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PIR - Q4 2017 Pier 1 Imports Inc Earnings Call

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OVERVIEW:

Co. reported 4Q17 net sales of $528m and net income of $26.6m or $0.33 per share. Expects FY18 net sales growth to be approx. 2-3% and EPS to be $0.46-0.52. Expects 1Q18 net sales to be flat to up 1% and net loss per share to be $0.07 to $0.03.

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Pier 1 Imports Fourth Quarter and Full Year Fiscal 2017 Earnings Call. At the request of Pier 1 Imports, today's conference call is being recorded. (Operator Instructions) I would now like to introduce Bryan Hanley, Director of Investor Relations for Pier 1 Imports.

Bryan Hanley

Thank you, Karen, and good afternoon, everyone. Today, after market close, we issued an earnings press release, which included the detailed financial results for the fourth quarter and full year of fiscal 2017.

In just a few moments, we'll hear comments from Terry and Jeff 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 Pier 1 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 a call over to Terry London, Interim President and Chief Executive Officer. Terry?

Terry E. London - *Pier 1 Imports, Inc. - Non-Executive Chairman, CEO and Interim President*

Thank you, Bryan. Good afternoon, everyone. It's probably a little unusual to have your Chairman and your interim CEO speaking, and it's been a while since I've been in a conference call. So my intent is not to spend much time hearing me, and we'll let Jeff answer a lot of the questions today.

I've had a chance to talk to some of you on the phone. Some of you, I do not know. But let me just give you a quick idea of what I am going to talk about. I'll give you a high-level overview of 2017. I'll share some thoughts with you about how the board hired Alasdair James and our thoughts about him. And then Jeff will discuss the fourth quarter and the full year 2017 results, and we'll give you some guidance for next year and the first quarter.

Just a little bit about me, which you probably are already are aware. I've been in business for 40 years as both a CEO and a CFO, primarily in the media, entertainment and hospitality business, even though I did put the first investment in Bass Pro Shops when I was at Gaylord Entertainment with Johnny Morris. That was an interesting experience to go through from -- from a retail standpoint. But for the last 4 months almost, I've been the interim CEO here and coming to work regularly as well as wearing my Chairman's hat. So it's been an interesting time to be here and I have been thoroughly impressed with this management team. They are -- they've done an excellent job of continuing to execute the plan that was put in place by Alex and the team before he left.

I've been a member of this board since 2003. I'm the longest serving board member. I've been through the tough times back when the recession got us down to $0.10 a share, when many of you probably thought we were not going to survive. I've never lost confidence in the brand and the management team of this organization. But certainly, the omni-channel transformation has been a challenge, and it's been a tough go. But I think we've gotten through it, and I give a lot of credit to those that have come before us and the brand that has been built and a very loyal customer base and a management team and a board that is willing to try to do the hard things. With the omni-channel work that we have done though, I do believe, for the future, it really presents some great opportunities for us as we work through this retail environment.

There's a strong culture here at Pier 1, and that's indicated in the brand and the loyalty base. And we really had demonstrated some resilience in this changing and challenging retail environment over the last few years. From my perspective and from the board's perspective, the second half of this last year was much improved over the first half. No doubt about it. We've returned to some positive comps. Our inventory management has been good, and it's been led by newness and emphasis on some key categories. The team's done a good job of merchandise and margin expansion, and it's been driven by more effective promotional strategy and supply chain improvements.

I think that our marketing plan of returning to TV advertising and the introduction of the non-tender loyalty program has really helped drive the performance of the second half of last year and continues to do so now. We've had a strong e-commerce growth as Jeff will talk to you about, has grown to a $360 million business in 5 years. And I have to say and remind you, there's been a lot of work done on cost containment efforts at this organization, and we know we've got more to do. But there's been a lot of good work done there. So I think we're well positioned to go forward in an environment that we see ourselves.

