

BI Analyst Briefing, Back-to-School Preview

Company Participants

- Elizabeth Dunn, Founder and Chief Executive Officer, Talmage Advisors and Pro4ma Inc.

Other Participants

- Chen Grazutis, Apparel and Footwear Analyst, Bloomberg Intelligence, Bloomberg Intelligence
- Poonam Goyal, Senior Retail Analyst, Bloomberg Intelligence, Bloomberg Intelligence

Presentation

Poonam Goyal {BIO 16489913 <GO>}

Good morning and welcome to Bloomberg Intelligence's Back-to-School and College preview. We'd like to introduce first our guest speaker today, Liz Dunn, who is the Founder of strategic consultancy, Talmage Advisors and founder of Pro4ma Inc. She has 20 years of experience in retail, working at both equity research firms and at the retailers themselves. We also have Chen Grazutis, apparel and footwear analyst at Bloomberg Intelligence. He covers branded footwear companies including Nike, Adidas Under Armour, as well as branded apparel companies including Michael Kors, PVH and BFC to name a few; and myself, Poonam Goyal, senior retail analyst at Bloomberg Intelligence. I cover the department stores, mass merchants and specialty apparel retailers here.

Before we get started, a few housekeeping notes; today's presentation will be recorded and available for playback. At the bottom of the slide window, you will notice that you can adjust the volume and maximize your screen. Please feel free to ask a question by submitting one to the right of the slides. We will address questions at the conclusion of the presentation. A copy of the slides will be emailed to you after the presentation.

And now just a little about BI before we get started. Bloomberg Intelligence Research is backed by 300 plus third-party dataset providers. We have a wide range of analysts that have 20 plus years of experience on the buy side, sell side and in banking that have joined us on the platform. We provide exclusively to Bloomberg client to subscribe to the Bloomberg Terminal and all our research and data can be found under BI GO on any Bloomberg Terminal screen.

So, welcome Liz, thank you for joining us and to get started the chat that we're going to have today is going to be more of a discussion where Chen and I will speak to Liz

about Back-to-School and what her thoughts are on the season, who is here to win the season, how the season will evolve and what we should be looking for as we analyze the 2016 Back-to-School College season. So, Liz welcome and I guess (inaudible).

Absolutely. Thank you. So I guess, just to kick it off, how important do you think the Back-to-School season is for retailers, how big is that, what kind of things should be we looking for?

Lizabeth Dunn {BIO 6334380 <GO>}

It's the second most important season, so it is very important, obviously dwarfed by the holiday season, but it's important because it's an indication of what's to come. So many people look at the Back-to-School season, Back-to-School, Back-to-College and take that as an indication of how we're teeing-up for a holiday. You know, it's obviously been a bit of a choppy year this year, but the expectations for Back-to-School and Back-to-College look to be pretty strong so far, so I am trying to -- sorry -- I am just want to advance the slide. So, and you know we're looking at the NRF's survey results, and what they do is conduct a survey to get consumers' expectations of what they're planning to spend. They're looking for about an 11.5% increase, which is -- would be phenomenal after a little bit weaker year last year, Back-to-School and Back-to-College in total they're estimating at about \$75 billion, so you know quite a big season and really important for some of the key retailers

They're also looking at -- they're looking at a couple things. First of all, every category is expected to be up, to the major categories apparel and footwear, school supplies, technology all expected to be up. But we're looking for some really or they're looking for some really strong growth in apparel and footwear. So I think that's what we're going to focus on today and those categories look to be up high-single digits according to their survey.

Now, it's important to mention there are some other surveys out there that suggest that the season won't be quite as strong, but everybody is looking for growth and I saw one out today or yesterday from the (inaudible) Institute Research Group and they said that they were looking for 2% to 3% growth, but that was sort of in line with what we've seen year-to-date in terms of spending.

And so, you know, whether or not it's up low-single digits or high single-digits is obviously going to be a big deal for many of these retailers, but everyone is kind of looking for it to be up, and I think what's important in NRF survey is where people's purchase intent is. Now, in the Back-to-School side of the chart you see that there is an increased interest in shopping at drugstores, in shopping online, obviously huge jump there, department stores and office supply.

In the Back-to-college survey, it's a little bit strange that pretty much every category is down, so there is -- so they are expecting to spend more, but perhaps it spread out among, you know, the categories of retailer in a little bit broader sense. So I guess, we kind of covered, much of that aspect. Yeah, it's a really important season.

Chen Grazutis {BIO 16090672 <GO>}

So Liz, first of all thank you for coming. Just along those line of the retail landscape and we talked before how, you know, we see new trends, specifically to the Back-to-School season, (inaudible) how do you see it change from what it used to be, how is it different from what it used to be, what's important for people right now?

