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EDITED TRANSCRIPT

PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

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OVERVIEW:

PIR reported 4Q13 total sales of \$552m and net income of \$61.7m or \$0.58 per share. Expects FY14 EPS to be \$1.26-1.31.



APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

CORPORATE PARTICIPANTS

Kelley Buchhorn *Pier 1 Imports, Inc. - Director IR, Financial Planning & Analysis*

Alex Smith *Pier 1 Imports, Inc. - President, CEO*

Cary Turner *Pier 1 Imports, Inc. - Senior EVP, CFO*

CONFERENCE CALL PARTICIPANTS

John Marrin *Jefferies & Co. - Analyst*

Matt Nemer *Wells Fargo Securities - Analyst*

Budd Bugatch *Raymond James - Analyst*

Simeon Gutman *Credit Suisse - Analyst*

Brad Thomas *KeyBanc Capital Markets - Analyst*

Anthony Chukumba *BB&T Capital Markets - Analyst*

Sam Reid *Barclays Capital - Analyst*

Rupesh Parikh *Oppenheimer & Co. - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen,, and welcome to the Pier 1 Imports fiscal 2013 fourth-quarter and year-end earnings call. At the request of Pier 1 Imports, today's conference call is being recorded. All lines will be in a listen-only mode until the question-and-answer period, at which time instructions will follow.

I would now like to introduce Kelley Buchhorn, Director of Investor Relations for Pier 1 Imports.

Kelley Buchhorn - *Pier 1 Imports, Inc. - Director IR, Financial Planning & Analysis*

Thank you, Jerrod, and good morning, everyone. Prior to market open today, we issued a press release which included the detailed financial results for the fourth quarter and fiscal year ended March 2, 2013. In just a few moments we will hear comments from Alex and Cary about the financial results and the Company's (technical difficulty) initiatives, followed by a question-and-answer period.

Before we begin I need to remind you that certain comments made during this call may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and can be identified by the use of words such as may, will, expect, anticipate, believe, and other similar words and phrases.

Our actual results and future financial conditions may differ materially from those expressed in any such forward-looking statements as a result of many factors that may be outside of our control. Please refer to our SEC filings, including our annual report on Form 10-K, for a complete discussion of the major risks and uncertainties that may affect our business. The forward-looking statements made today are as of the date of this call, and we do not undertake any obligation to update our 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 10(e) of Regulation S-K, the Company has provided reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures in our earnings press release that was issued earlier this morning. If you do not have a copy of today's press release you may obtain one, along with copies of prior press releases and all SEC filings, by linking through to the Investor Relations page of our website, Pier1.com.



APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

Now I would like to turn the call over to Alex Smith, our President and Chief Executive Officer. Alex?

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Thanks, Kelley. Good morning, everyone. We are glad you could join us today. Also on the call with us, as Kelley just mentioned, is Cary Turner, our Senior Executive Vice President and Chief Financial Officer.

I am extremely proud of what our team accomplished in fiscal 2013. We achieved all of our short-term goals and at the same time successfully laid the foundations and building blocks for long-term success.

We delivered net sales growth of 11% and a healthy comp store sales increase of 7.5%. At the same time, we expanded our operating margin to 11.7%, grew the bottom line by 28%, generated \$124 million of operating cash flow, and returned \$118 million to our shareholders through share repurchases and dividends.

There were a number of significant achievements in fiscal 2013 that our team worked tirelessly to make happen. There are five areas I would like to cover.

First and foremost is the launch of our e-Commerce enabled website; second, our POS rollout; third, our new partnership with Alliance Data; fourth, ongoing enhancements to our store portfolio; and fifth, upgrades to our information technology and systems. Our ability to deliver on long-term strategic projects without taking our eye off the day-to-day execution of our business is a great strength of Pier 1 Imports and one we will continue to nurture through the strong growth period that is ahead of us.

So, I will begin with the exciting and highly successful launch of our e-Commerce site last July. Most of you have already heard us talk about how significant this was for our Company. It was indeed a major milestone for Pier 1 Imports.

We spent much of fiscal 2013 building a platform that would support the launch of our new Pier 1 e-Commerce enabled site, and we are now just approaching nine months since the site was launched. Customer response has been excellent and we are gaining traction every day.

Site traffic increases continue to be in the high double digits, with more than 1 million visits per week. And the average ticket is nearly double that of our retail stores.

Also noteworthy, what sells in our stores is also selling well online. We have already tested some extended product categories on the site such as outdoor, tabletop, and rugs, which have done well. And of particular note, we introduced bedding as a small online-only assortment just a few weeks ago with little to no fanfare, and the merchandise began to sell immediately.

So while we are still in the very beginning stages of scaling our e-Commerce capabilities, we know the potential to drive profitable growth is significant in both the short term and the long term.

To that end, another foundation stone of long-term success was the pilot and initial rollout of our new POS system. Testing began preholiday. We launched our nationwide rollout in March and we expect to have the new POS up and running in all Pier 1 Imports stores by this summer.

