THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

PIR - Pier 1 Imports Inc Discuses the Company's three-year Strategic Plan And 2019 Guidance Corporate Analyst Meeting

EVENT DATE/TIME: APRIL 19, 2018 / 12:00PM GMT

CORPORATE PARTICIPANTS

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

Christine Greany *Pier 1 Imports, Inc. - Investor Relations*

Kelly Cook *Pier 1 Imports, Inc. - EVP Marketing & Chief Marketing Officer*

Laura A. Coffey *Pier 1 Imports, Inc. - EVP of Planning & Allocations*

Mark Haley *Pier 1 Imports, Inc. - SVP Store Sales & Operations*

Michael R. Benkel *Pier 1 Imports, Inc. - EVP of Global Supply Chain*

Nancy A. Walsh *Pier 1 Imports, Inc. - EVP & CFO*

Stacey Renfro *Pier 1 Imports, Inc. - SVP e-Commerce*

William H. Savage *Pier 1 Imports, Inc. - EVP of Global Sourcing*

CONFERENCE CALL PARTICIPANTS

Andrew James Minora *Gordon Haskett Research Advisors - Research Associate of Retail*

Anthony Chinonye Chukumba *Loop Capital Markets LLC, Research Division - SVP*

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

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

Bradley Bingham Thomas *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

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

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

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

Seth Mckain Basham *Wedbush Securities Inc., Research Division - SVP of Equity Research*

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

Victor Chee Ngon Ho *Sutton Square Management - CIO and Portfolio Manager*

Vince Sellecchia *Tocqueville*

PRESENTATION

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

Welcome to you. Thank you for agreeing to spend this time with us this morning and listening to the plan that we're going to lay out for you.

I'm going to hand it over to Christine in a second to do the safe harbor comments, and then we'll get on with the day itself. What I would say to the analysts in the room is, when we read the run-through yesterday, we found out that the air conditioning would come into the back of the room, and it was quite noisy. So if you struggle to hear up in the front here, feel free to move if you need to.

Christine Greany - *Pier 1 Imports, Inc. - Investor Relations*

Okay. Hi, everyone. Thanks for coming. I just wanted to make a couple of quick comments for you, and then I'll get it right back to Alasdair. Number one, just be aware that we really like to hold the questions to the end, and we've definitely built in plenty of time into the schedule, so you'll be able to ask questions when we finish at the end of the morning. Also, please note this is our safe harbor language. There will be forward-looking statements made today by the team. I just wanted you to take a look at this and be aware that they're covered under our financial disclosure advisories that are in our press releases and filings on the Investor Relations website. Okay. Thanks.

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

Thanks, Christine. All right. Excellent. So look, here we are. Here's the agenda for the day. I won't spend a huge amount of time on this other than to say to you, we've laid it out very specifically in the following way. We're going to spend the first part of this morning talking to you about how we believe we can drive the top line of the business. Then we're going to have a break, and after the break, we're going to talk about how we think we can actually fund that, and how we can make the investments we need to make, and how you can have confidence in our ability to actually drive both the top line and then margin improvement.

So we've laid it out because I think our plan, given the investments we need to make, has to be able to deliver top line to have long-term security, and you need to have confidence in how we actually fund this. So hence, the reason for going through this, I'm going to kick off, give you a little bit of the background, talk to you about the methodologies that we've been using as we've built this plan. I'll then hand over to Kelly who will go through the marketing relaunch and where we're going to position ourselves as a brand and why we feel we've got a unique place in the market. She is then going to hand off to Mark, who is going to talk to you about our stores and how we re-engineer the store base. And then finally, he is going to kick off to Stacey who talks about our online business and how we're going to pull those things together to continue to drive that top line.

That's the morning and then -- that's the first section, rather, of the morning, and then afterwards, Laura is going to talk to you about how we make our promotional investment more effective, how we actually invest some of our money into pricing, our thinking behind that, before she hands over to William, who, I think, will provide you with a ton of examples of why we have confidence that we can actually execute this appropriately with the right levels of funding, and Michael, who will then explain likewise from our supply chain. So that's the roll of the day and then we'll have time for Q&A. Yesterday it didn't take us quite as long as it is on the slide here, so we'll have slightly more time for Q&A than we're showing there. Then we should be able to get you away on time.

Okay, over to me. Pier 1 2021: A New Day, we're calling this because it's necessary for us. And the reason I say that is as follows. If you look back at our business over the last 5 years and just do a 5-year retrospective, as I came into the business, and every new CEO, I guess, does this and I did. What I observed was, we've really been trying to making a transition from a bricks-and-mortar-only business 5 years ago into one that has an e-commerce and an online business to it. But I think if we're honest, it's taken longer than we expected, and the investment has been greater than was expected. And the reality is that it has pressured margin as we've been going through that period of time. Many of you have called that out to me, both in one-to-one conversations and on calls, and we see that as a reality in our business.

Second thing I would say to you is, there has clearly been an increase in competition over the last few years and there's online competition from Wayfair and Amazon and others, but more important to our business is actually the bricks and mortar competition. So if I think about businesses that have been growing strongly that have provided that, @home, Cost Plus World Markets, HomeGoods, Homesense, those sorts of businesses that have really come into this area of the sector, and been growing strongly, has provided significantly more competition for us. And that, along with our focus, has caused traffic to decline in our business, is our view.

When I say our focus, what do I mean by that? Well, the simple way of putting it is, I think we had our eyes on the wrong competition. So we existed at a time when the only real players were Williams-Sonoma, Pottery Barn, Crate & Barrel, and we saw those businesses as our main competitors. Actually, one of the key changes that's happened in the last 6 months, as we've gone through this rigorous analysis with some outside help, has been to sort of make it really clear that our key competitors are not those guys Our key competitors are the new guys on the block: the @homes, the HomeGoods, Homesense, Target, to an extent. And actually, when we focus our efforts on those guys and how they are operating, that's actually one of the reasons why our focus has impacted traffic as well. Then the final thing I would say is, as a result of those things, you know our relevance in terms of our brand relevance has actually declined, particularly driven by the fact that our value proposition has declined.

Lots of different people can mean different things when they talk about a value proposition. But put really simply, if you are trying to buy a $400 chair, for example this one behind me, if your comparison is an equivalent chair that's $800 in a different retailer, then the value proposition is relatively strong. But if actually the similar chair that the customers are thinking about is in a retailer that only charges $200, The very same chair can have a different value proposition in the customers' mind. And so as summary, as a result of this, actually we were pitching ourselves at a slightly different place from where the customer was pitching us, and we'll talk about that as we go forwards from here. That's what's been happening over the last 5 years steadily year-by-year that we've sort of cottoned onto as a result of this work, and that we're going to address.

That's what, therefore, resulted from this work. These aren't the sort of numbers that we are proud of, or that any business that experienced this would be proud of. But the reality is, we've seen our company comparable sales decline. We've actually seen our operating margins and our EPS come down, as a result, and then slightly spotty performance in terms of our cash flow. So that's been the implication of what we've observed.

So look there is a need for a new day. And the plan we have built, invests in year 1, in 2019 as we call it, but 2018 as most of you call it. We go through a period of transition in '20 when we get some benefits of that coming through into our business, and then by 2021, these are numbers that we expect to be delivering. So sustainable 4% to 6% net sales growth. EBITDA margin of 6% to 8%. And then earnings per share of $0.60 to $0.70. So a simple way of thinking about this is, we're going to invest $33 million in year 1 in order to get the return in the later part of the plan. And I'll come back to explaining that.

Let me just talk a little bit about the work that we've been involved in over the last six months. We used an outside consultant to help us, one of the top three. I'm not allowed, for legal reasons, to say who, which frustrates me, but that's the way it is. And they've been tremendously helpful for us in helping us to look at both who our competition is, to really be able to segment our customers. And to understand what our customers think about not only our competition and our business, but category-by-category where we actually need to perform. So it's been an extremely rigorous process that we've gone through each of our categories and laid out for ourselves a gap analysis of what we need to be doing differently and how we're going to do that. So I know some of you felt it's taken us a while, and it has, for which I make no apologies. It's been an extremely rigorous process that we needed to go through to fully understand that business. And the reality is, it's enabled us to, therefore, define what should be our highest priorities.

It's enabled us to mobilize the organization as we thought about the change that the culture was required as a business, and to face into that in the way that was going to have the greatest impact for us. And then the final thing was it just sharpened our focus on just how we actually could win.

One of the key takeaways from all that work, that was extremely encouraging, is that the home décor retail business is extremely vibrant. So as I came into the business, I had a slight concern that this wasn't the case, and I was really reassured by this. The shopper is very, very highly engaged. She sees home décor very much as a passion, and it's a sport, and she's very, very engaged. And that's actually tremendously helpful. Because if you're a marketer, as our Kelly is, you can engage that far more effectively than if there's a lack of engagement. That was tremendous to see.

Second thing I would say is, there's very strong comp growth in our competitors -- particularly in some of our bricks and mortar competitors. So as you lay out the three-year CAGRs of some of our competitors, whether they be Home Goods or @Home or Cost Plus World Market, or a number of those other guys, it's very consistent growth top line for those businesses. There's also been growth online. And we've seen it in Wayfair and Amazon and in the online businesses of key bricks and mortar types of competitors.

The third thing I would say is, that new industry, as I call it, value prop, where the offer of the store, the style, is less important and the actual value, the value of the products has become more important, that's been working, working really well. And the customers are gravitating towards that. So that's helpful.

And then the final thing I would say is, leading industry competitors are growing their store base. And therefore they are seeing good returns in growing their store base accordingly. So the sector as a whole is extremely vibrant. The key challenge for Pier 1 was not, do we have to be doing something else, but just how do we make sure that we're okay, so that we can take market share within what is already a vibrant sector from our perspective.

A couple of other things in terms of forward-looking trends that I wanted to touch upon. One of the things that came out that we're interested in, we had a concern, I think it's fair to say, as millennials were growing up, they had a very different outlook on furniture. as there are a number of articles reported about millennials actually not buying furniture in the way their parents did, not engaging as much in shopping full stop, et cetera. The reality is, they are the largest now economic makeup of this sector. They've overtaken boomers for the first time this year in terms of their spend patterns. And the encouraging to us as well is that, although they have moved later out of the cities and into the suburbs, they're now making those changes. And interestingly, as they make those changes, they're starting to have the same spending patterns in home decor that others before them did. So the encouraging thing for us is although the change in demographics exists, millennials are very important part of our business going forward The concerns that previously existed about whether they have a very different approach to home decor appears to have minimized. So actually, their spend patterns are going to be the biggest over the next few years of any of the different demographic groups.

Second thing I would say is that the online business continues to grow at 3x the stores business. And we announced that our online business has just hit $450 million. So over the 5 years, we've built that business, and we're seeing the same thing: good consistent growth in our online business that far outstrips what's happening in our stores. So we are well placed to actually take advantage of the market trend.

And then the third thing, the role of the store is evolving. But our view is that the reality of our purchases are made in store. They are influenced by the web, but made in store. And therefore, that puts us in a great position to be able to actually bring together our online business and our stores' business, integrated more fully, and actually move from being a business that has stores and an e-commerce business to having a genuinely omnichannel business. Our customers that are engaged with us both online, on the mobile device, and in store, spend between 5x and 6x what our average customer that's only engaged in one of those channels does. That's a huge trend and important for us in terms of how we bring together both the stores and the online business. And you will hear more about that from Mark and also from Stacey later.

So three big macro trends that we think are very positive for Pier 1 and for this plan.

But the reality is, we have some strengths that came out of the research and then we have some weaknesses. How do we leverage those strengths? But how do we just face into, very transparently and realistically, the weaknesses that we have and address those so they stop being weaknesses for us?

If I was to summarize them, they'd be as follows:

The awareness of our brand is really high. Now why is that important? That's important because it costs an awful lot more to create awareness than it does to actually just take an already high awareness and change people's consideration about that brand. So actually, that's a positive for us. It's also a positive because it enables you to engage more quickly in a new story.

I don't know how many of you have ever told any of your friends or colleagues or others when you're at a dinner party that you cover Pier 1.Whenever I'm in a dinner party and somebody asks what I do, and I say that I work for Pier 1, the typical response is "Oh I love Pier 1." To this, my response is usually, "Wonderful. When did you last shop in a Pier 1?" And so what's really interesting is, there's an innate like for Pier 1, love for Pier 1, and we just have to change that consideration. So that's helpful.

Second thing I would say is, our heritage in unique products resonates extremely well with customers. And that's one of the strengths of our business. The treasure hunt for those unique products is a key part of what she loves as she is shopping, and we have an opportunity to maximize that as we go forwards.

She also talks about our stores as being a really fun shopping experience. She likes the friendly attentive service. Our associates get stunning marks from our customers. They really, really enjoy it. The challenge is, as a negative to that, and I'll come onto that in a second. But for our core customers, they love that experience.

And then the final thing in terms of positive is, our bricks-and-mortar stores deliver positive contribution. We have a few stores that don't, but in a vast majority, they deliver positive contribution. So the opportunity for us is to leverage that to the fullest effect that we can. I know that's not necessarily the case across retail, but certainly, for us, that's the reality.

Then there's the weaknesses that we have to face into.

I've talked a couple of times on the earnings calls and directly one-on-one with you about the price/value equation not being right for us as a business. The reality is, when we spoke to customers and really got a sense of this, she sees it very clearly. There are certain categories where she knows the sort of price that she should pay. As we were putting products in front of her and we were asking, (A), what she thought about it, and (B), how much she was prepared to pay for it, I was always surprised. I shouldn't have been surprised, but I was surprised,at just how accurate she was at the price she could get these products for elsewhere. And so we have to face into that, we have to change that. And I think what you'll see when William talks about some of the sourcing benefits is confidence that we can get there.

The second thing is, the assortments that we've got don't always fit her style. I think we saw that in quarter four. They don't necessarily always reflect the latest trends, or if they do, we don't buy into those trends quickly and aggressively enough.

And we are fascinating, just to divert for a second, when we actually put some pictures of products in front of customers, and we asked them to tell us about that product. And what was interesting, they all thought the product was fun. Ah, that's really fun. And we sort of were slightly perplexed why we're never so positive about the store and the product. We weren't seeing greater sales. Let me change the question to, "Okay, it's fun, but would you buy it?" Her response completely changed. Her response was, "No, it's fun to look at. It's very unique. It gives me a sense of stuff, but that actually isn't something I'd put in my house. But it's nice to see it because I didn't see anywhere else."

So we have to sort of like not lose the fun element, but we have to, obviously, pivot slightly to ensure that we have got products that she sees as not only fun, but things that are relevant for her own environment.

And then the second to last point here around our stores. For non-shoppers, shoppers that are very engaged in this category, but don't currently shop with Pier 1, and for some of our less core customers, they describe our stores as being overwhelming. So Mark will go into this in some length. But you've all been into our stores, you know that we typically stack products very high, it's difficult to see through the store, and he'll sort of unpack that. But the reality is, we have to face into that, because if we do, we have the opportunity to a much larger audience than we currently have at the moment. The skill is in doing it in a way that doesn't alienate our core customers that don't mind it.

And then the final thing here is that our sourcing and our supply chain costs are just too high, and we have to face into that. So we'll talk about that at the end of this morning's session.

So those are the strengths we have to leverage, and the weaknesses we have to attack, and that's what made up the plan we're going to put before you.

I just wanted to touch on this. I mentioned it to you before about our aided awareness being extremely high, our brand awareness being extremely high. This shows it for you pictorially. So what you see here is a very steep drop-off between our awareness and consideration. The challenge for us is not so much to worry about the awareness, but how we actually just increase that consideration, and then once we've increased consideration, the conversion that follows behind that. We have a much steeper drop-off than many of our competitors, and the reality is that's a key opportunity for us. Part of that $33 million investment this year that I talked about is going to be in us relaunching our brand in a way that's relevant and purposeful for our customer and our core segment of customer. And Kelly will talk to you about that.

It wouldn't surprise any of you, I'm sure, that when we actually looked at the top 10 key purchase criteria that our customers, and the customers in this industry, seek, they fall into several buckets, but the big two are pricing and assortment. It's probably true in every retailer. You probably see this many, many times, but it's worth repeating for us. Every day, value, sales and promotions and lowest prices were all in the top four. What's interesting is when we then talk to her about assortment, wide variety, choices that are in the category and always in stock were all in the top 10.

So we have two jobs to do: one is our value prop; the other one is to actually ensure that our assortment continues to provide her a wide variety of choice, provides her in-stocks.

Now the reason I think this is important to share is, we have an opportunity to actually have a point of difference versus some of our competitors through our in-stock measures. So always being in stock with product is great. Some other places don't have necessarily high levels of inventory

THOMSON REUTERS

in order to be able to always be in stock. So -- that can generate for our customers a degree of frustration. We've got an opportunity to actually step apart there.

And we've got, clearly, an opportunity to actually do a better job with our promotions because we invest a lot of money in promotions, but we're not necessarily getting the credit that we should currently. And that's what Laura will talk about.