Lizabeth Dunn {BIO 6334380 <GO>}

Yeah. The -- it looks like people are shopping a little bit earlier, and really looking for bargains. Back-to-School is an interesting period of time, because it really is appointment shopping, and so when the economy gets a little rocky, years ago everyone started talking about sort of appointment shopping versus shopping that we do the rest of the year. So appointment meaning there really is a call to action or reason to be purchasing and I think Back-to-School is the -- and it's the biggest, you know, the biggest appointment based shopping time of the year, because you know with where you need space, you need notebooks, you need pencils, you know if your kids are growing they need things, if your kids are going to college they need dorm supplies, so there is all this appointment activity, but I think that, you know, the biggest change we are seeing this year is that things are happening a lot earlier, people are completing their shopping a lot earlier.

We also -- you know, obvious big change is that much of the business has shifted to online, and so online is -- continues to grow the outpaced growth for Back-to-School. And I think -- I think that is a -- it's a big challenge for many traditional brick and mortar retailers.

The other thing we saw coming out of the NRF survey was that there is -- the people are still very, very focused on free shipping as, you know the number one thing they want to see online, but they are more and more focused on some of those omnichannel offerings like -- like buy online and pick up in store, you know kind of click and collect is another way people refer to it, and so they're looking for those convenience factors and they really are expecting that there'll be just this kind of seamless integration between on line and in-store, which not every retailer is set up to handle some of the bigger ones are certainly there, but I think it's a challenge for some of the smaller retailers.

Poonam Goyal {BIO 16489913 <GO>}

So I guess, you know, following up on that there is obviously lots of information out there for the consumer, that's fickle [ph] and there's a lot of different ways retailers are trying to approach those customers, but what do you think is the best way and how -- what are these different approaches that some retailers are using to capture this audience?

Lizabeth Dunn {BIO 6334380 <GO>}

Yeah. You know, the landscape has changed quite a bit in a lot of ways. I mean, there is much, much more competition and the consumer is hard to reach there on their phones. I think, I looked at a presentation recently that said -- said that the average millennial spends, you know over eight hours a day on their phone, which is just, you know, an insane amount of time.

And so they're on their phones, they're off chasing Pokemon or whatever they're doing, they are really hard to reach and they're getting -- they're considering more brands than they've ever considered before. They are not just looking to the main mall-based retailers as a -- you know as a source for fashion, inspiration or where they're going to purchase product, and they have higher expectations as I mentioned for service and for omnichannel integration. They want shipping to be free or if not free, cheap. They want it to be fast, they expect things in a matter of days, and they just really don't have time for a retailers sort of comes away figuring out how to address the changes at the marketplace. And you know, they are also a lot less interested in things and more interested in experiences. And so for retailers, for traditional retailers to rise above the noise in and really capture their attention, they really have to try very hard to make their store environments, their online presence and their social media presence kind of all worked to garner attention, right.

And then you talk about free shipping, you know the name that comes to mind is Amazon, they pioneered free shipping and especially in two days or less. So when we think of Amazon, when we think of Back-to-School and their push into apparel, especially you've mentioned that apparel is a category that may see an increase. What should we expect, I mean, is Amazon going to put dent in apparel shopping or what the retailers have to do to compete with Amazon?

Yeah, from what we've seen so far, I don't think they're really poised to see outsized increases in the apparel category right now, but I mean, you can't discount Amazon. Any time Amazon says that they're coming after a category you're in, I think, most retailers, you know are terrified by that and some estimates suggests that their market share in the US is already about 7% in the apparel category. So that's already very, very meaningful share. They've launched some private brands this year, kind of in stealth mode and they're really trying to figure out this marketplace.

But you know preparation for this webcast and sort of looking around on Amazon's website and trying to figure out whether or not their algorithms could kind of identified me as a Back-to-School shopper. So, you know, you and I talked about this putting some things in our basket that we're kind of Back-to-School categories and seeing if they begin to offer us anything in the way of apparel. And you know they just didn't and even you really have to kind of search on Amazon's website for Back-to-School apparel very specifically to find, you know curated lists of uniforms or whatever. It's not -- so they haven't cracked the code, I think, is the short answer for this even.

But you know, I think, it remains to be seen, but I'm certainly hearing from most of my consulting clients and from a lot of the public companies that, that this is a very --

very much something everybody's watching, because they will eventually get it by throwing a lot of money at it. You have prime numbers already buying a lot of staple items from Amazon for Back-to-School, and I think it's just kind of a natural evolution that they'll begin to tap into some of those apparel categories.

