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PIR - Q3 2018 Pier 1 Imports Inc Earnings Call

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OVERVIEW:

PIR reported 3Q18 net sales of $469m and net income of $7.4m or $0.09 per share. Expects FY18 net sales to be approx. flat and EPS to be $0.10-0.18. Co. also expects 4Q18 net sales growth to be 1-3% and EPS to be $0.14-0.22.

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Pier 1 Imports Third Quarter Fiscal 2018 Earnings Call. At the request of Pier 1 Imports, today's conference call is being recorded. (Operator Instructions) I would now like to introduce Christine Greany of The Blueshirt Group.

Christine Greany

Thank you, and good afternoon, everyone. Today, after market close, we issued an earnings press release, which included the detailed financial results for the third quarter of fiscal 2018. In just a few moments, we'll hear comments from Alasdair and Darla about the results, our strategies and outlook. This will be followed by a question-and-answer period.

Before we begin, I need to remind you that any statements made today regarding our business may be deemed to include forward-looking statements that are based on current estimates or expectations of future events or future results and are made pursuant to and within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from such statements. Any forward-looking statements made today are as of the date of this call, and the company does not assume any obligation to update or revise any such forward-looking statements.

The company will also discuss non-GAAP financial measures on this conference call. Pursuant to the requirements of Regulation G and Item 10e of Regulation S-K, the company has provided a reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measures in our earnings press release that was issued this afternoon, which is available on our website at pier1.com.

Now I'd like to turn the call over to Alasdair James, President and Chief Executive Officer. Alasdair?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

Thanks, Christine, and good afternoon, everyone. Joining me on the call is Darla Ramirez, our interim Chief Financial Officer; and Jeff Webb, Vice President of Financial Planning and Analysis. Our third quarter results reflect the impact of the hurricanes in Texas and Florida as well as intense value competition. Company comparable sales declined 70 basis points and includes an estimated impact of 100 basis points due to the hurricanes.

October did not rebound as quickly as we had expected, but we did see an encouraging uptick in November sales as we intensified our promotional messaging. This resulted in strong positive comps over the Thanksgiving weekend and our best ever Cyber Monday sales.

Third quarter e-commerce sales grew 27% with sales penetration expanding to 26% from 20% a year ago, which was a positive performance as we were lapping the introduction of the $49 free shipping threshold introduced in September a year earlier. However, given that backdrop, the first 2 weeks of December are much weaker than expected. We believe this declining performance is due to a combination of factors, both internally and externally driven. First, we utilized a promotional program during the first 2 weeks of December, which has simply not been effective in delivering sales uplift. Next, our merchandise is not resonating well enough with the customer to overcome the considerable marketing investments and value-driven messaging of our competitors. We have taken action and adjusted our promotional plans for the first 2 weeks, but our substantial change to guidance reflects lower expectations for the fourth quarter and the full year based on the actual performance that we've seen in the first 2 weeks of December.

Our key takeaways from the third quarter and the current tone of business reinforce the findings from our assessment work over the past 5 months. It is clear to us that omnichannel is the right platform that will enable Pier 1 Imports to thrive in the future. That said, the consumer demands we deliver clarity and improvement around the brand and the value proposition.

To that end, we have completed the thorough brand, consumer segmentation and operation analyses we discussed on our September earnings call. We're now moving forward with developing our three-year game plan and the associated financial buildup, and we remain on track to share that with you early in our next fiscal year.

I'm pleased to tell you that our findings confirm we're on the right strategic course with the focus areas I enumerated last quarter. Those include refining our brand positioning to become more relevant to a broader group of consumers while also improving our value proposition; reinventing our marketing programs to support our refreshed brand DNA; improving our supply chain, sourcing and inventory management to help us reduce our cost of goods and drive efficiency; bolstering our IT capabilities and bringing greater automation to the business; and finally, improving the effectiveness of our promotional programs while delivering a strong value message.

We're moving as quickly as possible to facilitate change. First, we are assembling a best-in-class team, which includes the creation of two new roles we believe are critical to the organization -- a head of pricing & promotions and a head of global sourcing. Additionally, we have commenced the search for a new marketing chief to replace Eric Hunter, our EVP of Marketing, who is leaving the company next week. Over the last few months, Eric and his team have completed a full-blown revamp of our brand position and messaging, which is resonating extremely well with home decor shoppers in the focus groups we've been running and will be central to our three-year strategic plan. I'm also pleased to share that our CFO search is progressing well.