At that time we will begin our efforts to fully integrate our e-Commerce site with the new POS system, allowing for a seamless shopping experience for our customer regardless of which channel she chooses to shop, how she chooses to pay, and how she chooses to have her purchases delivered.

Turning now to the successful partnership we established with Alliance Data at the beginning of fiscal 2013, since we made the transition to ADS we have seen increased store visit frequency by our cardholders and a dramatic increase in approval rates for new card customers. Today we have more than 1 million active Rewards Credit Card holders, which at the end of the year accounted for over 25% of our total US store sales.



APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

We love our loyal Rewards customers. They purchase more frequently and they spend more. They also provide us with important insight into customer behavior and purchasing patterns. This is a highly productive partnership and one that will continue to be a key driver of growth for our Company.

Now let's talk about our increasingly strong portfolio of Pier 1 Imports stores. As you recall, our Three-Year Plan, FY13 through '15, includes \$100 million in investments to enhance the quality of our real estate through new store openings, relocations, remodels, and refurbishments. We have now remodeled or refurbished to varying degrees 253 stores, of which 200 are the top volume ones.

Also remember that all stores have received some new fixturing. These upgrades are enhancing the shopping experience, producing compelling returns, and generating greater productivity. We ended fiscal 2013 with sales per square foot of \$198 -- I am calling it \$200 -- which is considerably up from \$184 at the end of last year.

Lastly, but certainly not least, are the upgrades we have made to our technology and systems during the past year. In addition to building a powerful platform to support our multichannel growth plans, we also invested significantly in planning and allocation systems. Our most recent enhancement went live last April and brought a new level of sophistication to our buying, planning, and inventory management across all channels.

We ended the year with a particularly strong fourth quarter. We delivered a 16% increase in total sales, including the 53rd week; a comparable-store sale gain of 7.9%; and a 25% increase in non-GAAP earnings per share. That represents our 14th consecutive quarter of significant growth in sales and earnings.

With that as a backdrop, let me tell you why we feel the Company is at a pivotal juncture today. We have had three years of strong momentum, solid growth, and numerous operational achievements. Now with our OnePier1 vision of the future, which we introduced you to on our last call, we know we can keep our growth going.

We have a highly unique and special culture at Pier 1 Imports with an outstanding group of talented associates focused on our success. I believe it is one of the single biggest factors that has enabled us to win in today's retail environment. It is one of the biggest reasons we will continue to be successful.

Let's take a look at the new fiscal year. In 2014, we plan to further strengthen our portfolio of stores, expand our online product offerings, complete the rollout and begin the integration of our new POS system, execute major upgrades to our e-Commerce site, and continue to scale our online presence. We'll be making strategic investments in real estate with 30 new store openings, 50 store refurbishments, and 6 store remodels; and you will hear more on this from Cary in just a few minutes.

The level of investment we are making in our business to upgrade the quality of our real estate, to support our [OnePier1] vision and, of course, in our people is well thought out and balanced. Our investments will allow us to grow sales, increase productivity and profitability, and generate strong returns.

Turning now to our merchandise, our ability to create unique, special, and trend-right products continues to strengthen. We had a strong March business in both seasonal and nonseasonal products, which has got the new fiscal year off to a great start.

Our Spring assortments are fresh and inspiring and are supported with the terrific work of our marketing team, who communicate the spirit of the brand with fun, creative television spots and event mailers. Just this past year alone we have added 6 million new customers to our database. This has allowed us to increase the size of our mailings and e-mail files by 25%.

In fiscal 2014 we will be producing more pages and distributing more mailers to drive traffic to our stores and website. This month, our best customers received our new outdoor living catalog; a large-format book that was developed to showcase our expanded outdoor assortments and support the strong growth we are experiencing in what is now a year-round category.

Of course we are augmenting these initiatives with digital strategies, including mobile and social media.



APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

While the demographics of our customer have not changed significantly in recent years, her lifestyle and shopping behaviors certainly have; and that requires us to speak to her through multiple channels.

Our vision for the future is a multichannel, multibrand, fully integrated, and seamless organization and shopping experience. As I have mentioned before, we call this vision OnePier1.

That means our nearly 1,100 stores and our e-Commerce channel operate as mutually supportive, integrated, and interdependent businesses. The stores are a gateway to our online business. Our website is a gateway to the stores' business.

We have been preparing for OnePier1 in many ways. We have discussed some of them already today. We have also further strengthened our merchandising and field teams, upgraded nearly all of our systems, and raised the bar across all aspects of the organization in order to take our business to the next level. We couldn't be more enthusiastic about the opportunities we see ahead, and we are confident we can manage the growth through careful planning and execution.

No other home specialty retailer will be able to offer their customers 1,100-plus stores where they can browse and purchase from an in-store assortment, an online assortment, or a combination of both. We believe our market position and the opportunity to drive shareholder value is unique, and we intend to grab the opportunity with both hands.

