Company Name: Burlington Stores
Company Ticker: BURL US
Date: 2018-03-08
Event Description: Q4 2017 Earnings Call

Market Cap: 8,384.93
Current PX: 122.86
YTD Change($): -.17
YTD Change(%): -.138

Bloomberg Estimates - EPS
Current Quarter: 1.029
Current Year: 5.629
Bloomberg Estimates - Sales
Current Quarter: 1478.900
Current Year: 6509.750

Q4 2017 Earnings Call

Company Participants

- David Glick
- Thomas A. Kingsbury
- Marc D. Katz

Other Participants

- Irwin Bernard Boruchow Jr.
- Matthew Robert Boss
- Kimberly Conroy Greenberger
- Lorraine Corrine Hutchinson
- John Kernan

MANAGEMENT DISCUSSION SECTION

David Glick

GAAP and Non-GAAP Financial Measures

Reconciliations of the non-GAAP measures we discuss today to GAAP measures are included in today's press release

Finally, it should also be noted that, unless otherwise indicated, the non-GAAP results we discuss today are reported on a 13-week and 52-week basis, respectively

Adjusted Net Income and Adjusted EPS

- Moreover, our adjusted net income and adjusted EPS for both Q4 and full FY of 2017 exclude any estimated impact from the Tax Cuts and Jobs Act which was enacted in December 2017
- Any estimated impact triggered by the enactment of the Tax Cuts and Jobs Act on our financial results, including the impact of rate reduction, changes in deductibility of certain items as well as the revaluation of deferred tax liabilities, are reflected in our GAAP net income and GAAP EPS results

Thomas A. Kingsbury

Business Highlights

Comparable Store Sales and Adjusted EBIT Margin

- We are extremely pleased to report strong fourth quarter results, driven by a robust 5.9% comparable store sales increase, which is on top of a strong 4.6% increase in FY2016
- We passed several significant milestones in FY2017, as we surpassed $6B in total sales, expanded our adjusted EBIT margin or operating margin by 90BPS to 8.6%, and achieved record low aged inventory and record high

comparable store inventory turnover levels

- We remain focused on elevating our off-price operating model and expect our initiatives to enable us to continue our favorable momentum in FY2018
- Regarding Q4, on a 13-week basis, operating margin expanded by 50 basis point, a solid result, driven by increased merchandise margin and SG&A leverage, which, combined with our overall strong sales increase of 10%, drove a 22% increase in adjusted EPS, significantly ahead of our guidance

Q4 Highlights

Comp Sales Growth and Inventory

- Turning to highlights of Q4, all on a 13-week basis, this was our 20th consecutive quarter of positive comp sales growth
- Our comp sales growth was driven primarily by an increase in traffic, our 12th quarterly traffic increase of the last 14 quarters
- Inventory aged 91 days and older at year end was down 26%, while comparable store inventory turnover increased 10% during Q4

Gross Margin, SG&A, Adjusted EBITDA and EPS

- We delivered a 20 basis point expansion in gross margin, while leveraging SG&A by 40BPS, which drove a 50 basis point increase in both adjusted EBITDA margin and operating margin
- And adjusted EPS grew 22%

New Store Performance

- Our new store performance was once again a highlight of our quarterly results
- Our new and non-comp stores continued to outperform, contributing an incremental $79mm in sales in Q4
- I want to remind everyone that this incremental sales contribution was negatively impacted by approximately $25mm in lost sales from stores that were closed in Q4 due to storm damage, as we anticipated
  - Excluding that impact, new and non-comp stores contributed an incremental $104mm over last year during Q4
  - These results underscore our confidence in our site selection and underwriting process as we increase the number of net new store openings in our smaller store format

Category Highlights

- Moving to category highlights
- Our top performing businesses were all areas of home, beauty, men’s sportswear, ladies’ better sportswear and men’s, kids, and athletic shoes
- It is important to note that we made great strides in Q4, further de-weatherizing our business, as non-cold weather categories comped ahead of the chain average

Geographic Performance

- Regarding geographic performance, the Southeast and Southwest performed above the chain average, while the Midwest most posted a solid comparable store sales result, but was below the chain average
- Moreover, 26 out of 27 regions had a flat or positive comparable store sales trend

Inventory Management

- Moving to inventory management, we were pleased once again with how our merchandising team managed our receipt flow and inventory, as we ended the quarter with comp store inventories down 7% on top of a 9% decline last year
- Q4 comp store inventory turnover improved a strong 10% on top of last year's 13% improvement