For the Head of Global Sourcing role, I'm very pleased to announce we've brought in an industry veteran to lead our efforts. William Savage, who joined us last week, brings with him 20 years of international sourcing experience. He'll be leading the charge to manage our product costs, expand our vendor network and optimize our existing partnerships. He has an exceptional track record of success working with large retail businesses in different parts of the world and has already made important contributions while serving in a consulting capacity here for the past few months. Having identified the size of the opportunity, he has now joined in a full-time capacity to help us realize it.

Supply chain is another area where we're moving quickly to do some initial blocking and tackling and lay the groundwork for change. We're in progress on steps to optimize our DC space and improve our technology and systems. We're now able to ship products from our distribution centers direct to consumers, allowing us to pick up sales and manage our inventory more efficiently.

On the store front, we've been testing three new concepts. It's early days, but one of our key learnings, thus far, is that we can drive top line growth while operating with lower levels of inventory. Overall, we see an opportunity to be more efficient with our working capital.

We're maintaining a decided emphasis on cost control as we map our future plans. As we make the necessary operating and capital investments to execute and reignite growth, we will be focused on ROI and expect our initiatives to be essentially self-funding with some offsets as we capture operating efficiencies.

In summary, we have two issues that are impacting our business at the moment, both of which we can control and address: an ineffective promotional program and our underlying value proposition. Importantly, we've identified the problem with our promotional program and have already pivoted. In terms of our underlying value proposition, many of you have highlighted this as a weakness. We at Pier 1 Imports have recognized that, and we're confident that our plans will enable us to strengthen our value prop and brand positioning going forward. We see a substantial opportunity to transform the business and expect to see significant changes taking shape by the second half of next fiscal year. We have a clear focus on creating value for our shareholders and look forward to outlining our detailed blueprint for you in the next few months.

Now I'll ask Darla to review our third quarter financials. Darla?

Darla D. Ramirez - *Pier 1 Imports, Inc. - Interim CFO, Principal Accounting Officer, VP & Controller*

Thank you, Alasdair, and good afternoon, everyone. In the third quarter, we achieved company comp sales at the midpoint of our guidance range but heightened promotional activities pressured our margins. We delivered against our cost initiatives, and EPS came in toward the low end of our outlook, which was $0.08 to $0.14.

Company comparable sales declined 70 basis points with November being the strongest month of the quarter. The hurricanes in Texas and Florida negatively impacted Q3 comps by approximately 100 basis points, somewhat less than we originally estimated. Net sales were $469 million, a decrease of 1.4% versus a year ago. From a channel perspective, e-commerce continued to demonstrate strong growth. Third quarter e-commerce sales grew 27%, while sales penetration increased to 26% from 20% a year ago. Third quarter gross profit decreased to $177 million versus $196 million a year ago, resulting in significant compression in our gross margin rate, which came in at 37.7% versus 41.3% a year ago.

Looking at the key components within gross margin, merchandise margin dollars came in at $269 million versus $286 million a year ago, while margin rate deleveraged to 57.3% from 60.2% in Q3 of fiscal '17. The year-over-year decrease in merchandise margin dollars reflects the impact of the hurricanes as well as heightened promotional activity throughout the quarter, most notably in October and November.

Delivery and fulfillment net cost as a percentage of net sales deleveraged 80 basis points on a year-over-year basis. As we expected, the impact of our lower free shipping threshold lessened this quarter as we anniversaried the start of this program in September.

Store occupancy costs in the third quarter decreased by about $1 million to $72 million and came in flat as a percentage of net sales. Our real estate optimization plan remains on track and, together with lease renegotiations, should allow us to continue to reduce occupancy costs for the foreseeable future.

Total SG&A dollars were down $10 million versus a year ago, and SG&A rate leveraged by 170 basis points. This is primarily due to the fact that we had $8 million of cost in the third quarter of fiscal 2017 associated with the departure of the company's former CEO. In the fiscal 2018 quarter, reductions in store compensation were partially offset by increases in operational expenses and marketing.

Net income for the third quarter was $7.4 million or $0.09 per share compared to $13.6 million or $0.17 per share a year ago. Adjusted net income in the third quarter of last year was $17.6 million or $0.22 per share and excludes costs and the related tax benefit associated with the departure of our former CEO. EBITDA in Q3 came in at $26.7 million versus $35.9 million a year ago.

