 2015. We have 576 Company operated retail and 78 outlet stores as of the end of the third quarter 2015, in 47 states and in Canada. And we have 33 international franchised stores in the Middle East, Latin America and South Africa.

We have a very strong and tenured leadership team. Our executive team is made up of a group of people who have on average 13 years in the business. Our district managers have an average of 13 years in the business and our store managers have an average of 7 years at Express.

So who are we? We are a fashion authority for men and women and have been since 1980. This year will be our 36th birthday. And interestingly, when you talk to teens, Express is seen as one of the most exciting new teen brands in America. So it is a 36 year young business.

We are constantly reinventing ourselves. And we are on a very, very solid and strong path. Our target demographic is people in their 20s and 30s, both men and women. We have a narrow edit point for the Express girl and the Express guy. And that is really a target of 23-years-old for the Express girl and 27-years-old for the Express guy.

We have a curated point of view; we operate in a store which is on average 8,000 square feet. We don't operate in a 30,000 square foot box. And as a result of operating in an 8,000 square foot store, we have to be very specific in terms of the trends that we are choosing and that we are acting upon and we have to speak to those trends with authority and conviction.



Our brand essence is confident, sexy and vibrant. And that applies to both the men and to the women. And we are towards the front end of the fashion lifecycle, but we are not at the cutting edge of the fashion lifecycle. The reason being that we have a strong go-to-market strategy which is based around testing and ensuring that we are very much data-driven in our approach.

We are focused on style and quality and we have a strong price value proposition. And when I talk about style and quality I am talking about quality products, quality fabrics and quality make. We address four key wearing occasions and actually I could probably say at this stage, we are now on to our fifth.

We had a very successful launch of active in 130 stores in January and we presented it in 130 stores at the entry zone of the store, a really strong presentation of what is called Express Core and Express Active. And it is the first time in that many stores that we haven't presented clearance at the front of the store at the beginning of January, so very excited about that.

In addition to that, we have a jeanswear lifestyle, a casual lifestyle, wear to work and going out. And when I talk about being a fashion authority as a brand, it is important that the people that we work with and the people who project our brand are people who have a very broad social reach. So you can see on this image a picture of Gigi Hadid and Kendall Jenner both separately last week wearing the same Express jacket. Both of them combined have about a 30 million reach on Instagram.

So it's very, very powerful and very exciting. We are also highly connected in terms of our social media approach. We have approximately 4.5 million followers on Facebook. In addition to that, we have a rapidly growing Snapchat channel and we are producing Company made videos for that Snapchat channel. And I recommend that you connect to that. And we have a very, very strong Instagram page as well.

In addition to Gigi and Kendall, in 2015 we also had Stephen Curry representing the brand. The timing of getting Stephen Curry was just fantastic because the man has -- we got Stephen Curry before he became Stephen Curry, as somebody said. And it is quite exciting in terms of having him as one of our brand ambassadors.

We serve four wearing occasions, as I said work, casual, jeanswear and going out. This is a chart that we used at our initial IPO presentation in 2010. But it has evolved over time in terms of the approach that other people have taken in terms of coming into the market in the United States. As you will know, the specialty retail market has changed significantly over the past 12 years. Just to name a few, you have got Zara, Topshop, H&M, Mango, Uniqlo, who have all entered the US market.

In addition to that you have some of the online players such as obviously Amazon, Asos, Nasty Gal, Shopbop who really weren't around in a big way when we had the IPO conversations in 2010.

I would like to start by showing you a couple of videos which give you a view of the brand. As I talked about before, we are confident, sexy and vibrant and this is a chance -- as they say, a picture tells 1,000 words, this is a chance of bringing that to life for you on the screen here now.

(Video in progress).

That is a summary of the brand as it stands today, with some of the imagery from holiday. Now what I would like to do is take you through a couple of TV ads that we did in 2015. We are also preparing to launch our first spring TV campaign, which will appear at the end of February and run through the month of March. I don't have that video available to share with you today, but I just wanted you to see first of all our August campaign with Karlie Kloss for Express Jeans and then I will show you the holiday campaign that we had with Suki Waterhouse and Joan Smalls.

(Video in progress).

Confident, sexy and vibrant. And then this is our commercial that we had for a full digital campaign in December.

(Video in progress).

Okay. Moving on to the product categories and the lifestyles that I just spoke about earlier, here is a view in terms of jeanswear. You can see in the middle Hailey Baldwin who is representing us for jeanswear and also Express One Eleven, which is our casual knit assortment. Express One Eleven is shown here and then in multiple images, casual lifestyle, wear to work, and then going out and party. And finally active, which I spoke about briefly, EXP Core, which we launched in 130 stores at the beginning of January, which has gotten off to a tremendous start. I'm very excited about that.

