

THOMSON REUTERS

EDITED TRANSCRIPT

Q1 2020 Pier 1 Imports Inc Earnings Call

EVENT DATE/TIME: JUNE 26, 2019 / 9:00PM GMT



CORPORATE PARTICIPANTS

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*
Christine Greany *The Blueshirt Group, LLC - MD*
Darla D. Ramirez *Pier 1 Imports, Inc. - Principal Accounting Officer*
Deborah Rieger-Paganis *Pier 1 Imports, Inc. - Interim CFO*

CONFERENCE CALL PARTICIPANTS

Beryl Bugatch *Raymond James & Associates, Inc., Research Division - MD & Director of Furnishings Research*
Steven Paul Forbes *Guggenheim Securities, LLC, Research Division - Analyst*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Pier 1 Imports First Quarter Fiscal 2020 Earnings Call. At the request of Pier 1 Imports, today's conference call is being recorded. (Operator Instructions) I would now like to introduce Christine Greany of The Blueshirt Group.

Christine Greany *The Blueshirt Group, LLC - MD*

Thank you, and good afternoon, everyone. Today, after market close, we issued our earnings press release, which included the financial results for the first quarter of fiscal 2020. Before we begin, I need to remind you that any statements made today regarding our business may be deemed to include forward-looking statements that are based on current estimates or expectations of future events or future results and are made pursuant to and within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from such statements. Any forward-looking statements made today are as of the date of this call, and the company does not assume any obligation to update or revise any such forward-looking statements. The company will also discuss non-GAAP financial measures on this conference call.

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

Now I'd like to turn the call over to Cheryl Bachelder, Interim Chief Executive Officer. Cheryl?

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

Thank you, Christine, and good afternoon, everyone. Joining me on our call today is Deb Rieger-Paganis, our Interim CFO and Darla Ramirez, our Principal Accounting Officer, Vice President and Controller. On our last earnings call, we outlined our fiscal 2020 action plan to turn around Pier 1's performance. We believe Pier 1 has strong brand equity and a loyal customer, who will return for the right style stories in our assortment. To restore health to the business, we must exit our off-brand merchandise in the second quarter, bring a strong style story and merchandise to the fall season and significantly reduce our cost structure to align with current performance.

Our financial results are expected to be weak in the first half due to the clearance of off-brand goods. In the second half, we believe our assortment and marketing reset will lead to improvement in comp sales and our cost-cutting efforts will help us deliver improvement in EBITDA versus a year ago.

As a reminder, our fiscal 2020 action plan is focused on 5 areas: revenue and margin, marketing and promotional effectiveness, sourcing and supply chain, cost cutting and store optimization. In the first quarter, our team has been laser-focused on the implementation of these initiatives aimed at getting Pier 1 back on track. We've made progress in many areas and as with any turnaround, we're learning, addressing trends in our business and adjusting our plans in real time.

I'll start by providing an overview of our first quarter financial performance and then discuss the refinement of our action plan.



First quarter net sale totaled \$314 million, down 15.5% year-over-year and company comp sales declined 13.5%, slightly below our expectation. Store traffic trends were soft during the quarter, but trends were relatively steady with what we saw in the fourth quarter.

We continued to experience softness in the AUR and lower gross margin, tracing to the lower price lower margin goods in the spring and summer assortments that were bought prior to the arrival of our new Chief Customer Officer. While UPT was up 11% in the quarter, unit overstocks remain in our stores. We know these products do not reflect the unique on-trend assortment that our customer is accustomed to finding when they come to Pier 1.

We've made the decision to take aggressive clearance actions in the first half of the year to move through these low AUR goods and ensure that our stores are ready for the new fall assortments that begin to arrive in August.

Looking at our fiscal 2020 action plan that we outlined in April, we've chosen to prioritize our comp sales recovery with the implementation of new merchandising and marketing initiatives supported by substantive cost-cutting action. Importantly, we remain on track to achieve the previously outlined benefits of \$100 million to \$110 million under our fiscal 2020 action plan, and we now expect the substantial majority of these to come from cost-cutting action.