Now, obviously there isn't time to go into too much detail in this call, so I am really looking forward to sharing our plans in more detail at our Investor Day on May 7. We appreciate your interest and support and look forward to answering your questions shortly but first I will ask Cary to review the financials and discuss our guidance for fiscal 2014. Cary?

Cary Turner - Pier 1 Imports, Inc. - Senior EVP, CFO

Thank you, Alex, and good morning, everyone. As you just heard Alex discuss, we are very pleased with our fiscal 2013 results and ended the year with a strong fourth quarter.

To recap the quarter from a high-level perspective, we delivered double-digit growth in sales and a 7.9% comp, maintained strong gross profit margins, and leveraged expenses. Comp-store sales growth was driven by strong traffic and high average ticket.

Additionally, I echo Alex's sentiment about the strength of our merchandise assortments. We can't be successful without great product.

This year's fourth quarter comp-store sales increase came on top of last year's 10.3% gain, while total sales for the 14-week period were up 15.7% to \$552 million. The 53rd week in fiscal 2013 contributed approximately \$29 million to net sales and approximately \$0.03 to earnings per share.

The spread between total sales and comp-store sales excluding the 53rd week is primarily due to; one, new stores that were opened this year; two, our intermediate stores, which were opened last year; and three, our new e-Commerce business.

We've generated significant increase in sales productivity, ending the year at \$198 per retail square foot. For the year, sales on the Pier 1 Rewards Card accounted 25.7% of US store sales compared to 21.2% of US store sales last year.

It is clear that our partnership with Alliance Data was a great strategic move for us. We are seeing increased approval rates in adding new members, generating higher sales, learning more about our customers, and developing more ways to reward her.

Fourth-quarter gross profit increased 17.5% to \$255 million compared to \$217 million a year ago, and as a percent of sales expanded 70 basis points to 46.2% versus 45.5% last year.



APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

Store occupancy costs were \$71 million compared to \$67 million last year, and as a percent of sales declined by 120 basis points to 12.8%. The year-over-year gross profit improvement reflects occupancy leverage as well as the continued strength of merchandise margins at the store level, which were relatively flat versus a year ago.

Including our direct-to-consumer business, merchandise margins came in at 59%. In fiscal 2014, we expect further improvement in gross profit driven primarily through store occupancy leverage.

Looking at expenses, we continue to prudently manage our overall cost structure. SG&A for the fourth quarter leveraged 140 basis points, coming in at \$145 million or 26.4% of sales. That compares to \$133 million or 27.8% of sales for the same period last year.

Variable expenses were \$100 million or 18.1% of sales, compared to \$88 million or 18.4% of sales last year. Store payroll was leveraged as a percentage of sales for the quarter and marketing expenses were 3.8% of sales.

As you recall, we increased our marketing spend in the third quarter, ahead of the holiday season. So for the full year, marketing expense came in right at 5% of sales, in line with our ongoing plan to be in this range.

Fixed expenses during the fourth quarter were \$46 million or 8.3% of sales, compared to \$45 million or 9.4% of sales last year. Looking at fiscal 2014 we expect to slightly leverage SG&A expenses which include investments in additional headcount to support our growth.

Operating income for the quarter was up 28% to \$100 million versus \$78 million last year while operating margin expanded 180 basis points to 18.2% from 16.4% a year ago.

Net income in the fourth quarter was \$61.7 million or \$0.58 per share. That compares to \$115.2 million or \$1.04 per share in the prior year which included the tax benefit resulting from a change in the Company's valuation allowance.

On a non-GAAP basis, adjusted net income in the fourth quarter of fiscal 2013 was \$64.2 million or \$0.60 per share, which utilized a 35.6% annual effective tax rate for fiscal 2013. That compared to a non-GAAP adjusted earnings of \$0.48 per share last year before the nonrecurring tax benefits mentioned earlier.

Moving to the balance sheet and cash flow, inventories totaled \$356 million at the end of the fiscal year, which is up 10% versus a year ago. That is in line with our expectations and primarily reflects increased purchases including e-Commerce in anticipation of increased sales in the first quarter of fiscal 2014.

The Company remains in strong financial condition and ended the year with \$232 million of cash and cash equivalents and no cash borrowings under our \$300 million credit facility.

As Alex noted, the Company generated strong cash flow from operations of \$124 million, providing us with the flexibility to reinvest in the business, pursue our growth plans, and return value to our shareholders.

The Company paid approximately \$18 million in cash dividends during the year and utilized a total of \$100 million to repurchase approximately 5.3% of common stock outstanding under our share repurchase program, which was completed in December 2012.

The Board authorized a new \$100 million repurchase plan in December and to date the Company has not repurchased shares under this program, and the entire amount currently remains available for repurchase. And just last week we announced a cash dividend of \$0.05 per share, further demonstrating the commitment of our Board of Directors and management team to deliver shareholder value.