I'll let Jeff talk about the details of the financials in just a minute, but let me give you some -- my view on Alasdair James and at least from a Board of Director standpoint, the process that we went through. Korn Ferry led the search for us. It was a very rigorous process. Our nom and gov chair did a yeoman's work as did all the other board members. There are 8 of us. We were very engaged in this process. We know it's our most important job, is to find somebody to lead this organization. The board members are very experienced, very capable, and we're very much committed to building a long-term value for the shareholders of this company. The process was extensive. It was very rigorous process, and all of the board members, as I said, did participate in this thing.

We screened and we interviewed dozens of candidates. It took a lot of time. Our requirements were leadership, were very critical. The list of criteria was very long, some of the things we talked about and would be obvious to you, but we did create this list. We certainly needed somebody that knew the retail and consumer products world. We wanted somebody that was customer focused. We would have liked to get a merchant or somebody that has merchandising experience or has managed merchants, somebody that would drive execution, hopefully, with international experience and supply chain experience. We've got to continue to reduce cost in this world. Critical to have omni-channel experience, somebody that would be innovative and strategic, a -- somebody that is a good solid marketer with an appreciation for brands and somebody with a vision to lead in a challenging retail environment. There were probably another 10 or more items that we considered. One of the most important ones was we had to find somebody that would fit the culture of Pier 1 in Fort Worth, Texas. Those were some of the categories.

Now no one individual, in my mind, is going to be able to meet all of those qualifications. And wherever -- as we went through the process, Alasdair clearly became our top candidate. He's got a great background at working from some top-notch companies. His training has been good, his sales, marketing, brand management, supply chain and omni-channel experiences and a lot of analytics that he's had experience in. His experience in China where we do a lot of vendor -- a lot of our vendor relationships are based in Asia. That was a very positive to us. He was smart. He's aggressive, and in our judgment, he absolutely fits the culture of this company in a way that I don't think we're going to lose a step.

Now that doesn't mean he won't consider changes, and this management team is open. We are open to what it needs to be to succeed in the future. So changes are inevitable, and we have the courage and the desire to continue to try to improve to make the company better.

So as Chairman of the Board, I'm really happy as to what we've gone through over the last 6 months. It's been somewhat of a challenge as we all know. We've worked our way through it. We've got the company going in the right direction. I think Jeff's done a great job here as have all the other managers of this company and the associates. They really didn't miss a step.

And I also would thank Alex Smith. He did a good job for us. He announced that he was leaving last September, but he kept working until December 31 when he left. And a lot of the things that we're seeing today were plans that he put in place before he left.

So with that, I will turn this over to Jeff, and he can tell you the detail.

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

Very good. Thank you, Terry, and good afternoon, everyone. I'll begin my remarks with a review of our fourth quarter results followed by a discussion of key initiatives for fiscal 2018 as well as our financial outlook for the first quarter and for the full year.

First, a few key financial highlights from the year just completed. Our e-commerce sales grew to more than $360 million, which reflects total sales penetration of 20%. For the first time since undertaking our omni-channel transformation, contribution from operations, an important measure for us, demonstrated year-on-year growth on both a dollar basis and as a percent of sales. We carefully managed inventories again this year, ending the year with inventory levels down 1% on top of a 15% reduction on the prior year. Our business generated strong cash flow from operations of $116 million, and we continue to return excess capital to shareholders through share repurchases and cash dividends.

As Terry said, we finished the year on a strong note. Company comparable sales were positive, up 20 basis points in Q4 versus the prior year, despite the negative impact of a more challenging weather pattern this year. E-commerce sales grew 28% in the quarter with sales penetration expanding to 19.5% versus 15% of total sales in Q4 last year.

Fourth quarter net sales decreased 2.6% to $528 million as the average number of stores was down approximately 3%. Fourth quarter gross profit improved to $207 million versus $197 million a year ago, while the gross margin rate expanded 290 basis points to 39.2% from 36.3% in the fourth quarter of fiscal 2016.