We've identified incremental cost savings opportunities in store payroll, bringing our total expected SG&A reduction for fiscal 2020 to approximately \$90 million compared to our previously provided range of \$70 million to \$80 million. As a reminder, we expect the majority of the savings we've outlined to be realized in the second half of the year. We also expect to capture sourcing and supply chain savings, which will benefit gross margin dollars when the product is sold.

Since our April earnings call, we're now assuming a more gradual recovery of comp sales and gross margin based on: 1) the more aggressive promotional stance we're taking in the first half; and 2) a more conservative assumption of AUR improvement in the second half. So while we're increasing our expense savings in this update, we don't expect to achieve the EBITDA recapture we previously outlined for fiscal 2020. We believe the full effect of our initiatives will provide a more substantial opportunity for EBITDA recapture in fiscal 2021.

Now I'll update you on the progress we're making against each element of our fiscal 2020 action plan.

First, revenue and margin. After assessing the business from top to bottom in January, we took immediate action to influence the store experience and marketing for the spring season as much as possible. Working within the confines of the existing assortments, we refocused merchandising and marketing to emphasize key categories, like Easter and dining. We did see positive customer response to our March event, but April and May were challenging due to softness in outdoor furnishings and other summer merchandise. We've built a compelling merchandising and marketing plan for fall and the holiday. We'll be returning to the familiar best-selling categories she wants and providing the unique Pier 1 finds she expects from us. We believe our renewed emphasis on important and profitable categories, such as indoor furniture and housewares will help us begin to restore AUR and gross margin in the second half.

Next, I'll discuss the second area of the plan, marketing and promotion. Our business goal is to drive traffic by inviting our customer back to Pier 1 to see the new style stories of fall. We've hired an outside agency that helped us develop a compelling new campaign. We've created a style story for every week of the season that will be communicated through TV and more strongly in digital. Also, we're taking a more forensic approach to marketing spend and have begun to deploy our spend in a more targeted and efficient way. We are using analytics in leveraging our predictive modeling tools to help drive our decision-making. Pier 1 has extensive customer data we can leverage, and in the first quarter, we began further integrating this into our marketing initiatives. We also began using better planned pricing and promotion, with an emphasis on storytelling versus individual product promotion.

The third area of opportunity I'll cover is sourcing and supply chain. Our strong base of vendors and sourcing partners has long been one of Pier 1's major strengths. Last month, I joined a group of senior leaders. We traveled to vendor conferences in China, Vietnam and India where we met with nearly 300 of our vendor partners. During our strategy and planning sessions for next spring, they responded well to our emphasis on innovation and expressed their desire to be part of our comeback story. We're pleased that our partners recognize the opportunity we have to restore the health and promise of the business. They continue to be for Pier 1. We believe their support is one of



the greatest assets in the Pier 1 turnaround.

Looking at supply chain, we've begun making progress with our initiatives to reduce cost, increase speed to market and better serve our customers. In the first quarter, we initiated RFPs across our third-party logistics network and those we have completed are delivering significant savings. We've also been successful in lowering our labor costs in the DCs in this quarter.

Turning now to the fourth area of cost reduction. As I mentioned earlier, for fiscal 2020, we've identified approximately \$90 million of SG&A savings opportunity, which represents approximately \$105 million to \$115 million of expected SG&A savings on an annual run rate basis. This includes reductions in marketing, G&A and stores. For business-critical spending, we've been renegotiating contracts to lower our cost base. We're tracking to our plan to realize the majority of these savings in the second half of the year.

On a related note, with our fiscal 2020 plan now defined and core capabilities in place, we're beginning to wind down our relationships with external consultants. These partners were brought in to help us analyze the business, reevaluate and reengineer processes to build the internal capabilities we need for a prosperous Pier 1 future. Among those best-in-class supporters is AlixPartners. They've been instrumental in helping us assess the state of the business, identify financial and operating levers to improve performance and implement action plans much faster than we could have done on our own. We appreciate their support to-date, and we'll continue to have Deb from AlixPartners serving as Interim CFO, along with a few others, who will remain in roles through the summer.

