NY & Co. improves financials, sees outlet channel as key

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New York & Co. expects to continue expanding its 82-unit outlet chain through new stores and converting underperforming full-line doors.

NEW YORK & COMPANY reported 4Q net income of $84,000 versus a loss of $6.7 million in the year ago comparable quarter. Sales rose 1.5 percent and same store sales increased 1.9 percent, achieving its fourth consecutive comp store gain. For fiscal 2015, the 3.1 percent comp gain was the most robust in the last 10 years with sales psf rising 5.4 percent to $372 from 2014's $353 level. New York & Company reported a loss per share of $0.16 in fiscal 2015 versus a $0.27 loss per share in fiscal 2014.

Five strategic key initiatives underpin New York & Co.'s 2016 efforts.

First, continue to evolve to a broader lifestyle brand through its subbrands and strong fashion and versatile assortments

Second, create a deeper emotional connection with customers via exclusive celebrity partnerships that will increase brand awareness

Third, increase sales productivity and profitability across all three channels (full-price, outlet and e-commerce)

Fourth, execute as a best-in-class omnichannel retailer

Fifth, leverage the benefits realigning its go-to-market process to increase speed to market, provide for enhanced collaboration with agents and vendors and reduce costs.

During the March 17 earnings call, COO John Worthington provided an update on the retailer's real estate.

"During 2015, we opened four New York & Company stores and continued our expansion in the outlet channel with a total of eight additional New York & Company Outlet stores," he said. "We also successfully converted 12 New York & Company stores to New York & Company Outlet stores, and last month [February], we converted an additional 50 stores for a total of 62 outlet conversions.

"These New York & Company Outlet stores have performed above our expectations in comp sales as well as double-digit percent increases in transactions and increases in conversion. We attribute this growth to our format that is closely aligned with the dynamics of these outlet centers."

CEO Gregory Scott addressed a question about potential scale economies from the increased size of the outlet fleet.

"Overall across our entire business, from an AUC [average unit cost] perspective, we are leveraging unit and volume in our negotiations with suppliers," Scott said. "At the same time, what we've done across the company, outlet included, is to have all three channels carrying very similar items. We have leveraged those three as one big buy, which has helped reduce our AUC on those items. We're looking for AUC to decrease about 2 percent to 4 percent overall. We are seeing this with raw material and by driving increased volume.

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>
> **Gregory Scott, CEO**

"Regarding the conversion of full-price stores to New York & Company Outlets," he said, "we expect higher sales growth along with greater operating income growth or 4-wall contribution growth. So we see these two growth strategies with very little capital investment. Really, that is the basis of our strategy with the conversion of New York & Company stores to New York & Company Outlet stores."

Scott discussed the brand's ability to simultaneously acquire new customers in all three channels.

"In our e-commerce channel we are getting new customers all the time, reflecting strong traffic growth – beyond our expectations – related to an e-mail base and from a direct-to-site base. We think Jennifer Hudson and Eva Mendes create buzz.

"Another good thing is the growth of outlet, which introduces new customers to our brand," he said. "For instance, New York & Company Outlets are more fun, easier, with great prices all the time. And I think what we see even in the conversion stores to New York & Company Outlets, that while we keep our customers, we also get a new customer to the business.

"I think this broadens our reach and allows us to grow all three channels of our business. We have the ability to grow all three simultaneously. The subbrands, our celebrities and our New York & Company Outlets introduce new customers to the brand."

On store traffic, Scott noted that NY & Co. is beating industry averages but below the company's projections.

"Brick-and-mortar continues to outperform general mall-based traffic reports from ShopperTrak on a week-to-week basis. That said, overall traffic to our core New York & Company stores was at or just slightly below plan," he said.