Capital expenditures for the fiscal year totaled \$80 million. Of that amount approximately \$52 million was deployed toward the opening of 22 new Pier 1 Imports stores, the refurbishment of 100 locations, the rollout of new impulse merchandise fixtures to all stores, and the implementation of



APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

other leasehold improvements and equipment. The remaining \$28 million was utilized for technology and infrastructure initiatives including e-Commerce and our new point-of-sale system.

Capital expenditures in fiscal 2014 are expected to be approximately \$75 million, with roughly half allocated to stores and other leasehold improvements, and the balance being deployed toward technology and infrastructure.

During the fourth quarter we opened 6 stores and closed or relocated 5 locations, ending the year with 1,062 Pier 1 Imports stores. That includes 982 locations in the US and 80 in Canada, for a total of 8.4 million retail square feet.

This year our plans call for 30 new store openings and 14 closings, for a net of 16 new stores. We will also fully remodel 6 stores and continue to invest in store refurbishments with new merchandise fixtures and lighting upgrades.

Looking ahead to the new year, the Company issued the following financial guidance today for fiscal 2014 on a comparable 52-week basis. We expect to achieve comp-store sales growth in the mid single-digit range. EBITDA growth in the range of 14% to 18%. Depreciation and amortization expense of approximately \$38 million, which compares to \$31 million in fiscal 2013, and an annual effective tax income tax rate of approximately 38%, which compares to 35.6% in fiscal 2013 and reflects the normalization of our tax rate this year. Earnings per share in the range of \$1.26 to \$1.31, representing year-over-year growth of 8% to 12% on a 52-week basis. And, as I noted earlier, capital expenditures of approximately \$75 million.

Finally, before we take your questions I would like to cover two administrative items. First, we recently conducted a benchmark review of reporting policies within our retail peer group and examined the close proximity and timing between our quarterly sales releases and earnings releases.

As a result of this review we have made the decision to discontinue our practice of issuing quarterly sales results on retail sales [day]. As such, our first-quarter sales and earnings results will be released on Thursday, June 20, and the remainder of the year will follow suit, with the exception of our December sales release which we will continue to report in January.

Lastly, if you did not receive an invitation to our upcoming Investor Day, please get in touch with Kelley after the call if you have an interest in participating. We will be holding the event at our headquarters in Fort Worth on Tuesday, May 7, and will begin with an informal gathering the night before. Alex and I will be joined by our operating team and hope to see you there.

Thank you for your continued interest in our Company, and I will now ask Jerrod to please open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Marrin.

John Marrin - Jefferies & Co. - Analyst

Good morning. Alex, I was hoping you might comment on quarter-to-date trends.

And then, moving to loyalty, you said that loyalty was 25% of sales. Was that just for Q4?

And just following on that, actually, can you just talk about the kind of trends you are seeing with the new accounts that you are generating? What their frequency is on these new accounts?



APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Well, I can give you some but not all of that, John. In terms of the quarter, I think in my prepared remarks I just talked about March. And it is the first month of the quarter and we were very happy with March. March got off to a -- got the year off to a nice start, so I think we are feeling pretty good about things.

In terms of the card, no, that was an annual number that we gave you. That number, obviously, flexes throughout the year. In the December period, it is at its lowest because we get a lot of once-only visitors to the store during the Christmas period. And then it sort of peaks then through the year, somewhat driven by what offers we are giving to our card customers.

But Cary is making eyes at me, I think he wants to chip in on this one as well.

Cary Turner - *Pier 1 Imports, Inc. - Senior EVP, CFO*

I think the positive thing we have been seeing about the card, especially with the stores getting more used to offering the card, is we continue to see that percentage of the business move up on a seasonally adjusted basis. I think we have mentioned to you that we do have a longer-term goal out there -- probably not this year, but it is certainly out there -- to reach approximately 30% of the business over time.

John Marrin - *Jefferies & Co. - Analyst*

So it sounds like the 25% was more of an intermediate term and I was just a little surprised that you already hit that goal. Was that ahead of your plan?

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Yes, yes.

Cary Turner - *Pier 1 Imports, Inc. - Senior EVP, CFO*

Yes, it was.

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

We were thrilled with those numbers.

John Marrin - *Jefferies & Co. - Analyst*

Okay, great. All right. Congrats, guys.

Operator

Matt Nemer.

Matt Nemer - *Wells Fargo Securities - Analyst*

Again, congratulations on a great year.

APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Hey, Matt. Morning. How are you?

Matt Nemer - *Wells Fargo Securities - Analyst*

Doing great, thanks. So my first question is can you help us with the breakout between the contribution from new and intermediate stores versus e-Commerce in the quarter? And then as we look out to 2014, what are your expectations for growth in non-comp sales?

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Okay. Do you want to take that one, Cary?

Cary Turner - *Pier 1 Imports, Inc. - Senior EVP, CFO*

You know, I think we continue to tell you that with e-Commerce we are crawling before we are walking and running. We really need the new point-of-sale to get us going. The sales are good. But the new and intermediate stores are definitely driving more of that than less.