Looking at the key components within gross margin. Starting with merchandise margin. We delivered increases in both dollars and rate. Specifically, merchandise margin dollars increased to $300 million from $285 million a year ago, while merchandise margin rate expanded 420 basis points to 56.7%. This year-over-year margin expansion reflects improvements in each underlying core component, which includes: better sourcing and careful management of inventory, including lower clearance levels; a more effective promotional strategy; an increased efficiency within our supply chain, including lower handling and freight costs as well as favorable comparisons to last year's DC issues.

Turning now to delivery and fulfillment net cost as a percentage of sales. We deleveraged on a year-over-year basis, primarily due to the lower free shipping threshold we utilized in the third and fourth quarters to help drive sales. The majority of our fulfilled orders were eligible for this promotion in the period.

Lastly, store occupancy costs in the fourth quarter decreased by almost $2 million to approximately $72 million and came in flat year-over-year as a percentage of net sales. The results reflect the positive impact of our real estate optimization program as well as ongoing cost containment efforts. Our real estate initiatives are ongoing and include optimization of the portfolio, lease renegotiations and analysis of our current store format.

Turning now to SG&A. Our broad-based emphasis on cost containment continues to bear fruit. We captured SG&A efficiencies across the organization, particularly in our stores and corporate functions. During the fourth quarter, we achieved savings of close to $5 million year-over-year between both compensation for operations and operational expenses. We also delivered another $3 million of savings in corporate payroll and benefits, though this was offset by the achievement of a portion of our annual short-term incentive compensation, the first payment of the short-term incentive in several years.

As with our third quarter, these reductions within SG&A were offset by 3 areas of expense during the quarter: The first was our planned increase in marketing spend of a little over $1 million; The second consisted of certain incremental expenses. Specifically, we incurred approximately $2 million of expense for legal and advisory fees, CEO transition costs and certain cost for subleasing portions of our corporate headquarters. The third bucket of additional expense includes approximately $2 million of cost related to the departure of our former CEO. Despite the investment spend for marketing and these incremental expense items, in total, Q4 SG&A dollars decreased slightly year-over-year to $149 million, while SG&A rate increased by 40 basis points to 28.1%.

Fourth quarter operating income increased substantially to $45 million from $34 million a year ago. Net income came in at $26.6 million or $0.33 per share. After adjusting for approximately $2 million of expense related to our CEO departure, including the related tax effect, non-GAAP adjusted net income was $27.8 million or $0.34 per share. That's up from $18.7 million or $0.23 per share in Q4 of last year.

Looking at the balance sheet. We ended the year with $155 million of cash and cash equivalents, which is an increase of about $40 million from a year ago, and we have no working capital borrowings under our revolving credit facility. Ending inventory totaled $401 million, representing a decrease of approximately 1% from a year ago.

The combination of our effective strategies, improving financial performance and healthy balance sheet provide a strong foundation for fiscal 2018 and beyond. Additionally, as Terry mentioned, we have the benefit of an incoming CEO who understands the strength of our brand and the value and potential of our omni-channel model.

Thus far, in fiscal 2018, our teams have been focused on executing our plans and continuing to grow sales and profits. I'll share some perspective on our key areas of focus.

First, merchandising. We are dedicating greater resources to strategic categories where we see the potential to drive sales at a higher growth rate than other merchandise areas. We're also focusing on our top selling collections, which allow us to realize efficiencies in marketing and inventory management and capitalize on expansion opportunities. We're continuing to emphasize newness across all categories, including our recent addition of select Magnolia Home product categories and our implementation of a drop ship program. Lastly, we've invested in technology to provide better analytics to support decision-making in product selection, pricing, promotions, planning and allocations.

Looking at e-commerce. Our plans include further investments in technology and ongoing site optimization to ensure that we're differentiating our merchandise presentation, delivering a superior customer experience and distinguishing the Pier 1 Imports brand. This entails continually evolving our functionality, content and features to ensure we maintain our strong position in the online home furnishings market.