Merchandising and Planning Teams

- Our merchandising and planning teams once again drove down our aged inventory levels, as inventory aged 91 days and older declined 26%, as we focused on maintaining a fresh and exciting assortment for our customers
- Pack and hold as a percent of our total inventory was 25% vs. 23% a year ago, as we continued to capitalize on a favorable buying environment
- We see no change in the vibrancy of the marketplace for our buying teams, and we are thrilled with the great assortment at amazing values that we continue to deliver to our customers
- I am also pleased with the value that we continue to bring our shareholders, as we repurchased approximately 458,000 shares of common stock during Q4 for $52mm
- At the end of Q4, we had $217mm remaining on the $300mm share repurchase program authorized on August 16, 2017

Strategic Priorities

Now let me update you on our long-term strategic priorities, which continue to be: focusing on driving comparable store sales growth; expanding, modernizing, and optimizing our store fleet; and increasing our operating margins

Comparable Store Sales Growth

- First, with regard to driving comparable store sales growth, our underlying strategies remain: enhancing our assortments as we continue to improve our execution of the off-price model, with particular focus on underpenetrated businesses; building our marketing initiatives to ensure we are continuing to engage both new and existing customers; and improving the store experience for our customers
- As our fourth quarter results demonstrate, we're making significant progress increasing our underpenetrated growth categories, particularly home and beauty
    - These growth opportunities will allow us to continue to de-weather our business, building a long-term sustainable foundation for Burlington

Gift Category

- Before we update our initiatives regarding these growth categories, I wanted to spend a few minutes on the progress we made in Q4 growing the gift category across home, men's, women's, and kids', a key de-weathering growth strategy that will continue into 2018 and beyond
- We believe our strong sales increase in gifts in Q4 helped drive traffic and conversion and was a significant contributor to our sales increase in Q4
- We still see incremental opportunity in gifts as we refine our assortments and merchandising strategies
  - We view this opportunity as a key contributor not only to drive two of our key strategic growth businesses, home and beauty, but our assortments in gifts will continue to drive growth that spans the entire store across men's, women's, kids', and accessories

Home

- With regard to home, we made substantial progress in 2017, as we increased the home category to 13.9% of our annual sales vs. 12.4% in 2016, an increase of 150BPS
- Home still represents our largest category growth opportunity, as there remains a substantial gap between our penetration and our peers who are north of 20%
- Specifically, we have more opportunity to expand the presence of highly recognizable national brands in home, and still see several key underdeveloped categories that we have targeted for growth in 2018

Beauty Business

- Our beauty business had another very strong quarter, and we expect this category to be a key growth opportunity for many years
- We will continue to broaden the number of brands in designer and prestige fragrances, expand existing categories in beauty accessories, and chase trends while elevating assortments in cosmetics and skincare
- In addition, beauty was the key element to our fourth quarter gift strategy and helped drive strong sales increases in this key underdeveloped growth category

Ladies' Apparel

- Ladies' apparel remains a significant opportunity, as our penetration of 23.3% at the end of 2017 still remains well below our peer group at approximately 30%
- While our penetration in overall ladies' apparel did drop 110BPS in 2017 vs. 2016, we continue to get strong growth in the largest component of ladies' apparel, which is missy sportswear
- Strength in better and active sportswear helped drive a slight increase in missy sportswear penetration in 2017 vs. 2016, though this growth was offset by a drop in penetration in some of our more developed heritage ladies' apparel categories such as dresses, suits, juniors, and intimates
  - We are highly focused on stimulating growth in these other areas of ladies' apparel, and we feel we are well positioned for improvement in 2018 as well as continued growth in missy sportswear and ladies' apparel in total

Vendor Base

- We continue to add to the quality of our vendor base

- While we finished 2017 at a similar number of vendors as last year, we added approximately 1,200 new vendors to the mix as we continue to edit out less meaningful brands
  - We carry approximately 5,000 brands, and expect that number to increase over time
- In 2017, our branded unit receipt penetration increased over 200BPS, while our better and best unit receipt penetration increased over 300BPS vs. the prior year

Product Availability and Marketing

- In terms of product availability, the buying environment remains very attractive, and we would characterize product availability as very strong
- On the marketing front, our holiday advertising strategy built on the success of our testimonial campaign and featured our own customers shopping and finding great values in our stores
  - In particular, our focus on gifts across the store was very effective in portraying Burlington as a gift destination and helped drive our success in that category
- We continue to get positive feedback from our customers regarding our campaign, and our research indicates very strong scores on both ad recall and brand recognition

Store Experience

- Our store experience continues to be an important initiative for us
- We are on track to get the significant majority of our stores to our brand standard over the next five years
- We made significant progress in 2017 modernizing our store fleet, remodeling 34 stores in addition to opening 48 gross new stores, adding 82 stores to our brand standard
- Our customers have responded very positively to the improvements we have made to our store base, including our increasingly smaller store footprint
  - This has manifested itself in our customer service scores, which have increased significantly since we began tracking in 2008
  - We are committed to investing capital to continually improve our store portfolio and plan to remodel another 34 stores in 2018