In addition, as we've previously communicated, the Board's work with Crédit Suisse to evaluate strategic alternative is ongoing, and no formal conclusions have been drawn yet.

The fifth area of opportunity under our plan is store optimization. Across-the-board, we've been asking our partners to contribute towards making the Pier 1 turnaround a success. We are in active discussions with our landlords and are beginning to realize the occupancy cost reductions contemplated under our fiscal action plan. Where we have not seen landlord participation, we have begun our store-closing program as we said we would. As negotiations take place, we're evaluating the chain and we'll continue to close stores that do not meet our performance goals. Bringing occupancy costs in line with store sales performance is vital to ensuring the long-term viability of our portfolio. While we remain committed to having a substantial brick-and-mortar presence as the cornerstone of our go-forward strategy, we know it's imperative to optimize the fleet price over time and ensure we're in the right place with stores that have the right unit economics.

As a reminder, approximately 15% to 20% of our leases are up for renewal each year. Thus far, we've decided to close approximately 57 stores in fiscal 2020, which represents an increase of 12 locations from the 45 closures we indicated on our April earnings call. We're continuing to work with A&G Realty to address rent expense and determine the ideal footprint going forward. If we are unable to achieve our performance goals, sales targets and reductions in occupancies and other costs, we could close up to 15% of our portfolio.

Before turning the call to Deb, I'd like to comment on the China tariffs in light of recent developments. This is a situation we've been very thoughtful about and proactively planning for. In fact, we've been taking actions to reduce our exposure to China since last summer, by leveraging the strength of our global sourcing team. Specifically, we've negotiated cost reductions with many of our vendors, moved some of our sourcing to other countries and in some cases, our vendor partners have expanded to other countries as well.

In our turnaround, we're working to ensure that Pier 1 is delivering quality, value and unique finds to the customer. With the advance of tariffs, we've carefully reviewed our assortment and implemented price increases to mitigate a portion of the tariff increases. The balance will impact margins. The 25% tariff increase has been fully reflected in our financial plan for fiscal 2020.

To recap our expectations for the year, in the first half of fiscal 2020, we anticipate the comp sales and gross margin rate will remain under pressure and EBITDA losses will continue. In the second half, when we are able to provide our customers with a compelling reason to shop Pier 1, we believe we'll be positioned to begin demonstrating improvement in our comp sales and our margin rate trend versus year ago.

At the same time, our cost-cutting actions will take hold. We're focused on driving traffic and sales and anticipating a longer time frame

to move to positive EBITDA. We're committed to turning around the business and the senior leadership team is heads down getting that work done. Importantly, we believe the initiatives I've described and our available liquidity will give us sufficient runway to accomplish our fiscal 2020 goals. We continue to look for levers and ways to build a better performing company that will thrive over the long term.

I'll now ask Deb to join in and review the financials.

Deborah Rieger-Paganis *Pier 1 Imports, Inc. - Interim CFO*

Thanks, Cheryl, and good afternoon, everyone. Net sales declined 15.5% to \$314 million in the first quarter, while company comparable sales declined 13.5%. First quarter gross profit was \$79 million versus a \$120 million a year ago, and the gross profit rate came in at 25.1% versus 32.3% in the first quarter of fiscal 2019.

The pressure on our gross margin rate reflects lower merchandise margins as well as 270 basis points of deleverage on occupancy due to the lower sales base. The year-over-year decline in merchandise margin can primarily be traced to increased promotional and clearance activity to drive both traffic and conversion. To reiterate Cheryl's comment earlier, we're continuing to take aggressive markdowns in the second quarter as well.

First quarter SG&A dollars increased slightly to \$143 million, which includes \$19 million of transformation costs. The SG&A rate deleveraged by 820 basis points with approximately 600 of that coming from transformation costs. As you heard from Cheryl, we are implementing additional cost-cutting actions and expect the majority of our planned reductions to take hold in the second half of the year.