Turning to marketing. We are focused on driving customer acquisition through additional funding for television and digital advertising. We feel very good about the work we've done to reallocate spending and believe our return to television advertising last spring helped drive brand traffic and contributed to the strengthening of our sales trends in Q3 and Q4.

In fiscal 2018, we're planning to increase our marketing spend to approximately 6% of sales, which is up about 30 basis points from fiscal 2017. We're also seeing outstanding results from our expanded loyalty program, including our new multi-tender loyalty tier, Pearl, which launched last fall. This is bringing more customers into our database and driving a higher percentage of sales attributed to loyalty customers.

And many of you know, improving our supply chain efficiency is a key area of focus for us. Our plans include fulfilling large parcel e-commerce orders out of our existing East and West Coast DCs, implementing new DC processes to improve overall efficiency and consolidating our Columbus DC and fulfillment centers into one building. Broadly speaking, we'll be leveraging the space we have across the network to reduce cost and improve service.

Over the past year, our teams have done a terrific job balancing store operational costs against our delivery and fulfillment expenses, and that will begin -- continue to be a major area of focus in fiscal '18. To that end, we are continuing to execute our store optimization program, recognizing that our Pier 1 Import stores remain a critical part of the customer experience and overall selling equation. We're working to ensure the stores are as efficient as possible from a cost perspective and at the same time, adding programs to drive sales in-store.

In addition to our broader merchandising and marketing initiatives, we're increasing our use of in-store events, which are meeting with positive customer response and driving sales. We are also implementing strategies to enhance our field operations and identifying opportunities to drive labor savings while enabling more focused and effective customer engagement and selling activities.

As you can tell, while our omni-channel transformation is operationally complete, our current teams are working to continually evolve our business model. As e-commerce penetration expands and at-home delivery increases, we are looking at ways to operate as lean as possible, and we continue to uncover additional opportunities within the supply chain, store operations and corporate overhead. Importantly, we believe we can drive further efficiency while continuing to invest in the kind of customer-facing initiatives that have allowed us to improve our top line trend in recent quarters.

Now I'll turn to our financial outlook for fiscal 2018. Let's start with full year guidance, which is being provided on a 53-week basis: net sales growth of approximately 2% to 3%; merchandise margin of approximately 58%; selling, general, administrative expenses of approximately 31.5% of sales, including marketing spend of approximately 6% of sales; interest expense in the range of approximately $13 million and effective tax rate of 39% for the year; earnings per share in the range of $0.46 to $0.52 and diluted shares of approximately 81 million.

Operating income growth in FY '18 on a 53-week basis, after adjusting out onetime items -- expense items from our FY '17 results, should be well over 20%. We expect the 53rd week to contribute approximately $26 million to 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 growth of approximately 1% to 2% for the full year and fiscal '18.

For the first quarter of fiscal 2018, we are providing the following guidance: company comparable sales growth of 1% to 2%, net sales flat to up 1%, merchandise margin of approximately 58%, SG&A expenses in the range of $145 million to $150 million and net loss per share in the range of $0.07 to $0.03. As you think about the cadence of earnings this year, keep in mind that merchandise margin in Q3 will be up against a tough comparison to last year's 60.2% margin rate.

Now we greatly appreciate your interest and support and look forward to keeping you updated on our progress this year. Now Terry and I will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Budd Bugatch from Raymond James.

David Vargas

This is David on for Budd. I was wondering if you could talk a little bit about, in the first quarter, particularly in SG&A, what are we going to see year-over-year that's driving that dollar increase. Is there something there to make sure that we focus on, whether it be a marketing increase year-over-year?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

Yes. The primary increase in Q1 is marketing dollars. As we mentioned, we're increasing our investment spend in marketing to 6% of sales overall. I will tell you, as a percent of sales, it's a little bit heavier in Q1 and Q3. But it's the investment spend in marketing that's driving it in Q1.