Turning now to the balance sheet. At quarter end, we had $80 million of cash and cash equivalents, $194 million outstanding under our term loan and no working capital borrowings under our $350 million revolver. Ending inventory was down 13% versus a year ago and totaled $419 million.

Now I'll turn the call back to Alasdair to review our guidance.

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

Thank you, Darla. So, given the drop in traffic and sales that we've seen in the first two weeks of December, we've substantially changed our guidance for quarter four and the full year. Let me outline our expectations for you.

Please note that fourth quarter guidance is being provided on a 14-week basis except for company comparable sales, which is being provided on a 13-week basis. For quarter four, we expect the following: company comparable sales down 3.5% to 1.5%; net sales growth of 1% to 3%; merchandise margin of approximately 54%, reflecting a continuation of the promotional intensity we experienced in the third quarter and into December; SG&A expenses in the range of $150 million to $155 million; earnings per share in the range of $0.14 to $0.22; and adjusted earnings per share in the range of $0.16 to $0.24, which excludes the tax impact from regulatory costs related to an ongoing CPSC matter.

Our full year guidance is being provided on a 53-week basis and includes the following expectations: net sales approximately flat; merchandise margin of approximately 56.5%; selling, general and administrative expenses of approximately 32% of sales, including marketing spend of approximately 6% of sales; interest expense in the range of approximately $13 million; earnings per share in the range of $0.10 to $0.18; adjusted earnings per share in the range of $0.17 to $0.25, excluding two items: legal costs net of tax related to a California wage and hour matter recorded during the second quarter and regulatory costs recorded in the second quarter for an ongoing CPSC matter as well as the related income tax effects in the second, third and fourth quarters of this year; an effective tax rate for the full year of approximately 41%, which reflects the negative impact from the non-deductibility of the CPSC expense.

Our earnings per share guidance is based on a fully diluted share count of approximately 80.3 million shares and capital expenditures of approximately $60 million. We expect the 53rd week to contribute approximately $26 million of sales and $0.02 per share to earnings for the full year. On a comparable 52-week basis versus fiscal 2017, we are forecasting company comparable sales down 1% to flat for the full year in fiscal 2018.

Darla and I appreciate your time this afternoon and together with Jeff Webb, would be glad to take your questions. Operator, please go ahead and begin the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Dan Binder with Jefferies.

Daniel Thomas Binder - *Jefferies LLC, Research Division - MD and Senior Equity Research Analyst*

My question is around promotions and marketing. I think when we met with you last, one of the things that you pointed to that you thought could benefit for Pier 1 in this transformation period was early savings on promotional activity and just more effective use of promotional dollars in different mediums. So I'm just curious how you're -- what you're seeing today impacts that view. And then secondly, if you could just discuss maybe a little bit about what consumers are responding to. Is it free shipping? Is it percentage off? When you are driving some sales in different periods, what's been the primary driver of that?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

Thank you, Dan. What I would say is, I think, our performance in the first 2 weeks of December demonstrates the need for -- about a focus on promotions and pricing. So that almost goes without saying, and I recognize that. What I would say is that, as we look to the first 2 weeks of December, the promotional program was built with the same sort of insight, if you like, and the same planning as the program that we built for the Thanksgiving week. One program was very successful, and one most recently in the last 2 weeks has not been. So what we've been doing is to understand the reasons for that and try to, obviously, alter and change our program going forwards. The key takeaway for me, I think, is that the consumer is responding to a much simpler message, which communicates value and actually rejecting slightly more complex messages that is harder for her to understand. The other thing I would say is fewer items at a greater discount are more appealing to her than a broad-based offer across many items. And so we need to take the learnings from that and build our plans accordingly.

Operator

And our next question comes from the line of Alan Rifkin with BTIG.

Alan Michael Rifkin - *BTIG, LLC, Research Division - MD and Retail Hardlines and Broadlines Research Analyst*

Alasdair, you mentioned that in the future there's going to be a concerted effort to focus on ROIC. But inarguably, your delving into e-commerce is the greatest investment this company has ever made. It's now 26%, 27% of revenues, but it seemingly seems to be more and more dilutive to the overall margins. At what point do you think we start to see positive returns from this channel? And then I do have a follow-up.