When they tap into these apparel categories, one of the biggest challenges in apparel for any retailer, especially online, is the returns that you get, what can Amazon do with those returns like, I mean, what does they do with them, they don't have a store. They don't have a distribution outlet outside of amazon.com.

Yeah, I think Amazon's fulfillment model is, you know, best in the business. And so I think that handling those returns is going to be coming little bit more naturally to them than the confusion that many brick and mortar retailers faced with it. So most brick and mortar retailers have, you know separate inventory -- a separate inventory for online versus stores and as they accept returns from online into stores and from stores to online, you know it becomes very confusing. I think that -- I think that for Amazon, it's a little bit more natural because they are -- they are, you know best ad fulfillment.

But I think it's -- I think you're right, the apparel category, you can see returns of, you know, 30% to 50%, which is unusual. They do have the experience of having depots [ph] and depots has really adapted managing all those returns and you know, they've obviously -- they obviously have a dominant position in the footwear market.

Chen Grazutis {BIO 16090672 <GO>}

But it just to -- so if I boil it down, so if you look at the non-apparel categories, we think people going to go more online, if you look at the apparel category we're seeing Amazon is not there yet. So what would you think, who would be in the apparel category where people didn't move this line, online as much and Amazon is not playing such a big, who would you see winning there?

Lizabeth Dunn {BIO 6334380 <GO>}

Yeah. In the apparel categories, I think, there are number of -- there are number of companies that are may be poised to win, most apparel and footwear businesses, retailers have -- have you know e-commerce operations and so, you know, how well those operations are integrated with their stores, I think, is important. And I think that athleisure is going to continue to be a great category for the holiday season, I'm sorry for the Back-to-School season.

And I think that -- I think that some of the traditional teen apparel companies, sort of the remaining teen apparel companies are poised to be a little bit better, and specifically focused on Abercrombie & Fitch and American Eagle as sort of having an opportunity this season. I think they are kind of benefiting from some of the shake-out in states, and the fact that retailers like (inaudible) dollar, and you know, (inaudible) and (inaudible) quite a few stores.

I think the department stores I'm looking at close is being sort of best positioned this Back-to-School season and you know, we can kind of get into that a little bit, but there are some slides in the presentation, at least, if people want to refer -- refer to them. But and you know, I also think that the business is just going to be a lot broader and you know we saw out of some of this -- out of some of the same-store sales reports today, it's pretty choppy out there. I mean, like we all had a difficult month, all brands does a little bit better than expected, but flat in their brick and mortar stores and that's been a winner over time. I think, our prices is positioned pretty well and will continue to be -- be a winner in the -- during the season.

Chen Grazutis {BIO 16090672 <GO>}

We touch on athleisure for a second and we have the Olympics starting tomorrow. Well, can you tell me about, you know, who is going to be, might be poised to win from this Olympics, in terms of the athletic brands or athleisure companies?

Lizabeth Dunn {BIO 6334380 <GO>}

Yeah, I mean, it's a great opportunity for brands to shine and Lululemon is designing some uniforms, I think that's going to get them a lot of great PR, Nike as always, is always a winner coming out of an Olympic cycle. I saw at Foot Locker present recently and they talked about the cycle of innovation that kind of follows after an Olympic year and the fact that, you know this innovation really does trickle down into the products that end up on the shelves at Foot Locker and Finish Line and other places.

And so I think that the whole footwear category will benefit from that innovation. We've seen some softness in the basketball category in -- you know recent quarters and so it will be good to have some innovation coming out of this event, as well as you know, just a huge opportunity for marketing and brand engagement, which you know goes back to many of the things that some of the traditional retailers are struggling to do. I think there's a lot more kind of natural, emotional engagement with brands in the athletic category and the Olympics is a great opportunity to sort of showcase that into, and to you know amplify messaging.

Poonam Goyal {BIO 16489913 <GO>}

Just going more on athleisure, we see a lot of specialty apparel stores, department stores creating their own brands to target this growing segment in popular apparel market. Who do you think is doing it right, like if you look at the gap, the Macy's, the H&Ms, J.C.Penney, even everyone is entering athleisure, but who is actually able to do well and can succeed?

Lizabeth Dunn {BIO 6334380 <GO>}

Yeah. I think that the department stores are doing an okay job. I think, you know, Kohl's just announced that they're going to add Under Armour to their assortment. I think that's something that they've been wanting to do for a really long time. I remember like five years ago sitting down with management and then they sort of

rubbed their hands and said, we can't get Under Armour and so that's a really big coup for them. I think that you know just walking the department store sales force, you really see pretty strong assortments in the athletic and athleisure category. Macy's just obviously partnered with Finish Line couple of years ago and I think that's going well and allowing them to get access to product and also kind of a store environment that feels a little bit more fun in the footwear category and they're also you know doing a lot of in-store things around the apparel business in athleisure.