As a reminder, we recently effected a 1-for-20 reverse stock split on June 20. In our earnings press release, you'll note that per share amounts and weighted average shares outstanding have been restated to reflect this split. Our first quarter net loss totaled \$82 million or \$19.97 per share on a split adjusted basis and EBITDA was negative \$64 million.

Moving now to the balance sheet and cash flow. At the close of the first quarter, we had \$30 million of cash and investments. Ending inventory was \$327 million, down 1% from a year ago. At quarter end, there was \$190.5 million outstanding under our term loan, \$50 million of borrowings under our FILO tranche and \$20 million of working capital borrowings under our \$350 million revolver.

During the quarter, we implemented the new lease accounting standard which requires most leases to be reported on the balance sheet. This resulted in a net increase of approximately \$646 million to our assets and approximately \$685 million to our liabilities as of June 1, 2019. We appreciate your time this afternoon and your continued support of Pier 1.

Now Cheryl and I would like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Steve Forbes with Guggenheim Securities.

Steven Paul Forbes *Guggenheim Securities, LLC, Research Division - Analyst*

I wanted to start with your marketing initiatives and maybe, if you can, just expand on your plans here, right, as you sort of balance the concept of driving sales or an improvement in comp trends with your commentary right around also cutting marketing spend in absolute terms. And then maybe focus on the second quarter here, right, because I think you're cycling a pretty heavy amount of spending from last year, and so what are the 2Q plans in general as you kind of work through the clearance and markdown activity as it relates to marketing, in general?

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

So my general -- the general thought on the marketing is, I believe, we overspend on ineffective and unproductive marketing last year without fully utilizing the data and analytics available to us to make smart decisions, and so we have reduced marketing spend in this

fiscal year to what I would call an industry average, and we have shifted to using the analytical tools to spend it much more effectively against our core shopper. And so we have sharpened our toolbox dramatically in that area and have already demonstrated a higher impact on our business as a result. So it is true, marketing spend is down significantly from year ago, and it will be spent among a much more precise target with much more effective analytics behind the decision. I think there was a second part of that, that I may have forgotten.

Steven Paul Forbes Guggenheim Securities, LLC, Research Division - Analyst

Just around the second quarter, but I think you mentioned it as you sort of balance right this clearance markdown activity with, right -- just sort of trying to drive a reacceleration in comp, the balance is probably difficult, right, in the second quarter, and I think that's why you're stating, right, that comp trends probably don't improve until the back half. Maybe...

Cheryl A. Bachelder Pier 1 Imports, Inc. - Interim CEO & Director

Correct. We have a substantial amount of units in our stores right now that we want to clear effectively to make room for the new assortment, which begins coming in, in August and that will allow a gradual improvement across the fall in our AUR as the new assortment has higher-priced, higher margin categories like furnishing and housewares that were pulled out of the mix in this last season. So you're right. We're spending to move that merchandise in Q2 so that we can get the full benefit of the new assortment and its impact on AUR in the fall.

Steven Paul Forbes Guggenheim Securities, LLC, Research Division - Analyst

And then just a follow-up, right, given the cash flow outlook and as you stated, right, the sort of updated turnaround time frame for EBITDA, can you update us on your capital structure plans and any sort of refinancing efforts that are going on given that the term loan does mature, right, I think in 2021?

Cheryl A. Bachelder Pier 1 Imports, Inc. - Interim CEO & Director

So as we reported, we had \$30 million of cash at quarter end and \$20 million of borrowings under our revolver. We do not plan to update our capital structure conversation on this call, but we do feel that we have sufficient runway to accomplish the turnaround that we've described to you.

Operator

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

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

Can you talk a little bit about the gross margin rate? My calculation says that was significantly more deleveraged than was the deleverage on occupying and occupancy. Is that correct?

Cheryl A. Bachelder Pier 1 Imports, Inc. - Interim CEO & Director

I'm not sure I understand your question. Are you talking about gross -- the line we call gross profit in our release?

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

I'm talking about the merchandise margin rates. We used to get -- we were able to calculate it. We still can calculate what is essentially a margin for the merchandise margin. It looks like it was down about 450 basis points year-over-year, at least as my calculation goes versus last year. Is that an accurate assessment?