Store Fleet

- The second growth initiative continues to be expanding our store fleet
- We opened 37 net new stores in 2017, averaging 45,000 square feet
- We are a national retailer that operates in 45 states plus Puerto Rico
- Yet, we only operate at 629 stores at year-end
- Most mature, national, off-mall retailers operate with well over 1,000 stores, far more than our current footprint

New Store Openings and Remodels

- Given the strong performance we've experienced in our new stores and the real estate opportunities that continue to be presented to us, we expect to open 35 to 40 net new stores in 2018, which includes 60 gross new stores, averaging 43,000 square feet along with 20 to 25 store relocations and closings

- While the number of net new stores is similar to 2017, we are increasing the number of gross new store openings by 12 stores
  - This acceleration will translate to another 94 stores added to our brand standard, including 60 new stores and 34 remodels
  - This means that in just two years, 2017 and 2018 combined, we will have added 176 stores to our brand standard
- Looking out five years at the current rate of new store openings and remodels, we would expect a significant majority of our stores to be in our brand standard
- Moreover, we remain confident in our ability to expand to 1,000 stores over the long term

Operating Margin Expansion

- We also remain focused on our third growth priority: continuing to deliver operating margin expansion
- Over the last five years, we expanded our operating margin by 370BPS, an average of approximately 75BPS per year
- While we are very pleased with this progress, there is still significant opportunity vs. our peer group
- Going forward, we'll continue to execute the same game plan that we have deployed over the last five years: driving total sales increases to leverage fixed cost, optimizing markdowns, remaining disciplined with inventory management, and maintaining an active profit improvement culture across all SG&A areas

2018 Outlook

CapEx and OpEx

- Before I turn the call over to Marc, I want to take a moment to discuss our approach to 2018 planning
- As with prior years, we work hard to balance CapEx and incremental OpEx investments in our business with continuing to deliver expansion in operating margin
- As you know, our business model generates substantial cash flow
- Accordingly, we are pleased to announce the following CapEx and incremental OpEx investments in 2018 to drive sales growth, improve our infrastructure, and give back to our associates:
  - Number one, our company's highest annual gross CapEx spend of over $300mm, which will include 60 new stores, 34 remodels, another $34mm of spend in our supply chain and $11.5mm to complete the renovations of our corporate headquarters
  - Number two, incremental hourly wages of $13mm on top of three prior years of similar increases
  - Number three, 10% increase in our merchandising team head count; and number four, an increase in employer contributions to our medical cost to keep employee costs flat for the second straight year
- Overall, we believe we are taking a balanced approach with investments in the business, while simultaneously expanding operating margins

Marc D. Katz

Financial Highlights

Comparable Store Sales

- We ended Q4 by recording our 20th consecutive quarter of positive comparable store sales
- In addition, we achieved strong contribution from new stores and expansion in adjusted EBIT margin, which combined delivered a 22% increase in adjusted EPS on a 13-week basis

Adjusted Net Income and Adjusted EPS

- Next, I will turn to a review of the income statement
- Please note that the following discussion of fourth quarter financial results will be on a 13-week non-GAAP basis, unless otherwise indicated
- For the purposes of this discussion, we have excluded from adjusted net income and adjusted EPS any estimated impact on our fourth quarter results triggered by 2017 tax reform
- For Q4, total sales increased 10% and comparable store sales increased 5.9% on top of last year's strong 4.6% increase
- In addition, the 53rd week added $82mm in total sales to this result, bringing our Q4 total sales increase on a 14-week basis to 14.9%
- For the quarter, our comparable store sales performance was driven primarily by an increase in traffic, while conversion, average unit retail and units per transaction were all up vs. last year
- It is worth noting that, as anticipated, the eight storm-damaged stores that were closed for the entire quarter reduced new and non-comp sales by approximately $25mm
  - As of the end of February, these eight stores were still closed
  - As of now, we anticipate one of these stores reopening by the end of Q1 with the balance by the end of Q3

Gross Margin Rate and Inventories

- Gross Margin Rate was 42%, an increase of 20BPS vs. last year, driven by a higher IMU and a slightly lower markdown rate, which more than offset a higher shortage rate
- We took physical inventories in approximately 350 stores in January, and our shortage results came in as we had guided, resulting in a 20 basis point negative impact vs. last year
- Remember that inventory shortage represented 65BPS of gross margin good news in last year's fourth quarter
  - Therefore, excluding the impact of shortage, gross margin increased 40BPS in Q4 2017, vs. a 15 basis point increase in Q4 2016