So when I started in the job about 11 months ago as CEO of Express, I came up with a list of five priorities for our business which I believe, combined with our growth pillars, would enable us to make significant improvement in the business in 2015 and also beyond. And those goals and objectives were: one, to improve the profitability of the business by taking a balanced approach to driving predictable, sustainable and profitable growth. We planned for a return to double-digit operating margins and I'm pleased to say that we are well on the road to achieving that. If you go back and look at our numbers, in 2011, Express delivered a 13.1% operating income margin. In 2014 we delivered a 6.3% operating income margin. And this year, 2015, we are well on the road to getting back to double-digit operating income margins. And based on the guidance that we issued this morning we should be at around 8.6% to 8.7% operating margins for 2015. So we are talking about a 230, 240 basis points improvement in 2015 over 2014.

Our second objective and goal is to elevate our customer experience. And when I talk about our customer experience, I am talking about in-store and online. And we have made tremendous progress against that.

Thirdly, to sharpen our brand position, which hopefully came across clearly to you in terms of the adverts and the videos that I have just shown you. But when I say sharpening our brand position, I am not just talking about externally, but also internally within the brand so that there is a very clear filter and understanding for all of the associates, whether it is a temporary seasonal who is working in stores to a merchant who has been there several years, that they can all speak to the brand very, very clearly. Obviously we work in a competitive marketplace and a customer has to be able to look at the Express store and explain to themselves why they are walking not walking into an H&M.

Fourthly, upgrade and enhance our systems and processes. 2016 will be a year of big change for us. A lot of our systems are old legacy systems that we have from 25 years ago. We will be updating our retail management system, we will be introducing an enterprise planning system and we will be also introducing our own order management system which we will be bringing in-house in 2016. A lot of work, a lot of planning and a lot of preparedness has gone into that. And we believe that it will also enable us to deliver some solid margin gains go forward into 2017 and on.

And finally and what should probably be the first priority for the business, is to support and develop our people. We work in a business and an industry where people feel very challenged in terms of what they do. But we want to ensure that Express is a business where people can feel not only challenged but supported and appreciated in terms of the work that they do and that Express is a place where people can grow in their careers.

The four growth pillars -- one which is improving our existing store performance. Secondly is growing our eCommerce business. Thirdly, is to optimize our retail stores and expand our outlet real estate. And then the fourth pillar is international growth, which I touched on briefly before.

In terms of improving our existing store performance, our objective is to consistently grow positive comparable sales and drive margin expansion, which goes back to the balanced approach that we have talked about throughout the day and also earlier. The success that we have seen over the past four quarters has been by really taking a balanced approach to the business and ensuring that we are not just going after comp store growth, but also going after margin expansion and expense leverage. And the reason we have been able to deliver the results that we have over the past four quarters is a result of that approach along with great product, great differentiated product and a great brand position.

We have a disciplined execution of our go-to-market strategy, which we believe elevates our assortment. Our go-to-market strategy is a cornerstone of our success, which is our test and react approach. We would rather plan our comps at a low-single-digit pace and chase into our comps than plan our comps more aggressively and find that we have to jettison out of the inventory that we have left over.

So based on the agility and the speed of our supply base, our tight inventory management, which is also mentioned down here, and our controlled approach to open to buy dollars, we have been able to make really solid progress in this area as well in 2015.

More effective marketing to drive traffic and expand brand awareness along with customer acquisition. Optimize our customer engagement across all touch points and introduce new categories to drive growth. I talked briefly about EXP Core, but our footwear business is very, very strong indeed, which we really only got into in the past three years in any sizable way. Last year we introduced Express One Eleven, which has been a major driver of our casual knit top business in 2015. We didn't introduce it to the chain until July 2015. So we see big solid upside opportunity there throughout 2016.

And then EXPRESS Edition is another example of a new line that we have launched in 2015, which is an exciting upper end collection, which we have seen to be very brand elevating and we are seeing some very good results on that. It was tested in December in 27 stores and online and we are going to go forward with this and deliver another casual assortment later on this year -- multiple casual assortments later on this year and expand the store base.

E-Commerce growth - today Express is operating a \$400 million a year eCommerce website. In 2014 it was 16% of our total sales; it grew 4% in 2014. And it grew 8% in Q1 to Q3 of 2015. We are driving sales through emphasizing fashion, and a fashion forward approach to storytelling over promotions, and that has been a major driver of success, particularly in some of the emails that we have done over 2015. And this has been tested and proven, whereas sending our customers emails which focus on price do not have the same effect as sending our customers emails which really focus on the products emotional, functional and technical benefits. And we have seen significant improvements in that.