"We have opportunity in our New York & Company Outlet stores to figure out traffic drivers that are outside of what we typically do. We have a big initiative around outlets, whether it be contacting our customers more – our private-label credit-card customers – improving our windows, or improving visual presentation in New York & Company Outlet stores. We are excited about what we can do in outlet

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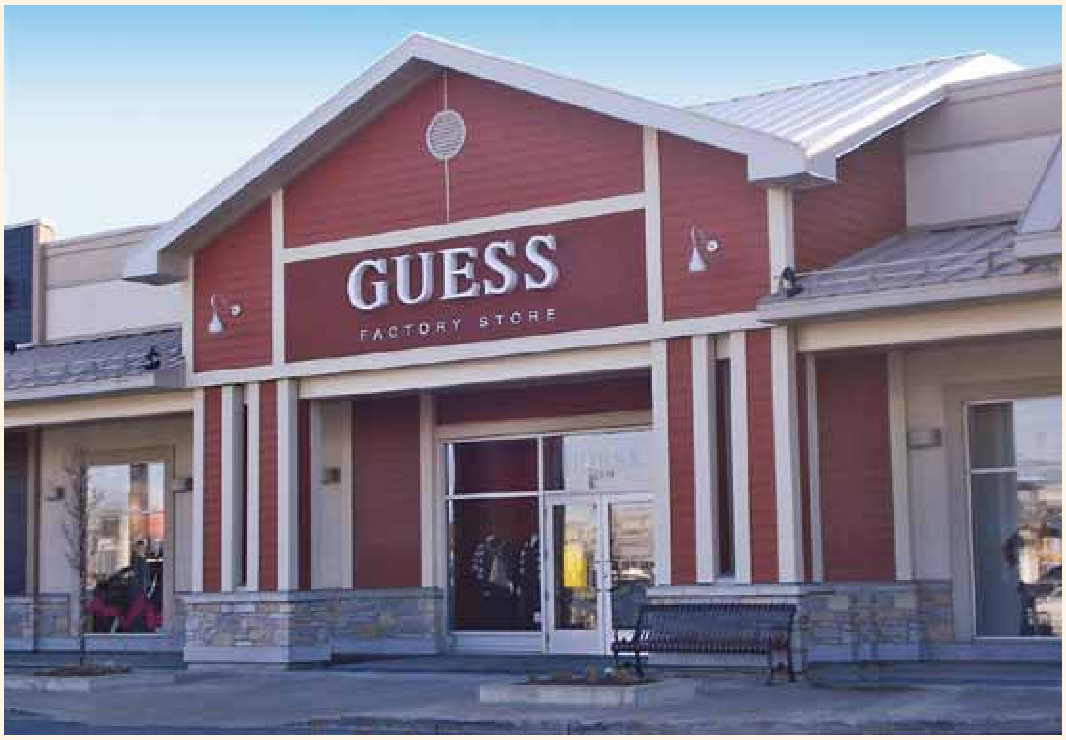
this year to really improve traffic."

Regarding outlet expansion, Worthington said that with new stores and full-price conversions, the chain could grow to between 160 and 180, which is almost double where it is now.

"Certainly we see opportunities in existing traditional outlet centers where we are not today that we think makes sense for us over the next few years," Worthington said. "And then we'll see how these 50 February conversions perform. If they perform like the original nine, then we would take a look at full-price stores that are generating lower store productivity, and we'll see if it makes sense in those centers to convert those store to New York & Company Outlet stores. We will see how things play out for both new outlets and conversions."

New York & Company entered fiscal 2016 with 490 stores, including 82 New York & Company Outlet stores; in February 50 full price stores were converted to New York & Company Outlets.



Guess management sees brick-and-mortar, particularly in the outlet platform, as key to continued revenue growth.

Guess' new plan: Focus on stores

Guess CEO Victor Herrero, CEO, told investors during a call March 16 of his three-year strategic initiative to grow the brand's revenues to $3 billion from $2.2 billion, largely by adding stores – including outlets – and investing in advertising and marketing.

"We are growing our store fleet from its 800 or so base by almost 50 percent over the next three years," he said, "so it will take some time for the revenues to actually build through and deliver the profitability we're looking at. We are talking about a very different channel structure in this growth trend we are articulating. It will be much more heavily weighted towards retail than in the past, which is very wholesale oriented."

Though no specifics on outlet expansion were given, it is worth noting that prior to Herrero joining Guess in July 2015 from Inditex, Guess was closing stores.