Product Sourcing Costs, SG&A, Other Income and Other Revenue

- Product sourcing costs, which were included in SG&A and include the cost of processing goods through our supply chain and buying costs, were flat to last year as a percentage of net sales

- We are once again very pleased with the continued productivity improvements in our supply chain, and will continue to focus on additional productivity gains in 2018
- SG&A, exclusive of product sourcing cost, was 22.8%, 40BPS lower than last year as a percentage of sales
  - These results were driven by leverage in occupancy, business insurance and marketing, which more than offset deleverage in incentive compensation and stock compensation expense
- Other income and other revenue was $9mm, 10BPS lower as a percentage of sales vs. last year

Adjusted EBITDA, Sales Growth,Expenses and Tax Benefit

- Adjusted EBITDA increased 14% or $35mm, to $290mm
- Sales growth, gross margin improvement and SG&A leverage led to a 50 basis point expansion in rate for the quarter
- Depreciation and amortization expense, exclusive of net favorable lease amortization, increased $4mm to $45mm
- And interest expense increased $1mm to $14mm
- The effective tax rate prior to the estimated impact of 2017 tax reform and the change in accounting for share-based compensation was 36.6% for Q4
- The change in accounting for share-based compensation reduced the rate for the quarter by 180BPS
- The changes in rate and deductions resulting from 2017 tax reform reduced Q4 rate by an additional 100BPS
- Finally, 2017 tax reform triggered a one-time estimated revaluation of the company's deferred taxes, which created $93mm or 41.8% benefit that was recognized during Q4
  - All of these changes resulted in a GAAP tax benefit of 8% and an adjusted tax benefit of 5.9%
  - Combined, this resulted in adjusted net income of $151mm, a 19% increase vs. last year
  - As a reminder, this adjusted net income result includes the change in accounting for share-based compensation but excludes the benefits of 2017 tax reform

Share Repurchase Program and EPS

- We continue to return value to our shareholders through our share repurchase program
- During the quarter, we repurchased approximately 458,000 shares of stock for $52mm
- At the end of Q4, we had $217mm remaining on our $300mm share repurchase authorization that was approved this past August
- All of this resulted in EPS on a 14-week basis of $3.47 vs. $1.77 last year
  - Note that this 14-week result includes $0.04 in EPS for the 53rd week
- Adjusted EPS on a 13-week basis, excluding the estimated impact of 2017 tax reform, was $2.17 vs. $1.78 last year
- The $2.17 per share result represents $0.15 beat vs. our top-end guidance
  - This beat was split between $0.12 of true operating outperformance and $0.03 due to the adoption of the new share-based compensation accounting

- As a reminder, we guided to no benefit in Q4 for the adoption of the new share-based compensation accounting

Balance Sheet

Debt-to-Adjusted EBITDA Leverage Ratio

- Turning to our balance sheet, at quarter end, we had $133mm in cash, no borrowings on our ABL, and had unused credit availability of approximately $456mm
- We ended the period with total debt of $1.1B and a debt-to-adjusted EBITDA leverage ratio of 1.6 times
- On November 17, 2017, we closed on the repricing and extension of our $1.1B term loan B
- Our new rate is LIBOR plus 250BPS, with the maturity extended out to November 2024
- Our previous pricing was LIBOR plus 275BPS, with the term loan maturing in August 2021
    - This transaction moved out our term loan maturity date over three years to November 2024 as well as providing $2.8mm in cash interest savings per year for the next seven years
    - As a result of this transaction, the company recognized a non-cash loss on the extinguishment of debt of $3mm and incurred fees of $2mm, which were reflected in Q4 GAAP results

Term Loan and Merchandise Inventories

- As a reminder, $800mm of our $1.1B term loan is capped with an interest rate hedge of LIBOR at 1.65% through May of 2019
- Merchandise inventories were $753mm vs. $702mm last year
    - This increase was driven primarily by inventory related to 37 net new stores opened during FY2017 and an increase in pack-and-hold inventory, which was 25% of total inventory at the end of fourth quarter FY2017 compared to 23% at the end of Q4 FY2016
- Comparable store inventory decreased 7% and comparable store inventory turnover improved 10% during Q4
- As indicated earlier, we were very pleased that inventory aged 91 days and older at the end of Q4 was down 26% vs. the prior year

Cash Flow, Working Capitl, New Stores Opening

- Cash flow provided by operations decreased $9mm to $607mm
- Improved operating results and an increase in deferred rent incentives were offset by changes in working capital, primarily related to inventories and other current liabilities
- Net CapExs were $213mm for FY2017
- During the quarter, we closed three stores and opened one new store, ending the period with 629 stores
- We opened 37 net new stores for the year, including 48 gross new stores, five relocations, and six store closures
- As we indicated earlier on the call, due to weather-related damages, eight stores remained closed for the entire Q4 2017