And as you think about, "Well, okay. What is that? Why is that? You think, ultimately, how do we build that in? I think it comes back to the point I made right at the beginning, which is that we used to compare ourselves, in terms of our competitive set, to Crate & Barrel and Pottery Barn. And, therefore, we felt that our pricing was pretty good when compared with those guys because, typically, we were cheaper than they were.

But the big revelation for us as we were going through this exercise, when we talked to our customers, and we laid out all the different brands that exist in this and said, "Right, put them into piles, if you would, and tell us which brand goes with which." We weren't placed with those guys. We were placed with what I'd describe as a newer model: @home, Cost Plus World Market, HomeGoods, Homesense, those brands, and Target. When we unpacked with the actual spending of these customers across this, the numbers backed up what they were telling us. So when we look to our customers, we looked at read across where else they shop, 50% of them are shopping Target, HomeGoods, Cost Plus World Market. When we actually looked to Pottery Barn and Crate & Barrel and that group, it was 13%. So a significant difference in terms of crossover and approach. If our pricing is being benched against the wrong competitor, we're getting a completely wrong concept of the business, of just how strong our price/value proposition is. So that's what we've been facing into as we've been building these plans.

There's obviously a need for change, and that's how we've gotten to these numbers I shared with you earlier.

How are we going to get there?

This is the team. We've now got, I think, a good blend of some new perspectives in the senior team, with some experienced old hands. I'm sorry, guys, I need to be -- any concerns there? But the reality is, as you look through this team, myself, Nancy, William, top right, and Kelly are all relatively new to this business with a different perspective, balanced nicely by Laura, Stacey, Mark and Michael, who have been here for a few years or more and, therefore, have a solid understanding of the way our business operates and how to actually take it forwards. Now we have a top team, I think, with the right blend of skills and approach to land this plan.

Second thing I would say is that here is the plan. It's a three-year plan. The walk is from the investment we need to take this year, which obviously pressures EBITDA, and we talked about that in the press release this morning. But we said we felt it was necessary. Obviously, you've got the full year '19, which is our end of year. I know this confuses everybody I ever talk to about it. This is year '18 into February '19. It pressures our EBITDA and actually results in us having a net loss this year. But it's done in order to actually get us the benefit in the next two years that we're seeking. And we start to see the returns of that towards the end of this year.

There's two key things I would draw to your attention. The first of those is, we have to grow the top line as far as I'm concerned. What you see here is an element of the plan that comes from that sales growth, and that's really made up of the brand relaunch, the stores and the online work that Kelly, Mark and Stacey are going to talk you through.

Then we've got the way we're actually going to fund that business. Sourcing, pricing and primary supply chain we'll come on to after the break. The point I would make here is, this obviously shows you the EBITDA impact. In the first part of the plan, they help to fund the investment we need to make to get the sales driving. In the second part of the plan, they start to actually bring that benefit through into EBITDA.

The general approach is, we're taking the benefits we get, and we're sort of putting half in the bottom line and half into our pricing and our investments. That gives you a sense of how to think about it. And obviously, what you, therefore, see in terms of investment on the right is that we are putting money into pricing and, therefore, that has an impact. But obviously, it's a necessary impact.

Then the second thing here, yes, there's some increase in costs from home delivery and exchange, but those really are just a driver of the fact that we're increasing the sales line. It's not over and above that sales line. In fact, we get a slight leverage benefit in the latter part of the plan.

If I was to summarize this plan for you in terms of the three years, it's a $33 million investment in year 1 to actually start to get the business turning, and then we start to get a response from that towards the end of this year, but more importantly into '20 and '21.

If you were to try to bucket into four groups how we're thinking about this going forward and how we'll talk about it with you guys, it would really be these four things that we would say.

First, relaunch the brand with that compelling brand point of view and price/value equation, step 1.

Step 2, bolster the shopping experience such that our customers have a pleasant and enjoyable experience.

Thirdly, leverage our already growing online business to make it a genuinely omnichannel experience with our in-store growth and drive that omnichannel operation. That probably means we're going to have to think differently about the way we share some of the information about our business, because our customer doesn't think stores and online. I've seen this in a number of other earnings calls and a number of other investor days. They generally see a retailer grappling with how we should approach this online versus stores thing. My view is we should be building the two together and talking about regions of the country and ensuring that regional localities are profitable for us and that we've got the right balance in that regional locality to meet the customers' needs, using our stores as points of distribution and as an asset for us in that relationship. Really getting to a genuinely omnichannel operation is what we expect to do in the next couple of years.

The final thing, improving our sourcing, improving the supply chain distribution and competing more effectively.

Those are the four buckets that we will keep coming back to in the coming months to discuss our performance and our strengths.

That's what the insight has taught us, from regard to the sort of the financials and what we need to be doing as a summary of the opportunity. Now I just want to walk through, from a customer's perspective, "Why do we have confidence in this?" And this is the next section of this presentation. We're really going to talk to you about where we should be playing. Then we'll talk about how we can win, once we define that, and why that then leads into the brand proposition we have that Kelly brings to life. To the other presenters, I would just say, "You have to press it really, really hard. Really hard." (laughter)

All right. The first thing, where to play. It's all about prioritizing opportunities for growth, but it's also about defining those things that actually mean we're not going to do some of the things we've done historically.

The first thing here is focusing on large, attractive, winnable parts of the market.

We have to be clear -- there are two things. Let's be clear we could win, and it had to be economically attractive enough for us to actually make the investments to get there.

Second thing was then to identify the most attractive customer segments and meeting their needs. We can't meet every customer's needs because they have inherently different ones. And our brand doesn't necessarily stretch fully enough into doing that. We've been really focused on where we think we can make the best returns.

The final thing, you know, is ensuring that we play to our strengths and we play our game, that we don't try to be something we're not or try to be competitor. This is about Pier 1, and what we can do better than anybody else.

We looked to the whole marketplace, and we said, okay, let's define that marketplace in terms of the customers, to understand their attitudes and their needs towards home decor. And we really came up with these six customer segments.

The first, that's on the left, is what we describe as a confident style shopper. She is a sophisticated shopper when it comes to home decor. She is very confident, and she is very much in control. She has a very strong sense of her own personal style. And what that means is, she doesn't need a ton of help to put together a look in a room. She is very confident in her ability to do that, and she's shopping many retailers to get a sense of how best to do that. She is typically slightly older. This segment skews slightly older, but obviously, given this is an attitudinal, need-based segmentation, we have customers of all ages in each of these segments. But this one skews slightly older.

The second segment skews slightly younger, but again, we have them across the entire range. They are what we're calling up-and-coming decorating enthusiasts. These are guys that are still developing their own style, and they need some inspiration and help to actually realize them. When we talk to them what's fascinating is, they probably never complete, never complete the style. They get slightly frustrated with themselves in moments of candor that, as they change a room, they just get a room perfect, it'll only be a month before they're finding something else they want to put in that room, and this will start all over again. For them, it's very much a never-ending process. But they do need more inspiration to help them do that. So we have to think about how we respond to that need slightly differently.

Quality and service seekers are very much focused on service and top-end products in terms of price point. The quality comes before everything for these guys, and they're always seeking help whenever they're shopping. So they really see it as a negative, if you don't have a strong sales associate team that can help them in the stores or online.

Convenience seekers are slightly different. They just want a very efficient, very fast, very painless shopping experience. We find lots of working women in this group who shop exclusively online simply because of time pressure and those needs. But they're looking for that painless experience even if they are in stores. They want to be able to get in, find what they want and get out really quickly.

Savvy shoppers. Savvy shoppers are basically exactly like confident style shoppers, they have just got less money. So they're very many with similar attitudes, needs and desires, but they are on a tighter budget.

And then the final one on the right, budget basics, as we call them, very highly price-sensitive customers. They really are driven purely by price.

Those are the six segments that we sort of like categorize the whole home decor shopper market. And we then looked at where we think we can be successful. Probably doesn't come as any great surprise to you that we've picked our confident style shoppers and up-and-coming decorating enthusiasts as our heartland where we can actually be most successful.

What I would tell you about these guys is confident style shoppers make up 18% of that home decor population. Frequent shoppers, enjoy finding unique and unexpected pieces. They're likely to shop very many different retailers. And they do that because they enjoy the whole experience and passion of this art. Although they're only 18% of the population, they make out 22% of the spend. So it's a large and attractive economic proposition for us.

Likewise, up-and-coming decorating enthusiasts, again, are very frequent decorators who enjoy home style and design, very impulsive, never see themselves as being done. But they need a lot more inspiration. They typically follow trends far more aggressively, watch HGTV, fixer-upper programs like this. But for the younger individuals within this segment, they're really driven by social media influences.

The influence starts and stops with Pinterest and Instagram. Up until couple of months ago, we didn't have a relationship with Pinterest. This has helped us to really think about how we're going to actually be relevant for these customers to ensure that we're inspiring them to a point at which their journey begins. They make up 20% of the population, their spend is 25%. So together, these segments of customers represent 47% of the market spend, and that's where we're, therefore, going to focus our efforts. And we have to focus our efforts in making sure we meet their needs.

We have to meet the needs of the confident style shopper around unique products, stuff that stands out in a treasure hunting environment, as she comes across things she wasn't expecting. But we also need to make sure that we present stuff online and in store for the up-and-coming decorating enthusiasts that provides helpfully curated assortments, inspiration of how to put it together, ideas as to how it links back to things she's seen on Pinterest and Instagram and other influences, as well as appealing to her impulsive purchasing behavior. So when you understand those needs and you distill that down, then you start to understand some of the things we're going to change about our online business and about our stores to better meet her needs.

What we then did was to segment the whole of the marketplace by these different segments. Along the bottom, you've got the customer segments and then you've got the different categories in which we operate. The top half of these boxes are made up of textile, seasonal, lamps, table settings, candles, home decor, accent furniture, the real decor stuff, as I would call it. And then the bottom half below the white line is where dining furniture, big upholstered seating, bedroom, outdoor, bigger-ticket items there. What we then wanted to define was how we perform as Pier 1. This is their spend as a whole. Where is it that we have strength? It won't surprise you that we have strength in that top left hand box. It's the decor with a confident style shopper and the up-and-coming decorating enthusiasts. That's where we have greater strength.

For me, as a CEO, thinking about how do we use this, we got into a big conversation about, well, how do we get after that business really, really well? How do we become famous for those categories and do a better job than we've done before? And that's part of our plan. What we've also been thinking about is, "How do you move across the top to try and pick out some of those other segments, if you can, and how do you move slightly down into bigger-ticket items with the core customers that you've already got in those two segments that are relevant to you?" So that's our core bulls-eye focus, and then how we can stretch that slightly is a bigger opportunity.

For those of you sitting there wondering, "Well, does this limit your opportunities for growth, AJ?" The answer is a very emphatic "no."

As you look at these two segments, the confident style shoppers and up-and-coming decorating enthusiasts, they spend $70 billion in these categories. So we are a just less than $1.8 billion business. There's a ton of opportunity for us to take market share by focusing our efforts far more aggressively with these characters than we have done previously and actually, I think, will give us that greater opportunity for growth than we'd experienced before as we've not had that real focus.

All right, so that's where to play. It just helps to frame up six months of what we've been doing. As we focus category-by-category, what we're going to do in terms of better meeting those needs. Now a little bit into the "What do we need to do to win?" and I really teased this down in just a couple of slides.

The first of those is, when we got into the nuts and bolts of what the feedback was, they really said three things: First of those was, how do you better fit the customer's style? Second thing was, how do you deliver better overall value? And the third thing was, how can Pier 1 make the store and online experience more pleasant, convenient in order to actually meet their needs. So those are the three buckets. The really interesting thing for me on this is that each of those is ownable.

We have a -- particularly in this day and age with technology, when you talk about style, everybody has a slightly different style. They struggle to describe that. Kelly will talk about it in a few minutes. But the reality is, does the customer see the stuff you're selling as part of her style? It's a very personal decision. It's a very creative process. And it's very individual in nature. But we've devices now. Our buying teams can be in Asia, looking at product, take 10 photos of products they're thinking of buying, get that back to the U.S. and in front of our core customer group online. They can give us a very quick read, in scores 1 to 10, on what they think of those products. And then we've got an algorithm that helps us then to assess what's the likelihood of purchase that we'll get across our store as a result of that.

We are starting to use technology and data very differently to help us to hone in on, "Has the buyer got the right sense to the style in terms of customer segment she is targeting and the product she is buying? So we think we can do a much better job on style.

Second thing I would say to you around value, we'll come back to it over and over again, but that just requires investment. We think we can fund it. The final thing I would say is the store and online piece. We've done a pretty good job online, but it's putting those two things together in a more consistent way and making it much easier for her to link social media feeds into personalization so that she actually starts to feel a much greater relationship with us as a brand.

This will be the summary, therefore: We're going to develop a brand purpose and value proposition for the focus customers.

We unashamedly won't be developing a purpose that meets the needs of savvy shoppers or budget basic shoppers or quality seekers. This is focused purely on those first two segments. We hope to get a halo effect. We see no reason not to get a halo effect in some of those other segments if we do it well. But that's not our focus.

Our focus is confident-style shoppers and up-and-coming decorating enthusiasts. We're going to focus very much on our strongest categories; we've become famous for some of those within this industry. So whether it be pillows, scented candles, home decor, wall art, all those things fit into some of the categories where we have our greatest strength. And we intend to get stronger on those.

In terms of how we differentiate the brand, we're going to do it in the following ways:

Firstly, unique assortments will continue to be an important part of our offer, and more important. Arguably, we started to lose a little bit of that uniqueness over the last few years. You'll have seen this. As you've gone into competitors, you see products that are very similar to those that we've sold appearing in competitors a year or two after we've had them, often at a cheaper price point. So for us, that changes the attitude to one, our price, but also changes attitude to the speed with which we need to bring new and fresh products into our business. The product life cycle that we can tolerate within our business needs to be shorter, such that we're continually refreshing that business more quickly.

I talked about products that fit her style and how we're going to phase into that, and sharpen price points.

The other thing I didn't mention in terms of price points is, we have to have an assortment in our categories where we want to be successful that meets the requirements of "good, better, best." And what I mean by that is, you can't afford to take the price down on everything and never should. So it's finding key items that you have to be famous for, and ensure that you've got entry price points for those within that category that can compete on their own to rights, whilst also then having products that extol the virtues of much better quality and design in the better and best category of that product.

Simplified and inspiring store and online environments, we'll show you in a little while and get your feedback on.

The final thing is continuing to provide creative merchandising. That provides that inspiration and an immediate desire to buy. We have to do that online, and we have to do it in store.

That's how we're going to win.

I've thrown out quite a few things to you. I've talked about the fact that we were focused as an organization probably on the wrong set of competitors. And as we've gone through this rigorous process, it's helped us to sort of pull that into sharp focus and ensure that we were looking at the right set of competitors through the eyes of our customer. That's called us to have to do three things:

One, focus on customer segments that actually love our brand and have the strongest affiliation to our brand, but also provide us with the largest economic opportunity to grow.

As a result of this, we're actually targeting very specific categories within our business and changing the way we display and buy those categories so we better meet their needs.

And then I talked to you about what we have to do with regard to style, price point and creative merchandising.

So that's where we are. That's how we're going to win.

I'm going to hand over to Kelly, who is going to talk about the key parts of this with regard to launching the brand and brand proposition and how that can reinvigorate our relaunch in the autumn.

Kelly Cook - *Pier 1 Imports, Inc. - EVP Marketing & Chief Marketing Officer*

Good morning. I am going to spend the next couple of minutes talking to you guys about three things:

One is, I'm going to share with you how we let her drive our brand position, using data and insights directly from her voice.

The second thing I'm going to share with you, I'm going to share with you what the new brand positioning is. It is awesome.

But more importantly, the third thing I want to share with you is what it means to our business.

So a little bit of sort of how I think about marketing. It's really important for me, as modern marketers, that we have to be both strategic and creative, but we also have to be data-driven marketers, right? So we have to embrace that inner nerd a little bit. It's really important to me for you guys to know how it actually is going to drive our business. It's not just an amazing commercial or amazing creative, which it is, but it actually drives our business.

When you start out this journey and you've got to reposition the brand in a market, it's very important to start with her. We needed to understand what, why and how everything about home decor. So we start with her voice, and we let her guide us through this journey.

The very first thing that we discovered in this journey is that there are two big things happening with style.

The first is the sort of "one look, one style, I'm only modern, I'm only contemporary, I'm only sort of antique," whatever. Those days are gone. I would describe it as sort of the style kaleidoscope. I mean, every turn of the -- actually I have explained to my children what a kaleidoscope was, but you get my drift -- it's like a style kaleidoscope. Every sort of shift is a new room look, it's a new style, it's a new sort of expression of that room and what that room means to her.

The thing that we discovered in listening to her and going into her home -- we spent hundreds of hours actually in her home with her, right? And the common theme that came up was "A house is made of walls and beams and a home is made of love and dreams." It's all about the love that she has for creating the style in her house.