David Vargas

Got it. And on the stores, you said you expect to close net 20 to 25 for the year. Can you give us an idea of the cadence of the store closures throughout the year?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

They'll be weighted a little bit to the midpart of the year, but I would tell you, the bulk of them generally happen in the January-February time frame at the end of the year, just the way our lease pattern works. So we'll close probably 1/3 of them or so by August to September, but the remainder, it happens at the end of the fourth quarter.

Operator

And our next question comes from the line of Dan Binder from Jefferies.

Dolph B. Warburton - *Jefferies LLC, Research Division - Equity Associate*

This is Dolph Warburton on for Dan. Embedded in the comparables for sales guidance for the year, I see that -- it looks like in-store comps have been decelerated sequentially. So when you look out over the next year, where do you guys kind of looking out for online growth versus like in underlying trend for in-store comp?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

In the back half of FY '17, we saw improvement in the in-store comp overall. We expect that trend to continue throughout FY '18. Think about the marketing programs we talked about with the added advertising, the loyalty program as well as the in-store events. That's helped in the in-store traffic and in-store sales. Our online sales will probably be similar growth rate overall to what we saw this year, which is about a 20% increase. So to model, about a 20% increase on online that would -- that should get you there.

Dolph B. Warburton - *Jefferies LLC, Research Division - Equity Associate*

Great. And just a separate question if I may. When -- do you guys like have kind of a time frame as to when we can expect to hear Alasdair's like strategic assessment of the business?

Terry E. London - *Pier 1 Imports, Inc. - Non-Executive Chairman, CEO and Interim President*

This is Terry. He's starting May 1. I think he needs enough time to get here and get his feet really on the ground and go through some analysis. He's not had a chance to do that. He has met management team last week just for an evening. So I'd say it's got to be probably late summer, early fall before he'd be comfortable doing that. I think you got to give him some time.

Operator

And our next question comes from the line of Simeon Gutman from Morgan Stanley.

Joshua M. Siber - *Morgan Stanley, Research Division - Research Associate*

This is Joshua Siber on for Simeon. So just a follow-up on that question. My math suggests that store comps are down, call it, 3% to 4%. When do you see this moderating? And related, what's the sales retention rate that you're seeing from stores that you're closing with sales that move online?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

Actually, the 3% to 4% store number is actually probably pretty accurate for what we did in the back half of last year and kind of wrapping into FY '18. So we're not really looking at any moderation in the short term on that, Josh, but I think your backwards math is accurate to kind of back into that. I'll have to look into FY '19 and '20 to see what we're seeing overall from a retail environment, what's going on there. But right now I think your modeling is pretty accurate for in-store traffic and sales. Regarding the retention, when we closed stores, we're still seeing about 20% of our store sales from a closed store. We do retain those. They tend to go to neighboring stores within a 10-mile radius. Now we do, do a fair amount of online business now as well in that ZIP code, those ZIP codes for a closed store. We see that most of that -- those sales remain, but there's about an 80% retention of those online sales and about 20% retention of in-store sales.

Joshua M. Siber - *Morgan Stanley, Research Division - Research Associate*

Okay. And then with respect to the comp outlook to 1% to 2%, can you just talk about what factors give you confidence that they can rebound to this low single-digit range? How much of it is a factor of easy compares versus core improvement?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

I would tell you what gives us confidence is the programs that we put in place in the back half of last year and the trend we saw. And I just kind of -- we talked -- I mentioned a little bit about weather. We haven't really quantified that, but our weather impact in Q4 was about 200 basis points. So if you think about the last 2 quarters, Q3 and Q4, on a weather-adjusted basis, we're doing roughly a 2% comp. As we're looking at the business right now in the first quarter, our current call is to do a 1% to 2% comp. We feel pretty comfortable of that. So we feel like we have 2 to 3 quarters of kind of good underlying trend with the new marketing programs, the new merchandising programs, the loyalty programs. All those things are supporting the business really well right now, Josh.