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

Thank you, Alan. So what I would say to you is we are altering the way that we're looking at our overall business so that we understand online sales, if you like, as an adjunct to our stores business. And I mentioned this last time we spoke but looking at our business from a ZIP Code or a sort of an area of profitability and then analyzing our profitability by location. So to give you an example, it may not be sensible for us to have stores in Manhattan because of the rent payments are the worst in Manhattan. But by having stores around the outside of Manhattan and the delivery online business being able to deliver into Manhattan more effectively makes a ton of sense for us. So we're in the process of building an assessment, which looks at our business as a genuine omni-channel platform rather than looking at it as a stores versus online solution. And the key question for me there will be those areas of the country where we are less profitable than others and what we need to do from both an online and the stores perspective in that area to get products to the consumer in the way that she's choosing in those particular locations. So I know that doesn't exactly answer your question, but that's the plan we're sort of taking forward.

Alan Michael Rifkin - *BTIG, LLC, Research Division - MD and Retail Hardlines and Broadlines Research Analyst*

And with the first -- with the last couple of weeks of business being softer than your original expectations and you're taking initial measures, do you think there's any risk at all that even by the end of Q4 you'll be heavy on the inventory side, which may cause incremental merchandise margin pressure even in the early days of 2018?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

Yes. Thanks, Alan. I don't believe so. So as we look at our inventory at the moment, our inventory is down 11% a year ago -- versus a year ago, and our expectation for the end of the quarter is we'll be broadly in that territory. So we've done a pretty good job, I think, so far this year with managing our inventories. And over the first 2 weeks of December, we have been selling through a number of units of Christmas inventory. The issue has just been that she hasn't moved on to buy other product to the more regular price and that's had a significant drag on our margin. So from an inventory perspective, I actually think we'll be in a reasonable place.

Operator

And our next question comes from the line of Geoff Small with Citi.

Geoffrey R. Small - *Citigroup Inc, Research Division - Senior Research Associate*

You mentioned the recent initiatives you're putting in place are expected to drive an improvement, I believe you said beginning of the back half of 2018. Does that suggest ongoing sales and margin declines are like maybe for first half next year?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

So I think the reality is that we've seen this value proposition issue, and Geoff, to be honest, you've been one of those that's called it out to us ever since I arrived, and we've seen that for a while now. And I think that continues until we get new merchandise into the organization with the different product costs we've seen previously. And that really starts to materialize in the second half of next year. Obviously, that doesn't change our plans in the short term for managing our pricing and promotion to ensure that we're as effective as possible at improving that for consumers in the first half of the year. The good thing about the sort of store tests we've been running, and whilst it's early days, those store tests show us that we have the flexibility to be able to drive top line sales with lower inventory and therefore, slightly mitigate that impact. And so we're certainly encouraged by that.

Geoffrey R. Small - *Citigroup Inc, Research Division - Senior Research Associate*

That's helpful. And I was also thinking of your thoughts on potential tax reform, first, how you envision tax reform affecting the industry as a whole and second, how you would potentially utilize any windfall, whether that be reinvestment on the business -- in the business or returns to shareholders?

Darla D. Ramirez - *Pier 1 Imports, Inc. - Interim CFO, Principal Accounting Officer, VP & Controller*

Yes. Obviously, the tax reform, if passed this quarter, would affect our FY '20, and that's when we would start seeing those savings. And then I'll turn it back to Alasdair as to -- regards to further investing with that -- those dollars.

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

Yes. I mean, I think our view would be if we do see a tax windfall, the -- our first choice about tax windfall would be to invest for growth and then having invested for growth then to see what we would do with that off that event if that was relevant. But our initial instinct is a bit like in the way we -- our cash is what would we want to do first to invest for longer-term growth for the organization.

Operator

And our next question comes from the line of Chuck Grom with Gordon Haskett.

Charles P. Grom - *Gordon Haskett Research Advisors - Senior Analyst of Retail & MD*

Just on the first couple of weeks here in December and the weakness, just curious if you're seeing it both online and in-store. And then while I appreciate you guys taking ownership for the weakness, which I think says a lot about you guys, how do you know it's not just from competition and the wayfarers of the world taking more share at this point in time?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

So thank you, Chuck. As we look at these first 2 weeks of December that it's almost half of the selling season passed, so it gives us a clear read on the rest of December. Obviously, it would be our hope that having taken the steps we've taken, we'll see some mediation and mitigation to that.