FY2017 Performance

Next, I will review our FY2017 performance

Please note that the following discussion of FY2017 financial results will be on a 52-week non-GAAP basis unless otherwise indicated

Adjusted Sales, Net Income and Adjusted EPS

- Again, as in the discussion of fourth quarter results, we have excluded from adjusted net income and adjusted EPS the estimated impact of 2017 tax reform
- Total sales rose 7.8% and included comparable store sales increase of 3.4% following a strong 4.5% comparable store sales gain in FY2016
- Total sales results were negatively impacted by approximately $42mm related to weather-impacted stores during the year
- In addition, the 53rd week resulted in an additional $82mm in sales, taking our sales increase on a 53-week basis to 9.3% for FY2017

Gross Margin

- Gross margin was 41.5%, representing an increase of 75BPS vs FY2016, primarily due to a lower markdown rate and higher IMU
- Product sourcing costs were flat vs. last year's rate
- As a percentage of net sales, SG&A exclusive of product sourcing costs improved 25BPS to 25.9%

Expense Leverage, Adjusted EBITDA

- Expense leverage was driven mainly by rate reductions in occupancy, business insurance, and advertising spend, partially offset by increases in wages and stock-based compensation
- Adjusted EBITDA increased by 18% or $104mm to $688mm
  - This represents 11.5% as a percentage of sales, driving a 95 basis point increase in rate for FY2017

D&A Expense and Tax Rate

- Depreciation and amortization expense, exclusive of net favorable lease amortization, increased by $15mm to $175mm, and interest expense increased by $2mm to $58mm
- The effective tax rate for FY2017, prior to the estimated impact of 2017 tax reform and the change in accounting for share-based compensation, was 37%
- The share-based compensation activity provided a 440 basis point benefit, bringing our effective tax rate to 32.6% before the estimated impact of 2017 tax reform
- The change to the January tax rate and deduction rules triggered by 2017 tax reform resulted in a 60 basis point benefit, bringing our effective tax rate to 32% for FY2017
- 2017 tax reform also triggered an estimated revaluation of the company's deferred tax liabilities, creating $93mm one-time benefit, resulting in a GAAP tax rate of approximately 10% and an adjusted net tax rate of

approximately 12%

- Combined, this resulted in net income of $385mm, an increase of 78% on a 53-week basis

Adjusted Net Income

- Adjusted net income was $307mm vs. an adjusted net income of $232mm last year, an increase of 32%
- As a reminder, this adjusted net income result includes the change in accounting for share-based compensation, but excludes the benefits of 2017 tax reform

EPS and Diluted Shares Outstanding

- EPS on a 53-week basis were $5.48 vs. $3.01 last year
- The 53rd week added $0.04 in additional EPS for FY2017
- Adjusted EPS on a 52-week basis, excluding the estimated impact of 2017 tax reform, was $4.37, inclusive of $0.23 per share benefit related to the accounting change for share-based compensation, vs. $3.24 last year
  - Excluding the $0.23 benefit related to the accounting change for share-based compensation as well as the 53rd week, adjusted EPS grew 28%
- Fully diluted shares outstanding were 70.3mm shares vs. 71.7mm last year

Outlook

Sales and EBITDA

- Now, I will turn to our outlook
- For the 2018 FY, we expect total sales growth in the range of 9% to 10% as compared to FY2017, excluding the 53rd week; comparable store sales to increase in the range of 2% to 3% on top of last year's 3.4% increase; adjusted EBITDA margin expansion of 30BPS to 40BPS; depreciation and amortization, exclusive of favorable lease amortization, to be approximately $200mm; adjusted EBIT margin expansion of 20BPS to 30BPS; interest expense to approximate $60mm; and effective tax rate of approximately 23% to 24%

CapEx and EPS

- CapExs, net of landlord allowances, are expected to be approximately $250mm
- This results in adjusted EPS guidance in the range of $5.73 to $5.83
- The company expects adjusted EPS, excluding the impact of 2017 tax reform and the accounting for share-based compensation, to be in the range of $4.71 to $4.81, representing an increase of 14% to 16% over the comparable 52-week 2017 adjusted EPS of $4.14
- For Q1 2018, we expect total sales growth in the range of 9.5% to 10.5%, comparable store sales to increase between 2% and 3%, adjusted EPS to be in the range of $1.05 to $1.09, compared to $0.79 per share last year
  - Excluding the estimated impact of 2017 tax reform and the accounting change for share-based compensation, we expect adjusted EPS growth to be in the range of 16% to 21%