These quotes are directly from her mouth, right? "I'm zen boho. I'm antique-ish-modern." So when AJ was talking about "fits her style," we have to do all of this for her to make sure that she gets the payoff of actually being able to express her home the way she wants it to be expressed. Style is ever-changing. It's not defined by one thing. It's sort of all those things together. So that's sort of the "what."

The next thing we needed to understand is, well, if that's how you feel about home decor, why do you feel that way? What is it about that whole process makes you feel that -- and she goes, "It makes me feel confident."

I'll give you one story just to illustrate that point. One of the customers that we were in her home, she sort of lived in a neighborhood where all the floor plans were the same. Right? So the outside brick was similar. The floor plans were the same. But she said, "It makes me feel so good when my neighbor walks in and goes, "Oh, my God, I love how you put that together." And she just beams, right? She loves that.

The compliments that she gets about her own individuality -- it doesn't matter what you make, it doesn't matter how you dress, it doesn't matter the neighborhood you live in. It's all about confidence and individuality and self-expression. So this really started to pop as a common theme when we were talking to hundreds and hundreds of customers, both qualitatively and quantitatively. It all sort of led to this direction of confidence and individuality and expressing it the way I want to.

The next thing we found out was, we asked her, we said, "Okay. So we know what -- how you think about home décor. How do you describe it back to us?" She goes, "I don't want to be cookie cutter. I like being me. I like expressing my house my way." She would say things like, "I like the diversity of design. I don't want one thing or one color or one type of product. I want a little bit of everything." She said, "The only rules I have are to break them." Break them, right?

It's all about the creative process. And again, AJ said this, I really want to touch on it. it never ends. It's something that she loves the process of it. So it never stays the same.

That's a great opportunity for Pier 1, because we want to be there with her every time she changes, every time she gets a new idea, every time she sees something on social media and she is inspired by it. She goes, "I'm going to do that. I'm going to turn everything in my room blue." But that's what she wants, right? So we want to be with her that entire journey.

The playing outside of the rules and breaking those rules is very important to her. She wants sort of a cohesive setting. So a lot of the things that she does like, "I want to start with a blank canvas. And I just want to add layers. And I want to pull back and add more layers." Right? These were actually some of the customers that we talked to.

Again, it was about the self-expression. So confidence, individuality, happy with who I am, expressing me in all different kinds of ways, are all things that started to bubble.

But what was interesting, as we go down into it in a more deep sort of way, we found out that she's not really being served in the ways that she wants to be served as it relates to the individual -- the individuality process, right?

We thought, there's an unmet need in the market and we want to solve that for her. We want to be there every time she wants to change things and for whatever reasons. We had an unmet need. So we thought, okay, there's an unmet need for creative individuality.

Okay, so what exactly does individuality mean? Because our job now is we had all that data, we needed to build a strategic brand platform that enabled us to win based on a new brand ethos around individuality. It's very important for us to understand what that means.

That's what we did. We went in and we dove down deeper and said, "Okay, if individuality is the key and that gives her the confidence and it's sort of home is -- that love and dreams that it makes her feel so great to constantly change, what does individuality mean? This is what we found out. AJ is right about the button. The first thing we -- okay, it's like pointed at me. All right, I'm going to do that.

The first thing we found out about individuality is that she likes to start with a neutral canvas. Okay? She starts with a neutral canvas, grays and cement or concrete, woods and tans and leather, more with different color woods. The whole sort of aesthetic around starting with something neutral and adding layers and more colors, and that's whole concept of texture, tension. She really gets her sort of mojo there.

The next thing we found out, the next rule we found out, it's color as an organizing theme. She starts with a blank canvas and then she starts layering colors. Sometimes it's all one color, lots of different kinds of colors, lots of different kinds of shades. Maybe it's an all-blue room. Maybe it's an all-purple room. But color really is a big part of this journey for her.

When we think about assortment choices, when we think about the content we put on social media, these are the things that we have to think about, because this is part of her individuality journey.

The next thing is, she starts to blend it all together. She cares all about different unique styles. And I would describe this from Buddhas to benches, to blushes, to mugs and mirrors and magnets, it doesn't matter. It feels like it all comes together. When she pulls back and looks at it, she's like, "I like that. This is my personality. I like it. And she's very proud of it." Right?

When we look at the "what" and the "how" and the "why", we understood that it's about confidence and self-expression and this ever-changing constant artistic process of making it hers, making it her own, very similar to shoes. You're always buying shoes and right, ladies? She's like, "Yes, you change to those shoes that go with the outfit." In the same exact way, it never stops. Right?

When we pulled back and we looked all that information, we needed a brand ethos, where we could say, this is the reason why Pier 1 exists. Not just sales. That's an outcome, right? What's the reason why we exist?

And the reason why Pier 1 exists is that we celebrate the art of self-expression. We don't just recognize self-expression and we don't just show you the art of it, we celebrate it.

I think when we put those all together, that is a very awesome key brand ethos that is defensible and can be all ours.

Celebrating is playfulness, happy, optimistic, fun. And that's the words that she gave us back when she goes through this journey of self-expression in her home.

But we needed one more thing, right? So If that's the reason why we exist, we have to have a rally cry, an internal rally cry, an external rally cry, that unites 20,000 employees and makes them want to get out of bed, to fulfill this need for her.

That rally cry, both internally and externally, is "This is me".

Simple, elegant and perfect.

What I'm going to show you now is four commercials, because I want to express it to you sort of in a video, because I think that's probably the best way for you to see it come to life.

The first one you're going to see is about brand consideration. So AJ talked about, we've got this great brand awareness, and that's so awesome, it's 95% aided brand awareness, but then we tank off on considerations. So what this first spot is going to show you is how we move her from awareness to consideration. We want to keep those percentages high. This is about reconsidering us.

Then I'm going to show you three other commercials, and this is more about moving a consideration to conversion. AJ talked a little bit about the value prop and the value price relationship and making sure that's very, very strong for Pier 1, especially in the competitive set that we truly are in, not where we used to be. So those three commercials you will see tell that message in a very direct way. So here we go.

(presentation)

Kelly Cook - *Pier 1 Imports, Inc. - EVP Marketing & Chief Marketing Officer*

There's four key ways that this is going to affect our business:

The first one is, as we think about consumers and customers and making sure that we are obsessed with the media consumption habits of the confident-style shoppers that AJ was talking about and up-and-coming design enthusiasts. We want to be absolutely obsessed with everything it is about their life, how they consume media, how they conduct their day-to-day lives. So that way, when we put a message out in market, it reaches her where she wants to be communicated with.

The second one is the comms themselves. This is about content. This is about making sure that we're delivering in the right way. This is about cloudsourcing of content. This is about crowdsourcing of content. This is about user-generated content. This is all about making sure that all the communications in the content end market are expressing the things that we need to express: confidence, individuality, the price, bragging about how you've set a room up, whatever it is she wants to talk about as it relates to our business. That's all about the comms.

The third one is the partnership that I have in terms of Mark is running stores and Stacey has e-com. And making them experience that at the point in time she is ready, she is actually converting when she interacts with us. And I've got some examples in a minute to show you how we're getting better and better at that.

And then the last thing, all of those things put together generate higher sales, customer growth, higher frequency, higher basket, whatever it may be.

I'm going to walk you through some examples.

We are moving to data-driven decision-making and marketing for sure. We are sitting on a gold mine of data as it relates to our customer database. We have a lot of data in there that allow us to be smarter about the decisions that we're making and getting and spending enough per customer to get her to buy, quite frankly, and not spending extra, right? We want to make sure that we're spending our marketing dollars wisely.

We're also going to be undergoing a much more rigorous approach to testing and modeling than we've probably done. Some examples of those are what we call sort of partial factorial multivariate, that's a mouthful, but all I can tell you is that basically simulates hundreds of combinations of offers that we can put in the market and we can analyze those in real time versus putting out two tests or three tests or four tests in the market and then measuring those against each other.

We have multi-armed bandit testing. It's a funny name, but what that means is that it's an iterative testing approach. For instance, putting something in market and say, "Okay, we're going to measure that at the end." What this testing process does, as we put things in market and it machine learns and it gradually gets to the positive outcome versus us having to manually do that and look at that analysis step-by-step. So the rigor around testing and insights and the derivation of those insights and making sure that the insights that we're building are actionable and will actually change the business trajectory is where we're going to be focused when it comes to the data.

The next thing I wanted to share with you is -- again, one of the insights that we found is that when customers interact with us on devices, whether that's texting, shopping, browsing, whatever it may be, that is a very highly productive customer for us both in increased sales and expense. So we look at marketing efficacy, not just one thing. We look at efficiency and effectiveness, which rolls up into marketing efficacy. So those insights are driving how we're going to grow our business by focusing on people that interact with us through mobile devices. Okay?

The third one is what I call sort of anywhere, everywhere content, which translates into anywhere, everywhere commerce. But instead of showing you the nice wheel, which just means that we're going to have a 360 approach to our storytelling, I wanted to show you some examples. One of those is just like with "This is me." You saw that amazing commercial and you saw those great messages around value and style. It's not just the commercial, it's everything that we're doing. This is not just going to be one thing. We're going to make sure that everything that goes in market is actually communicating that same brand ethos. On the storefront right there, that says "This is me," to the styles, different styles, to trends, to value, it's all going to say the same story.

But we're not going to stop there. We're also going to do it on social media. Remember earlier when I was talking to you about those principles of individuality and how important they are.

Let me give you an example of something that's in market. Remember color as an operating theme, that's an example. A neutral palette, that's an example. Blending styles, that's an example. That's all in market. So you can see how we're transforming the content to be from sort of, I'll call it a one-trick pony, to really driving lots of different kinds of content in the market, so we can make sure that we speak to her in the right way.

Let me give you a couple of other examples of how we're learning and testing.

Here is a product page for the Moscow Mule. Same page, right? Same product. But there is one difference. And it's this. AJ talked earlier about social content and how important it is to our business, and that's absolutely true. When we tested these side-by-side, we had double-digit add-to-cart in conversion lift on this site only, because we added how to style the mug. Even a mug, they're interested in style. Right? Pulling in the Pier 1, #pier1love content on to the product page mattered to her. That's just an example, and there's hundreds of examples. I would say that content is about bases and not grand slams. You've got to be there all the time. Before you know, it adds up into growth.

Another example, here's an Instagram story we did. We had static content here on the left. We just took the picture. Now that's beautifully designed a story around organization and inspiration, which is great. But it was a static picture and an Instagram story. So it wasn't sort of alive. Then we test, well, wait a second, we got feedback from the customers that they really need help putting flower arrangements together. That was a piece of insight that we found out. So how do we help her put flower arrangements in a way that when she puts them in her room she feels great. And so that's what we did. This was an animated GIF of just putting a flower arrangement together. Again, double-digit increases in add-to-cart and conversion here. Just by helping her do what she is really ultimately wanting to do, which is to express her individuality through her new flower arrangement in her room. Another example.

It's not just the content itself. It's that when she clicks on it, she wants to be taken to the thing where she can get the final payoff. Here was also an Instagram story that we did. But where -- the click-through that we were doing was to our website. We clicked from here, Instagram, to the website that had sort of the same content that you can see, we had all these categories on the left. But she is wanting to buy these items and we click her here but she has to go find the items, right? That's not what she wanted to do. She wanted to go here, so she could immediately add those items to cart and purchase. That was the change we made that increased conversion. But that's an example. We're looking at every single part of the journey in the business to make sure that we're maximizing growth.

Here's another example based on our data and insights. We know the likelihood of your ability to open an e-mail depending on what time of day it is. Believe it or not, the propensity for you to open an e-mail is different by every single person in the room. Some of you open them up at midnight, that will be me. Some of you open them up at 7 in the morning, some at lunch time, whatever it may be. But that matters to click rates and open rates and conversion rates. If it matters to the customer, it matters to us, right? So we build these kinds of data -- insights in our platform to be able to understand. And we've got better click rates and open rates, because now we've seen Steven's at 7 a.m. and go around the room and Anthony is at 10 a.m. or whatever it may be, because we know it optimizes the ability to convert those customers into sales.

Here is the last example. Through our partnership with Google, we have a really strong relationship from a beta testing perspective. One of the things that we tested is, when you type in candles, that's not Pier 1 candles, it's just candles, right? We wanted to make sure that we can put our product there. So we have a relationship with them through Google shopping partnership, where we can put our product right there. And then it clicks directly over into our mobile-optimized website, so we could get the candles to them and get them in their basket and they can get them as fast as possible.

These are examples that we're looking at every single thing and using data to drive our decision making as marketers.

Finally, to wrap up, there's really five things. So I've sort of shared with you the data and insights and the whats and the hows and the whys. But here's just a summary of actually how it's going to translate in incremental sales and grow our business:

One is increasing the text opt-ins, because we know there are so many customers that love interacting with us that way and they sort of return that gratitude by shopping more and spending more with us over time.

We're going to get really smart, really, really obsessively smart, about everything there is to know about confident-style shoppers and up-and-coming design enthusiasts as it relates to how they consume media.

We're going to push content out in the market, cloudsourcing, crowdsourcing, UGC, all of those components of content to make sure wherever she is in her journey, we're there for her. That's the key to the content.

The fourth thing is driving ROAS; all those things together is going to make every dollar that we spend more productive. I mean, the more UGC in market, the less that we actually have to put expense dollars behind it. All of that adds up to a more productive dollar for us.

Finally, we're going to grow customer accounts, new, retained and reactivated, as well as higher frequency and higher basket.

That is the marketing presentation. Now I'm going to turn it over to Mark Haley, my friend, who runs stores. And you can hear all about the store experience. Mark?

Mark Haley *- Pier 1 Imports, Inc. - SVP Store Sales & Operations*

Thank you. All right. Good morning, everybody. We move furniture around a lot in stores, so we're pretty used to this. Good morning, everybody. It's an honor and a pleasure to be standing here today actually, representing our thousands of sales associates out in stores and our field leadership team to talk to you about our role in bringing the brand purposes that Kelly just described to you to life in stores. And I can tell you, they're extremely excited about the new brand proposition, "This is Me," and probably equally excited about what we're doing in stores and their role with bringing it to life.

Our mission, as AJ mentioned earlier, is pretty simple, but hard. It's simple and it's simplicity of

(technical difficulty)

customer experience for every customer that walks in the door that is pleasing, convenient and inspiring. Pleasing, convenient and inspiring. And we aim to do this in two ways. One is through physical changes in the store, changes to our layout to make the store more welcoming and inviting. The second piece is that we're going to unleash our sales associates. We are going to leverage them and leverage engagement and their inspiration to create a whole new experience for our customers. We truly believe, by doing this, it will become a differentiator in the home decor sector. We'll make Pier 1 a destination for inspiration when it comes to home decor.

Where did we start? Well, we started at a very simple place. We started talking to and listening to our customers. Over the last nine months, we have talked to hundreds and hundreds of customers and gathered thousands of pieces of data about our current in-store experience -- what they like, what they don't like, what we need to change to

achieve that pleasing, convenient, inspirational environment in our stores. We talked to loyal diehard Pier 1 customers. We talked to customers who hadn't shopped in Pier 1 for three months, six months or nine months. We talked to home decor consumers who have never been in a Pier 1 store to understand what they had to say about the current store environment.

I'm the store operator, but I also can apparently operate the clicker. Based upon all those data points, based upon those thousands of pieces of feedback from our customer, we have identified four primary calls to action where we can win in the in-store experience.

The first is to create ease of shopping. We need to open up our aisles. We need to open up the sight lines. We need to make the store easier to navigate.

The second is inspiration. We need to change the way we visual merchandise our store to give our customers ideas about how she can use our product to express herself and to express her style.

The third is enhanced messaging. We need to be more clear, concise in how we're communicating to our customers when they're in the store.

And then last, but not least, omni-channel. We have to be able to bring the online assortment to life in our store in a more inspirational way.

So I've mentioned now already a couple of times that we talked to hundreds of customers and gathered all kinds of feedback. So you're probably curious, what did they say about our associates or what they say about the physical layout of our stores?

The first thing they actually told us that was very, very consistent and positive was about our sales associates. Our sales associates are really a bright spot currently in our brand experience. We're told they're fun, they're friendly. How often do you hear somebody say in retail that your associates are fun, let alone friendly? They're eager to help. They're there to help. One customer during a customer focus group actually told us that "Your associates at Pier 1 are the magic that bring the brand to life." That's powerful. Our associates are magic that bring the brand to life. That's a differentiator.

But the feedback that they gave us about the physical layout told us that the physical layout, the physical experience in the store, is at odds with what we're trying to achieve with our associates. And what do I mean by that?

Well, the current layout of our store makes it so difficult to shop that it actually becomes a distraction to these fun, friendly associates and a distraction from the product. We had to figure out a way to unlock this magic and unlock this differentiator. So we're really focusing our strategy in stores in this first phase to focus on the physical layout and design changes in the store.

I wanted to start by talking about some of the feedback that we got about the physical layout of the store. I can tell you, it was very direct, it was very constructive, and it was very consistent. And not necessarily for the faint of heart if you've been in stores for 20 years, like I have. But it was great feedback, because it was so consistent.