Operator

And our next question comes from the line of Brad Thomas at KeyBanc.

Sameet Anil Desai - *KeyBanc Capital Markets Inc., Research Division - Associate*

This is Sameet Desai on for Brad Thomas. As you'd lapped the significant improvements made in merchandise margins from back half of '17, can you talk about what kind of opportunities there might be to see continued improvement in the back half of this year and what some of the drivers behind that might be?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

This past year, the drivers have been, I would say, more pronounced because we have -- we're coming across some supply chain and inventory issues. But those same drivers we had this year, in FY '17, will largely continue but in a lesser rate. This year, in FY -- recently, FY '17, we got 200 basis points. As you can tell with our guidance we gave you, we'll be getting close to 100 basis points, this next year, but it's coming from the same drivers. It's coming from better inventory management, the size of our buys, which will give us better clearance performance, better margin rate on clearance, also better performance on our promotional efficiencies and also continue improving our supply chain. All those 3 will continue to drive the business but at a little bit of a lesser rate mostly, as you noted, because we're cycling through a lot of the things in FY '17. But we have a lot of programs and plans in place to continue those in FY '18.

Sameet Anil Desai - *KeyBanc Capital Markets Inc., Research Division - Associate*

And then on inventory, you mentioned in your prepared remarks that those were down 1% against pretty substantial declines the year before. How should we think about inventory, your inventory levels for the year ahead?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

I think about them, we're still going to try to manage low single-digit decline. So you think about FY '18, a 1%, 2%, maybe a 3% decline in inventory levels year-over-year. We think that we just need to continue to be efficient in our utilization of inventory.

Sameet Anil Desai - *KeyBanc Capital Markets Inc., Research Division - Associate*

Great. And then last question for me would be, in the previous quarter, you mentioned brand traffic was up 10%. Can you tell us how that trended in the fourth quarter?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

Brand traffic in the fourth quarter, I believe, was up about mid-single digit in Q4 on that. Don't know if I have that handy or not. But last time I looked, I think it was about mid-single digit on brand traffic.

Operator

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

Atul Maheswari - *UBS Investment Bank, Research Division - Associate*

This is actually Atul Maheswari filling in for Michael Lasser. So your e-commerce operations are -- has seen a pretty sizable increase in penetration last year. I think it was 16% in FY '16, and it's at 20% this year.

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

That's right.

Atul Maheswari - *UBS Investment Bank, Research Division - Associate*

So do you think if that level of penetration increase continues, there is a case where you might want to accelerate store closures in the future?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

We are modeling out our store performance on a store-by-store basis, and the model still says the 20, 25 store closures for the next couple of years. We're looking at when those stores might turn negative overall. So we don't think we'll really accelerate that. We want that penetration going up from 20% to the low 20s, to the mid-20s. Those stores are generally pretty profitable. We have pretty good margin structure in those stores, so it's going to take a while before they turn negative. But we continue to monitor those, and we're doing that on a regular basis.

Atul Maheswari - *UBS Investment Bank, Research Division - Associate*

Okay, that's fair. And can you also remind us as to what percentage of your stores are based off malls?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

Oh, actually, we have no mall-based stores. We do have stores that are around the mall and on pads in the mall, but we have very few stores -- we have no stores that are actually in the mall.