Thomas A. Kingsbury

Closing Remarks

In summary, we believe our results this quarter demonstrate the agility and increasingly strong foundation of our business model

We drove operating results above our expectations, and expect the continued implementation of our growth initiatives and store expansion plans to enable us to continue our positive performance in 2018 and beyond

We are confident in our outlook and believe in our focus on evolving our off-price model, and our ability to capitalize on the rapidly changing retail landscape

- This positions us well to bring more great brands, styles and value to customers and increase value for our shareholders

Again, I'd like to thank the store, supply chain, and corporate teams for their contributions to our strong FY2017 results

QUESTION AND ANSWER SECTION

<Q - Irwin Bernard Boruchow Jr.>: So, I guess first question, Tom, you mentioned that the non-cold weather business has performed above the chain average, which I guess implies the cold weather categories underperformed a bit. I guess that's just a little surprising given the favorable weather and the strength in cold weather categories that we've heard from some other retailers. Any help just to help us understand what drove the underperformance in cold weather goods?

<A - Thomas A. Kingsbury>: Ike, just to reinforce what I said previously, we were really pleased that we made tremendous progress de-weathering our business. Among our strong non-colder weather businesses, it wasn't just gift that outperformed. Home, beauty, athletic apparel and footwear, among many other businesses, were very strong. These are businesses that tend to stick with you and become part of the foundation of our business and typically have less volatility. That has long been an important objective for the company, as you know. We couldn't be more thrilled with the performance of our non-cold weather categories in Q4.

Now, to talk about the cold weather performance, we did exceed our plan nicely, though we did plan the category down. That was a strategic decision to plan the business down because: number one, you just can't count on the weather; and number two, we have such a significant opportunity to develop our non-cold weather businesses. Ike, it's probably fair to say that we could have done more cold weather business, if we bought more upfront and earlier in the season. But I'd take the trade-off all day long to build a penetration of sustainable non-weather sensitive businesses and to have ended with such clean inventory from an aging perspective.

Maybe next year, if the weather is similar, we may be less conservative, but we're meeting our objectives and our objective is to grow our non-cold weather businesses. And we feel very, very good about what we achieved in Q4 and, in turn, we'll continue to reduce the volatility in our business.

<Q - Irwin Bernard Boruchow Jr.>: There are a lot of moving pieces, I think, in the guidance in terms of the tax rate and the share-based comp and headwinds like the wages. Can you just walk us through the outlook and help us understand how we should think about the guidance, just on an apples-to-apples basis, including basically the entire P&L, gross margin, SG&A, et cetera?

<A - Marc D. Katz>: Hey. Good morning, Irwin. Let me go ahead and unpack that one question with 17 parts to it here. I think we'll start with EPS on an apples-to-apples basis. Within it you've got headwinds, so we'll talk about wages. Then I'll give you the components of the operating margin increase.

So, our starting point is a 52-week 2017 EPS base of $4.37. That was I think the last table of our press release. And you saw that that excludes the benefit of tax reform in the 53rd week. So, what that does include though is $0.23 for the accounting change for share-based compensation. So, we're going to back that out. I guess I'll get more into that in a second, but if we back out that $0.23 benefit, you get what we refer to as a base EPS of $4.14. So, that's one of the reasons we provided guidance, before the accounting change and before tax reform, of $4.71 to $4.81, which represents a growth rate of 14% to 16% on top of that $4.14. And that's consistent with the mid-teens growth that we talked about in our Q3 call.

As far as the accounting change for share-based compensation, we're really assuming the same level of underlying activity this year, right? I mean, it's a complex thing. We have options that vest and clearly are exercised throughout the year. We've got one year of good history with that. We're assuming it's the same level of activity. But due to the tax rate change, that activities worth less from an EPS point of view. I guess technically it's worth 60% of what it was the prior year. So going forward, that accounting change for share-based compensation will be baked into our tax rate just because it's too complicated to undo it at the old one. So if you add back the benefit of 2018 tax reform and the accounting change, that's when you get it to really our all-in guidance of $5.73 to $5.83, okay?

Looking at headwinds and wages, so as far as headwinds in total, we have $13mm in incremental wages, we have $9mm in incremental stock-based compensation expense, the expense side of that, and then, of course, the biggest one, which is $25mm in depreciation, which obviously is driven by our higher gross CapEx spends in 2017 and what we're projecting now for 2018.

So in terms of wages, similar to prior years, our store ops and our HR teams performed their annual market-by-market review of our hourly wages. That resulted in an incremental $9mm of wages for stores, that's vs. $7mm last year, and $4mm for DCs, also vs. $7mm last year. We're very confident in this competitive approach to wages. We have two metrics that we focus on as it relates to our hourly workforce, turnover and then open jobs percent. And we were pleased with both of those metrics at year end, and we remain pleased today.