They say a picture is worth a thousand words. So I'm going to share a few pictures with you to point out and really bring to life the feedback that we received from all of these customers. The first thing we were told was, as you can see from this photo, our stores are difficult to shop. Words like "overwhelming" and "frustrating" and even "stressful" or "anxiety-inducing" were used to describe the physical layout of the store.

I think this photo captured this well. This is from the front of the store, and it's pretty average when you think about the layout of our store currently. Where do I go as a customer? Where do I begin? If I'm looking for something specific, how do I know where to go to find it? How do I even find an associate in this layout based upon the way it's designed?

These are things we can fix.

This next picture calls out the feedback that we received around overabundance of product, product stacked from floor to ceiling, giving not only a poor perception of the quality of the product, but clearly difficult in navigating the store. Imagine in this picture, you're a customer and you walk up and the dining chair that you want is stacked three dining chairs high. How do you pull it down, how do you sit in it, how do you pull it up to a table to get any sense of how it's going to look in your home? Let alone, how do you navigate this space? We had one very blunt

(technical difficulty)

focus group who described our current aesthetic in the store as a "corn maze." Pretty colorful. Not very friendly, but pretty accurate when you look at this picture. And certainly not the environment and the aesthetic that we want to provide for our customers in the store.

Inspiration was another area that we got a lot of feedback on. We've been told that we fall short of inspiration in our visual merchandising, because the way that we stack furniture like in these photos, stacking furniture and stacking product on top of furniture, that makes it appear as if it's a fixture. Not only, again, making it difficult to shop and navigate, but really difficult to be inspired and give an idea of what this would look like in your home.

Think about that dining table right there. I'm shopping. I'm looking for something to put in my home for Easter, or for Thanksgiving or for Christmas dinner, and I want to be able to envision it, set up as it would look with my entire family sitting around it. Not very inspirational in the way that we're currently doing it. We have to be able to find a way to max out the inspiration in our store (technical difficulty).

The next big call out is around our messaging. Here we go. "Overwhelming" was the word that was consistently used by our focus group. Too many messages, too many signs, trying to call out too many things and distracting our customers from the associates and from the product, a very consistent message.

The final area of feedback that we received was about our current omnichannel experience in store. The two most descriptive things that were said was, "It's an uncomfortable experience and it's not user-friendly." The perception in our stores right now is that the devices that we have, and we have devices in all of our stores, are that they're for the associates, not for the customers because of the way that we have them set up. And even if I do think I can use them, they're not in a very user-friendly place. They're affixed to a cashwrap or they're affixed to a swatch station.

So those are the pieces of feedback that we got that really drove us to these four calls to action. As I mentioned before, the feedback was incredibly direct, it was constructive and it was consistent. It was amazingly consistent across all categories of customers that we talked to. The loyal diehard customer, the nonshopper and those that have been last in terms of shopping. So it made it a little bit more clear for us to really focus in on these four areas to transform our store experience, implement a new store design that we believe will be a differentiator in terms of the shopping experience, and again, allow us to unleash our associates to do what they do best, is to engage the customer.

I'm going to share with you some images of some concepts that we've been testing in roughly 30 stores across North America for several months. And then I'll share with you some of the outcomes that we've been looking at in terms of what we've learned from customer feedback.

All right. One thing we've addressed is ease of shopping. We've curated the assortment in our stores and we brought the inventory down, while maintaining a healthy breadth and depth of assortment, which is what our customer expects. As you can see from this picture, which is similar to the first one that I showed you, standing at the front of the store, looking around, you now have open sight lines, reduced stacking, improved overall visual merchandising. --

The customers that have been in these new-store concepts have called them pleasant and inviting. And I think one of the things that you can see from these photos is, standing at the front matters, standing in the corner of the store, and you do a 360 or 180, you can see all aspects of the store. You can see the product. You can see our associates. This reduction in assortment has also allowed us to open up our aisles, as you can see from this photo, and present a clear racetrack to our customers so that they can get around the store. This also gives every customer a lot more space to interact with the product and the associates.

We got so much positive feedback about the aisles and the racetracks, especially from moms who are able to shop more comfortably with their children and their family and a stroller or a double stroller., Which has created a far more comfortable experience for the customer, but also for the family as well.

The cashwrap is -- I'm sorry, go back here. We've also added directional signages in the store to call out the key categories that AJ talked about earlier. We want to really be able to call out the areas where we want to win and that the customer knows us for. You can see here, this is a shot of our fragrance, and this is just along the home furnishing side of the store, the table-top side of the store. We really want to be able to call out the destinations. These key categories that the customer knows us for, that they're coming to shop us for, we don't want to hide them. We want her to be able to identify where they are and easily make a way to those parts of the store.

The cashwrap is another area that we got a lot of constructive feedback on that we've been working on. We've been told cashwraps in the past were confusing. As you can see from this, we're trying to open up, make them more visible, make the signage more clear. We've added better queuing direction, both on the floor and through signage. We're adding in these new impulse value-focused fixtures in the store for the customer to shop while they're waiting in line.

The second call to action that we had was around inspiration and how we can provide inspiration. We're going to do that through our visual merchandising and through providing more realistic lifestyle settings, so that every customer can get a true picture of what the product is going to look like in their home and how they can use it to express their style. We're going to use trend-right and color-right statements. We're going to focus on things like coastal here or modern farmhouse, bringing together looks in a more realistic vignetting sense so that she can really have an opportunity to see how the product can come together to fit her style.

And the last change that we're making in terms of visual merchandising is to highlight really the quality of our product by eliminating the excess stacking that you saw in the earlier pictures. This is a clean, simple, realistic approach to merchandising in our store, which we believe is the opposite of the corn maze.

Enhanced messaging is the third call to action. And you saw a little bit of this from what Kelly shared. We're really streamlining throughout the store to provide a simpler, more focused, concise approach to messaging. From the exterior, where you see that "This is Me" to trying to bring the brand promise and inspiration to life and focusing on a key -- a few key messages throughout the store. Quality product at a value, "This is Me" and our omnichannel presence with thousands of more SKUs online.

One additional layout design that I wanted to share. We've created a clearance shop in every store, and this has become a fan favorite, a customer favorite for us. I It's allowed us to pull together value product and really drive a value message. As you can see, we got great navigational signs, so the customer can see this from any part of the store. It's also helped us to clean up our visual merchandising. The photos that you saw earlier, we would not be able to accomplish had we not had this clearance shop. We can pull everything together. It just gives us more space throughout the rest of the store to do that vignetting and do those realistic lifestyle settings.

Our final call to action was around the omnichannel experience. We are introducing two new stations in the store inspired really by our customers and put in the store to generate inspiration and to generate comfort and shopping in the stores as well. This is a place where we want our customers to come together to create using both in-store product and online product. All of these stations have a selling device, as you can see here.

We've got clear marketing that creates that call to action, and two very, very simple additions. As you can see from this table, we're actually giving her a place to play. We're giving her a space in the store, which is something that is a little bit rare in our current layout. Where she can pull product together and work with a friend, work with another customer, work with an associate. We're also giving them chairs, somewhere where they can sit, and encouraged them to spend more time in the creation process and spend more time in store finding what will fit their style. We really envision this becoming a social space in the store where customers come to meet other customers, customers come to get ideas from associates and be inspired by associates, to share and gather together. We're starting to see that in our test stores. We're starting to see the customers figure out what this is and our associates are doing a really great job of bringing this to life.

I mentioned earlier that we have been testing in roughly 30 stores across the U.S. We have learned a lot of things, a lot of lessons about omnichannel, about our assortment, about associate engagement and clearly about merchandising our stores.

We very, very recently, within the past week, have taken all of the lessons that we've learned and all of the enhancements that you saw there. Which are not necessarily all come to life in our other test stores, but we brought them all together in one metropolitan market and that is Dallas-Fort Worth. We converted those stores -- about 20 stores in Dallas/Fort Worth -- about a week ago. We have just now begun supporting them locally with the "This is Me" campaign via TV and a lot of other variety of mechanisms. It's the first time where we've had all the elements together. We're really anxious to see what kind of results we're going to get. Far too early to draw any conclusions. I think the one thing that we've looked at that we're pleased with is that we're seeing a lift in DFW in traffic. We still have a lot to look at in terms of analyzing the results, but promising in terms of customers coming in to find out what the new Pier 1 Imports looks like.

While we still have a lot to learn, and while we still have a lot in terms of looking at results, the one thing that I can tell you that has been overwhelmingly consistent is the customer feedback about this new layout.

Since the first store we converted to the last week in the DFW market, as we've been talking to customers, the feedback by our diehard customers and customers who have never been in the Pier 1 before, has been incredibly positive. They've called the store as open. These are their words not mine, open, spacious, inviting, relaxing, organized, refreshing, bright and happy, inspirational, as one of the things that we're going for, Zen. You don't get your store described as Zen very frequently in the retail environment. And one of my personal favorites from the focus group we did a couple of months back was a customer that said, this is like a totally different Pier 1 Imports. It's a happy place.

The changes are making it clear that you actually listen to your customers and you care about what they have to say about your store environment.

As I began with, this is all about, right. We need to understand what's going to make them spend more time in store, have a more pleasant, inspiring and consistent experience in all of our 1,000 stores. We're on the right track because they're telling us, we figured something out when it comes to the physical layout. As I mentioned at the beginning, if we can do those things and make that shopping experience comfortable for both our customers and our associates, then we can unleash that magic of our associates as they engage and inspire our customers. I think that's the exciting thing in the next big phase as we think about the physical layout of the store and the future of the in-store experience.

Thank you for your time. I'm going to pass it over to Stacey Renfro, who is going to talk about that other end of the customer experience, which is obviously omnichannel.

Stacey Renfro - *Pier 1 Imports, Inc. - SVP e-Commerce*

Morning. How's everybody doing? Hanging in there with us. Okay. So I'm really -- I'm going to make sure, I've got this down, the tough click. Okay, we started to talk to you all about omnichannel today and everything going on with pier1.com. Before I get into our initiatives for the coming year, a quick reminder, I know we talked about it yesterday and Alasdair hit on it, but this last year, we did exceed $450 million in sales and over 25% of our business now comes from pier1.com. We celebrated our five-year anniversary this last year actually. We, believe or not, only five years in August, have we had an e-commerce-enabled website.

We talked a little bit earlier, Alasdair was talking about, how our customers that shop all of our channels are our most valuable customers.

Before I go into the specifics, I can talk today, of pier1.com, I wanted to really explain why that is so important to us. Digital influenced about 56% of in-store sales in 2016, and that number continues to grow. Furniture is even more influenced by online at over 62% of sales.

Then the inverse. When you look at how stores influence online, and this is specific to Pier 1 numbers. More than 29% of our online orders are originated from within the four walls of the store. Those devices that Mark mentioned. And in most times, those are assisted by a sales associate within the store.

Another 22% of those pier1.com orders are buy online, pickup in store. There's also the opportunity for our associates with this buy online pick up in store to then convert customers when they come in to buy additional product.

Therefore, these two things together really make that holistic, single view that we're going for so incredibly important based on the value of these customers.

With the holistic view, there are still some real key advantages that we need to make sure that we recognize in terms of how we use the channels and how we use them together.

Stores. The obvious advantages are the ability to touch and feel, the ability to work with a sales associate and simple returns.

Online, the major advantages are the ease of shopping, convenience, extended assortment and then expert advice and inspiration.

As we look specifically at pier1.com, our customers give us a lot of credit for being very easy to shop, easy to navigate, recognize our endless aisle and our extended assortment. But call out that we really need to work more on our expert advice and inspiration.

SHw are we going to do this? We're going to break this up our strategy into six primary pillars. The two in the middle, personalization and omnichannel, are really threads that go throughout all of the pillars, two pillars important in every single thing we do. The other four: inspiration, fits my style, assistance and reason to buy. So I'll dig into each one of these a little bit more with some examples.

The first one is personalization. Personalization is so critical. It's so critical in everything that we do. Up until this last holiday, we pretty much treated almost every customer on the site essentially the same. Around the holiday, we started differentiating our cardholders from our noncardholders, and then we would serve up some custom content on the homepage based on prior shopping behavior or browse behavior. But that was pretty much the extent of it. Over the course of this year, we are going to be adding over 25 different touch points and attributes into our data set that will really give us the ability to speak very personally one-to-one to our customers known and unknown. We will be able to help her throughout her order process. If she is on the site, call out specific things that can help her understand her order status better or even help with basket building.

Personalized offers and content throughout the journey are also really important. We know where customers, and we will know where customers will engage. Those value customers, where they need that offer in order to convert, what it is that they've been looking at or maybe what they've looked at prior. And therefore, if we offer an offer on something that would be more kind of that following category after their first category, it would really help with the conversion.

Our second pillar is inspiration. You heard a lot about this from Kelly earlier in terms of user-generated content. User-generated content just provides such great authenticity and gives that customer the confidence to convert. So we're going to be putting inspiration and user-generated content in many places on the site. Whether it's homepage, checkout, pop-ups all along the way, we're really going to use this to inspire our customers that fit so well with the "This is Me" campaign.

We have a lot of really great content and imagery on the site today, but it's not always optimized for shipping -- for shopping, not shipping, for shopping. So we are going to be making our imagery much more shoppable.

As we do this, we also need to be more overt about putting it in her shopping path. Today we have a lot of destination pages, as I like to call them, for our content. We have over 100 editorials or how-to's, if you will, on our site today, but they live in sort of one-off places where the customer has to navigate to. It's really important that we get these in her path. Again, it gives her that inspiration that she is looking for, and it gives her that confidence to convert.

Photography is also a very, very critical element of inspiration. We're planning to increase our number of product images, increase our use of video, add additional 360-degree photography and add additional environmental images.

Assistance. As I mentioned, our customers do say that our site is easy to shop, and we're always optimizing for continual improvements in terms of how we can make it easier. There are some things that we saw on out site that are very difficult. "Sectionals" is a really good example. Things that have configurations that are more difficult to put together. So as we get into the end of second quarter, we're going to be adding a lot of tools on the website to help the customer with putting together and how we can sell these more difficult configurations.

We're also going to be beefing up our local store pages. Today our local store pages are very simple. They pretty much have the basic information, store hours, click to get directions. We need to make these also equally as inspirational and local. So we'll be adding a lot of local store deals that might be specific to that store, and even potentially calling out low-inventory items or scarce items or scarce items, I always say scarce for some particular store.

We're really excited. We're contesting currently a virtual design consultant. That assistance is extremely important. How can we do this in a more, "This is Me", and a more personalized way? With our virtual design consultant. We will use Jasmine as an example, as someone who can help our up and coming decorating enthusiast put together different items, help her figure out how things might work together in her home. Or Merida as an example, if she happens to be a value shopper, we can help serve up deals to her.

This virtual design consultant will be throughout the customers' shopping journey all along the path. This is a far jump from where we are today, where live chat is really the extent of what we have in terms of assistance.

Kelly talked a lot about "fits my style," and how the customer described her style. Today, we bucket it into certain trends or certain styles. Those are really the only ways that we allow the customer to shop those styles. As we get into towards the end of second quarter, we're going to develop a way that she can create her own style and shop her own style, whether that is by color palette, whether it's a vibe or mood, even clicking on images or pictures of things that inspire her or feel like her.

After the style is created, she'll be able to shop in different ways. Not to shop products, but she'll be able to shop content, she'll be able to shop rooms, palettes, different ways that her style is served up and available for her.

If she doesn't want to go through this process, she can go also to an image-based preference center. Again, not someone clicking a box and saying, yes, I'm a modern customer, I'm a traditional customer, but all through imagery. The imagery is very important for her creating her preferences.

After we have that defined, we then we'll boost those products on pages as she is shopping. She will no longer have to filter her modern products. Instead her style will be served up to her first and foremost.

We will also make finding her style much more easy from the homepage, allowing her to begin her shopping journey with her style.

Lastly, within "fitting my style," we're going to be adding an AI-powered discovery platform to enhance with style recommendations. Today, we do, and most people, have recommendation engines and those recommendations engines are based on what other people did similar to you, whether it was browse or shop or your personal behavior. We are also going to -- we're going to keep all of that -- very important -- but we're going to add the recommendations around completing a look or completing a style.

Reason to buy. Reason to buy is so difficult to get across on a website. We don't have the benefits of our awesome sales associates that we have in store. We really need to work on how we can get that uniqueness and the distinctness of our product through on our product-detail pages. We're going to be using customer UGC, as I mentioned earlier, but it doesn't just have to be imagery. We're going to infuse customer comments. We're going to infuse expert comments, whether that's a blogger or one of our buyers perhaps, to really describe in a unique, in a different way the reasons that someone should buy that product.

Product descriptions are extremely important in describing the reasons to buy. If you look at the example on the left, you will see what most of our product descriptions look like today. They are pretty flowery and their description is artistic as I say. They lack a lot of really key words that are critical to converting and understanding an item. If you look to the right, we're going to be going towards an AI-powered product description writing tool that infuses both our voice of our brand as well as key attributes, and it really will be writing our product descriptions for us.

Very good for SEO by the way as well. Right. Our last and our final pillar is omnichannel. Extremely important, and again, in everything that we do. In our DFW stores, we are currently testing -- putting tags on certain products, where the customer can scan and then they'll take them to the website to find out more about the product or to tap into that inspirational content that lives on the site.

Mark touched on this, but I wanted to elaborate on it because it's really important, is the signage in-store around our extended assortment in our endless aisle. Calling attention to the thousands of more items available online. In addition, it's not just important for the customer that's in the store, but this constant reminder for our store associates about what else is available on the site is also really important for their selling and their converting.

We are also going to be adding variable price and time of fulfillment options based on customer preference, customer location and inventory location. Today we have a standard message. It's three to seven days for a parcel delivery. And we're not getting credit for the fact that we have a very large percentage of our deliveries that actually land within that three-day window. But we don't have that sophistication in our logic that gives the customer a more specific date, and therefore, doesn't give us the option today to charge more or less based on how quickly she wants that product. So I'm really, really excited about this one.

Last but not least, and this one is coming actually pretty soon, at the beginning of Q2. We're going to be adding incentives to encourage store pickup. Very important for the omnichannel model.

I'm really excited about everything that we talked about. It's really important for our new brand strategy. However, I want to call out that there are many other big things that we're continuing to explore. We're not just working on the things that we talked about today. A few of these things include growing our B2B business. Today, we also -- in terms of gift registry, we have an online gift registry. It's very simple. It's online only. It's not integrated in an omnichannel way. We think that's a real opportunity for us. We're also exploring the potential of launching a subscription service. What I mean by that, a couple of examples could be that you get a monthly style box from Pier 1, could also be that you get the scent of the month, whether it's a candle or a reed diffuser or whatever that might be.

Then also, we're testing marketplaces. Right now we are testing. We started over holiday, testing with Amazon. We were pretty pleased with our results. We're going to continue to test into that. I used that as an example. There's obviously many other options outside of Amazon. And obviously, many other more things. But I just want to make sure you guys were aware of that, that there are other big things that we're continuing to look at.

Okay. So with that, it's break time. And after break time, I think we're going to come back and everyone's going to learn a little bit more about how we're going to help fund everything around our sales growth. Thank you, guys.

(Break)

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

Okay, great stuff. As I said when I laid this out for you at the very beginning, the first part of the day. Morning was to sort of really give you an understanding of how we're going to relaunch the brand, and how we're going to do the things, we certainly, needed to be done to actually start to drive our top line. Then I sort of position this part of the presentation as being about, what tools we have within our toolkit to be able to fund some of this and make those investments and give you confidence that we can improve the margin whilst doing that in the back half -- back part of our three-year plan. That's what the focus of this is. We'll obviously get into Q&A after that, but I'm going to hand over to Laura, to lead us off with a view on price and promotions.

Laura A. Coffey - *Pier 1 Imports, Inc. - EVP of Planning & Allocations*

Welcome back from your break. Hopefully, you enjoyed it. So this clicker is working,great. As Alasdair laid out earlier this morning, Pier 1's price value is not as strong as it needs to be. Our customers do not experience or feel that our promotions are compelling. So over the next three years, Pier 1 plans to drive savings and operational efficiencies in multiple parts of our businesses through sourcing, our distribution, supply chain and pricing and promotional optimization. I'm excited to share with you the opportunities we see in our pricing and promotional aspects.

Little bit -- yes -- to remind you of the history we talked about earlier on this morning. Five years ago and how the world has shifted. Five years ago we thought we were competing against high-end specialty retailers, thinking our competitors were in the upper-left hand of this chart with Crate & Barrel and Pottery Barn. What did we do about that? We engineered quality and uniqueness into our products to compete against those high-end retailers. However, over the last couple of years, the market has shifted dramatically, and online players are playing credibly in this space, putting pressure on us and other specialty home retailers.

Transparency in pricing has increased considerably, making it even more of an important part of how our customer makes decisions. Our customer clearly sees us competing in the lower-right hand of this chart against retailers such as HomeGoods, Target, IKEA and @Home. As a result, our customers have started to expect lower prices from us, and in many places, our competitors' products are justly more simple and lower quality. Our customers have found them acceptable to meet her needs. Many customers chose not to shop our brand and cited pricing as the primary reason. We recognized this and we accept it as the feedback we got.

We are going to prevent pricing being a barrier in our stores. We have to improve our value proposition.

We understand and know that base price is the biggest long-term driver of value perception. We believe we have a real opportunity to reset the base price we offer our customers. Base price is the everyday price we offer before we discount for promotional offers, coupons or other clearance markdowns. Over the long-term, the customer will give you credit in a base price reduction, and an everyday good base price.

This does not mean we're going to be become an everyday low price player, but it does mean we need products and prices we can stand behind that will compete in our new retail competitive set.

In places, this will simply mean by lowering prices on products we sell today, funded by a mix of sourcing opportunities and other efficiencies throughout the business. However, in other places, this will just mean that we need to reengineer our current product selection to offer a better value price point.

However, it's important to remember that base prices are the slowest to change customer's value perception and her shopping behavior. Without the urgency to buy, we believe that customers will ultimately give us credit, but not full benefit we need in the short-term. Markdowns on the other hand drive the quickest reaction. There is an urgency to buy. But in general, have minimal impact to the customer's perception of our value. In order to meet our strategic goals for newness and differentiation of our assortment, markdowns will continue to be a part of our business model, and we will need to optimize them for financial outcome. We believe up to $35 million of our markdowns were not as effective as they could have been and we see a real opportunity for savings in this arena.

Promotions and coupons will still play a significant role in our business model and our value proposition because they drive faster reaction compared specifically to base pricing. They will be an important part of our value strategy. However, they cannot be a replacement for an everyday credible price.

Promotional activity has been rising industry-wide and we know this. There is a trade-off between long-term customer perception and short-term reactions. Pier 1 found ourselves in this vicious cycle. Sales were below our financial goals, and feeling the impact of these decreased sales, we began losing some of our buying power with our vendors and deleveraged our cost. We chose to run some promotions as many retailers do. We know she loves a good deal, let's give her a promotion. The increase we got was small, but not enough to offset the margin erosion. We also believed, over the past few years, we were competing against high-end specialty home retailers. We had -- what have we done? We had engineered quality -- quality into our product, believing most customers would notice some of these small increases we took. Again, going back to the cycle, creating sales pressure.

So how are we going to reverse this trend? We are going to invest in people and technologies to expand our current capabilities, starting with optimizing our clearance markdowns in a localized fashion, and soon following with promotional opportunities in driving savings through data analytics.

Here we go. This year we'll be focusing on the investment and growing the benefits in FY '20 and beyond.

Today, we are limited by our current capabilities in our clearance markdowns and promotional analysis. First, we will invest in localization and optimization tools for our clearance markdowns. This year, in the latter half, we will start to optimize some of our markdowns in specific store locations, being more localized than we are today. We will be gaining and accumulating hindsight and analytics and instituting new guidelines around our promotional activities that we do in stores. We will be gathering robust competitive intelligence to make better decisions on pricing.

In our second wave, we will continue to invest, making markdown information will be integrated into our product lifecycle, from the beginning of the purchase through the ultimate disposition. We will begin using analytics, simulating and targeting promotions and the use of tools and data insights. We will also need to have data-rich tools for base-price tracking, and decision-making will be essential for helping us know where we stand in the competitive marketplace.

Here is an example of the base pricing and competitive intelligence around upholstered chairs. Base price decisions will be grounded in this robust understanding of other competitors on a category-by-category basis. In this example, our chairs against the leading competitor. We don't have options for our chairs below $200, even though we do sell some products at that price after a promotion or discount.

William's going to talk a lot more about how we're going to get sourcing savings in order to have an entry-level price point "good." We know we have to give the customer options. We have to provide a broad range of prices for "good, better and best," so that she can come in to our stores and feel comfortable we have something that fits her style and her budget.

In this example, you can see we have too many chairs in our assortment $350 to $500 range. Some of these higher-priced chairs will need lower prices without a significant change in the specifications, requiring us to invest savings generated by sourcing, promotional and markdown optimization efforts in order to offer a "good" and "better" price point on these -- on this seating.

Additionally, we need to focus and understand our customers' perception of us. We can have savings in areas that we know she cares about the most. She doesn't have an equal ability to judge all purchases and the value she has. While she feels this is passionate about this line of business, she loves this category, she knows a lot about it, she has different feelings about value depending upon what she is buying.

Items that are most comparable to other retailers, such as white dinnerware, we need to have a good opening price point. With a good opening price point, she will give us the whole category having value, and it will have a halo effect in our other areas of our dinnerware. She will be able to compare -- just because she can compare the good entry price point. Those categories she refreshes more frequently and she can compare to other competitors such as pillows or candles, she knows and has a good perception of the value of those prices. Why? Because she buys them more frequently.

The less frequently she buys them, she has less of an understanding of the actual value of it. But because we price -- those are "good" price points that she can compare easily and frequently bought purchased items, she will have a feeling that we've done a good job at providing value to her.

Large ticket purchases are researched more. She does a lot of research online in other retailers. She will have insight into what they are offering and therefore, either give us credit as long as we offer a wider range of what she is looking for.

Building out our capabilities and investing will allow us to generate funding that we need to reverse this vicious cycle and turn this business into a virtuous cycle. Some of that funding will pass through to the bottom line, but some will need to be used for investments back into the business.

Funding will start with lowering cost and delivering savings from sourcing, markdown and promotional optimization. Base price will be the key area of our investment. As we save money in costing, we will invest in lowering retail prices as we go. Unit sales will grow and share of sales on a discount should decline. Customers will start to recognize the value that we have in our product. As our regular sales continue to build, our reliance on promotions will start to decrease, and will allow us to cut ineffective promotions and use these -- as these dynamics begin to shift in our business.

This will lead to margin growth dollars, which will in turn give us more negotiating leverage with our vendors and leverage our fixed cost. So lowering cost is going to be the important starting point into our next journey and turning this into a virtuous cycle.

With that, I'm going to turn it over to William to give you the confidence that we can drive these costs down over the next three years.

William H. Savage - *Pier 1 Imports, Inc. - EVP of Global Sourcing*

Thanks, Laura. Good morning. You just heard from Laura about the new customer-facing strategy on price. Now I'd like to share how the sourcing function of Pier 1 will support this strategy, and how we are reengineering the way we source product to Pier 1. All this keeping in mind that since January, we now have a fully resourced sourcing organization.

We expect sourcing to be a key contributor to the growth of EBITDA over the next three years. By helping the company buy smarter, provide savings to support investment in price, this will help us do all the things that Laura had mentioned. And as you'll see in a moment, you'll see we've made some good progress.

But before I get to the numbers, I'd like to share more detail about the added value the sourcing team brings Pier 1, our customers and our partners. How do we expect to deliver this strategy and what are the benefits?

In the past, Pier 1 has made many of its purchasing decisions based on a product-by-product basis. This has fragmented our purchasing across many vendors, approximately 1,200 in number. It's diluted our buying power and slowed down our buying decisions.

A strategic matrix will benefit the vendor partners who are best able to meet our future customer needs, including value. The benefits will be by consolidating the vendor base, we can leverage our buying power. We will the best vendors with more business. And the vendors can then leverage their economies of scale, which contributes to the virtuous circle that Laura mentioned earlier. A tighter vendor base also means that our buyers have less ground to cover and improves our speed to market.

By buying from a cost component point of view, we can help ensure we're buying from the most efficient source and get valuable insights into the true cost of the product. Understanding what type of material is being used, the market price and the quantity will allow us to buy with confidence and be sure we're giving our customers the best value.

As of March 1, 2018, our vendors were asked to supply a bill of materials as part of our master terms and conditions. Creating vendor scorecards will help us build that vendor matrix by giving Pier 1 the ability to evaluate the performance of all our vendors in a fair and objective way.

We have some great vendors, and we value those close relationships, but we've built up with them over many years. We want to be in a better position to reward these. The benefits will be clearer visibility of performance and a shared set of KPIs. Being able to recognize and reward our best partners with further growth, encouraging others to improve that will drive continuous improvement across the vendor base.

Increasing Our Agent Value. We expect to continue to work with agents where they add value, and the commission we pay is equal to the service we receive. We've already negotiated lower commission cost for FY '19. We also have regular communication with our agents that better informs and aligns and empowers to help the vendors deliver against our new strategy. We view our agents as an expansion of the sourcing team, and we share the same KPIs. Having a sourcing team also gives us more opportunity to communicate directly with our vendors. This ability to explain directly our company strategy has excited our vendors and brought us closer together.

The desire to build the long-term relationships, shared goals, with all our strategic partners is driving our sourcing strategy. Pier 1 has a lot of useful data, and a lot of it is relevant to our vendors. We have data analysts in the sourcing team who can access that data and make it more meaningful. This will allow us to make better-informed sourcing decisions, and we can look at all our vendors in the context of previous performance history. As 50% of negotiation is preparation, it means that the meetings with -- the sourcing team can go into the meetings with a greater perspective on cost price history as it relates to raw material prices and currency fluctuations. It makes any sourcing decision fact-based and meaningful. And this, in turn, will help ensure a better outcome.

In the past, Pier 1 has been tied to sourcing from markets where we have an agent base. This means we end up buying products mainly from where most of our competitors source as well. The new team can move quickly to explore anywhere in the world and bring more unique product to Pier 1, something that we've always been recognized for. Within the team, we have colleagues who've traveled and sourced from all parts of the world and have firsthand knowledge of the vendor bases.

Finally, we really appreciate the support we've received from the vendor community and the resultant change in payment terms from the beginning of this year. All our vendors and agents have moved on to new terms, which are aligned to better practice in the market.

The sourcing team has a clear goal: to find, negotiate and deliver savings. Through all our efforts, we expect to deliver $65 million over the next three years through four key initiatives.

Firstly, the largest share of cost -- comes from cost reduction initiatives. Buying product in a smarter way and giving growth to our best vendors, more on this in a moment.

Agent value. We've already reduced the cost of our agents, and this will roll out across the next three years and beyond.

Thirdly, trading terms. Pier 1 buys all its product at a net cost. Many of our vendors have growth discounts in place with our competitors. As we consolidate our vendor base and concentrate our purchasing across fewer factories, we expect to take advantage of this as well and improve our trading terms.

Finally, a focus on improving our packaging and the way we handle product. We expect to reduce the cost of damages significantly and ensure all our stores and customers receive the product in the condition they expect.

So how do they -- how does that target break down over next three years? As I said, we expect $65 million in savings to break down as follows: $18 million in savings to be negotiated in FY '19; further savings and carryover will deliver expected savings of $22 million in FY '20, rising to $25 million in FY '21. So far, we're off to a good start. Expected savings worth $18 million over three years have already been negotiated, which is 27% of the target. We expect $4 million of this to be realized this year, with $3 million being reinvested in price.

The next two years, a further $14 million will be realized. The savings may come sooner with the faster sell-through of product. Not shown here yet, are several more millions in savings just secured as the result of a competitive bid completed this week. With this included, the total savings already negotiated would rise from 27% to 38% of the target achieved.

We have many reasons to be confident that we can deliver the numbers. These are just some examples of savings already negotiated. As you can see, the savings have been delivered across a wide variety of product and in a number of ways.

The key ones as follows: competitive bids. Using paper and electronic tools, we've identified potential supplies of volume items and initiated a competitive bid process to deliver significant results. Some of our biggest savings so far have been use of the e-auction tool.

Component costing. Breaking down product cost prices into their components, we've identified vendor inefficiencies and worked with them to re-cost.

Reengineering. We've reviewed product the customer is telling us has been over specified and is adding cost, not value. Reengineering or changing materials, we've realized significant savings.

Finally, packaging costs. We've looked at how we can save by increasing pack sizes to reduce packaging or reconfiguring the way that the product is packed.

We will continue to leverage these and other tactics to drive more savings in the coming months. Again, these initial results give us real confidence that sourcing can drive the savings needed for the price investment and deliver even better value to our customer.

Now I'd like to introduce you to my colleague, Michael Benkel, EVP of Supply Chain. Michael will share with you some of the exciting transformation that's taking place in this area. Thank you.

Michael R. Benkel - *Pier 1 Imports, Inc. - EVP of Global Supply Chain*

Thank you, William. Our investment in the sourcing initiative will enable Pier 1 to deliver significantly more value to the customer. We are in a competitive environment where we need to delight the customer with service and speed at every touch point.

The challenge facing our supply chain is how to achieve the optimal balance of delivering the customer expectation at the lowest cost. We have extensively reviewed our distribution center network with external consultants that determined our DCs are in the right locations. Our network review also validated the need for investment.

Simply put, we need to catch up with our competition. Our DCs require investments in automation and technology within the buildings to increase productivity and enable future capabilities.

Our supply chain opportunity is to transform our network to be a true competitive advantage and point of differentiation in service and speed.

I will detail how it will realize $10 million savings per year opportunity by fiscal year '21 through increases in productivity, while improving our inventory efficiency and customer experience.