I think that in the specialty retail world, it's been hit or miss. American Eagle has done a pretty good job kind of with their -- with Aerie and kind of using that as a launchpad into athleisure. I think Victoria's Secret has done a good job as well and they're really benefiting from that soft dressing category with pink and their athletic line, which I'm seeing -- I mean, it's totally anecdotal, but I think that you can take something from what women are wearing to all these boutiques fitness classes and in Manhattan as like a forward indicator of what brands are cool and you do see a lot of Victoria's Secret in that, you know more than, much more than you used to, it's not all Lululemon.

Obviously Lululemon is, you know, you have to mention them when you're talking about the athleisure category and I do think that the company is poised to continue to see a same-store sales gains. I'm not as excited about the brand as I used to be. I think it's a, you know, I think the brand has lost some momentum and some excitement and I don't see the fashion there, but that doesn't mean that the stock can't work and that the -- and that the sales won't continue to increase, because they were coming-off of a few really tough years.

But I think that you know what we've really seen is just a shift in how people are dressing and it's a soft dressing trend that doesn't seem to be going away. I think you always have to be aware of these trends when they're rooted a little bit in function as well as fashion that's a harder trend to break, then just some sort of fad, right, you know, and so I think it speaks to the way that people are living, more active, but it also is a trend kind of based in comfort and innovation, you know fabric innovation.

And we're seeing a lot of brands and retailers kind of use some of the fabric innovation and you know build product, that's a little bit more every day wear. It's not necessarily meant to be worn to the gym, but it's, you know, it's got all the function and the comfort that athletic apparel has.

Poonam Goyal {BIO 16489913 <GO>}

If you go back to Back-to-School and you think of apparel athleisure is definitely an area where we'll see both school and college shoppers making a purchase. And how about denim, has denim made a comeback in your view, and is that going to be a big item this Back-to-School again?

Lizabeth Dunn {BIO 6334380 <GO>}

Yeah. I think denim is going to be important, if I look at what Abercrombie and American Eagle are emphasizing, you know, they're both really pushing denim right now, in a little bit different ways, but there is like this denim lifestyle. I think both companies kind of know that that's a category that they can own a bit more than some of the fashion categories that they're pushing the envelope on but I think denim is important where we are back in a denim cycle, last year we started to denim pickup and I think that continues.

So it's not athleisure or denim, I think it's both and at least from what I'm seeing both with my consulting clients and what I'm seeing in the mall and more broadly it looks like denim is poised to be strong for this year.

The other thing that we're seeing is a lot more focus on kind of sharp price points instead of blanket promotions. So Abercrombie, Hollister, they are offering these sharp price points on denim, instead of saying we're going to offer 40% of the whole store.

And I think that's a better approach, it certainly and typically a more profitable approach if it works. And I think it's giving consumers a price point around a holiday and/or an event like Back-to-School that you know that's really compelling. And American Eagle on the other hand is doing, it's taking more of a BOGO approach, which I think is also valid, because if this is a period of time where people are stocking up with Back-to-School, I think that's a good approach.

However, I highlighted in the presentation, you know, one company that's kind of shifted from blanket promotions to price point promotions or you know, sharp price points is just as and I think that's a little risky. You know, doing some store checks over the last couple of weeks, it's just is a big shift for them and they've talked about, and they've talked to, you know analysts and investors about their shift in strategy. They're also introducing a lot broader fashion.

So it's not all glitter, you know they've got kind of a BOHO corner and you know global inspiration corner and a DenimBar and some athleisure. So they've got a lot more diversity in their fashion assortment and more price points instead of blanket promotions. But it's a big shift, you know and obviously they've had some challenging times. So perhaps, you know, it kind of -- it's a -- likewise they can afford to stay the course that they really need to shift, but I think it might cause a little bit of consumer confusion around Back-to-School about whether or not the value is that compelling as it is used to be.

Poonam Goyal {BIO 16489913 <GO>}

That's interesting because if you recall three or four years ago, J. C. Penney with there, you know, single price point model versus the promotions backfired basically and it's interesting that the team retailers can make it work, but someone like adjust it for a department store, where the customer is almost trained for aggressive discounts before they make the purchase, do you think the strategy will resonate

with just as, I know, you talked a little about that and do you see department stores that are moving to this strategy again?

Lizbeth Dunn {BIO 6334380 <GO>}

Yeah. It's a really difficult transition to make and then you know finally got into the place, right. I don't cringe when somebody mentioned all the bad things that happened at J. C. Penney years ago, but I think it's a pretty difficult transition and I think when companies like just as make that transition, there'll be some short-term pain.