Operator

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

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

I guess, I'll just start on the SG&A. Thank you for all the color on that. The one thing I thought was interesting was sort of commentary that first quarter will be up year-on-year on marketing. I thought last year first quarter was actually the biggest year-on-year increase. And then just relative to guidance for the year, you did mention you are cycling some of the free shipping and gross margin benefits in the third quarter. Sort of what is baked into the back half from a promotional and/or marketing perspective? What types of potentially increases do we see in the back half of the year, and could we see SG&A up year-on-year?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

I'll answer that one. The last question first, the easiest one. You won't see SG&A up year-over-year. SG&A will be down. You do have to adjust for the onetime items and things that are in there. So -- but that's excluding the marketing spend. The marketing spend is going to be up at 6% of sales, that the higher sales on 53 weeks and about 30 basis points of additional spend this year. So investment is going to marketing. Now going back to your kind of cadence of marketing spend. You have a very good either note taking system or memory, Adam. You're absolutely right that the investment spend last year was more sizable in Q1. That is we reintroduced television. In the later quarters, we rebalanced a bit more, but it was a bigger spend. I will tell you, there is a bigger increase again in Q1 this year. We are doing some experimentation with 30-second commercials. You should start seeing those running currently on this, and so we have some additional dollars. 30-second commercials are, we think, a better vehicle to tell the brand story, but they are more expensive. So we are doing some testing and learning in Q1 to understand the benefits of that. And then from a cadence standpoint, I'd tell you, still our really important quarter tends to be -- from a marketing spend standpoint going into Christmas, is actually the third quarter. Our third quarter ends in November. So we have a fairly hefty spend there. So our other big increase is in Q3. So you'll see most of our dollars increase in marketing in Q1, which is our outdoor spring season, pretty important to us and our harvest and Halloween in Q4, really the October, November time frame, we do some additional marketing.

Operator

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

Marvin Milton Fong - *BTIG, LLC, Research Division - Analyst*

This Marvin Fong on for Alan. Just a couple of questions. Just the first one, you mentioned the possible weather impact -- or you did mention weather impact in the first quarter and for this past quarter. And also your quarter kind of ended a few weeks after the biggest gap in the tax refund delays. I was just curious if you could either add some color on how much weather was an impact and whether you think the tax refund delay also had any impact.

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

We don't -- we're not impacted as much as other retailers by the tax refund. We hear that from other retailers, and we've taken a look and have never really seen an issue on our business with that. I think it's because our customer is middle to upper income, and they're not as dependent on a tax refund for their open to buy they're spending in our product category. Weather was impacted, and weather impact, I referenced, was for Q4 and that Q4 -- our Q4 runs December through February. And the biggest impact for us is actually December and January, a little bit of a lesser impact in February. But it was about $10 million, which is about 2 percentage points on our sales level for the quarter. Many people have referenced that March had a weather impact and that second week -- second or third week of March, we saw one, but it's baked into our forecast for the quarter.

Marvin Milton Fong - *BTIG, LLC, Research Division - Analyst*

Okay, great. And then just one follow-up. You haven't been active repurchasing shares lately the last few quarters, and I understand that. I was just curious if you have any thoughts about maybe getting more active in the market?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

Our thoughts on repurchase is, at this point, is it all goes back to our capital allocation program, and the most important thing we do is manage for a long-term company growth and growth in the company. So the first thing we do is invest in the CapEx expenditures, which is about $55 million this year. Then, the second thing we do is our commitment for the dividend program. The third part of it is really kind of balancing liquidity and our share repurchase. We think it's important to stay fairly liquid and have a lot of financial flexibility. That said, we do like to use our share repurchase to offset dilution. So we do anticipate being able to offset dilution this year from the equity grants in fiscal 2018, but that'll probably be the limit of our share repurchase in '18.

Operator

And our next question comes from the line of David Magee from SunTrust.

David Glenn Magee - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Jeff, can you tell us -- or first confirm you're forecasting 20% e-commerce growth this year. Did I hear that correctly?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

Yes.