Our network is comprised of 6 distribution campuses to service stores and e-commerce. There is significant margin opportunity to leverage this network through increases in productivity and efficiency to service both the store and DC customer orders. Inventory efficiency opportunities will be realized through utilizing both store and DC inventory to service the customer while also increasing speed. DC productivity will be realized through investments in technology and automation to drive efficiency, while reducing labor expense. Our supply chain will become a competitive advantage. We will utilize the complete network, DCs and stores to be fully integrated to leverage all the inventory in the network to deliver speed and to service our customers' expectations.

Our DCs are currently a very manual operation. There is a significant amount of opportunity to implement technology and automation in our DC operations to improve the four-wall efficiency. We currently lack the equipment and systems to efficiently move cartons through the DC to improve the pick, ship and sort process to our stores. Our three-year plan will implement the appropriate amount of pick modules, conveyers, sorters, technology and systems to move products faster and more efficiently through the building.

We have a robust omnichannel business. Our customers already have multiple options in where they shop and how their orders are fulfilled. Our customers can shop in the store, buy online and pick up in store, or buy online and have their product delivered from the DC to their home or through our white glove in-home delivery service. But we still haven't truly leveraged the network. We have 1,000 stores with merchandise that can't easily be shipped to a customer's home. We have a courier service in over 400 stores to deliver product from a store to a customer's home, but it isn't fully integrated with the website yet.

Our three-year plan will develop a fully integrated portfolio between stores, the website and the DC. We will link the customer to the network and allow her to have greater inventory availability, shipment options and faster speed of delivery.

Our greatest opportunity is our 1,000 stores to help supplement our existing network. We will add order management technology to intelligently route orders based on availability, speed and cost, all while approaching the experience from the customers' perspective.

This slide illustrates how the customer will be able to shop and fulfill orders with Pier 1 in the future. At the top of the slide, we have our six distribution centers. We plan to implement a multi-echelon inventory optimization strategy in the future to flow product from our coastal DCs to our inland locations.

Our current strategy that not every SKU has to be in every DC will continue and evolve. As Stacey mentioned, the customer will determine fulfillment methods based on her choice of speed, cost and level of service.

For deliveries to her home, we will also add additional carriers to reduce delivery expense. Next year, we plan to add the ability for a store to ship to a customer's home. This will allow for greater inventory availability and improve merchandise sell-through.

We will ship to home via the parcel network or through our local courier network depending on the customer's need. Through the courier network, we will be able to offer same-day delivery from a local store. Pickup from store will continue to be a very important component of our strategy.

Our investments in automation, in addition to improvements in the store delivery network, will allow us to replenish stores and deliver merchandise for pickup in store at improved speed.

This is a map of our stores and DCs across the United States. Our six DCs across the country enable a rapid replenishment of stores and faster delivery of direct-to-customer orders. Our 1,000 stores as fulfillment locations will form a complete and integrated network to allow us to leverage inventory, improve sell-through and reduce transit time to the customer.

We are injecting speed and flexibility into our network by utilizing the store portfolio for customer orders. The largest benefits will be increased sales and sell-through. By enabling inventory anywhere in the network to fulfill customer demand, we also expect to reduce inventory levels and increase turn. The customer experience will improve with faster delivery and greater inventory availability.

The investments in automation, I spoke to earlier, will drive efficiency across the DC network. Our analysis projects $10 million in annual savings when fully implemented with a $30 million, three-year investment. These investments are principally in conveyors, sorters and warehouse automation systems. The automation and store replenishment will also create efficiencies for our direct-to-customer orders.

We have evaluated the opportunity, developed a plan and will continue to execute our supply chain strategy to leverage inventory, reduce expense and improve the customer experience.

Thank you, and here is Nancy Walsh, our Chief Financial Officer.

Nancy A. Walsh - *Pier 1 Imports, Inc. - EVP & CFO*

Thank you, Michael. Today, we've shared our vision for Pier 1 2021: A New Day through our three-year strategic plan. We're building on the strengths of the business, our brand, our customers, our associates and management team to take Pier 1 to the next level as we provide our customers with the product she wants, at the price she wants, where and when she wants it. I will now take you through the financial highlights of our three-year strategic plan and the results we're expecting to achieve.

FY '19 represents the investment year of our three-year strategic plan as we build the teams, tools and resources needed to execute the plan. These investments will put pressure on profitability in 2019, resulting in a net loss in the first quarter and the full year. However, we believe the investments in the business will generate positive sales growth and increase profitability in 2020 and 2021.

The primary components of our investments in FY '19 are reflected here and address our customers' feedback: refreshed assortment, improved price/value proposition, making it easier to shop. This waterfall depicts the expected benefits from investments made beginning in 2019 and continuing during our three-year plan.

Creating our sourcing team, building a pricing and promotion team and developing optimization tools, identifying supply chain efficiencies and leveraging expenses. If we execute well, we see a clear path to 100 to 300 basis points of EBITDA margin improvement by the end of the plan in 2021.

Our CapEx plan for this year calls for $60 million of spend. $45 million of capital will be investment, deployed to IT, supply chain and store initiatives. Supply chain, as you've heard from Michael, is about software and automation. Stores is bolstering the store experience and testing new concepts. IT is support for the supply chain efficiencies and pricing optimization and localization. It's important to note that we believe we have sufficient liquidity to fund our investments over the next three years with significant runway to debt maturities in 2021 and 2022.

Looking at SG&A, we see increases in both dollars and percentage of sales this year as we invest heavily behind our three-year plan. In fiscal '20 and '21, we expect to see leverage as we drive sales growth. Profit improvement through increased efficiencies, improved productivity as well as managed expenses is very important to our three-year plan. We've engaged an experienced procurement firm to help us create internal discipline in our expense-reduction effort. The goal is to institutionalize this profit improvement focus, so our team lives and breathes it every day.

This provides a snapshot of all the investments our teams have talked about today and provides a more granular view by year. As you can see, we expect to generate compelling returns even after reinvesting a portion of these returns back into the business.

90% of all transactions touch the stores in one way or another, and only a small percentage of our stores are not generating positive contribution. Half of our portfolio is going to come up for renewal in the next three years. That's a huge opportunity for us to renegotiate some of the leases and leverage our occupancy costs. We do not believe store rationalization makes sense for us as it costs more to buy out the leases than to continue operating lower productive stores. We would rather reinvest in the business.

Everyone talks about omnichannel. In just five years' time, Pier 1 has built a robust e-Commerce business with over $450 million in sales. We also have a highly productive store base that I just talked about. Where we see big opportunity is to leverage both businesses in a true omnichannel platform.

We're approaching this in multiple ways. First, we've divided the portfolio into 10 distinct regions. This will enable us to analyze combinations of stores by certain criteria, whether that's size, location or demographic. Next, we are able to optimize our decision-making by focusing on specific clusters in order to maximize brick-and-mortar and online initiatives. This will allow us to deliver product the way the customer wants it in the most profitable way possible.

You can see from our Q4 results and today's guidance, the top line trends remain tough. As you heard today, we're working hard to lay the groundwork now for our brand relaunch in the fall. This is when we expect to see a change in the trajectory of our business, which will help us generate positive low single-digit comp this year, with further upside in 2021. You have seen this slide multiple times today.

We believe our plan will get us here and hope we've made it clear that this is a journey. FY '19 is our investment year, but we expect this to translate into sustainable growth in FY '20 and '21.

Now I will turn it back to Alasdair for final comments and then we'll open it up for Q&A.

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

Okay. Excellent. Just a couple of closing comments really from me. Conclusion to the day. Thank you, again, for committing to the time, to actually listen to our whole plan we laid out. I hope this has been helpful for you. A couple of things I want to really talk about. But first, here, I want to just spend a moment talking about creating value for shareholders.

I'm very conscious that can appear trite when you've had a fourth quarter like we had, and the earnings press release that we put out. But my focus is on how I deliver long-term value for our shareholders and put us into a sustainable position of growth as a business, which I believe will pay back for our shareholders over the medium- and long-term.

The way I think you should think about this plan, or I would ask you to think about this plan, is -- the implementation of the New Day has started. It's already begun and the team sharing the initiatives we've been laying out,they have been sharing with you some of the work that's been going on to bring fulfillment for us in the autumn of this year. But some of that implementation has already begun.

Second thing, as Nancy and a number of others have said, is '19 is really an investment year for us. And you can summarize it as a $33 million investment in marketing, sourcing, pricing, operations, promotions and supply chain in order to get us onto the right trajectory. And the benefits of that then come through in the following years of the plan. Now the reality is, we generate benefits in '20 and '21.

We've laid out for you some of those savings from sourcing, some of the savings from supply chain and where we expect them to come. But it's always extremely difficult to be precise in these things, because things can change, as you guys know well. But to try to give you some understanding of how we envisage that happening,

the savings and promotions and markdowns, really as Laura said, reflects the fact that there's two elements to it.

One, we don't currently localize our markdowns. So markdowns happen across the entire estate. And putting in the IT resource to be able to localize those to stores- and inventory-specific situations gives us the opportunity to reduce the number we need to actually run.

The second thing is, we spent over $30 million last year on promotions that drove neither lift in sales or lift in margin.

Just having the tools at our disposal to make better analytical decisions enables us to actually reduce the investment we have to make whilst getting a better return. Those things will translate through. And as we've said consistently, we're going to put some of those savings into price, in order to be able to drive that right approach in terms of good, better, best and the right value proposition we see.

Then, in 2021: A New Day, as Nancy said, net sales growth is expected to be in the 4% to 6% range. EBITDA margin expansion, 100 to 300 basis points from '18. Earnings per share increase, three-fold.

Key considerations I'd ask you remember. First of those would be, we're operating in a growth industry. It's an extremely vibrant category, which is extremely good news for Pier 1. We have an opportunity to capture market share. We believe we're going to do that by actually tightening our focus and focusing on those categories where we're strongest, those categories where we have the most resonance from our customers and those segments of customers where there is most affiliation to our brand and to the products that we sell.

We've got a clear strategy to strengthen Pier 1's brand perception. I hope that came to life for you through Kelly's presentation. Having a really clear purpose to ensure the brand is true to that, is the first step. I'm really encouraged by way we have ended up in that regard.

The sales growth and the efficiencies from operations, we do expect to drive improved profitability albeit after the first year.

You've met some of the team. I thought it was important that you met the team, rather than just myself and Nancy, because these things are always a team execution,a team delivery, and actually experiencing and meeting the team is important.

The final thing I would say is, it's a self-funding plan in as much as we don't need to take additional debt on board to get there. We believe we can fund this from the P&L. That's why we made some of the decisions that were announced in our press release around our decisions to do that.

I talked about four things that I'd ask you to bucket all this into.

The first thing is to relaunch our brand with a compelling price/value proposition.

The second thing is to bolster our store experience, and I hope you've seen evidence of that.

The third thing I talked about was leveraging our online business, which is already strong and has done well in the last two, three years, putting it together with our store experience to give ourselves an omnichannel platform that can help us to compete and have a competitive advantage against just bricks-and-mortar retailers and just online.

The final thing is reengineering our sourcing and supply chain.

It's been an extremely rigorous process. It's taken us quite a while to put that process to bed. We had to do a ton of work to ensure we were comfortable with what we were seeing, and that it related to the plan we've put before you. But we've really introduced a test-and-learn mentality to the business. And that's enabling us to test things quickly, learn whether they work or not and move on quickly to adapt to what the customer is asking for and putting her very much at the beginning, and in the heart of our decision-making.

We want to improve inspiration for her, and we think we've got a clear direction to do that.

The final thing, I would say, is we have to make this all much easier for her, integrating those two. And again, I hope you've seen evidence, again, of that through the day.

So that's where we are. Those are the key considerations. That's my summary.

There's one thing I would leave you with, which is this: When we did deep dive, we had a broader view of the questions we were asking about how we drivegrowth for Pier 1. We haven't shared the other elements that we talked about. But those of you who that have covered Pier 1 for many years will know that at the beginning of the 2000s, we had an international business. We also had a franchise business, and we had more than one brand. So we've been looking at those things as well.

What we focused on today is the organic growth opportunity as we see it, and the immediate impact we can have. Because my view is, I've got to get the business on the right trajectory first, get our balance sheet in the right position to actually grow from, and then move on as we think about it from there to other opportunities.

So without further ado -- we've got about an hour actually. We've gone slightly quicker than expected, always good, to be able to take questions. Yes, I thought that would be.

Could I just ask you though, because this is being web streamed, if you could give us your name and where you work so that we can get that on the record, that will be great.

QUESTIONS AND ANSWERS

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

Steve Forbes, Guggenheim. Somebody -- regarding the price investments, can you discuss kind of the plan to either phase in these investments by region or by category? Or is it kind of full throttle? Because I think I saw on one of the slides that that was a 2019 initiative? So maybe you could just expand on that first.

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

Yes. So our intention is -- there are certain categories where we know we need to make price decisions right now. So what Laura tried to tease out was the fact that where there is a very strong understanding of prices among competitors, and we've got a price perception which is lower than it should be and she knows. And it's influencing or impacting our traffic, and we're seeing some of that in quarter four results. here there are categories that we think we need to take immediate decisions. And so an element to that investment is a head of the savings. But that's not across the piece. That's where we think we've got specific issues. We've then got other categories where we think we can make a real difference. What we would describe as hero categories, categories that we can be famous for. And in those, again, we're going to make some really clear decisions on price. But generally speaking, pricing as a whole, we recognize we need to improve that over time, and that's where the sourcings that William talked to will flow through. So where we've negotiated savings today, realistically with our time of sale and purchase, yes, we're looking at a year out before that starts to really see itself in our business as it flows through. And as it does that, we'll then take those decisions, that money, and split it half and half into the price and then bottom line. Does that answer your question?

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

Joshua Siber, Morgan Stanley. So you are investing in price, you are closing stores. I'm curious what gives you confidence in 4% to 6% sales growth and kind of the puts and takes in how you get there.

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

Yes, so I mean, it's a couple of things. When you look at top left-hand box, as I described it, in terms of the $70 billion opportunity of those two segments. When you look at the top left-hand box, those are all categories that customers define us as being really strong in. And interestingly, we already take market share. So as you take categories where we've already got a greater-than-normal market share, we just translate that across to the categories we're now focusing on. You translate that through to what that adds to our topline, you get to the 4% to 6%. We are closing stores, but not many. We've announced 20 to 25 a year. So it's not that I see ourselves closing lots of stores at all. And of course, there's then the question about the evolving role of the store. As people change their habits and behaviors and the store becomes more of a showroom or more of an experience, rather than the purchase location. And does that mean we might have smaller stores? Quite possibly. Does that mean we might actually introduce a smaller store format? That's also possible. We need to test that and learn and understand before we make those sorts of decisions. But that's where I get the confidence from.

Anthony Chinonye Chukumba - *Loop Capital Markets LLC, Research Division - SVP*

Anthony Chukumba, Loop Capital Markets. I was really struck by the pictures of the new store concept. I mean, it definitely looks like a huge improvement to me. What's your thinking in terms of time frame, in terms of rolling that out to more of the chain?

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

So where we are at the moment, as we -- as Mark said, we've literally just gone live with that in the last week in the Dallas-Fort Worth area. So we now have a chunk of stores in a location where we have got regional marketing. So we've been able to put together the marketing program that you saw Kelly share with the store experience. And that then gives us the first view of the overall. And so what we're doing is we're rolling that out, we have to give that time so we can make proper statistical decisions based on what we're seeing. But our intention is to use that to then roll forward into the chain. And really we're looking at the autumn as when they're going to have that -- the progression to do more of the estate. How quickly? It's always a little bit of an iteration depending on how easy is to operate, some of the learnings we get, those sort of things, but that's our sort of perspective, in the autumn.

Bradley Bingham Thomas - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

Brad Thomas with KeyBanc Capital Markets. I was hoping to talk a little bit about the earnings walk and bridging some of the investments versus the savings opportunities. Is it possible for me to look at, I think it was Slide 163 that shows that, that walk. I guess, if I was adding up some of the savings from later slides, it looked like the savings were maybe at $110 million and you're making investments that look on this graph like they kind of wash each other out. Is that the right way to quantify it and look at it to where all your margin expansion and EBITDA dollar expansion would then be coming from the sales growth? Am I adding that up right, and am I reconciling that right?

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

You're not a million miles away. I mean, our intention is to use the money that we save to actually invest in the first half; how that plays out in the second half of the plan is obviously going to depend slightly on how much sales growth you get as to how much of the savings you have to put into the initiatives, promotions, as opposed to how much you have to put into the bottom line. Our intention is to invest in the first year, get the savings that we described as they come through in the first year and then use half of that, roughly, to invest in ongoing price promotional activity and half into the bottom line. So you're not a million miles -- not quite right, but not a million miles away.

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

Cristina Fernández from Telsey Advisory Group. I wanted to ask about the end goal once you're going through your pricing investments and changing some of the product. Is your goal to position Pier 1 at a similar price point to HomeGoods, At Home, or do you still see the brand as being slightly above those?

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

So I hope -- so do you remember the -- could you pull up Slide 131, Keishon? Well, sorry, next one. Next one. Next one. Next one. Next one. Keep going. This one, thank you.

So this slide here, I think, sort of helps to sort of typically explain visually where we intend to go. Our intention is that how we move to sort of here. Does that make sense in answer to your question, Cristine? I think trying to go from here to here in three years is not the right approach and would damage our profitability. So there's some concern about how we move from here to here. Hopefully, you've got a sense of, from the pictures of our store, changes, that it's a much better offer. The experience in that store, I think, is much more pleasant and much more fun, much more vibrant and inspiring than Home or some others. We're not trying to become other people. We've got a very distinct view of the role we can play. And it sort of pulls us, in terms of offer, more down towards these customers. But in terms -- sorry, in terms of value, more down towards these customers. In terms of the offer store, we still think we have a relatively specialist retailer with a point of view on style and all the other things we talked about. Does that help?

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

Budd Bugatch with Raymond James. We've seen the stores decluttered before in Pier 1. I think you have now somewhere between 5,000 and 6,000 SKUs or maybe 5,500 between clearance and regular SKUs. In the new stores, do you see the same SKU count? And if so, how do you do that in a box that's about 8,000 square feet? And I've got some other follow-ups.

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

So Budd always asked this question, where he wants to know how many SKUs we have in the store. And I always try to avoid that specifically, because it's different in every store, but we're roughly in that territory. The reality is we have slightly fewer SKUs in the new store. We are focused on keeping breadth in those stores but not having an overage of debt in inventory, which then chokes the store up. So that's -- you should think about it slightly less but not a huge number.

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

And that doesn't put pressure on the supply chain to deliver more frequently to the stores?

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

It does, and that's part of the investments we're making. So for example, most stores we deliver to once a week. In the stores where we've refreshed, we're going twice a week.

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

Okay. And one other thing, when -- in Kelly's presentation, I didn't hear two words that I thought I was going to hear, and those were apps and reviews.

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

Apps and reviews, okay.

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

What's the plan? I don't see any reviews online now, and I don't think you have an app.

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

Well, okay. We already have reviews online. I'll ask Stacey to show you afterwards, but we've got lots of reviews. We introduced them this year, actually, in quarter four. And our customers have already responded really well to the reviews. So it was definitely the right decision to put them in, and where we've got products with really strong reviews, we see a stronger conversion with other customers. We're going to continue to bolster over the course of this year. And as more customers review, it becomes self-building. By linking to Pinterest and Instagram and other social media, we naturally get more reviews as well. So that's an ongoing process for us.

We don't have an app. You're right, we don't have an app. And at the moment, internally, we're having a professional fight about whether we should have an app or not. So my view was, I think we should have an app. Stacey's view was "Wwell, I'm not so sure, we need to have a mobile-ready site," and in terms of where the industry is going. What's really interesting is, you've got other retailers saying, "We've got apps!" who are now saying they're walking away from apps and trying to move to mobile site technology. You've got others that are talking about the fact that an app enables them to target very specifically particular communication, particular coupon activity, too. So we are playing with it at the moment. We haven't made a defined decision, but we're analyzing it really carefully, and that is why it's an ongoing conversation.

Vince Sellecchia - *Tocqueville*

. Alasdair, thank you, and your team, for the presentation, it's helpful. I think Nancy made the comment that over the course of this transition, it should be self-funding. It strikes me that in your first year of this, it should be decidedly negative cash flow. Could you talk to that in terms of how much debt you'll have to take on or, let's say, net debt in first year of this? And when should the cash flows turn positive?

Nancy A. Walsh - *Pier 1 Imports, Inc. - EVP & CFO*

We aren't planning for '19 to be negative cash flow. You will and you have seen the trend of the cash flow has been declining in the last couple of years. So they're -- we're not anticipating taking on a significant amount of debt in order to fund this. It is something that's happening progressively over the years. So the investments that are coming through are balancing out some of the benefits that we're receiving.

Vince Sellecchia - *Tocqueville*

Okay, because I think you said you're going to have $60 million of capital spending in '19, EBITDA of $30 to $50, and maybe your interest is close to $15 million. What makes up the difference? I mean, is it you're going to continue to take money out of working capital or is there something else that we should be looking at?

Nancy A. Walsh - *Pier 1 Imports, Inc. - EVP & CFO*

SG&A is going to be a big portion of that. Inventory is reduced over -- a small amount over the years -- over this year for '19. But in '18, we reduced inventory 13%. So we are seeing a benefit on the working capital.

Vince Sellecchia - *Tocqueville*

And that'll continue into '19?

Nancy A. Walsh - *Pier 1 Imports, Inc. - EVP & CFO*

Not into double digits, no.

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

Dan Binder, Jefferies. So you've done some good work in terms of identifying your customer, diagnosing some of your problems. But at the end of the day, you're kind of leaning more towards the commodity end of the business, and you've highlighted some of the players that are in there already. So in a lot of ways you're kind of going into some strong competition. And I think, what are you -- I guess, what I'm trying to get is what are you going to do to wow that customer in a way that's really different from what everybody else is doing because it sounds like a lot of what we heard today is just kind of getting to where everybody else is. And I'm not sure if that's enough longer term. And specifically, I'll use an example here of sourcing. Everybody is kind of doing what you're already doing on sourcing. So how is that really going to give you an advantage? Is this -- it seems like a lot of what we talked about today is just going to arrest the trends, which have been quite negative. But I'm not sure how we really distinguish ourselves or you distinguish yourselves in the market relative to everybody else.

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

Thank you for the positive question, Dan. I think -- no, I get it. That's fine. I mean, I think the reality is that there's a little bit of -- the brutal truth is, we have to do a better job of competing and some of that stuff is, as we've talked about, we need to get in the game. But I think, the air will make a real point of difference for us, and it's really around this piece of inspiration for that customer. She seeks that inspiration. When you look at the makeup of our customer base, we don't have as many UCDsin our business, upcoming decorating enthusiasts, as we do confident style shoppers. Clearly an opportunity for us to do a better job of getting her wallet, as a result of inspiring her more effectively, both in-store and I mean, I have great confidence in where we're going with the stores, but hopefully you've got some sense about that from the photos, but also online and how we actually and particularly with the younger, upcoming decorating enthusiasts, actually get into her social media world and start to use influence bloggers and her own creative thoughts to actually link to our business. So understanding inspiration and the role that it can play and how we play a better role than anybody else in terms of bringing that to life and celebrate that art of self expression with her as an individual. I think, that's where we'll make the point of real difference. Because I don't see anybody else celebrating self-expression at all. And we have the environment in our stores to be able to do that better than others, I think.

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

And then, if I could, just a follow-up, because I kind of expected that might be your answer. To create that magic in the stores, you do need sort of an above-average associate. It sounds like your customers think that associate might be there today. But I'm just kind of curious what you are thinking about in terms of the investment that you're going to need to upgrade, if necessary, that associate pool, and what it means on wages, and if you've anticipated what others are already doing, and how you'll -- even if it's just retaining the people you have.

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

Yes. There are couple of things I would say about that. We've all had those situations where you go into a store and you walk out of the store, almost regardless of whether you found the product you want to or not, either with a smile on your face or frustrated, often driven by your last encounter with the checkout system or person in store. So we do see, and this is borne out by social media interestingly, that our associates are a real strength for us.

Now one of the reasons for that is that many of our associates actually work part time. They do it for the love of working in Pier 1 and around home decor. Not every associate is in that camp but many of them work relatively few hours, and they fit it in around other things because they love it. That comes through in the way they talk about the product, the way they talk about what the customers are trying to do and the level of knowledge they have about decor and putting things together and et cetera. I think there was a little bit of, we have a slight advantage without even realizing it, a bit of a sleeping giant. It is also a piece of work that Mark's engaged in now, in terms of training and development of our associates as a whole. To be thinking about how you leave that customer in such a way that they walk out of the store feeling it was the best experience they could possibly have had in the home decor category. And I think that will enable us to make a difference.

Do we expect to see the same pressures that others are seeing in terms of wage growth? I think, of course. I mean, that would be unwise to suggest otherwise. And we need to make investments where we need to make investments to be competitive. There's no question. But we sort of -- we recognize that. Does that answer your question?

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

Steve Forbes, Guggenheim, again. Maybe a follow-up on the new industry price, right, that you highlighted. Two questions come to mind. The first being, maybe if you talk about your expectations, how does the lower price impact your expectations for both, I guess, basket -- your number of items per basket and traffic as you model out that 4% to 6% revenue growth? And then the second part of the question being, how does the lower price per item impact your supply chain cost, right, as you think about shipping lower price point items through the same supply chain and the fixed cost deleverage that may transpire?

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

Okay. So let me tackle the second one first, if that's okay. We have a threshold for shipping, which is $49, and we ship it free. So if we put four smaller items into $49 rather than three, it doesn't really affect our shipping costs. We create the box in a DC in the same way. We put them in the box and we ship it through UPS. So that's not so much of an issue. What's an issue is, bigger ticket items, for example, if you come out then, yes, there's a challenge to that. Which is why Michael talked about the fact that how we utilize our stores as part of our distribution network is so crucial. Because if we can actually incentivize people to pick up from the store rather than put it through the network, that obviously works for us both in terms of leveraging the store but also our current supply chain. And that's what we'll continue to try to incentivize and work as we go forward.

First part of your question. There's a difference between just dropping price and making sure we've got a product that meets customers' needs.

If you take that example of that chair, if you are into buying an accent chair from us, and you can afford to spend $500, you may well be delighted with that chair. But if you like that style, and we don't have a $299 version of that type of chair, that actually when you look at that chair and you compare it online, and 62% of our customers with a device in the store are looking at pricing and getting comparisons, the reality is, you'll walk out from the store without buying that chair. If actually you can get the $299 chair as well from us, then suddenly you've got a choice of either the lower-priced chair or recognizing the quality differential between that and this one and trading up.

I've seen "good, better, best" work in a number of different ways. If you do it right, many people can trade up because they understand the quality they're now getting relative to others. But where it doesn't work is, if you've got quality the customer doesn't value, then actually what you see is they trade down. So that's part of the reason why we've been so rigorous in this process, because we need to be really clear by category how she views the offer we currently have, and whether or not putting a lower quality, but lower price product in may actually offer her a better overall value equation. That would then cause our current customers to sort of trade down. That's what we can't have happen. So we look to that both ways.

But so if you come in with a set budget and you can't afford that, then us having an option for you is great and actually will give us an increase in conversion, ticket and traffic, because we now have that. Particularly for younger customers. Does that answer your question?

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

Maybe you can just talk about the buckets right off of comp or revenue growth. Is it that you're anticipating acceleration in traffic being a bigger contributor, right, to that comp profile if you look out. But is another component of that being you increase getting -- you expect that gets that sized bill. So the consumer appreciates your value proposition more so they're buying more from you.

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

And frequency. So the frequency is really important one. These customers shop every month. So many of them shop every week, because it's a sport, it's an enjoyment, it's a passion, it's pastime.

The reality is we don't have that level of frequency in our business. So how we actually generate that level of frequency is just by transferring products in and out of our business faster so we get something new and different on a more regular basis to encourage her to come in and have a look. So that's a little bit of frequency as well as a little bit of basket and traffic.

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

Maybe the last one. And it is just the -- if you think about your -- I think you said your omnichannel shopper shops 5 to 6x per year, 5 to 6x more...

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

It is she spends 5x to 6x more.

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

5 to 6x more. What's like your best consumer's conversion? How often are they coming through your store and how often are they purchasing from you?

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

Cool going. Do you know the answer to that, Stacey?

Stacey Renfro - *Pier 1 Imports, Inc. - SVP e-Commerce*

No.

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

No. I don't know, Steve. We can get back to you with that. That's not -- we just -- the number isn't on top of my head.

Seth Mckain Basham - *Wedbush Securities Inc., Research Division - SVP of Equity Research*

Seth Basham with Wedbush Securities. You did a great job explaining your target customer, your target categories. But when you think about your sales growth plan, how much of that growth is coming from your loyal customers versus new customers? Is it all pretty much coming from the new customers? Is that the way to think about it?

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

No. There's a couple in it. So the piece around frequency and basket, we talked about -- really talks to what we would describe as retained or reactivated customers. And the new customers piece is really about how we broaden our reach into the up and coming decorating enthusiast channel and build the number of customers that we get that are genuinely new to us. So we look at it in both -- in three ways.

The final way we look at it is looking at our reward customers, our biggest, most loyal customers and their spend time. So we have a program for retaining customers, which is more focused around building basket, building frequency, building spend and then acquiring new customers.

Seth Mckain Basham - *Wedbush Securities Inc., Research Division - SVP of Equity Research*

So if you break down that 4% to 6%, how much of it would be from each of those buckets?

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

So roughly, and this is very rough, but roughly a third from acquiring new customers, two thirds from either retained customers through frequency or reactivating customers that've been in before but not actually buying currently.

Andrew James Minora - *Gordon Haskett Research Advisors - Research Associate of Retail*

Andrew Minora, Gordon Haskett. On the second half implied same-store sales growth in fiscal '19. This is a pretty material acceleration versus the performance you've had already expected in the first quarter. Can you just kind of talk -- I'm assuming second quarter, but can you just talk a little bit about how you quantify that or how you build to that number for the full year same-store sales versus the down 7% to 8% of first quarter this year, please?

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

So what we're seeing is -- I mean, I think, an ongoing challenge for us, with the assortment that we have and the program we've got, we're seeing that sort of trend, reduction in quarter one through quarter two. But it really makes a big difference in our business as we get the new assortments in end of the summer and therefore autumn is where we're building to. So that's the point at which we expect to see significant pickup.

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

Atul Maheswari from UBS. So just a follow-up to that question. What is giving -- so you relaunch the brand this fall. So what is giving you confidence that you will see an immediate sales lift in the back half of this year?

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

So there are a couple of things. The first of those is, the immediate sales lift won't come from the brand. What the brand will hopefully get us is a traffic lift. Now you have to be very careful that, as Mark said, we're 1 week into DFW. And so I don't want to set wrong expectations. And -- but what you typically see in these things is you typically see a traffic lift as people come and think about the new business. And you can get that relatively quickly.

The key, though, is to get an increase in conversion because you've actually got stuff they're interested in when they get there and you then see an increase in ongoing frequency with them as they return, they repeat business. Those are the key measures for me to measure success.

And so what's different in the autumn is, we will have new assortments; we'll have good, better, best products in key assortments of ours. And it will start to, therefore, tell us whether we're getting that level of conversion and that level of repeat purchase as a result of getting a lift in traffic. It's not the mark that has a long way, Kelly. It's not the marketing that will drive the answer. That's helpful for getting to her to reconsider to the business. But it is ultimately the assortment of merchandise you have that meets her needs.

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

And just in terms of the new assortment that you're talking about, do you envision moving away from some of the current look that you have to a more neutral look, which has a more universal appeal within the two customer segments that you're targeting?

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

So the way I characterize it internally, this isn't a numerical character. The way I characterize it is rather than targeting our sales at 0.5% to the U.S. we need to target ourselves at 5%. I'm not trying to become all things to America in terms of our assortment, but I do think that there is an opportunity for us to just tone down some of the high patterns, high color, high tolerance that we've had in our business and to introduce more of a neutral palette.

We had a very fascinating focus group where we took our -- these accent chairs and upholstered chairs, products like this -- we took these, and we took photos of the display in the store, and we asked customers to tell us about them. And whether there was anything in there that they would buy. And their answer was no because it was all pattern. Then what we did we took exactly the same display, and we interspersed neutral products into some of the patterns and color. And what was really interesting was two-fold. One, people spotted neutral products, and more people were appealed to those. But also interestingly, solid colors and patterns because they stood out and popped more effectively, customers were saying, "Oh, I don't recall that one actually, I didn't -- that wasn't in the last one. " When we went back to the previous one, it was there. They just couldn't see it because it was so overwhelming in terms of there was just too much pattern.

We're getting into specifics here, but the reality is by toning down part of our assortment, we actually improved the overall assessment of the assortment as a whole. I don't see us as a business moving entirely neutral. That wouldn't be right for us. Color plays an important part in our business. Pattern plays an important part for our core customer. But we can tone it down and introduce more to get to that 5% on and off. That gives you a sense of the way I'm thinking about it.

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

Beryl Bugatch, again. Just on -- following up on the question of the comps for the second half of the year. If I do the math, I think I get to kind of an 8% average comp for the second half of the year to get to your midpoint of the comp guidance. Is that -- am I doing the math correctly? And if so, isn't that an acceleration above the 4% to 6%?

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

Slightly high. Slightly high. Mid to single -- mid-single digits is better.

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

Okay. And secondly, your merchandising Vice President has given her resignation or her retirement plan. What's the plan for the organization in terms of merchandising? How do you plan to fill that for you?

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

So, Cathy David, who's our merchandising director, she has announced her retirement the 1st of May, you're absolutely right. She got to the point, I think, where she felt that the merchandising team had been making many of the changes that were necessary as part of this plan. So they've been doing a lot of the work in the background to make sure we've got product for autumn. She felt this was a reasonable time to sort of hand over the reins to someone else. We're, therefore, involved in actually deciding how we do that, who the replacement is. We're looking for that replacement as we speak.