But I do think that the consumer is shifting their mindset, particularly younger consumers, pricing integrity is really important to them and pricing transparency. And so, you know, they kind of get turned off by these, you know blanket sales and I think for just this (Technical Difficulty) to go and for those concepts like Abercrombie and American Eagle that are -- they are really trying to target (Technical Difficulty) this millennial customer, you know, without it's not the (Technical Difficulty) this adult customer, I think the right approach and you know, apparently a much more compelling fashion assortment, a stronger brand voice more focused in social media and you know, these indirect channels.

So it's, you know, for those two brands, it's kind of a total overhaul, more so for Abercrombie than American Eagle. I mean, American Eagle isn't (Technical Difficulty) anywhere near the (Technical Difficulty) and so Abercrombie has done just a massive overhaul of several (Technical Difficulty) at their business and I think the pricing is the right approach, I hope that they can maintain discipline as we move into the back half of the year.

Poonam Goyal {BIO 16489913 <GO>}

And in Abercrombie, if you look at Hollister and the namesake brand, Hollister has obviously done a better job or it seems that they have -- do you think Abercrombie, the namesake brand can turn itself around to have better relevance with their customers. I mean, it's a different story than it was, you know, than two years ago?

Lizbeth Dunn {BIO 6334380 <GO>}

Yeah. It's very different and I think that they've made some real strides. I think the fashion is much, much more relevant. I think that, I mean the website is among the best in the teen and young adult space. It's really fresh, and they're kind of moving towards this message of inclusiveness, which was never they're saying and I think that's -- that's the message that resonates. And so, you know, I think they're well on their way, but it will take time and I think that -- I think that a new generation of young adults is not so jaded that they wouldn't be -- you know that they be open to Abercrombie & Fitch being a relevant brand choice for them, it's just -- it's up to the company to kind of stay consistent with the complete overhaul that they're attempting to do.

Chen Grazutis {BIO 16090672 <GO>}

I just wanted to remind people that on the bottom of the page, they can put questions and I think we have about three already. So we're just going to take a look and we'll see if you can take some questions from the audience.

Lizabeth Dunn {BIO 6334380 <GO>}

I'll say just presentation is about whether or not -- questions about whether or not the presentation will be available, it will.

Chen Grazutis {BIO 16090672 <GO>}

Which the answer is yes, I believe, correct?

Poonam Goyal {BIO 16489913 <GO>}

Yes. We will send out the presentation materials and a transcript after 11 hours (inaudible).

Lizabeth Dunn {BIO 6334380 <GO>}

If you do have questions, please ask until that we will continue. The other thing I wanted to say about the teen companies is that, you know, they're really benefiting from some of the shake-out in this space, you know Airbus store is closing a number of stores, I mean, Abercrombie has closed quite a few stores, but what the stores that are left in that center are seeing, assuming it's a solid center is that you know couple of point lift in comp. So if Airbus store closes, the American Eagle next door sees a couple of point lift in comp, which is great news.

Now, I don't think that's a one-size-fits-all approach to looking at bankruptcies and looking at the shake-out in the space. I saw a presentation from Genesco recently. They own Journeys as well as number of other brands that they said, you know, if the mall is going south, you know, it's not good for them to see -- to see vacancies because then the Mall starts to lose relevance. So in those C [ph] centers, you don't see the same benefit as stores close, but they do think that it's a good -- it's a net positive if the entire mall closes, because then the center down the street or you know in the same trade area get quite a big lift from that, you know, shake-out.

Chen Grazutis {BIO 16090672 <GO>}

You know, I think, in one of the headlines that you had here, I heard you say before the young adults are just you know price integrity is very important to them, which I find very interesting, which also bring me to the off-price retailers and you touched on them for a second before. The brands that I cover, a couple have done, it's really worth going [ph], they did discuss reducing the exposure they have to appraise retailers, reducing the inventory that they give those guys.

Lizbeth Dunn {BIO 6334380 <GO>}

Right.

Chen Grazutis {BIO 16090672 <GO>}

Did you see that as a real trend to try to get back to that price integrity and what could be the dynamics there between the brand and the operating channel?

Lizbeth Dunn {BIO 6334380 <GO>}

Yeah. I think that's a great question. (Technical Difficulty) But I think that brands like Ralph Lauren has had kind of a you know a dirty little secret that's not so much of a secret, which is they supply a significant amount of product to that channel and I think as they have looked at where their brand is and whether or not that consumer is giving them permission to have this to occupy this luxury space. And that's a problem and I think it's one that is in conflict with what they want to do with their brand overall. And so I think it's -- that particular thing is a little bit of a Ralph Lauren problem.