But as I stand here today and try to give you the best guidance we can, best what we see, our guidance is based on the actual performance. Now your question was about how can you be sure this isn't due to competition. And the answer I would simply give you is we've seen ourselves slightly picked off by our customers. So we expected to see a traffic lift as a result of the promotional program we put in place and off the back of that to get a sales lift. What we've actually seen as whilst traffic didn't come to where we expected it to be, those customers that were visiting us were actually far more careful about the products they bought, and they -- therefore, the overall average ticket for those customers was significantly lower than our assumptions and interestingly, significantly lower than they have been in the previous week when we were sort of promoting over Thanksgiving week. So we expected a similar traffic uplift and a similar volume uplift and a similar ticket uplift given our experience of Thanksgiving, where we were successful doing that. But what we've just seen in these 2 weeks is that was completely different. We didn't see the volume uplift, and we didn't see, therefore, the margin sales improvement we were expecting. And those are the 2 key drivers. I do believe the -- at least half of the issue is ours to control and change rather than down to competition action.

Charles P. Grom - *Gordon Haskett Research Advisors - Senior Analyst of Retail & MD*

Okay. And was it -- but was it consistent both in-store or online? I mean, it looks like you had in-store probably down in the high single digits in the third quarter. Is this a serious reflection?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

Yes, we saw a -- sorry, Chuck. We saw a representative reduction across both channels in-store and online, very similar drivers to both.

Charles P. Grom - *Gordon Haskett Research Advisors - Senior Analyst of Retail & MD*

Okay. And then just maybe take a step back and look at the gross margins -- or sort of the operating margins over time. Obviously, you're going to be close to 2% in '17. How do we think about the next few years, the progression and where you think you could settle out?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

So to your point, I think I look at our key competitors in home decor, and I see them in the sort of mid- to high single digits on sort of 8% to 9% and the best players sort of operating at the 11%, 12%, 13% are the very best. So our plan, the assessment of what we've been doing has been very firmly focused on 2 things: one, how do we drive the top line in order to get leverage out of our store estate and see a sort of a consistent 5% growth, that kind of territory; and then the second area is how do we improve our margins such that we get a better operating margin at the end of the -- this. The realistic answer is, having completed that assessment, we see a route to getting to about 8% through improving our operations. We hope to get to double digits as a result of sales growth. And that's -- the details of that is what we're going to lay out for you guys very early next fiscal year, and we remain on track to do that as previously discussed.

Charles P. Grom - *Gordon Haskett Research Advisors - Senior Analyst of Retail & MD*

Okay, great. And if I could just sneak one more in. Can you just remind us, when you guys are doing your buys for 2018, what's the typical lag? In other words, like when you're buying next fall, have you already bought that? Or is that still to come just to try understand how quickly you can fix some of the merchandising issues that you've spoken to so far?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

Yes. It slightly alters depending on whether it's seasonal product or whether it's ongoing product. But I think if you work with the assumption of about 7 to 8 months, Chuck, that's pretty representative.

Operator

And our next question comes from the line of Adam Sindler with Deutsche Bank.

Adam Harry Sindler - *Deutsche Bank AG, Research Division - Research Associate*

So I wanted to sort of talk about e-commerce again, and I appreciate the comments at the beginning of the prepared remarks about how omnichannel, obviously, is extremely important and is the focus of the company going forward. I wanted to ask about mobile though. It seems like not only in home furnishings but really across much of retail. The considerable amount of growth is coming from the mobile side of e-commerce. Have you talked about what it would cost to develop the mobile app, sort of a timeline to get there? And then we know -- would you need more teams to run that?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

So Adam, we have, and it's actually a subject on my calendar for either Thursday or Friday this week I think the team is coming back to me. So yes -- no, we are absolutely talking about that. I'm very clear that 60% of my customers are using a mobile device whilst in our stores, and therefore, the opportunity for us is clear. We haven't had an app historically as you know, but I do think that's an area that we are claiming through very carefully at the moment to understand the pros and cons. My personal view is we should probably have an app, but a team of experts here is taking me through it. I think on Friday.

Adam Harry Sindler - *Deutsche Bank AG, Research Division - Research Associate*

Okay. But is that, I mean -- Okay, so still sort of in the to-be-decided process.