Quite frankly, Irwin, we believe we would not be able to achieve the results that we have if we didn't have the right people in our stores and our DCs. With that said, wages are a dynamic part of our business. And as we've done for the last few years, we'll continue to monitor them throughout the year. If at some point in time we reach a point that requires us to adjust, we will. And then of course, we'll leverage our profit improvement culture to offset as much of that as possible.

I guess speaking about our profit improvement culture, I tell you, I just continue to be so impressed by all of our sales support teams who continue to find ways to become more efficient not only so that we can overcome the headwinds that I just talked to you about, but also allow us to guide EBIT margin expansion, which I think was the final part of your question.

So as far as the planned EBIT expansion of 20 to 30BPS, Irwin, we break it down this way. a merch margin plus of 50BPS less a freight headwind of 10BPS, a product sourcing cost headwind of 10BPS. That gets us to what we refer to as loaded margin of 30BPS. That depreciation number I spoke to earlier is also a 10 basis point headwind. And then SG&A, similar story to prior years, SG&A at the 2% comp we expect to be flat. And our SG&A at 3%, we expect to pick up 10BPS of leverage.

<Q - Matthew Robert Boss>: So, Tom, it sounds like your gifting strategy was a big win this fourth quarter. Could you speak to the strong performance in gifts and provide any color on the underperformance in ladies' apparel? That would be helpful.

<A - Thomas A. Kingsbury>: I'd be happy to, Matt. Okay, let's start with gifts, which were a key part of our progress made in de-weathering our business, as I stated before. We're very pleased with this category's performance, and it really, really helps us build a less weather-sensitive foundation for the company.

We were extremely pleased with both our gift assortments as well as our store execution. The strong performance was across home, accessories, men's, women's and kids, as I stated previously. We still see significant growth in the category going forward. I'd add that gifts and home were a big contributor to our success in the overall gift business, but there are a lot of great home growth categories. Gifts certainly helped drive home penetration to 14% in 2017.

Between Thanksgiving and Christmas, I visited hundreds of stores. And I have to say that our stores team really did a great job in terms of the overall presentation of the product within our stores, and our merchants teams did an outstanding job of product selection, and it was really a compelling assortment for our customers.

So let's move to ladies' apparel. When we refer to ladies' apparel, we are not only talking about missy sportswear. Ladies' apparel also includes juniors, dresses, suits, and intimate apparel. Missy sportswear is the largest and most important business in ladies' apparel. We're really pleased with the growth of that business, which did increase in penetration modestly vs. last year, driven by better and active sportswear, as I mentioned before.

But some of the other businesses in ladies' apparel have not been as strong. Some of our heritage businesses like dresses, suits, juniors, and intimates were not as strong as we would have liked. We do have strategies in place to improve those businesses, and these areas will be a focus for 2018.

So overall, our penetration in total ladies' apparel did drop by approximately 100BPS to 23% from 24%, but we're optimistic that we can reignite growth and capture market share that we believe we are owed in ladies' apparel given our penetration at 23% vs. our peers around 30%. But, Matt, we have a talented team in place in these areas. With one more year of experience, we feel confident we have the right strategies in place to have a successful 2018.

<Q - Matthew Robert Boss>: Great, and then just a follow-up. Marc, can you update us on how your new stores are performing maybe in terms of sales and EBIT? I think you provided us statistics last year vs. the chain, and I was just hoping maybe for an update.

<A - Marc D. Katz>: Sure, Matt. We continue to be very pleased with the performance of our new stores both from a sales and a profitability perspective. They continue to perform in line or better than our underwriting models.

In terms of the stats that we typically give at the end of the year, at the end of 2017, our stores that were under 60,000 gross square feet ended up being 22% more productive than the chain average. That's the first one. And then I think the other one you're referring to, Matt, is last year we gave a stat on our 2013 and 2014 cohorts in terms of how they performed in 2016 vs. the chain, so we'll go ahead and update you there. So this year, our 2014 and our 2015 cohorts, in terms of how they operated in 2017 vs. the chain, the comp sales increase for those two cohorts exceeded the chain average by 240BPS, and their EBIT margin expansion was 200BPS higher than the chain.

<Q - Matthew Robert Boss>: Wow, that's great, best of luck.

<A - Marc D. Katz>: Payback still remains inside of three years, Matt.

<Q - Kimberly Conroy Greenberger>: Marc, my question is on the 2018 revenue guidance. We're trying to understand some of the drivers of the acceleration in total revenue growth, thinking about the 9% to 10% on a 52-week-to-52-week basis. Maybe you could just go through new store openings, gross, this year and last year? Are there any changes in timing of those store openings? And then secondarily, maybe there's a change in closures and any other assumptions that would drive that acceleration. Thank you so much.