But I think the bigger issue for a lot of brands like Ralph Lauren, like you know Tommy Hilfiger et cetera is their distribution and their part in -- you know in Macy's. And I have been pretty critical of Macy's of late, because I am seeing brands, you know kind of want to maybe pull back on that channel of distribution, because it's so promotional.

Macy's is not good at selling things full price and then when they discount the product, they go back to the vendor and ask for money and so it's a model that doesn't work, it's not particularly customer friendly, because the price is not the price and you know, you can walk-in with a coupon and a discount. I bought a pair of shoes at Macy's the other day and you know the lady at the register just said, oh, I think there's a coupon on that and grabbed some flyer and I suddenly I got an additional discount and it was a pair of Michael Kors shoes and I think they -- I walked out of the stores with them for like \$40, But that's not good for Michael Kors. I think those shoes cost you know \$180 originally.

And so that's I think a little bit more brand destroying than selling goods in the off-price channel for most brands. Ralph Lauren, like I said is a little bit of a special situation, but I think they have a bit more pricing integrity and that better and moderate department stores so they have a little bit more pricing integrity in Macy's than some of the other brands, but that off-price and the fact that they were making product, cutting product specifically for the off-price channel in large quantities was starting to be -- starting to be a little bit brand dilutive for them.

Poonam Goyal {BIO 16489913 <GO>}

So what do you think of backstage in a Macy's store? Is that good or bad?

Lizabeth Dunn {BIO 6334380 <GO>}

You know I think it's -- I don't like it. I just --

Poonam Goyal {BIO 16489913 <GO>}

I don't either.

Lizabeth Dunn {BIO 6334380 <GO>}

I feel like it's, you know just one more thing that tells the consumers this is the store where everything's pretty much always on sale and you know if that's not a good enough sale, we've got it at that area -- yeah, of an even bigger sale and it's kind of like a drug and for Macy's, it's been a, particularly, you know, they're like on the drug and they've got a Trust Fund behind it, which (inaudible) vendors, their vendors who are providing all this markdown money, but it's not a sustainable way to stay in business, I think, I mean, I'm not suggesting Macy's, you know.

But I just think it's not a sustainable way to manage your business and it's not a long-term strategy, I think it's chasing this off-price trend in a very short term way and putting those backstage areas in their own stores is just, I mean, it to me is madness.

Poonam Goyal {BIO 16489913 <GO>}

Doesn't it make more sense to have them outside of your stores with separate standalone, so which they are doing too, but it seems like they are chasing the in-store model faster.

Lizabeth Dunn {BIO 6334380 <GO>}

Yeah.

Poonam Goyal {BIO 16489913 <GO>}

And the model that's outside the store.

Lizabeth Dunn {BIO 6334380 <GO>}

I would much -- I mean, I don't like the strategy period, but I would much rather see it outside of the store than in their own stores and I just, I think it's continuing to feed an environment where the consumer thinks, you know, Macy's is all about sales and maybe that's good in a short term, because the consumer feels like they can get a bargain there.

I think, I say in the presentation that, you know at times like Back-to-School, the department stores are known for being able to really deliver more compelling value than some another channels, but ultimately Macy's has two, you know, customers

really, they have their customer, but they also need to keep the brands happy and they need to keep the brands there. And if the brands are feeling like Macy's is a brand dilutive experience for them, as of long-term risk.

Chen Grazutis {BIO 16090672 <GO>}

We had a question that we actually get this question a lot and I would be interested to hear what's your opinion on it. In terms of e-commerce sales and promotions, as more customers move to that channel, do you expect, and to rely on Amazon one more or to stick with the kind of brick and mortar retailers that they were used to and expect the personal consulting on the product, what's your opinion on that?

Lizabeth Dunn {BIO 6334380 <GO>}

And you know, I think that sorry -- can you rephrase the question, I am really (inaudible) --

Chen Grazutis {BIO 16090672 <GO>}

So if people move more to buy online using e-commerce, do you think if you are going to just stick with the convenience of Amazon or they would just, you know buy the same things they used to buy from the brick and mortars, stay with the same name, but just use their e-commerce channels?

Lizabeth Dunn {BIO 6334380 <GO>}

Yeah, I mean, I think Amazon is consolidating a lot of the business because of prime. So once you are prime, you sort of want to check Amazon first, before you go anywhere else, at least that's the way I operate. You know whether I'm looking for an air conditioner filter, an aero mattress like whatever it is, groceries, I get my groceries on Amazon now and it's just -- it's easy because once you're prime, you know it can be a one-plus experience, you can you know get very quick fulfillment, free fulfillment and so I think there is more and more business that's going to shift to Amazon.