We are taking a mobile first approach to the development of our online content, and we clearly are operating in a demographic where our customers are living on their cell phones. We have improved our search and checkout capabilities. In 2016 we will have Apple Touch Pay so that within the app you will be able to buy online with your thumb print on any iPhone and we are looking at expanding that capability even further.

We have more targeted customer outreach and segmentation using analytics. And we also have exclusive product offerings online, which is obviously exciting based on the fact that having a website you can clearly offer a much, much, much broader assortment. We have recently started offering third-party brands on express.com in the men's business, and we are looking at ways of potentially introducing that into the women's business in the future.

In terms of expanding our outlet store base, Express Factory Outlets is a very exciting growth proposition for the brand. We expect to be at 81 outlets by the end of full-year 2015 - by the end of this month. And what you have to understand is we went from a standing start 18 months ago to having 80 Express Factory Outlet stores, which are clearly differentiated from our front-line retail stores and also which offer us the opportunity to do business where business is happening in a separate place versus the front-line retail stores. We are seeing minimal trade off with the front-line retail stores; it is somewhere in the line of a low-single-digit trade off. So also another exciting opportunity for us go forward.

We are also testing conversion of select mall stores to the outlet format. And we believe that ultimately the potential of our outlet business is to be at 140 to 150 stores and we really do not want to go beyond that point, which we believe is a tipping point in terms of an outlet model.

In terms of rationalizing our retail store fleet, we opened one retail store in full-year 2015 and we have a plan to close 50 retail stores as the leases expire between 2015 and 2018. Through Q1 to Q3 we closed 23 stores; by the end of this year fiscal 2015, we will have closed 27 stores. And we are also reducing the duration of certain lease renewals as and when they are coming up for renewal.

So, I would like to hand the stage over to Perry Pericleous who is our newly appointed CFO. Perry, who's been with the business for 16 years, is a fabulous member of our team and has jumped into the role very quickly. Has been in the role of CFO for six months. And as you have seen, there has been a seamless transition in terms of the role of CFO at Express. I would like to introduce you all to Perry Pericleous.

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

Thank you, David. For those of you that may have missed our third-quarter results, I would like to provide a quick set of highlights. Our net sales rose by 10%, our comparable sales rose by 6% and we achieved this through growth across all our channels of distribution.

Our merchandise margin in the third-quarter rose by 160 basis points and we achieved this by focusing on driving on improving fashion and enhancing our brand as well as our inventory discipline. This resulted in operating income increasing to \$44.5 million, a 200 basis point improvement to the prior year, from 6.1% to 8.1%, and diluted earnings per share of \$0.31, an 82% increase to last year.

As you can see on the following page, not only have we achieved significant increases during the third quarter, but year to date our sales are approximately \$1.6 billion, an increase of 10% compared to last year. And from a merchandise margin improvement, we have seen improvements in Q1, Q2 and Q3 resulting in an overall 200 basis point improvement year to date compared to last year.

Moving on to the operating margin, the result of our net sales as well as the merchandise margin improvements we have seen year to date drove operating margin improvements of 300 basis points, moving from 4.2% to 7.2% of sales. And on earnings per share year to date, we delivered \$0.78, up from \$0.31 year to date last year.

We've had strong operating results but also, if we look at our overall financial position, what we see is that during 2015, we expect our free cash flow to exceed the \$100 million mark.

Our balance sheet is in a really good position; we have a pristine balance sheet that gives us significant financial flexibility. Since August 1 and through December 3, we have repurchased \$40 million of our common stock. Since the last earnings call, we have announced a new \$100 million share repurchase program. This speaks to our commitment of returning cash to our shareholders.

Now, moving on to our fourth-quarter updated guidance. We expect comparable sales to be at plus 3%. We expect net income to be in the range of \$53 million to \$55 million, and diluted earnings per share to be between \$0.63 and \$0.65.

As mentioned previously by David, one of our priorities is to improve profitability and we want to do this by delivering balanced top-line growth, merchandise margin expansion and expense leverage. We have a longer-term focus of driving 10% to 12% year-over-year operating income growth.

So in summary, what is the investment rationale for Express? Express is an iconic dual gender lifestyle brand appealing to 20-year-old to 30-year-old. We differentiate ourselves by offering four distinct wearing occasions and focusing on fashion and quality and not price. We also take a very data-driven approach to the business coupled with our inventory discipline to minimize fashion risk. We have a significant opportunity for continued growth in both sales and margin across all channels of distribution, facilitated by our new IT systems. And lastly, we are taking a balanced approach to growth, which supports both sales increases and operating margin improvement, which has been demonstrated throughout our results in 2015.

Thank you. So for our breakout session, we'll be in Palazzo G if anybody would like to continue and have any more discussions around our financial performance.

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