Cheryl A. Bachelder Pier 1 Imports, Inc. - Interim CEO & Director

We didn't report out merchandise margins in the call, but it is below year ago, Budd.

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

Well, if you take away the calculated buying in occupancy from the cost of goods sold, you come up with essentially what is a merchandise cost of sales. Is it not correct? I mean, it has -- you have delivery and fulfillment and you're no longer disclosing that. You

used to disclose that. You've gone opaque on that. But now we can go back to what we used to have before the e-commerce effort to get a merchandise margin rate and year-over-year, it's looks like that differential mathematically works to be about 450 basis points. Is that correct?

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

That makes sense to me, Budd.

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

Okay. And tell us what you're clearing. You said off-branded merchandise. Can you give us some examples of what are we talking about Joanna Gaines? Are we talking about, I mean, Magnolia Home? Or what are we talking about there in terms of the off-branded merchandise and as we look at that?

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

So the assortment mix is what I'm talking about, Budd. We bought substantially more units of lower-priced, lower margin goods and we have removed units of higher-priced, higher margin goods like furnishing and housewares. And so we have too much of the lower price. I call it off-brand because it's not resonating with our customer...

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

What kind of applications are at least here? Or what merchandise -- what are we talking about in terms of actual merchandise? Give me an idea. I was on the store, as you know, yesterday.

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

Yes. Think of a lot of the summer accessories sitting around the store. Lower-priced summer accessories, garden accessories, those kind of things. Pillows, outdoor pillows, those kinds of things.

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

Okay. So inventory year-over-year is down, it's essentially flat year-over-year and down from year-end. How much of that \$327 million worth of inventory is that off-brand or clearance-type merchandise? What's the character and quality of the inventory?

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

So I'm not prepared to answer that question, but I'll tell you that in dollars, it's flat. In units it's up significantly versus year ago. So our stores is, if you were in one yesterday, you saw they're loaded to the gills and we need to move that slow-moving merchandise out to make room for a new assortment coming in just several weeks to our stores.

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

So we're -- well, we had 50% off clearance yesterday as in the stores now, right? I'm looking at that and is that what we're talking about in terms of -- is there additional promotion you're going to do beyond that?

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

The promoting that we're doing in the second quarter is live and active. So I don't know what e-mail you got, but the promotion activity has been announced to the market and those units are starting to move.

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

Okay. And you're buying -- okay. I'll go into that, I guess, in a little different way. Can you talk a little bit about traffic and ticket? Can you give us a color as to the percentages that make up that 13.5% negative comp? How does that compare traffic and ticket?

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

I'm not going to break it apart for you, but it's driven by the low AURs versus year ago. Yes, low average unit retail.

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

So it's more ticket than traffic, is that fair or not?

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

Both are contributing. Our traffic trends have been comparable to Q4, and our low AURs are comparable to Q4. We've been in this slow traffic decline and low AURs since August of last year.

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

Okay. And Cheryl, we used to also get kind of e-commerce numbers and we using sharp pencils not always correctly would come up with a store comp. We don't get e-commerce anymore. You've gone away from reporting that. Can you give us a flavor of how the e-commerce business is trending year-over-year? Is there any difference in the store business versus e-commerce business? Any hope, any reason for a ray of light here?

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

Budd, our e-commerce business is outperforming our store business, and that's why I talked specifically in the fall about our goal is to drive a visit to our stores with style stories every week so that we stabilize the traffic to our stores. Our e-commerce is outperforming the stores.

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

Okay. All right. And in this quarter you spent \$5 million more SG&A than you did last year. You talk about a \$90 million differential for the year, that tells me you've got to yet recover \$95 million. I know you talked about \$110 million to \$115 million annualized run rate, but I'm talking about what will show up this year. We should hold you to delivering another \$95 million worth of cost reductions, or is it...

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

No. So Budd, if you looked at what I spoke about was that we had \$19 million in transformation costs. So if you're asking...

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

Another selling and general, is that primarily where that sits in?

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

Yes. So if you take that out, we're actually down in the SG&A.