In terms of the delta between -- I think the best way to answer your question, the delta between comp and total sales for fiscal '14, I would say, will be somewhere 250 basis points to 300.

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

I think the only other thing I would add to that is we are also really pleased with the new store opening program, which we are in the new stores and the intermediate stores.

And we see -- if we look at all the stores we've opened over the last couple of years, the average volume in our new stores is greater than the average volume for the chain as a whole. So that is really lifting the average store sales numbers. So we are really pleased with the new stores.

Matt Nemer - *Wells Fargo Securities - Analyst*

Okay, great. Then you mentioned the hat headcount additions in 2014. Alex, can you help us frame out what areas that is going to impact the most? Is it merchandising? Is it IT? How should we think about that in terms of store support?

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Okay. Well you won't be surprised to hear me say that the biggest investment is going to our merchandising organization. We continue to add significantly in terms of our buyer headcount but also this year we are also investing in incremental management.

Because if you think about this, at the moment we have -- in round numbers we have 6,000 SKUs or thereabouts in our stores, and the buyers have to source, create, and manage that number. As we scale out our eCom business that number is going to rise exponentially. So that we keep the same quality of decision making and the same focus on great product, we need to add in more folks.

And the increase in our buying organization is always mirrored and replicated by an increase in our planning and allocations department. So, a lot of investment there.



APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

Significant investments in our business development team, which is running our eCom business. Some additional heads in marketing, again to deal with the increased complexity that we now have to deal with.

So those are the main areas. But, you know, we don't do this all at once. We are very judicious and careful and add it throughout the year.

Cary Turner - Pier 1 Imports, Inc. - Senior EVP, CFO

(multiple speakers) staggered over (multiple speakers)

Alex Smith - Pier 1 Imports, Inc. - President, CEO

Yes, staggered throughout the year.

Matt Nemer - Wells Fargo Securities - Analyst

Great. Then just lastly on the POS rollout, as you scale that rollout up this summer is there anything that we should be looking for? Is that additional expense? And then when do we start to see the benefits from that? Does it show up in sales, or how should we think about that going forward?

Cary Turner - Pier 1 Imports, Inc. - Senior EVP, CFO

I think the impact from a cost basis probably starting now. The number of stores we are rolling out each week is not going to go up dramatically from the pace at which we are now. And I think the benefit you will start seeing probably at the beginning of the second quarter, but probably more so in the third and fourth quarters, as our conversion rate goes up and the less tenured Associates can run the registers as opposed to our more tenured ones.

Alex Smith - Pier 1 Imports, Inc. - President, CEO

Yes. You're not going to see a huge hit on our costs because of this. I mean, the field leadership and stores team have really done an outstanding job in planning this rollout. Clearly there are some costs involved in that but they can contain those within their normal budgeting process.

Cary Turner - Pier 1 Imports, Inc. - Senior EVP, CFO

The biggest place you are going to see that is just in depreciation, as we called out.

Matt Nemer - Wells Fargo Securities - Analyst

Excellent. Thanks so much and good luck this year.

Alex Smith - Pier 1 Imports, Inc. - President, CEO

Thank you very much.

Operator

Budd Bugatch, Raymond James.



APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

Budd Bugatch - *Raymond James - Analyst*

Cary, good morning. Kelley. Congratulations on a great year and continued success to you.

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Thanks, Budd. Good morning.

Budd Bugatch - *Raymond James - Analyst*

My question -- I guess my first question is just can you describe for us a little bit maybe in more detail -- and if you want to hold it for the Analyst Day I understand that -- the interplay between Pier 1 To-You, Pier 1 To-Go and the normal customers in the stores?

You have added 6 million customers to your database this year. How is this interplay showing up either anecdotally or in the numbers? Can you talk a little bit about that, or is that a question that I should hold on to?

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

I can talk a little bit about it, but I think it's a very broad and quite complex question. I am happy to talk about it, but if we can save that for May, Budd, I would appreciate it because, obviously, there's many moving parts in all of this.

What I will just give you there, a couple of headlines is that what we do know is that from the people who visit our website, the 1 million visitors per week that we alluded to, a good percentage of those are store shoppers who are doing their pre-shopping online. And by the time they visit the store they have some indication of what it is they want to buy.

Then there's obviously the online shoppers. And of those ones who want to go to the store, some will pay beforehand and some will wait till they get there and select it. But I think that is the best kind of headline I can give you at the moment, but we will chat more about that.

Budd Bugatch - *Raymond James - Analyst*

Okay. I know, Cary, as credit penetration improves, if I remember right the average ticket of that customer is a multiple of what is in the store. Can you talk a little bit about the average ticket? Maybe quantify it for us hopefully, if we weight it is simply because she shops more frequently, it is about 2 times. Right. Okay, that is in keeping with the historical norm, as I recall.