I don't know if apparel is going to be as easy. I'm not to crack for them, because there is a -- there is a, you know fashion and a taste component. It's very, very specific and so I -- I don't, I'm just not looking for a commodity product when looking for apparel. But I think that you know for anything that's somewhat commoditized, Amazon is absolutely the way to go and I think consumers are going to dedicate more and more of their wallet to Amazon.

Chen Grazutis {BIO 16090672 <GO>}

Yeah. Actually I want to say basically the same thing. I think it's really depends of what kind of retailer you are looking at, because some of -- for DICK'S Sporting Goods, which is a very, you know -- that the items we can find very easily on Amazon comparable to what they sell, it can be tougher versus more the apparel specific

retailers, that it's just harder to do it online with Amazon. Everyone say it is best buy but the Best Buy, I feel like its being -- doing some interesting stuff online.

Lizabeth Dunn {BIO 6334380 <GO>}

Yeah. I also think you know, I think there is something to be said, I mean, Best Buy and the Best Buy shopper. So I just -- my computer just crashed, so I had to get a new computer and I, first of all, went to Best Buy because I wanted to go to Geek Squad, see if they could help with the same, I needed it restored. So I, you know, entered into a contract which cost me \$600 to get the computer restored, but I also bought, you know, a new computer at Best Buy and that whole experience with Best Buy, there is a service element there that you know that Amazon hasn't replicated and so I think that's important.

I also think that there is a little bit of discovery in walking into a Best Buy store, which is interesting. I mean, it can be a fun shopping environment and more and more retailers really need to look at ways to bring those experiential elements into their store to make shopping fun, just sort of experience if there is an education component with product that can go along with the store service environment. I think that's important and that can be a protective mode that -- you that Amazon can't maybe offer in a pure online environment. So it's about experience, It's about education and having you know some aspect of discovery and maybe even fun in your stores.

Yeah. You know traffic is obviously been down for a multi-year period. But it's not down at the best centers, it's really the business is kind of consolidating around those top centers and it's up for many of the A malls and B malls as well. And so I think it's really the C and D malls we're seeing this kind of rapid unraveling of those properties. And I think that it's a little bit of a self-fulfilling prophecy, because the landlords are unwilling to invest capital in those malls. And, you know, so then they're going away even more rapidly.

You know, you're seeing in the top centers they're getting an improved food court, they're getting improved, you know experiential elements into their stores, they're having -- they're adding new stores, new wings, all of the stuff and new fast casual concepts and the consumer seems to love dining out these days more than anything. And so all of those things are making us understand out. But you know, it's hard to invest in something you've already deemed a losing asset. And so I think we'll see a bigger shake out in the next couple of years of those kind of lower tier centers.

Back to that Genesco presentation from a couple of weeks ago, they said that when they renegotiate leases in those C centers, they're not doing any D centers. But in even C centers they are not signing anything less than or anything more than like a two year lease. And they're doing it with so many protections, and about, you know the vacancy rates in the co-tenancy. And so I think it's -- I think that e-commerce and everything that's happened digitally and everything that's happened with the consumer is hastening the demise of those lower tier centers.

I think the question is also sort of about the retailers that are located in those lower tier centers. I think that's a really flawed strategy and one that is going to lead to a couple of more failures in the next couple of years of some of the specialty retailers that are really focused on making, you know think, oh, we can go to C centers, because the rent is so inexpensive and there's not a lot of competition that's a losing long-term strategy, and one that could play out in kind of a nasty way for some retailers in the short-term.

Poonam Goyal {BIO 16489913 <GO>}

And then just going back to department stores, you said Kohl's is probably your pick, what was going to win in the Back-to-School season, what are they doing that's so different from Macy's, Penney's and even Sears that would draw more shoppers to the history's best Back-to-School season?

Lizabeth Dunn {BIO 6334380 <GO>}

Yeah, I think Kohl's has a fresher store environment, is a cleaner store, its -- they've spent a lot of time focused on and you know attracting new brands and attracting and upgrading certain areas of the store like beauty, and I think that they have a better website than the other two, you know that I'm highlighting in the presentation, Macy's and Penney's. It's just you know easier to navigate.

There is an obvious editorial point of view around areas like dorm or uniforms and even fashion. And I think that they have done a great job emphasizing the fact that they've got click and collect offerings and you know, really just emphasizing that omnichannel experience to their consumer. They -- yeah, so I just think they're doing a really good job across the board and I think that because their stores are, you know, a cleaner sort of more exciting shopping environment. I mean, that gives them -- that gives them a leg up on the other two.