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

Yes, but to be decided within the next sort of 48 hours depending on what they come back with at the end.

Operator

And our next question comes from the line of Michael Lasser with UBS.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

Alasdair, what do you think will change that will motivate consumers not to come in and pick off your -- some of your best promotions and then subsequently have that weigh on your margins? Will -- is it that -- just that you're going to change your promotions? And then if you change your promotions, doesn't that run the risk of not driving the traffic?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

So I think it's 2 things, Michael. One of those is the mechanics we used, talk to them. I think the second think is the balance with the merchandising that we have and the number of unique products that we actually have as well as the scarcity of those products. So to talk a little bit about the psychology we're seeing in-store, if you've got 5 or 6 items on a shelf, customers are waiting to see at what point they need to buy, particularly loyal customers. So if they're coming in every couple of weeks, they wait to go on sale before they buy. Slightly scarcer items, lower levels of inventory in-store and a more broader brush program of promotional investment can actually result in her buying sooner rather than later and not waiting. And that's how we're going to try to address it, that and refreshing our merchandise with a higher degree of unique products that aren't as easily comparable with competitors.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

And then my follow-up question is on your longer-term margin outlook getting up into a high single or double digit, wouldn't that require a lot of cost cutting? And at this point, given the state of business, would it make sense to lower your margins and make some widespread assessments and then see how it comes out on the other side?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

So I think there's a couple of ways you can do it. What you're describing is certainly a route and part of when I talk about our assessment phase that we've been going through the last 5 months. And the fact that we're now building up the financials on that plan reflects the fact that we're testing exactly some of those concepts. So in a couple of stores, we got a very different pricing methodology in place and a different promotional methodology in place. We are lowering margins in order to drive greater volume, faster turn and actually having more opening price point products within our assortment. So in order to do that effectively and really carefully and analytically introduce that in the way that we're confident in takes a little while, which is why we've been sort of doing that over the last couple of months and continue to do that for the next 2 or 3.

Operator

And our next question comes from the line of Cristina Fernández with Telsey Advisory Group.

Cristina Fernández - *Telsey Advisory Group LLC - Director & Senior Research Analyst*

I wanted to ask about the composition of your customer in the fourth quarter between the cash flow and the loyal customers. Is that very different from the prior 3 quarters? And are you seeing any meaningful differences in how those buckets of consumers are shopping here in the last few weeks?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

We are. So the 2 things I would point to is, over the Thanksgiving week, we saw more new customers. Over the first 2 weeks of December, we've seen fewer new customers, and we've been more reliant on our sort of regular customer. That I say -- that I think would be the biggest difference I would sort of point to.

Cristina Fernández - *Telsey Advisory Group LLC - Director & Senior Research Analyst*

Okay. And then my -- as a follow-up on e-commerce growth, which was better than expected in the third quarter, when you look at the different buckets by online, pick up in-store, delivered to customer, what has been -- what is driving that growth?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

So what I would say to you is that it's been a really positive story for us across all elements. As you know, we talk about total e-commerce across a number of different channels. So there's the elements, which we would describe as true online metrics. So this is somebody sitting on their sofa ordering stuff, and we've seen growth in that area, home delivery up 11%, parcel up 24%. So very strong growth there but the biggest growth driver for us has been, in our store environment, what we call our cash wrap PC. So when a customer is shopping in our store trying to make up an overall basket or to find items that she's looking for, that channel has been up for us 29.5% in quarter 3. So that's where the biggest strength has come from, and that brought out our total 27% we talked to earlier.

Operator

(Operator Instructions) Our next question comes from the line of Budd Bugatch with Raymond James.

Beryl Bugatch - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

I heard some phrases I haven't heard in a while on a Pier 1 call, which is ticket and traffic, and I wonder if we could get maybe some fleshing out of what ticket and traffic and maybe conversion was in the quarter.

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

We don't break those items out typically, Budd, but what I would say is they were lower than we intended clearly.

Beryl Bugatch - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

Well, you started to break them out a little bit, and that's why I said I know you don't break them out. But you started to tantalize us a bit, and I just hoped I wasn't hearing only when you want to tell us about it, maybe we get a more consistent message on them. But I understand. Could you give us more color on some of the store tests? You said you had 3 store tests.