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

So that would make that closer to \$30 million, which will mean you have about a \$5 million relative from that year-over-year. Something on that range, correct?

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

Yes.

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

What are those costs. Make sure you talk -- tell me what those costs are that make up the \$19 million so we can determine if that's something that we agree with the way you characterize it.

Deborah Rieger-Paganis *Pier 1 Imports, Inc. - Interim CFO*

That's primarily professional fees.

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

So those are the consultant fees?

Deborah Rieger-Paganis *Pier 1 Imports, Inc. - Interim CFO*

Primarily.

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

And Cheryl, you said they were going away with the exception, I guess, of your Interim CFO and a little bit else. Is that correct?

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

Yes. We're winding down our engagement this month. And as I mentioned, we'll have Deb in place and a few other people supporting us through the summer.

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

And that \$19 million, is it all consulting? So on an annual basis, it's \$80 million of consulting fees? Are we -- is that the way...

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

I did not guide to a full year consulting fees. Now that's just the quarter, that's a Q1...

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

That's what we were just told that, that was makes up that \$19 million.

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

Yes. The \$19 million was primarily professional fees, as Deb said.

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

So that's what happens. We were spending -- we were spending at a rate of about \$80 million on that.

Cheryl A. Bachelder *Pier 1 Imports, Inc. - Interim CEO & Director*

If you extrapolate, yes.

There was no intention to ever -- Budd, there was no intention to ever spend that kind of money...

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

I certainly. Yes. You just took my breath away. Last question for me. I'm really confused about this and I've been confused about 842 from a number of different companies, so don't take offense at it. You're -- you came up with a \$685 million between the current portion and the long-term portion of the operating lease. Your rental number is what, about \$200 million-and-some on an operating rent -- operating lease rent per year?

Deborah Rieger-Paganis *Pier 1 Imports, Inc. - Interim CFO*

Not a number that we actually disclose.

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

But it's required in the K, right?

Deborah Rieger-Paganis *Pier 1 Imports, Inc. - Interim CFO*

Depending on the occupancy, yes. In the occupancy line if you look at the occupancy line of Q1, okay? You can see that number that we have is \$70 million approximately.

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

I understand that. Just trying to -- I'm just trying to see. What kind of assumptions you made on store closures or store renewals, your store leases are 5 to 10 years. I'm just trying to -- the number that we come up with when we capitalize your operating leases is significantly higher than that \$685 million number, which tells me that you're really eliminating a lot of the rental that gets under the 842 calculation that gets capitalized.

Deborah Rieger-Paganis *Pier 1 Imports, Inc. - Interim CFO*

I'm actually going to ask Darla to answer that, she's actually had a lot more deep down information.

Darla D. Ramirez Pier 1 Imports, Inc. - Principal Accounting Officer

Budd, our commitment at the fiscal year at the end in the 10-K were around \$900 million for the leases and, if you remember...

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

Right, that's about 200 and yes, okay. Yes?

Darla D. Ramirez Pier 1 Imports, Inc. - Principal Accounting Officer

So if you remember, you have to apply the appropriate discount rate to get to the present value, and so the \$685 million is the present value.

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

Yes. But I was trying to get to the annualized number and what kind of discount rate do you use in?

Darla D. Ramirez Pier 1 Imports, Inc. - Principal Accounting Officer

So we're not disclosing our discount rate.

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

Yes, I didn't expect you to. I was going to be able to do the math ourselves, just but I -- but the annualized operating lease number is a disclosable item.

Darla D. Ramirez Pier 1 Imports, Inc. - Principal Accounting Officer

Yes, we disclosed that.

Operator

At this time, I would like to turn the call back over to management for closing comments.

Cheryl A. Bachelder Pier 1 Imports, Inc. - Interim CEO & Director

I'd like to thank everyone who joined us today. We appreciate your ongoing support and we look forward to keeping you updated on our progress throughout the year. Thank you. Thank you very much.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program and you may all disconnect. Everyone, have a wonderful day.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS THOMSON REUTERS'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019 Thomson Reuters. All Rights Reserved.