Poonam Goyal {BIO 16489913 <GO>}

Do you think they are losing customers to Penney or say, just to update their focus on Back-to-School. I mean, it's a big business for both Kohl's and Penney's. It's a key period for them and I've seen a push, at least, by J. C. Penney to try to get that shopper back and to shop with them and whether it's tiny deals or whether it's \$10 giveaways in store, just a promotion seem to be alluring customers to their stores.

Lizabeth Dunn {BIO 6334380 <GO>}

Yeah, I do think, I mean, I think Penney's has poised to have a decent Back-to-School season, but I and I think that they're probably pulling business from other retailers and you know may be pulling a little bit from mass retailers in the apparel category. And I think, whole of this is kind of sticking to their netting a little bit and just continuing to enhance that they've built with better brands and better service, and you know improved assortments kind of across the board.

Chen Grazutis {BIO 16090672 <GO>}

Probably a last question from me. We track a lot of e-commerce data on our dashboard. And I think this striking, and the most striking data point that I have been looking at is kind of the growth within e-commerce, I think, was it being done on a mobile phone versus a desktop or an iPad. I think, it doubled the traffic and sales on the mobile it doubled last year on an industry-wide basis, do you see anyone that is winning on the mobile side?

Lizabeth Dunn {BIO 6334380 <GO>}

Yeah, and I think that the most innovation, and I think is coming from smaller companies, but you know, but I wouldn't say that you know that the larger companies are -- so it's smaller like more innovative companies like, I don't know, Rent the Runway, they have an excellent app and I'm on it all the time. And but you know, I think that the challenge with a lot of -- and a lot of bigger companies is that they are not well-positioned for mobile, it's not as easy to navigate, it's not as easy to check out and I think with the data that you highlight means that they need to be there yesterday, you know, they can't move quick enough to implement this change.

I was shopping Macy's the other day or channel checking Macy's the other day on online and then also on my phone and the experience was really kind of horrendous and I don't mean to pick on Macy's so much, but they should be doing better. They really, and maybe with the shift in management recently, they will, but that the experience in -- on mobile is almost more important than the experience online, because the consumer is, you know typically doing something. I mean, that's a really pretty strong purchase indicator that somebody is on their phone, looking for merchandise and if they can't check-out or they can't find what they're looking for, I think that's a real negative.

I think that the teen retailers are doing a better job that the ones that I highlighted in the presentation. Abercrombie and Eagle and -- but basically everyone needs to get there, if they're not already, extremely commerce-enabled on their mobile sites.

Poonam Goyal {BIO 16489913 <GO>}

I have one last question. We touched on department stores, we touched on specialty apparels, the teens specifically, but what about children's apparel? I know you talked about Justice, but if you think of Children's Place, (inaudible), where do you see demand for children's clothing and how much of it do you think is promotion-driven for Back-to-School or need based, meaning mom's really wait till the last minute, because kids outgrow their sizes to shop. So what is your perspective on children's clothing?

Lizabeth Dunn {BIO 6334380 <GO>}

Yeah. And I think that you know, children's clothing is, to your point, it's a need based thing, it's -- and you know moms are -- value is important, but I also think that

it's interesting that you know most of the moms are really in that millennial sweet spot. So that's where we've seen the biggest shift in consumer demand trends and how they're shopping. And so it's not entirely just price that's motivating them, they care a lot more of these millennial shoppers about how the product was made, where it was made, you know, why it was made, the story behind the product and they're looking, and you know they're researching far and wide for not only the best value, but the product that aligns most with, you know their values. And so I think children's and apparel will do fine in the near-term. And I think it will be promotionally driven business, you know the brick and mortar retailers that you're talking about. But I think over the long-term, these businesses really need to shift, because the consumer there is shifting more rapidly than anywhere.

Poonam Goyal {BIO 16489913 <GO>}

Great. Any other thoughts on Back-to-School. I mean, it looks like it's going to be a good season, which we haven't seen.

Chen Grazutis {BIO 16090672 <GO>}

(inaudible).

Lizabeth Dunn {BIO 6334380 <GO>}

Yeah. It'll be interesting to see how it plays out, I guess both here in the next couple of weeks, and the first commentary from many other retailers. I mean, I guess, some people talked about it today on back to -- and on same-store sales, but we'll certainly see a lot more broad commentaries. I'm looking forward to it. Thank you so much for having me.

Poonam Goyal {BIO 16489913 <GO>}

Thank you, Liz, for joining us. And thank you everyone for listening in. We will send details on the webcast with slides and transcript for replay information. So look out for that and if you have any questions please feel to follow-up with Chen, Liz or myself. Our details will be included in that email. Thank you and have a good day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT

2024, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.