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

Yes, we've been testing a couple things. We've been testing an outlet store concept, and then we've been testing a couple of concepts around running stores with lower level of inventory and slightly different pricing mechanics. So we're definitely in the early stages of that so not something to sort of talk to in detail. But I would say that the results have been encouraging in 2 of the tests and a lot of learnings in the third. So -- but they are the things that will underpin much of the detail we'll lay out for you at the Analyst and Investor Day in the early new year.

Beryl Bugatch - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

Do we have a date for that or an idea of when that will be in the new year?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

Yes. So now, extremely early in the new year. As soon as we can make the date work -- so Christine is working on dates that we can make work given other sort of various conflicts for the analyst community, but straight after our financial year-end, early part of the new year is where we're focusing our efforts.

Beryl Bugatch - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

Oh, sorry, new fiscal year, not the new calendar year.

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

No, new fiscal year.

Beryl Bugatch - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

So in sometime in March is what you're thinking?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

That's what we're hoping for.

Beryl Bugatch - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

Okay. Fourth quarter marketing, do you have a budget number that you can maybe help us with?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

Well, fourth quarter marketing has been pretty much in line with the full year. So we've seen 6% of our sales is what we do with our marketing, and that's fairly consistent across each of the quarters.

Beryl Bugatch - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

Okay. Because marketing is down in the fourth quarter, okay. And delivery and fulfillment, it didn't -- it leveraged as a percentage of direct to consumer or the e-commerce business but not as a total of the total company. Is -- what can we see on that efficiency? Is there any efficiency we should be seeing to get us even better? Looked a little higher than what I thought it was going to be.

Jeffrey K. Webb - *Pier 1 Imports, Inc. - VP of Financial Planning & Analysis*

So the deleveraging on a total rate basis is really being driven mostly by just kind of higher-than-expected sales through the e-commerce channel on a per package basis, but we are leveraging and executing very well in that perspective.

Beryl Bugatch - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

Okay. And last for me, you said something, Alasdair, that kind of confused me that during -- I think you said during the week of Thanksgiving, you got new customers, and then your legacy customers came back and was the bulk of your business after that. Why do you think and is that the risk that we run here? I always worry about losing a customer and trying to move to a new customer with Pier 1. I've seen that unfortunately before not do well.

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

So let me just clarify a couple things, Budd. Thanks for just challenging me given the sort of lack of clarity. I was trying to respond to Cristina's question about was there a difference we saw in customers. And over the Thanksgiving week, we saw our loyal customers shopping with us, but we also saw a higher proportion of new customers who were new to Pier 1 than we saw over the first 2 weeks of December. So that's what I was trying to explain. It's not that we didn't have loyal customers at Thanksgiving. It's just that new customers made up a bigger proportion. The second thing I would say in answer to your questions is I am very, very conscious that we will not be successful if we alienate our core customer, and therefore, we are working at length as a team to ensure that we're testing both our marketing programs, our new creative and also the store tests in such a way that we can have confidence that we don't alienate our core customer whilst trying to appeal to a new customer. There's been -- there's already been some learnings in that area, and we're iterating those tests as we get those learnings. But that's a very clear output that we're focused on.

Beryl Bugatch - *Raymond James & Associates, Inc., Research Division - MD and Director of Furnishings Research*

Okay, that's reassuring. And I guess, finally for me, the new CFO, any idea when that may be in place?

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

I would love to be able to say more than I can, Budd. But we're pleased with the process and the progress we're making, and I hope that will be soon.

Operator

And I'm not showing any further questions, so I'd like to return the call to management for any closing remarks.

Alasdair B. James - *Pier 1 Imports, Inc. - CEO, President & Director*

The only thing I would just close with is the same summary I had in my statement, which is that if you take nothing away from this call other than this last statement, I would say there's really been 2 drivers of our performance in the first 2 weeks of December that underpin the change to our guidance. Both of those things we believe are within our control and our ability to address. One of those is the media control, and we've already pivoted to do that. But as we have 50% through the selling season, we've had to actually address the impact that's had on our guidance for the month and quarter. The other is the value proposition, which we've been talking about for a while, but our plans, we're confident, are going to help us to address. So thank you very much for your time. I really appreciate you all giving us your questions. I would like to wish you all a very happy holidays.

Operator

Ladies and gentlemen, thank you for participating in today's call. This does conclude the program, and you may all disconnect. Everyone, have a great day.