Bradley Bingham Thomas - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

Brad Thomas, again. Just a question on the promotions and the promotional strategy, clearly an opportunity to be more effective with that as you pointed out. This is, if we think about fiscal 2019, how are you planning promotional cadence kind of year-over-year? And then, I guess, bigger picture, maybe can you help us think about the buckets of how much you sell full price versus promotion versus clearance and how that evolves with the new merchandising strategy?

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

Yes. I think, it'd be difficult to break those down for you, to be entirely honest, simply because it depends a little bit on how quickly we work our way through inventory we don't see in the go-forward assortment versus going-forward. So '19 is a bit of a year of iteration to be perfectly honest. And our intention would be in a place where we have a higher proportion of regular sale product, and we have to spend less money in promotions.

What we're seeing at the moment is, I believe, because our core value proposition is not where it needs to be, we happen to invest evermore in promotions. The problem is, we're not getting credit from the customer for the investments we're making, and that's the challenge. So we're not getting the lifts we require. So as we go into '20 and '21, it would be my expectation that we're more efficient with our promotions than we are this year and have been in the last couple.

Bradley Bingham Thomas - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

And just a follow-up. As we think about the underlying merchandise margin and where are we clocked in for fiscal 2018 that just ended, is that the right level that you should be two years from now as we get through this transition? Where do merchandise margins need to be?

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

We have this -- we obviously have this debate a lot because Nancy wants to put it up, and I want it invested in. And it's a balance, isn't it, between getting more customers through the door so you can sell more and get a higher turn versus making the margin you need from the products you've got. So I don't see it going down. I personally think we're about right. But if we get a little bit more sourcing benefit than we expect and the recovery is quicker than we thought, then it may increase slightly, but that's not what I'm banking on.

Victor Chee Ngon Ho - *Sutton Square Management - CIO and Portfolio Manager*

. Three questions. Firstly, if you look at the store size footprint of some of the newer peers that've taken share away from you frankly over the last five years, it's radically different. At Home is 100,000 to 125,000 square feet, you're about 8,000. Do you think you need to change your footprint to offer a different retail store experience? Would you -- you've gone through and talked a lot about -- would you need a bigger footprint to compete with those guys?

Secondly, many of your peers are drastically accelerating the amount of advertising and marketing dollars they're spending. And I know in a prior call, you talked about we're at 6%, my CMO would like 9%, but I think I'm at 6%. Do you anticipate needing to increase marketing or advertising as a percentage of sales, especially because a third of your future growth is coming from attracting new customers to your concept?

And then lastly, around shipping and logistics. Do you think your current $49 threshold for free shipping is competitive in the marketplace? And do you anticipate needing to invest in that shipping offering and how will you offset the increase in inflation that we're seeing in shipping logistics sort of independent of home goods, but just shipping costs are going up at the moment? So will you need to invest in that? And how are you dealing with the inflation today?

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

Okay. Let me cover. If I forget one of them, remind me. So to answer your first question, I don't see us trying to be an @Home. That's not the purpose of this plan. So we're not going to build 100,000 square-foot stores to try and doan @Home. And I think what @Home does really well is to play the value end of the market very well and to have assortments across all categories, including big-ticket. And our customers told us very clearly that we resonate really well for them in decor, home decor. That's where the -- that's where our sweet spot is.

We're about making the inside of your house look beautiful once you've bought your big sofa from somewhere else. Have you add the pillows, have you add the textile such as, have you put the vase and the accoutrements together. That's actually, that's our sweet spot. So I don't think you'll see us veering away from that.

We sell accent furniture. We do sell small pieces of upholstered furniture and dining tables, but that's primarily because she sees dining and tabletop as a key strength for us. And therefore, it's in a very close category. So you won't see us moving wholesale down there that way.

What you may see is us actually looking at smaller stores. And what Nancy talked about was, how we're thinking about omnichannel? So if we put together our online andstores business, what's fascinating to me is, the customer no longer talks about us in that way. She just talks about this Pier

1 and she talks about us being able to research product, look at product, touch and feel product and the advantages of that. So it may well be that as the role of the store morphs, we choose smaller stores, 3,000 square-foot stores, so that she can see, touch and feel things. And the online part of that changes a lot. And I think that's more likely than us building big stores, if I am honest.

Now to your question about shipping. Yes, of course, there's tension in shipping. So a part of the investments we're making this year is we're working with our IT team to ensure that we're set up in such a way that we can negotiate more aggressively on those shipping costs by tendering out our shipping versus others in a way that we're doing on our sourcing side. So we'll try to mitigate shipping costs in that regard. But the best way we can mitigate shipping costs to be honest is to use our store base. So at the moment, we ship, it goes through the UPS network and that then goes into postal service at the end of the day. If we've got stores within a mile or two of the customer, we can either incentivize them to pick it up in our store, or we can actually put it into U.S. Postal Service ourselves from store, and therefore, mitigate some of the shipping cost increases that we see. We just have to be flexible to respond to the pressures we see. So we'll see. I think we are working to mitigate some of it, whether it'll be all of it we'll see as we go through. Does that answer your question? Did I miss anything?

Victor Chee Ngon Ho - *Sutton Square Management - CIO and Portfolio Manager*

Yes. The third one was around marketing and advertising spend. Do you want to move it up?

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

Yes. So we'll be at 7% this year, because we're investing in '19. So we're putting an additional $20 million into marketing this year as part of the brand relaunch. Your question, I think, is more sort of ongoing -- if in fact the market is at 9%, do you think you can stay at 7%?

The honest answer is, we're sort of like, we'll see how we do this year and change our assumptions based on our experience. Where I've been slightly hesitant previously is, what I said on the calls was, I don't want to increase marketing spend when we weren't clear what we were going to stand for in that communication. Now that we're really clear what our purpose and our proposition is in what we're trying to stand for, if there's a good return on that advertise spend that Kelly talked to, and we may choose to invest more, but it's got to have a good return on our advertise spend. So that's the measures we're using, because we're now clear what we trying to stand for.

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

I was wondering if you could just elaborate a little bit more on the use or change in the use of the sourcing agents? They're still a part of the formula, but as I understood it, you really weren't doing direct sourcing. So how does that look three years from now? And what were you able to change with the sourcing agents to get the costs down exactly? That was the first question. The other one was also on sourcing, but around merchandising trends specifically. And you kind of went over briefly, the assortments aren't right, you're going to use some technology to get some focus group color. But I didn't really get to understand what's changed and how they think about trend and where they're getting -- where the merchants are getting their inspiration from beyond these customer focus groups?

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

Okay. This is going to take me a little time to answer, so bear with me. But if I didn't do it well in the presentation, it needs to be done anyway. So that's a helpful question. So taking your first question about sourcing. William keep me honest, if anything isn't right, jump up and down and scream. The reality is that about half of our products, we buy the products we have in previous years. So those products where we have a longer-term relationship with vendors and we've got products where we buy, those are the opportunities for us to have more strategic relationship with those vendors. There's no question. And agents play a critical role for us in two ways, finding new products, finding new sources of products from different countries, and actually getting us trend right product early in the cycle. So there's always going to be a role for agents and playing that role for us.

I think the big change for them this year versus previous years is, what we've done is we've given them permission to reduce cost and we've aligned their KPIs with ours around reducing cost. Historically, we actually have never had in the KPIs the agents any requirement to get -- to look at cost of product relative to competitors. And therefore, it's just been an exercise in aligning I think, both our plan where we want to get to with what they saw is the role they play. So William is doing a good job of making sure we're using same metrics with all the clarity. Is there anything I've missed that you'd want to add, William?

William H. Savage - *Pier 1 Imports, Inc. - EVP of Global Sourcing*

The other thing I'd add to that is that they cover our QA for us as well. So that's an important role they'll continue to play.

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

For those who couldn't hear William, they're also covering our QA, quality assurance, and that's another ongoing role that's important and they'll continue to provide for us.

Unidentified Analyst

Is there any direct sourcing? Will you go (inaudible) in terms of reaching out?

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

How much direct sourcing, William?

William H. Savage - *Pier 1 Imports, Inc. - EVP of Global Sourcing*

So we currently source directly about 20% of our product from various countries. So we already have some of those direct relationships in place.

Unidentified Analyst

(inaudible)

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

Well, we'll see. We'll see.

Unidentified Analyst

(inaudible)

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

Yes, thank you. First, I want to continue to wait longer. So in those constant, we have a process that we follow as an organization with the merchants do a big trend review process, which we use outside fashion consultants to help with. That trend process then leads into what we see as the sort of 6 or 7 themes or trends we believe that we can stand for. And then what we do is we develop an assortment to those trends and themes. So that process isn't changing, and that process remains the point of difference for us in having products that are unique and different in the marketplace. And we can typically expect to continue to operate in that way.

The piece I was talking about was, as you're developing products and samples with vendors, after you've done that trend of work and those designs, quickly establishing whether the things you developed are going to be on cue for the customer or not is what I was saying. You can use technology now very differently. And just get a sense check of whether it's really registering well or whether actually it's been a bit of a miss, in which case don't buy into it big, buy into it small, and that's where we can make that difference at the end. But the start point, we're a specialty retailer. We'll always be a specialty retailer. Design remains a critical part of our ethos and purpose and developing from those trends will be a continued approach. That answer your question?

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

Yes. Just one additional, earliest when will we see that new product?

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

In autumn. Autumn; it's coming through in the autumn.

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

Okay. Great. So you have a little bit of baggage in the front half.

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

Yes.

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

So if we just kind of incorporate everything you just talked about today, is pricing coming down immediately on the older, [unintelligible] product, if you will? Or should we expect it to kind of come down through clearance?

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

Yes. So as we...

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

And just one last thing. If you tie it into that, it feels like you're kind of launching this new brand messaging around old products. So how does that work?

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

We're not doing that, just to be clear. The brand messaging is live in DFW as a test market for us. It's not live across the country. We're launching the brand message change in conjunction with the new assortment coming in, in conjunction with the store changes. So it's one big thing, and that sort of kicks-off at the beginning of the autumn. Where you'll really start to see the material change is in the autumn. And to your point, are we having to deal with some elements in the short-term? Yes, we are. And where there are assortments that we're struggling to sell or we've got problems we'll have to clear that product through. That will -- -- we have to deal with that in the first half, which is why you see part of it the shift that we're sort of describing in those patterns. Yes?

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

If I can, can we challenge you a little bit in the automation effort in the DCs and in the supply chain?

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

Sure.

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

Can you talk a little bit about the return on invested capital? I thought Pier 1 always had a pretty good percentage of accuracy in the DCs. I didn't think -- I thought that that had been looked at before in terms of automation and seeing what kind of return on investment that would give to the company? So can you talk a little bit about what the ROI for that investment is?

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

Yes. Michael, do you know that number off the top of your head?

Michael R. Benkel - *Pier 1 Imports, Inc. - EVP of Global Supply Chain*

Well, I spoke a little bit about -- it's a $30 million, three-year investment. Year two, we start getting $7.5 million savings, and then at full implementation it's $10 million. And then as volume increases, it increases after that.

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

And the savings come from what sort of things?

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

So let me give you an example of some of this and what happened at that. At the moment, for example we have to take a pick trolley, and you go to each pick place in the DC, and if you are picking a product, you're picking it for a store. So literally, you pick that product for the store and you walk on to the next pick product phase. And some of that DCs are large. So you got customers -- not customers, associates walking entire length of the DC to pick a store's product.

By changing the IT, and investment that Michael was talking about, we can go to that pick phase once and pick 17 items for 17 stores in one go, and therefore, only do that pick phase once rather than 17x. So you get a significant saving in terms of our overall SG&A and payroll associated with those changes.

The other thing we're doing is we're introducing conveying. So rather than having actually send someone around to do that, by having automated conveyors within DC, that can just place the item on the conveyor. The conveyor shuffles it to the end of the DC and we then build the orders to get out of the door. So both of those are -- the key benefit is reduction in cost in terms of payroll, SG&A time. Is there anything you would add?

Michael R. Benkel - *Pier 1 Imports, Inc. - EVP of Global Supply Chain*

Yes. Just, I mean, the significant savings are increase productivity and reduced labor.

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

That answer your question, Budd?

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

Yes.

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

I have one more question. Forever, does that follow Pier 1? The percentage of furniture range between 35% to 40%. And you said that where you really resonated with home decor. Does this mean that reliance on furniture will actually diminish? I think you responded that with an implication of another answer you gave. So...

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

Yes. So what we may not have spent enough time on in the store rejuvenation piece was how we introduce to a customer in a store that in fact, we have got a much larger assortment online of furniture. And we also need to make that effective, the more effective we do -- the more effective job we do with that, the better job we do on furniture. But clearly, we've got a much bigger assortment online than we have in the store environment. Our stores will be more oriented towards home decor. But when we talk about furniture, we include things like accent furniture and upholsteries. Just think of upholstered furniture like this. If you take big ticket furniture, things like a sofa, or a table or a bedroom, that represents about low double digits, it's in 10%, 11% of that. That's a much smaller part of our business. A majority of what we call furniture is accent furniture rather than big stuff.

Unidentified Analyst

(inaudible) coming out?

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

Correct. What you see is a reduction in the number and more of a direction to the assortment we have online.

Unidentified Analyst

To follow-up on the merchandising change that's coming for this fall. You mentioned about half of your sales tend to be repeat products. I guess, how much of the floor will change over this fall in terms of the assortment versus what you normally change out in a typical year-to-year?

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

Oh golly, do you know what percentage we are?

Unidentified Company Representative

(inaudible)

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

I think it's going to be substantial. We're just introducing "good" products to a whole new assortment, and we sort of envisage that being high-double digits percentage of the overall assortment. So it's going to be significant, but I haven't -- I don't have a percent, the specific percentage in mind. It varies dramatically by category. So if you take, for example, accent seating, where we know we've got a real problem with our opening price point, you're going to see more than half of the assortment is different. And when you actually look at tabletop, you won't see that same level of change, because we actually have a real strength in that area already, so I don't mission to hedge the question, it depends on the category.

Unidentified Analyst

And to ask another -- in the weeds percentage question, as we think about the assortment that we'll find in the stores this fall and online this fall, how much of the assortment will have a lower price point on a like-for-like item than what you have right now?

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

Again, it varies by category. But what we're sort of set-out with when we started this -- when we look at our competitors, it's roughly about 20%, we think, of opportunity for us. But it does vary by category. So I mean, the example that Laura showed you for accent seating, for example, some of our key competitors in that category are getting half of their sales from a price point we don't even have. So we have to look at it by category rather than by business or by store. So you will see variances across different categories.

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

Just being annoying.

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

No, you're never going to be annoying.

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

Two questions kind of wrapped in one. You mentioned the increased ad spend. Just wondering if you can talk a little bit about how that ad spend is changing online, print, field search, et cetera? And then you talked about promotions and coupons still being a part of the business. And just -- I get they are traffic drivers. Can you talk a little bit more in detail how that is changing, if it's changing at all? And then lastly, on DFW, if you get out a few months and you say, wow, this is really grand slam. How long does it take to convert the entire market or the entire country to that model?

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

Yes. So you can do anything in as short a time as you like, Dan. It just costs you much more than if you do it over a period of time. So it really does depend. We have the model what we see and what we think. But Mark's planning to change the whole estate over the course of the year. So as you say, as we get out and understand that more, we may iterate that slightly but that's where we intend it to be.

And to your earlier question about marketing. The reality is we are changing our marketing on many fronts. Kelly, do you -- I'll do the best as I can, but shout at me if I get this wrong. We've actually changed the agency we're using in terms of modeling our ad spend and how we actually -- partly because we felt we had a model previously that was too one dimensional, and was in their interest rather than ours in terms of customer.

If you take our customer, she skews very heavily towards things -- inspiration places like Pinterest and Instagram, if she is a younger UCD, or a younger confident style shopper, and therefore, we need to be present. And we're now present on Pinterest and Instagram the way we've never been before and that requires an increase in digital spend to do that. But also she focuses her time online -- sorry her time on mass media on certain areas, certain channels. So we massively over-index in the Hallmark Channel, we over-index in HGTV, all those sorts of channels that focus on home decor and trends. So we're matching our model to where she is and how she does her inspiration.

The thing that gives me confidence is, Kelly's laid out for us the journey she is on, and therefore, the touch points we can get better. So our media is now invested around those touch points rather than "we're going to spend 20% on TV, we're going to spend 20% online." It really depends on those core segments, what makes more sense for her, and that's how we changed it. So it's pivoting slightly. The overall spend is increasing by $20 million.

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

(inaudible)

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

Promo coupons? We're not expecting this year to make a massive reduction in use of promo coupons. We think we'll see a reduction in promotion, but an increase in effectiveness of promotion in years two and three. And coupons, our customer loves coupons. It's important to them. So you sort of walk away from that carefully, is my experience, and we will iterate and learn rather than trying to wholesale and roll back from it.

I tired you out. Excellent. All right, guys. Look, thank you very much indeed for you time. Really appreciate it. I hope this morning was helpful. Thanks for coming.