David Glenn Magee - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

That seemed a little strong just compared to what you put up last year. I'm just curious how you sort of see that flowing throughout the year. Do you see it being 20% throughout the year? Or is that sort of weighted to the first half? Or how does that play out?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

There is probably a different cadence this year versus last year. Last year, we did less than 20% in the first half of the year but more than 20% in the second half of the year. The introduction of our free shipping offer really helped traffic and conversion online, so that boosted 20%. And what you'll see probably is the inverse this year. We are going to see, again, the continuation of free shipping in the first half of this year will help drive online sales, and then it'll slow in the back half of the year. That said, as we have a lot of enhancements at the site and things we're doing for our site and the addition of rolling out a drop ship program as well. So we think a couple of things in the second half of the year will help boost the sales and get us to the 20% for the year.

David Glenn Magee - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

And how would you describe the promotional environment right now online?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

It (inaudible) gets any more promotional. I don't know if we can get any more promotional. It just is a very promotional environment. It's been that way for a number of years, and it's that way right now. Now we haven't been any more promotional than we've been -- we really plan to, so we feel like we have the promotional plans and cadence in a pretty good place right now. But it is promotional out there.

David Glenn Magee - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

And then lastly, are you seeing any difference with regard to the number of customers that pick up in store?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

I would say we had some growth on pick up in store, our store traffic and POS is down, but actually, pick up in store has continued to grow at a positive rate. I'd also tell you that our -- we have a cashwrap receipt, where we order online, and people get the delivered either to the store or, home. And that's shown some oversized growth as well. So we truly are an omni-channel operator with how people can pick up in store or order in store and get delivery. And both of those channels are growing faster than the store traffic and POS is.

David Glenn Magee - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Is the percentage of the store pickup growing for -- as a percent of the e-commerce business?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

Not quite at that same rate, a little bit of a lesser rate but still growing strongly.

Operator

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

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

I wanted to ask about delivery and fulfillment cost. When we think about the back half of the year, once you lap the free shipping change, should we still expect to see pressure? Are you at the point with the scale you've reached 20% of sales where you can cover some of those costs?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

There'll still -- Cristina, there'll still be some pressure. We've had a little bit of outsized pressure in Q3 and Q4, and then we're lapping around in Q1 and Q2 because of that free shipping offer. We love what it does from a communications standpoint, our marketing standpoint to really drive sales, but it has put some cost pressure on. But that will moderate in Q3 and Q4. We'll still have an increase in the overall deleveraging that happens there but not at all to the same degree on it. And all that's happening there is just the mix shift of going online and growing faster than overall sales level is what's driving that.

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

And then on merchandise margin, where do you see the biggest opportunity to drive the increase? Is that coming from more efficient promotion, supply chain efficiencies? Or where is the opportunity there?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

I would tell you, in FY '18, we're probably a bit more balanced across all those, where in the past, we had a lot of supply chain efficiencies because of the challenge about the inventory piece. But in FY '18, it's going to be -- I'll give a little bit of credit to the sourcing, the buying side as well that our buyers are doing a good job of sourcing the product, getting good cost and good initial markup, gets promotional efficiency with the promotional programs. It is managing the clearance very tightly. I should say -- actually say inventory levels on the buys, which reduces the clearance liability, we've been much more effective and focused on that. And then the supply chain efficiency, our supply chain guys are doing a great job in everything they can from a slotting standpoint to a transportation standpoint and becoming more efficient. So it's really kind of across the board. I don't have one single silver bullet. It's lots of small BBs.

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

And then one last one. Can you update us on the test with Google Express? How's that going? Is that contributing to e-commerce? And would you look to invest into different markets?

Jeffrey N. Boyer - *Pier 1 Imports, Inc. - CFO and EVP*

Yes, it's going well. I would tell you it's a pretty small part of our business. Mostly, it's helping us learn and understand how we can deliver and distribute from stores. And it's still on an evaluation stage. But we're looking at many different options of how to sell, how to distribute from stores on it. So still more to come on that one, Cristina.

Operator

Ladies and gentlemen, that concludes the Pier 1 Import conference call for today. We thank you for your participation, and you may now disconnect. Everyone, have a great day.