Cary Turner - *Pier 1 Imports, Inc. - Senior EVP, CFO*

Yes.

Budd Bugatch - *Raymond James - Analyst*

What is the average ticket now? Can you give us a flavor overall of where the average ticket has gone?

Cary Turner - *Pier 1 Imports, Inc. - Senior EVP, CFO*

Every year you ask.



APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

Budd Bugatch - *Raymond James - Analyst*

I know, at least I am consistent. Hopefully you will be inconsistent.

Cary Turner - *Pier 1 Imports, Inc. - Senior EVP, CFO*

Don't think so.

Budd Bugatch - *Raymond James - Analyst*

(laughter) Okay. All right, let me ask this question. By the way, thank you very much for the color on the income statement.

Alex, I usually ask about buyer headcount. I think it was 27 the last I knew. What is it now?

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

I don't know, Budd. I have lost count, there are so many of them. We are certainly getting to -- I think we're over 30 at the moment.

Budd Bugatch - *Raymond James - Analyst*

Very good, okay. That's fascinating. My last question, Cary, you talked about the guidance on a comparable 52-week basis; you talk about a 14% to 18% growth in EBITDA. I am having a little bit of a hard time getting there and the calculation of EBITDA using either the \$31 million from the income statement or the \$38 million and change from the cash flow statement. What is the base? And how should we calculate that number?

Cary Turner - *Pier 1 Imports, Inc. - Senior EVP, CFO*

Basically all we did was take out the \$0.03 from this year. And we will put it in the right categories.

Budd Bugatch - *Raymond James - Analyst*

And back that back out to get your base?

Cary Turner - *Pier 1 Imports, Inc. - Senior EVP, CFO*

Yes.

Budd Bugatch - *Raymond James - Analyst*

All righty. Thank you, sir. Look forward to seeing you in a couple weeks.

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Thanks, Budd. Take care.



APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

Operator

Simeon Gutman, Credit Suisse.

Simeon Gutman - *Credit Suisse - Analyst*

Good morning and congratulations on the year. I have a --

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Simeon, thanks. I appreciate it.

Simeon Gutman - *Credit Suisse - Analyst*

You're welcome. First, Alex, a question on the competitive landscape. You mentioned as part of Pier 1's success in general has been the merchandising being unique and you said trend-right. And we completely agree; especially over the past few years it has been very innovative, both merchandising and display.

I guess the last year or so it feels to us that we are starting to see more copycats. Not that Pier isn't enhancing its edge, but I am curious if you agree with that. We just saw what Target is coming out with. Any other observations you can share on the competitive environment?

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Well, I mean first of all, the competitive environment is as intense today as it ever was, and I don't think that is going to change. There's a lot of smart people out there running terrific home decor businesses.

I would like to remind you, as I always like to remind everyone, that our market share is very low. It is sort of 1% to 2%. And even in our strongest classifications it probably isn't above 5%. So in that respect there is plenty of room for all of us.

As to the copycat thing, well, yes, I think we absolutely have seen that as our business has got better. We have seen those businesses, particularly those businesses that probably haven't been doing as well as we have, have tried to copy us. We keep a close eye on that.

Usually when people copy they are pretty poor imitations of the authentic Pier 1 product. So we say, that's fine let them get on with it, and we will continue to drive our creative processes here and make sure that we stay in front.

So it is just a fact of life. You deal with the competition, and we take it as a compliment that people want to copy us.

Simeon Gutman - *Credit Suisse - Analyst*

Okay. Then following up to something that was just asked on the average ticket, I think this is the same topic --

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Sorry, can I just add another point to that?

APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

Simeon Gutman - *Credit Suisse - Analyst*

Please, yes.

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

By the way, that is why we continue to invest so heavily in our merchant organization, just so that we can keep ourselves way ahead.

Simeon Gutman - *Credit Suisse - Analyst*

Great.

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Sorry to interrupt.

Simeon Gutman - *Credit Suisse - Analyst*

No, it's okay. The follow-up regarding the average ticket, I wanted to clarify if that was -- on the Internet it's double -- was it mentioned because of frequency? Because I am curious if there are either other -- more categories that are being shopped or attachments. And then --

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

No, it is the average transaction, Simeon, is double that of the stores.

Simeon Gutman - *Credit Suisse - Analyst*

Got it. Okay. Then I have one more for Cary. The merch margin overall, as the Internet business is growing, it looks like it is being diluted a little bit. I don't think that is a surprise or anything new.

Cary Turner - *Pier 1 Imports, Inc. - Senior EVP, CFO*

Right.

Simeon Gutman - *Credit Suisse - Analyst*

But is there, I don't know, an inflection point when the business reaches a critical mass where that should generally stabilize? Or does that constantly tick up as the exposure or as the Internet penetration grows?

Cary Turner - *Pier 1 Imports, Inc. - Senior EVP, CFO*

Well, for this year, for this coming year and for the following year you are probably going to see a slight degradation, call it the 50 or slightly more basis points each year. But I think when we start looking at the volumes we are generating three years out or so, we should see the stabilization.

APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

Simeon Gutman - *Credit Suisse - Analyst*

Okay. That's helpful. Thanks, guys.

Operator

Brad Thomas, KeyBanc Capital Markets.

Brad Thomas - *KeyBanc Capital Markets - Analyst*

Let me add my congratulations as well.

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Good morning.

Brad Thomas - *KeyBanc Capital Markets - Analyst*

Good morning, Alex. Alex, just wanted to follow up on some of the new merchandising tests that you talked about. It sounds like the bedding in particular is off to a good start.

I was just curious what the process would be here in terms of the timelines? How quickly would you think to maybe test some of these in stores? And at what point could they be something that would become a comp benefit in the retail segment?

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Well, that's a very interesting question, isn't it? Again, I think we can perhaps talk more about that in May.

But our stores, as you know, are relatively small in terms of their square footage which we believe is a strength. And our goal ongoing is obviously to keep driving those sales per square foot in stores up. So what that means is that over time we probably will make decisions about what categories are in-store and what categories are online-only. But we are really only at the very, very beginning stage of that.

Your general question about the merchandise development cycle, I mean, that depends on the product, of course but it is not quick. It takes a little while to bring new products to market. But we have got a lot of work in progress.

Brad Thomas - *KeyBanc Capital Markets - Analyst*

Great, great. Then if I could just follow up one more with Cary on the investing side. I think the Company last year gave a goal of about \$200 million in capital spending over a three-year plan. I think last year it was \$80 million you spent, on track to spend \$75 million, I think is the guidance for this year.

Would you expect to see it tick down in CapEx next year? Or how are you just generally thinking about the level of investment that is needed over the next few years?

Cary Turner - *Pier 1 Imports, Inc. - Senior EVP, CFO*

It may be a little bit more over the three-year period than \$200 million. We will continue to watch this and probably update you at later date.



APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

But we are going to control it.

Cary Turner - *Pier 1 Imports, Inc. - Senior EVP, CFO*

Oh, yes.

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

It is not going to get out of hand.

Cary Turner - *Pier 1 Imports, Inc. - Senior EVP, CFO*

No. Right now if I had to say it would be somewhere between -- over the three-year period, instead of \$200 million maybe it is between \$200 million and \$225 million.

Brad Thomas - *KeyBanc Capital Markets - Analyst*

Right, right. And of course, Alex and Cary, I remember talking a year or two ago where you wanted to spend at a very disciplined rate and it seems like that is still the case here, and finding opportunities to make investments. Is that a fair characterization of how you are looking at things?

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Yes. That is a very good characterization. Thanks.

Brad Thomas - *KeyBanc Capital Markets - Analyst*

Great. Well thanks so much and looking forward to seeing you in a few weeks.

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Okay, look forward to it.

Operator

Anthony Chukumba, BB&T.

Anthony Chukumba - *BB&T Capital Markets - Analyst*

Good morning, Alex. Good morning, Cary. How are you doing? (Multiple Speakers) So just had a question. Obviously the Q4 comp was extremely strong. I was just wondering; a lot of retailers have talked about the negative impact from the delay in tax refunds, unseasonably cold weather in March.



APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

I found it kind of strange that you guys didn't really discuss that at all. Was that a headwind? Was either of those things a headwind for your business in Q1 or the beginning of -- or sorry, in Q4 or the beginning of Q1?

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Well, no. We reported that we had an incredibly strong Q4. You saw the numbers, so none of those things were an impact there.

We are only at the end month one of Q1 of this fiscal year. But as I said in the prepared remarks we think that the year has got off to a great start. So we are pretty happy.

Anthony Chukumba - *BB&T Capital Markets - Analyst*

Okay, great. Then just one quick follow-up. You talked in the past about getting up to about 1,100 US stores. I was just wondering, is that is still the goal in terms of the US store -- or North American store base?

Cary Turner - *Pier 1 Imports, Inc. - Senior EVP, CFO*

No, I think we have used a number of around 1,100 including US and Canada. That number -- and I think you have heard us say on prior calls that we're really not that focused on that discrete number.

What we are seeing -- as you can see we are opening 30, closing 14 or so; those 14 are relocations where by relocating in a market we are gaining market share.

And that is what we are really looking at. It is a net of zero, but what we are seeing is we may be paying 10% more in rent but we are seeing a 20% increase in the new store versus the productivity of the old store.

Anthony Chukumba - *BB&T Capital Markets - Analyst*

Got it. That's helpful. Thank you.

Operator

Sam Reid, Barclays.

Sam Reid - *Barclays Capital - Analyst*

Thanks, guys, for taking my question and congratulations on the quarter.

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Sam, hi. You're welcome.



APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

Sam Reid - Barclays Capital - Analyst

Just a quick follow-up, and I don't know -- hopefully this wasn't covered already, but I knew you guys in the past have discussed what percent of orders were purchased online and picked up in-store. I was wondering if you guys had an update to that number now and what's the sort of trajectory you see that as going to longer term?