<A - Marc D. Katz>: Sure, Kimberly. You hit the nail on the head. So, 60 gross new store openings, 27 in spring, 33 in fall. And out of that 27 in spring – this could wiggle a little bit, Kimberly, but in terms of what's in our guidance right now, we've got 17 March openings, and 5 in April, 5 in May. So that's the key driver. And the only other thing I'd mention to you in terms of the closures, too, is just remember our closures are typically very small volume stores. So, they're much less in annual volume than the new stores that we're opening up. Those are really the drivers.

<Q - Kimberly Conroy Greenberger>: Great. Thanks so much, Marc. And my follow-up is just on the stock-based compensation benefit to EPS last year. Yes, this is obviously a super complex issue, I think, for us to understand, but maybe you can just talk about the factors that would drive a similar benefit in 2018 vs. 2017? And if there were things that would change that would cause a headwind or tailwind, what would those factors be that would cause a differential in the benefit? Thanks so much.

<A - Marc D. Katz>: Yeah. Just a lot of moving pieces there. Everything from the number of restricted shares that vest, the number of options that vest, where the stock price is, and how people – what factors all our executives go through in terms of their decision-making process in terms of how and when they exercise, which of course you would think has a lot to do with where the stock price is. So, lots of moving pieces there, and not something that obviously you can get all the data on to know exactly what it is. But just in terms of the overall population of shares that are vesting and when, and the fact we made some guesses in terms of what we think the stock price is going to do, we think that underlying activity will be similar to last year. But again, anything could happen.

<Q - Lorraine Corrine Hutchinson>: I think you said AUR was up in Q4. Can you talk about what drove that, and if you expect that to continue as a comp driver in 2018?

<A - Marc D. Katz>: Yeah, Lorraine. We had AUR up a little bit in Q3, and also a little bit in Q4. If I had to tell you what the drivers were, I'd probably look to a higher, better, best penetration. I'd look to a higher percent of full price sales vs. markdown sales. And I guess some of those areas Tom called out as being very strong as you think about better sportswear, men's, kids, athletic shoes. Those are areas that typically have a higher AUR.

In terms of going forward, I'd probably tell you our last few months is probably the best indicator, but you don't know. We do not have a strategy to move AUR from X to Y. We have lots of merchandising strategies to grow traffic and to grow comps, but AUR is really a byproduct of that.

<A - Thomas A. Kingsbury>: Yeah. We really just want to focus on delivering great values. And we really don't want to have a road map to grow the AUR, because if you have a road map and you plan it, then it happens. But our number one goal is and has been delivering great values to our customers, and we really feel that has contributed to the kind of sales performance that we've been delivering.

<Q - John Kernan>: Just on that theme of AUR, Tom, I think you mentioned branded unit receipt penetration was up 200BPS and better, best was up 300BPS. And we can obviously see the expansion of the vendor base, when we go into the stores. Can you just talk about how much further the better, best can go in terms of mix? And how much better or how much higher the branded unit receipt penetration can go in terms of the mix? Obviously, that's an AUR and comp driver.

<A - Thomas A. Kingsbury>: Right. Well, as far as branded goes, we're on a pretty steady track of a couple hundred basis points every single year. We'll see how that expands, if we feel we still have opportunity to add even more brands. As far as better goes, again, it all depends on what kind of values we can deliver our customers, but I anticipate that that will continue to grow. We really haven't said, okay, we want it to be X percent over the next five years because, again, we want the values to be the number one focus of what we do every single day. And things'll happen over time.

One of the things that we're very proud of is the fact that we've been growing our customers who make over $75,000 a year at a much higher level than the other customers we have in our base. And I think a lot of that has to do with, A, delivering the better product, and also the way our stores are looking today. The more we improve our store, the look of our stores, as we stated – we've made some significant progress in 2017, and we will again in 2018, that all helps generate a different customer.

<Q - John Kernan>: That's helpful. And then just one follow-up. You've had a long history of reporting upside to your guidance since you've been a public company. I'm just wondering, Q1 comp guidance does assume a deceleration from what you were running in Q4, and the two-year stack trend is decelerating as well. I'm just wondering was gift giving so robust in fourth quarter that trends have moderated a little bit in Q1? Or is there some type of conservatism here in terms of the guidance? Thanks.

<A - Marc D. Katz>: John, I think you know how we guide, and we're typically a 2% to 3% comp guidance. And the reason for that is, we're able to plan our receipt base and our expense base accordingly. And we certainly feel and we think we've certainly proven over time that, to the extent there's more business to be had, that we'll be all over that and have a lot of confidence in our merchandising team to beat it, if it's there