Herrero plans to increase revenue in the Americas (U.S., Canada, Mexico and Brazil) and Europe by $300 million in each region and by $200 million in Asia. That growth will come from three different sources, he said: e-commerce, comp improvement and store openings.

"If you look at the concepts where we are concentrating openings, we have been very, very focused on Guess Factory and G by GUESS, where the profitability and store economics are very attractive," he said. "We have been focused on opening Guess Factory stores, so nothing has changed from that perspective and we are committed to leveraging the portfolio we have right now to drive more productivity. In regions beyond the Americas, there will be a combination of Guess Factory and G by GUESS concepts."

Michael Relich, COO, responded to a question on traffic and conversion trends in North American stores. During 4Q, which ended Jan. 30, Guess saw lower average unit sales offset by increased units per transaction.

"In 1Q [2016] we see a slight reduction in traffic," Relich said, "and if we drill down, it is tourist locations that are performing much, much more poorly. And the gap from 4Q has widened where we see a greater reduction at tourist locations than in the non-tourist locations."

Guess, Inc. reported 4Q revenues of $308.6 million, a 2.6 percent decline, but same store sales rose 2 percent. Europe (retail and wholesale) revenues of $229.7 million declined 5 percent, however the region achieved a 6 percent constant currency growth. Guess Asia reported $61.7 million revenue, down 18 percent and licensing revenues of $24.9 million were off 7 percent.

The surprise of the call was guidance for the operating margin to reach 7.5 percent of sales in three years, from 5.5 percent in 2015, and for EPS to achieve a three-year compound annual growth rate of 20 percent.

Guess enters fiscal 2016 with 835 directly operated stores in the Americas, Europe and Asia, compared to 837 a year ago. In the U.S., Guess operates approximately 116 Guess full price, 118 Guess Factory Outlet Stores, 72 G by Guess, 32 Guess Accessories stores and 26 Marciano stores; in Canada, 56 Guess full price, 118 Guess Factory Outlet Stores, 16 Guess Accessories stores and 20 Marciano stores.

Profitability superior at AE Factory Stores, CFO tells analysts

In 2015, American Eagle focused on opening new American Eagle Factory Stores, Aerie and international locations. The company prioritized international licensed stores and ended the year with 141 locations across 22 countries. Since the beginning of fiscal 2014, American Eagle Outfitters closed 76 AE and 26 Aerie stores, and the brand remains committed to its goal of closing 150 stores by the end of the current fiscal year.

During the March 2 call with investors, CFO Mary Boland talked about the brand's factory channel of more than 140 U.S. units.

"We are seeing a nice improvement in comps of the factory channel," Boland said, despite the channel's flat comp sales during the fourth quarter. "Profitability is still good at our American Eagle Factory Stores and productivity is above the mainline full-price channel. Productivity and profitability are superior in the outlet channel, so we still see a nice spread between the two channels."

American Eagle Outfitters experienced a nice lift in sales and earnings in the final quarter despite the challenging retail environment of choppy mall traffic, unseasonable weather and a highly promotional retail environment.

Fourth-quarter EPS rose 17 percent to $0.42 from $0.36 on a 3 percent revenue gain and 4 percent comp-store sales increase. Gross margin rate remained flat at 35.1 percent of sales and SG&A expenses increased in tandem with the revenue increase resulting in a flat 4Q operating margin of 10.5 percent of sales. For the fiscal year ended January 30, same store sales increased 7 percent during the period and the operating margin expanded 280 basis points to 9.1 percent of sales.

The 4 percent consolidated comp gain in 4Q reflected a 3 percent comp increase at American Eagle brand, with men's up 1 percent, women's up 4 percent, and a 26 percent comp gain at Aerie. Comps at American Eagle Factory Stores were flat. On January 30, 2016, American Eagle Outfitters store fleet consisted of 797 American Eagle mainline stores; 679 in the U.S, 80 in Canada, 20 in Mexico, nine in China, six in Hong Kong and three in the U.K.; 152 American Eagle Factory Stores of which 143 are in the U.S., six are in Canada and three are in Mexico; and 97 standalone Aerie stores, 82 in the U.S. and 15 in Canada. V