Alex Smith - Pier 1 Imports, Inc. - President, CEO

I don't think we actually have put out that number.

Cary Turner - Pier 1 Imports, Inc. - Senior EVP, CFO

We always said pickup in the store was 1%.

Alex Smith - Pier 1 Imports, Inc. - President, CEO

Oh, that; okay. But that was -- what you're alluding to is a pre-eCom number there, Sam. That was the number when we had -- in the sort of previous, previous generation. We haven't split anything out since we launched the new website last July.

Sam Reid - Barclays Capital - Analyst

Got you.

Cary Turner - Pier 1 Imports, Inc. - Senior EVP, CFO

But what we have said, we said at the end of the third quarter and we continue to see it that the percent of the total online business being picked up at the store is around 30%, 35%.

Sam Reid - Barclays Capital - Analyst

Got you, okay. Fair enough, fair enough. Then this is kind of a follow-up to another question, but I know you guys did say that your e-Commerce ticket is about twice your store ticket.

I was wondering what kind of characterizes the products that people are purchasing online versus in the store. Is that also driving the higher ticket online? Are people purchasing larger items just to ship to their houses? How is that working exactly?

Alex Smith - Pier 1 Imports, Inc. - President, CEO

Well, of course, it varies very much seasonally, as you would expect. But if we look at the participation of the various departments on a more annualized basis -- well, we haven't got annualized, but the half-year basis -- in terms of the participation by departments it is not the same as the store. It does skew more to the higher-ticket departments. So in other words, more towards some of our furniture departments and our floor covering departments and things like that. That obviously changes in the run-up to Christmas, but generally speaking the higher ticket is driven by a different mix rather than a large number of units.



APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

Sam Reid - Barclays Capital - Analyst

Got you.

Alex Smith - Pier 1 Imports, Inc. - President, CEO

Transaction.

Sam Reid - Barclays Capital - Analyst

No, I -- no, thank you so much. I think that covers everything.

Alex Smith - Pier 1 Imports, Inc. - President, CEO

Okay, great.

Cary Turner - Pier 1 Imports, Inc. - Senior EVP, CFO

One last question.

Operator

Brian Nagel, Oppenheimer.

Rupesh Parikh - Oppenheimer & Co. - Analyst

It's Rupesh for Brian Nagel. Congrats on very strong year.

Cary Turner - Pier 1 Imports, Inc. - Senior EVP, CFO

Thank you.

Alex Smith - Pier 1 Imports, Inc. - President, CEO

Thank you very much.

Rupesh Parikh - Oppenheimer & Co. - Analyst

The first question we have is just with the e-Commerce business. In the press release and in your prepared comments earlier there was a lot of discussion just about adding new product categories and expanding assortments.

What is your current SKU count now, and where do you guys think that can go by the end of the year, maybe even longer term?

APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

I think again this is part of a broader discussion about the developments of the business which I think I would rather wait and talk to you in more depth on the investor meeting.

What I would say is this and just repeat what I said earlier in response to another question is obviously our SKU count is going to go up very significantly over the next few years, which is one of the reasons that we are continuing to invest so significantly in our buying teams and our planning and our allocation teams, so that we can execute this broader assortment with the same degree of accuracy that we execute the current assortments.

Rupesh Parikh - *Oppenheimer & Co. - Analyst*

Okay. Then a quick second question, just in terms of health of the consumer, clearly your business has continued to perform very well even with some of the challenging headwinds out there. In the upcoming year do you expect any changes in the balance between the regular-priced and promotional selling?

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Do you want to answer that, Cary?

Cary Turner - *Pier 1 Imports, Inc. - Senior EVP, CFO*

Sure. No, I think we continue to see this balance. She likes getting a value; and then at the same time she rewards herself with buying something regular priced and new. So we are planning for the next 12 to 18 months of that balance, of 50% regular price and 50% either promotional or clearance to continue.

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Yes. I mean if your question was -- is there any pressure on merchandise margin because of the promotional environment? The answer is no.

Rupesh Parikh - *Oppenheimer & Co. - Analyst*

Okay. Then just a quick housekeeping question. In terms of your guidance is there any benefit from share repurchases baked into your full-year range?

Cary Turner - *Pier 1 Imports, Inc. - Senior EVP, CFO*

Not much, no.

Rupesh Parikh - *Oppenheimer & Co. - Analyst*

Okay. Thank you and good luck.



APRIL 11, 2013 / 3:00PM, PIR - Q4 2013 Pier 1 Imports, Inc. Earnings Conference Call

Alex Smith - *Pier 1 Imports, Inc. - President, CEO*

Okay. All right, everybody. Thank you very much for your questions. Thanks for joining us today and we look forward to seeing a number of you in person in a few weeks. Thank you.

Operator

Thank you for participating. This concludes today's program. You may now disconnect.

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