

Q4 SYSTEMS - VINCE HOLDING CORP

Moderator: Lisa Klinger
March 27, 2014
9:00 a.m. ET

Operator: Good morning, ladies and gentlemen, and welcome to the Vince Holding Corp. Q4 and FY13 earnings conference call.

After the prepared comments, we will conduct a question and answer session. Instructions will be given at that time.

Please note that this call is being recorded today, Thursday, March 27, 2014 at 9:00 Eastern Time. I would now like to turn the call over to Lisa Klinger, Chief Financial Officer of Vince Holdings. Please go ahead.

Lisa Klinger: Thank you, Laurel, and good morning, everyone. Welcome to our fourth-quarter and FY13 year-end earnings conference call. I'm joined by Jill Granoff, our Chief Executive Officer, and we will be your speakers for today's call.

Before we get into our discussion of our results, I need to remind you that any forward-looking statements we may make today are subject to our cautionary statements regarding forward-looking statements found in our press release and SEC filings.

Our fourth-quarter earnings release and related financial information are available on our Web site under the Investor section. For those who cannot listen to the entire live broadcast, a replay will be available for 30 days on our Web site at www.Vince.com.

I would also like to point out that on November 27, 2013, Vince Holding Corp. completed its initial public offering. Prior to the IPO and the related restructuring transactions, Vince Holding Corp. was a diversified apparel company operating a broad portfolio of fashion brands, including Vince. As a result of the IPO and the related restructuring transactions, the non-Vince businesses were separated from the Vince business and Vince became the sole operating business of Vince Holding Corp.

In today's discussion, we will be presenting financial results on an adjusted basis in order to exclude the impact of results of the non-Vince businesses, certain public company transition costs, and other adjustments. These adjusted results are non-GAAP measures and include adjusted measures such as adjusted selling, general and administrative expenses; adjusted operating income; adjusted net income; and adjusted earnings per share.

Discussions of these non-GAAP measures and reconciliations of them to their most comparable GAAP measures are included in today's press release and the schedules thereto, which are available in the Investor section of our Web site at www.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 Jill.

Jill Granoff: Thank you, Lisa, and thank you all for joining us today. I would like to welcome each of you to our first ever Vince earnings call. We look forward to today's discussion.

Let me begin by saying that it was another great year for the Vince brand, as we achieved many important milestones. We're particularly proud of our successful IPO last fall, which is a testament to our strong track record and significant future potential. I'd like to thank the Vince team, our retail licensing and international partners, as well as our suppliers and vendors, for

helping the Vince brand achieve the prominent position that we have in the market today.

We are also pleased that we continued to deliver industry-leading results and record sales in FY13, with double-digit growth across all distribution channels. In wholesale, we remain the number one or number two contemporary brand with our key department store partners.

In retail, we delivered just over 20 percent comparable store sales for the year; and in the fourth quarter, we delivered our 17th consecutive quarter of comp store increases. Additionally, our e-commerce business remained our fastest growing channel.

We also improved our gross margin rate by 120 basis points and increased adjusted diluted earnings per share by nearly 22 percent. These results reinforce the strength of our compelling product assortment and loyal customer following.

While 2013 was a terrific year, we are even more excited about 2014, as we continue our evolution to becoming a global dual-gender lifestyle brand. We have crystallized our plans for continued sales and profit momentum from both a product and channel perspective and built an extremely talented and experienced Management team to ensure we implement our strategic growth plan successfully.

In just a few moments, I will go into more detail with regards to those plans, as well as the various initiatives we have identified to drive continued gross margin rate expansion. I will also discuss our spending plan and investment strategies to support our long-term growth, as well as the business needs of today. In total, we believe we are well-positioned to deliver on our projected net income growth of approximately 20 percent in FY14, which is consistent with our previously-stated profit objectives.

Now, I'll turn the call over to Lisa who will provide additional details on our financial results for the fourth quarter and FY13. