communications simplified.

Vince Holding Corp.

First Quarter 2016 Earnings Results Conference Call

June 7, 2016

CORPORATE PARTICIPANTS

Jennifer Pohland, *Vice President, Finance and Planning*

Brendan L. Hoffman, *Chief Executive Officer*

David Stefko, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Noah Zatzkin, *KeyBanc Capital Markets*

Jeff Van Sinderen, *B. Riley & Company.*

Christina Brathwaite, *JP Morgan*

Mark Altschwager, *Robert W. Baird*

Christof Fischer, *Piper Jaffray*

PRESENTATION

Operator:

Good morning. My name is Stephanie and I will be your conference Operator today. At this time, I would like to welcome everyone to the Vince Holding Corp. Q1 2016 Earnings Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, please press star, then the number one on your telephone keypad. If you would like to withdraw your question, please press the pound key. Thank you.

I would now like to turn the call over to Ms. Jennifer Pohland, Vice President of Finance. You may begin.

Jennifer Pohland:

Thank you, and good morning, everyone. Welcome to our first quarter fiscal 2016 earnings conference call. I'm Jennifer Pohland, Vice President of Finance. Joining me today is Brendan Hoffman, our Chief Executive Officer; and David Stefko, our Chief Financial Officer, who will be your speakers for today's call.

Before we begin, let me remind you that certain statements made on this call may constitute forward-looking statements which are subject to risks and uncertainties that could cause actual results to differ from those that we expect. Those risks and uncertainties are described in today's press release and in the Company's SEC filings, which are available on the Company's website. Investors should not assume that statements made during the call will remain operative at a later time, and the Company undertakes no obligation to update any information discussed on the call.

In today's discussion, we are presenting our financial results in conformity with GAAP.

For those who cannot listen to the entire live broadcast, a replay will be available in the Investors section of our website, investors.vince.com.

After our prepared comments, we will be available to take your questions for as long as time permits.

Now, I'll turn the call over to Brendan.

Brendan L. Hoffman:

Thank you, Jen, and thanks, everyone, for joining us today. With the first quarter behind us, we feel good about where we are relative to our expectations for the year. The quarter came in largely as expected, the business was challenging in places we thought it would be challenging, and the retail environment remained difficult. However, we have greater confidence today that there is opportunity for healthy growth when you have product that connects with the consumer.

We believe this bodes well for our fall season, when we begin to introduce the first line that really recaptures the brand DNA. I mentioned last time that we had recently presented our fall Women's line to our wholesale partners and received overwhelmingly positive response. Last month, we presented our Men's pre-spring collection and the reception was just as enthusiastic. Perhaps more importantly, we had begun to take the Women's collection on the road to preview with selling associates and managers from our largest accounts, and they were delighted beyond our expectations.

Let me remind you that, given the timing of Rea and Christopher's return, while we'll start to see a major changeover beginning in August, it will not be until our holiday delivery in the fourth quarter that you will see the on-floor assortment fully represent the look and feel of the brand.

Importantly, we have maintained our leadership position in the department stores, which gives us further confidence that there will be a strong appetite for the product offering we deliver later this year.

We continue to work closely with our partners to ensure that we are analyzing what's working well with our brand in stores and applying those learnings as we move forward to help us further improve our offering, presentation and overall customer experience. However, keep in mind that despite the positive feedback, our partners remain conservative with their initial buys given the current retail environment, as expected. As I said in our last call, we are working on some initiatives that will enable us to quickly chase business and capture incremental sales, if performance exceeds expectations, while maintaining careful control over our inventory.

In our retail stores, we purposely and strategically pulled back on a number of promotions during the quarter. We eliminated a four-week tiered promotional event and shifted to a more exclusive friends-and-family event. While sales in the weeks during these events were below last year, we have seen stronger sales outside of these events. We are learning that we can achieve a more consistent flow of business without hyper-promotions and that we can retrain our customers to buy full price and not wait for our promotions. Our target customer appreciates the design and quality that goes into our merchandise and we believe that she won't hesitate to buy at full price if we give her the right product. Going forward, we will continue to be very strategic in our promotional strategy to help us to protect and elevate the brand image as our new collection begins to hit the stores.

Our e-commerce business had a strong quarter. While sales in this channel were also impacted by the changes to our promotional strategy, again, we feel that this is a net positive for the brand over the long term. As we look forward, we will continue to grow this business as we migrate to a new platform that will enable us to increase the functionality of the site and launch a creative overhaul to better align the site with the Vince brand DNA.

We also continued to round out our team with two great additions. We have a new Senior Vice President of Retail who will be responsible for the buying, merchandising, presentation and operations at all of our retail locations, as we continue to build that business. In addition, a new Vice President Brand Director just joined us and will lead our branding efforts and help us to better connect with our customers, as well as reaching new ones. They both have incredibly strong industry experience and knowledge, as well as a long history with Vince, and I look forward to working with them as we execute on our vision for the brand.

Finally, we continue to make investments in the business that will ultimately support our long-term growth. During the first quarter, we substantially completed the changeover to our new distribution center, which will enable us to better control our inventory going forward and, in turn, drive gross margin expansion. In addition, we continue to make progress on our IT migration, which is due to be completed later this year. Among the benefits will be better reporting and analytics, as well as improved functionality on the website, which should also drive higher margin in the future.

Overall, we are on track with our plans for the year. While we expect that the business will remain challenged throughout much of 2016, we are taking actions that we believe position us to deliver improved financial performance as we move throughout the year and into 2017. Importantly, we are continuing to make great progress setting the stage for long-term profitable growth by making decisions that are right for the integrity of the brand.

Now, I will turn it over to Dave to review our financial performance. Dave?

David Stefko:

Thank you, Brendan. For the first quarter, net sales increased 13% to $67.6 million, versus $59.8 million in the prior year period. Our wholesale channel sales were up 16.9% to $44.8 million, driven primarily by growth in our US wholesale business. As a reminder, we reversed the cadence of spring shipments this year back to the first quarter of fiscal 2016 from the fourth quarter of fiscal 2015.

During the first quarter, in addition to the impact of the change in the cadence of spring shipments into this quarter, we increased sales in our off-price channel to move through excess and aged inventory, which contributed to a majority of our wholesale growth. As we have discussed over the last few quarters, we are selling through the excess inventory and aged product identified in the second quarter of 2015. This sell-off will be substantially complete by the end of the first half of this fiscal year. As we move forward, we expect that the flow of inventory through this channel will begin to reach more normalized levels.

Our direct-to-consumer segment sales increased 6.1% to $22.9 million in the first quarter, driven by the addition of 10 new stores since the first quarter of last year, partially offset by a 12.3% decrease in comparable sales, including e-commerce. The decrease in comparable store sales was primarily the result of a decline in the number of transactions and average order value, which was driven by our planned decrease in promotional activity and inventory levels.

Moving on to profitability, gross profit in the first quarter was $28.3 million or 41.8% of net sales. This compares to $30.7 million or 51.4% of sales in the first quarter of last year. The gross margin decline was due primarily to an increased mix of off-price sales, increased discounts and markdowns, and the cost of certain strategic investments.

Selling, general and administrative expenses in the quarter were $31.8 million or 47% of sales. This compares to $25.6 million or 42.9% of sales for the first quarter of last year. The increase in SG&A was largely driven by store labor and occupancy costs associated with 10 new store openings since the first quarter of fiscal 2015, as well as expenses related to management changes, the consulting arrangement with our co-founders, and other costs for strategic investments.

The resulting operating loss for the quarter was $3.5 million. This compares to operating income of $5.1 million for the first quarter of last year. Included in the first quarter loss was approximately $2.6 million in aggregate costs associated with our previously mentioned strategic investments to support our long-term growth objectives. These include costs associated with the changeover to our new distribution center, the realignment of our supplier base, brand update initiatives, the migration of our IT systems and infrastructure, and a strategic decision to pause our Handbag business.

Our tax rate for the first quarter of fiscal 2016 was 58.1%, compared to 32.7% in last year's first quarter. The increased tax rate for the first quarter of 2016 was due to the impact of certain non-deductible executive compensation costs, as well as changes in certain tax laws in fiscal 2015. We anticipate our tax rate to be similar to this level for the balance of the year.

Net loss for the first quarter was $1.9 million or a loss of $0.05 per diluted share, compared to net income of $2.5 million or $0.06 per share in the first quarter of last year.

Now, moving on to the balance sheet, our debt decreased by $15 million to $45 million during the quarter. Our debt to leverage ratio at the end of the first quarter of fiscal 2016 was 3.3 times on a reported basis and 1.7 times on an adjusted basis, which includes the write-down of excess inventory and aged product, and net management transition costs reported over the last 12 months. At the end of the first quarter, we had $43.7 million of availability remaining under our revolving credit facility.

During the first quarter, we issued approximately 11.8 million additional shares of common stock, raising gross proceeds of $65 million, as a result of the completion of our rights offering. Proceeds from the rights offering were used to repay approximately $22 million due for 2014 under our tax receivables agreement with an affiliate of Sun Capital Partners, as well as to repay $20 million of debt under our revolving credit facility.

Inventory at the end of the quarter was $23.4 million, compared to $41.2 million at the end of last year's first quarter. The year-over-year decrease was primarily driven by more disciplined inventory management, partially offset by the addition of 10 new retail stores since the first quarter of last year.

Capital expenditures for the quarter totaled $3.7 million, primarily attributable to new stores and IT migration costs. Leases are signed for two stores that we expect to open in fiscal 2016, in addition to the four new stores that we have opened to date. As of today, June 7, the Company has 52 stores in the US, including 38 full-price stores and 14 outlet stores.

Now, turning to our outlook for fiscal 2016, we continue to expect total sales for the year to be between $290 million and $305 million, including revenues from six new retail stores, and comparable sales growth, inclusive of e-commerce sales, in the flat to low-single-digit range. Total sales guidance reflects an expected mid- to high-single-digit sales decrease for the first half of the year, and a flat to positive mid-single-digit sales increase in the second half of the year. This reflects the changing cadence of spring shipments which reversed back to the first quarter of fiscal 2016 from the fourth quarter of fiscal 2015. Also included for the first half is a reduction in shipments from our pre-fall line, given that we reduced the size of this collection by approximately half.

We continue to expect gross margin to be approximately 47% for the year and expect SG&A to be between $131 million and $133 million. Diluted EPS is expected to be flat to a gain of $0.06 per share. For the first half of the year, we expect a net loss per share in the high-single-digit to low-teens range, due to higher SG&A growth from continued store and strategic investments early in the year, as well as the annualization of store openings and strategic investments from the first half of the year. For 2016, we expect capital expenditures to continue to be between $10 million and $12 million.

This concludes my comments regarding our first quarter financial performance and outlook for 2016. We will now take your questions. Operator?

Operator:

Thank you. As a reminder, if you would like to ask a question, please press star, followed by the number one on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Ed Yruma from KeyBanc Capital Markets. Your line is open.

Noah Zatzkin:

Hi, thanks for taking my question. This is Noah Zatzkin on the line for Ed.

Brendan L. Hoffman:

Hi, Noah.

Noah Zatzkin:

Hi, how are you? It seems like the foreign tourist continues to be weak. Are you seeing particular weakness in either your tourist stores or in new departments, in your department stores partners in these cities?

Brendan L. Hoffman:

I mean, nothing that we have empirical evidence on, I mean, just anecdotal, but that seems to be a trend that's been happening for a while now, so nothing that jumped out in Q1 that we heard was any different.

Noah Zatzkin:

Great, and how should we think about the promotional cadence heading into the product reset?

Brendan L. Hoffman:

Well, I think, as we've said multiple times, we've gone to great lengths to start to dramatically reduce our promotional activity in preparation for the product reset. So, that started at the back half of last year with some pullback, and really was dramatic in Q1, as we discussed, where we completely eliminated our tiered promotional event that ran for about a month last year, and we changed our friends-and-family event to a much quieter by-invitation event, in addition to trying to not be as included in as quite as many promotions in our wholesale account. So, we feel really good about the activity we've done and what that's going to allow us to do going forward to move back to regular price selling both in our own retail stores and with our wholesale partners.

Noah Zatzkin:

Great, and maybe one last question. Can you talk about your ability to chase if the new product's working?

Brendan L. Hoffman:

Yes, well, I mean, that's always been a hallmark of what Vince was known for when Christopher and Rea were here, was anticipating what was going to work and being able to be much leaner and nimbler in terms of going after product. Now, some of that chasing was getting signals from the pre-fall and pre-spring deliveries, so we don't have that this fall, since their first collection is fall delivery, but we've taken some conservative, but appropriate, bets on things we think will do well, so that if we get the response we get in some key items, we'll be able to fill back in in-season.

Noah Zatzkin:

Thank you.

Brendan L. Hoffman:

Sure.

Operator:

Your next question comes from the line of Jeff Van Sinderen with B. Riley & Company. Your line is open.

Jeff Van Sinderen:

Good morning. I think you said that the response in your product has been really strong, including Men's. I was just wondering, as you look at that response, how that translated into the wholesale order bookings; and then maybe you can touch on—maybe give us kind of an update, I guess, on what your department store partners are doing with floor space attributed events, if it's kind of holding, maintaining, or what your outlook is there?

Brendan L. Hoffman:

Yes. So, as I mentioned, we're very pleased with the response we got to the fall collection back in February from our wholesale accounts. That was equally true to the response we got last month for the holiday pre-spring Men's collection. We actually open up pre-spring Women's in the mainline tomorrow. So, so far, those who have gotten a sneak preview have been very pleased. So, all that's anecdotally very positive. We don't give out specifics on what the whole order bookings are or were, but what we have said is they came in right where we were expecting, taking into account that the environment out there is tough and so that people are playing it conservative, but having said that, we were very pleased with the level of support we got on the orders, and as the previous question indicated, we know that part of maximizing business going forward is being able to respond to in-season chasing the business, which, as I just mentioned, was always one of the core competencies of Vince.

Regarding the floor space, as I've said before, one of the things that pleased me when I decided to come to Vince was talking to our major accounts and walking the floors and seeing with my own eyes that, almost entirely, we had not lost our floor space that Vince had worked so hard to capture over the 10 years when Christopher and Rea were here. That's, one, because the business, on relative terms, was still big even as it was shrinking, and, two, I guess they just didn't have anyone to replace us with. I think we were dangerously close to losing the floor space and having it chopped up or reassigned, but for the most part, that hasn't happened, and as we've had these conversations over the last few months with our key accounts, we're all very pleased that we have the chance to grow the volume back into the floor space. As I mentioned in my remarks, we've started to take the collection on the road to showcase to the people who are on the selling floor and seeing their response is quite gratifying and gives us more confidence that we have the support from the key sellers, we have the floor space and, of course, we have the product to respond again to the consumer.

Jeff Van Sinderen:

Okay. So, just to clarify, it sounds like—I know you're not giving specifics on bookings, but it sounds like bookings are still—correct me if I'm wrong—still trending down, but you feel like you can chase more. Is that kind of what it's looking like?

Brendan L. Hoffman:

No, that's not what I said. I said that the bookings came in exactly where we had anticipated and right on our forecast, and the ability to chase will only allow us to gain additional business in the back end, but we'll see how that comes. I mean, we haven't forecasted that into our guidance. We've only forecasted based on the orders and what history tells us is reasonable. So, we certainly hope there's upside, but all that is just to come.

Jeff Van Sinderen:

Okay. Then, you said e-commerce was strong, maybe you can elaborate on that, and was the e-com business—I know you've cleared more through off-price, but was the e-com business similar in terms of cutbacks that you had in your own stores on promotions, or maybe just frame that for us?

Brendan L. Hoffman:

Yes. Certainly, from a promotional standpoint, e-commerce was at the forefront of pulling back on that promotional activity, because, clearly, that's the way the message gets out these days, so we were very disciplined in pulling back that tiered promotion I talked about, and eliminating it, and being much quieter in the way we messaged our friends-and-families/by-invitation events, and e-com took the hit during those periods, which it's almost half the quarter when you talk about the tiered event being four weeks, and the by-invitation event. We knew that going in. I'd say the fall-off was a little bit greater during the time of those events, but we were very pleased with the way the site and the retail stores reacted outside of those events. Most of those events happened in the first half of the quarter, so to see how much business we were able to do outside of that was further validation for us that running these events and sucking all this promotional business into a concentrated time period, you know, it cannibalizes more of the business than we recognized, and so the comeback in the back half of the quarter, when we were just at regular price, made up for the drop and got us, as we said, really right on forecast. For the most part now, the business—we've taken most of the lumps. I mean, there's very little promotional activity that we're up against at this point that is above and beyond what the brand's comfortable with. So, certainly, as we reset the brand with the product coming in late next month, we think we have a clean path now both for e-commerce and our retail stores to perform.

Jeff Van Sinderen:

Okay, that's really helpful, and then one more quick one, if I could squeeze it in. I'm just wondering about your store opening plans going forward, if you're still planning to open more stores in the near-term or if you've put them on hold.

Brendan L. Hoffman:

No, I mean, they're not on hold, it's very fluid. I mean, we have two more that we're opening up in the back half of the year, I think in August., and we have engaged to new retail consultant to help us identify brand-right opportunities for locations. We don't have a number on what that will be in '17 or '18. It will really be based on the locations we can find, and that's true here domestically, and also trying to look perhaps to London and Paris and see if we can establish a flagship or a couple of locations over there, both because we think we can do great business, but as our international business grows, to have that as a marketing vehicle for all the traffic that occurs in London and Paris. Hopefully, the next call or later in the year, we'll have more clarity into the number of locations we think that are out there, but we're going to let the proper locations drive the number, not the other way around.

Jeff Van Sinderen:

Okay. Thanks very much and best of luck.

Brendan L. Hoffman:

Thank you.

Operator:

Your next question comes from the line of Matthew Boss with JPMorgan. Your line is open.

Christina Brathwaite:

Good morning. It's Christina Brathwaite on for Matt. Just thinking about the new product that we're going to see in the fall, and the bigger collection for holiday, in particular, can you give us some color around what you think needs to be changed within the assortment from the previous floor set, and what the customer will find different with the new flows?

Brendan L. Hoffman:

Well, I mean, I think, clearly, the aesthetics of the brand that Rea—she gave birth to this brand, she and Christopher, and so bringing her back in brought back the DNA right away of the aesthetics of the brand, you know, a focus on great sweaters, a focus on great pant silhouettes, on leather, certainly, in the line we're going to show tomorrow, and for pre-spring, great T-shirts, that were always big part of the business, and so I think, just on first glance—and I know Matt was up here a few months ago—just on first glance, I think long-term customers of Vince will see the difference in the way that the merchandise looks. Equally as importantly, or more importantly, is the way it's produced, and the quality. I mean, we've gone back to the old factories that we used to use, the old fabric mills. In addition to Christopher and Rea, we brought back in our Head of Production, our Head of Product Development, Katayone Adeli as our Artistic Director. The sizing that Vince—other brands have told me that when they used to do their brand surveys, Vince was always number one in terms of fit and consistency, and that was a hallmark of the Vince brand. I can tell you from personal experience, being out in LA every month and sitting through the fittings and watching Rea oversee the fittings, how meticulous she is and the number of times she goes back to make sure the garments fit perfectly, not—equally as importantly, not just for on the fit model, but as we size up and down. I think that's been a problem, our grading has been inconsistent. So, I think all of those things were what made Vince so special during their 10- or 12-year run and we are working hard to recapture that as quickly as possible.

Christina Brathwaite:

To follow up on that, with the reinvestments that you guys are planning on making to improve the quality, it sounds like—in the product—are you planning any AUR increases to kind of offset those COGS investments?

Brendan L. Hoffman:

Not really. There's some places we've looked at where the market has changed. So, a basic T-shirt that we were selling at $65, the market has gone way above that, so we might move that to $75. But, no, the AUR has stayed pretty much right on. One of the things we're doing, as Rea has always done, is we're making the product more efficient. So, we have less styles and less SKUs than we used to have, which means you're putting more behind what you believe in, which helps get you longer runs, gets you better pricing, and being smarter about the way we buy fabric so we don't have liabilities, as we've had in the past, allows you to be more efficient. So, while the quality has gone up, we're really pleased that our AURs will stay pretty much the same.

I mean, as the mix changes, that fluctuates a little bit, and our markups will stay pretty much the same, but one of the things we're changing our focus on is not just the sell-in, but the sell-out, not just what we sell into Neiman Marcus or Nordstrom, but how Neiman Marcus or Nordstrom are selling the products to their customers, because at the end of the day that's the bottom line for us, too, and I think we lost focus on that and made ourselves feel good about the sell-in and some of the markups we were getting and the orders we're getting, but then took a lot back or had to provide a lot of support in the back end that brought the profitability way down.   So, we're much more sensitive now to looking at each buy—and this is Christopher—almost at a door level for each account, to make sure we're pleased with the way Vince is represented and can think through the sell-out, not just the sell-in, if that makes sense?

Christina Brathwaite:

Yes, absolutely, and if I could just squeeze one more in. You cleared through the older product through the off-price channel pretty aggressively. Is there any risk to your ability to return to that full-price selling model in the fall and the holiday, and what's the best way to think about that game plan overall? Thank you.

Brendan Hoffman:

No, I don't think so. I mean, I think the division between the off-price business, the racks, the last-calls, the off-fifths and the full-price business has been pretty well established for years now, for a decade or more, across all brands. Obviously, the quality of the new product we're bringing in, and as we just discussed, is going to be different. But, then, as we start to flow merchandise into the off-price channel six months from now, nine months from now, that will be higher quality, too, but it will be done much more proactively to clear out residue, rather than trying to drive top line business by using the off-price channel. So, I think the team—this started before I got here, almost a year ago, when they did the write-down in Q2 to alleviate some of that pressure to sell the merchandise out there. There'll still be some lingering effects of that, but for the most part, I think the team has done a good job getting that behind us and allowing us to reset the brands to use the off-price channel appropriately, rather than as a crutch.

Christina Brathwaite:

Great. Thanks so much.

Brendan L. Hoffman:

Yes.

Operator:

Your next question comes from the line of Mark Altschwager with Robert W. Baird. Your line is open.

Mark Altschwager:

Good morning, and thanks for taking my questions.

Brendan L. Hoffman:

Sure.

Mark Altschwager:

I just wanted to follow up on some of your last comments on the off-price channel. Where do you expect your wholesale off-price mix to be in 2016, and what is the appropriate level on a go-forward basis?

David Stefko:

Mark, we have talked in the past that we've looked at for the brand that we like to be, say, in that 20%, 25% range. You go back historically, you know, back to 2014, we've said the business was well north of 30%. Even with trying to just move through this aged product that we identified last summer, we finished 2015 closer to the top end of that range, and even with what we're selling though here in the first half of this year, we expect 2016 to make a slight improvement towards that. So, we feel comfortable going forward that, if we choose, that we can get into that low 20% range.

Brendan L. Hoffman:

Yes, I mean, our focus is on regular price selling. We have good partnerships with these off-price retailers and we want to be respectful of them and protect their business, because we do need them to liquidate residue, but we've been clear to them that we're going to put much more controls around this and really use this just as a vehicle to liquidate liability product.

Mark Altschwager:

Thank you, that's helpful. Also, on the wholesale side, some of your partners are looking to pull back on discounts for ended brands and partner more with full price, and that seems to align quite well with the strategy at Vince today, so can you just talk about your thoughts on that; and then, broadly, how do you see price matching impacting your business from here?

Brendan L. Hoffman:

Yes. So, obviously, we can't control what the retailers ultimately do, but we have a good partnership with all the major accounts and they appreciate and understand that we put our investment in developing great product going forward, so we're not going to be able to support margins the way we have, based on all the promotional activities, so I think they are committed and in lockstep with us in not having Vince be a promotional brand going forward. So, I think we're well-aligned on that.

What was the second part of your question?

Mark Altschwager:

Just on how you see price matching impacting…

Brendan L. Hoffman:

Oh, yes, price matching, sorry. I try to forget about price matching. No, I mean, Nordstrom has been very aggressive about that and very transparent about that, how they're going to run the business. I certainly—having been on that side of the table for most of my career, I certainly understand it. So, again, it's consistent with what we're trying to do with the brand, anyway, but it certainly gives us more motivation to clean up the promotional activity. Knowing that any time there is an advertised promotion out there, that you're going to be on sale at Nordstrom as well, and they're such a big partner for us, that would distort the amount of promotional activity we would have out there. So, again, it's consistent with what we're trying to do to the brand DNA, but definitely, their aggressiveness with price matching does put you on notice to figure out how to get more regular price regardless.

Mark Altschwager:

Thank you, and if I could just squeeze in one more quick one on the DTC side, just comps have been quite volatile there. As we build our models—I know there's a lot of moving pieces on the changing promotional model, but maybe just walk us through the glide path as we go from this kind of down double-digit run-rate to a positive low- to mid-single-digit—I guess it's flat to mid-single-digit as we get to the back half of the year?

Brendan L. Hoffman:

Yes, well, I mean, a big part of the driver of the direct-to-consumer comp, since I've been here, six, seven months, has been the reduction in inventory levels. So, that was a planned reduction in inventory levels. As I said before, the Sun Capital guys, when they came in over the summer, they just tapped the brakes on what was going on while they tried to figure out what was the right thing to do, and so we're seeing that decision, which I think was absolutely the proper one, reflect itself both in our DTC business and our wholesale business, where our inventory levels are dramatically down. I mean, you heard in Dave's remarks our inventory is down almost 50%, especially if you take out the new stores, you know, in terms of what's in our direct-to-consumer and what we have in our own available-to-sell inventories. So, that's a big driver of our current retail comps, is the inventory levels, and I've been very pleased with the stock to sales ratio that we've been doing. So, as we get to the back half of the year, with the reset of the product, obviously believing in the product, we're going to be much more aggressive in terms of getting the inventory levels back to last year levels or a little bit higher. I mean, as we start to anniversary, particularly in Q4, those decreasing comps, that makes us feel even more confident that, with the right product and the right inventory levels, we can start to comp positive again and put up some nice increases in our direct-to-consumer numbers. Again, we're pleased with the sell-throughs that we're getting right now, so it really is, as much as anything, a reflection of the dramatic reduction in inventory levels.

David Stefko:

I have to add on to that, you know, we've gone now through the full cycle, hopefully, of the promotional cadence change, which hit us at the back half of last year, we took a hit on that, and also in the first quarter of this year we did.

Mark Altschwager:

Great. Thank you for all the detail and best of luck, guys.

Brendan L. Hoffman:

Thanks.

Operator:

Your last question comes from the line of Erinn Murphy with Piper Jaffray. Your line is open.

Christof Fischer:

Hi, good morning. This is Christof Fischer on for Erinn. I was wondering if you could talk a bit more on any differences in trends you are seeing at wholesale versus retail; in particular, if there's any disconnect from what you're seeing in kind of like wholesale buying behavior versus what you're seeing at retail?

Brendan L. Hoffman:

No, we really aren't, and I think it goes back to the answer to the last question. We dramatically reduced our inventory levels, and so we knew sales were going to be depressed because of that, and both at our wholesale accounts, particularly the last few months, and the DTC stores and e-commerce, we're very pleased with the sell-throughs we're getting. I think the other thing, when I talk about our key retail or our key wholesale accounts, they tell us that despite any headwinds, they have brands out there that are winning, they have brands out there that are succeeding, and so that gives me more confidence, as we get to the back of the year with the product reset, that there is a customer out there that will—when she connects with the product, she will purchase and she will purchase at regular price, and that plays really well into what we're trying to do for Vince.

Christof Fischer:

Okay, great, thank you. Then, can you talk a bit about the cadence by the quarter for gross margin and SG&A? Is there anything in there that we should be mindful of?

David Stefko:

No, I think as you—you know, if you look through the first half of this year and what our gross margin performance was in the first quarter—we're going to continue to move through this aged inventory product and kind of wrap that up in the second half of the year, so the back half of the year is based on a much greater normal selling percent of full-price selling.

Christof Fischer:

Okay, got it. Thank you very much.

Operator:

There are no further questions at this time. I turn the call back over to Brendan Hoffman, CEO.

Brendan L. Hoffman:

Okay. Well, thank you, everyone, for your support. We look forward to updating you on our second quarter results in late August. Thanks very much.

Operator:

This concludes today's conference call. You may now disconnect.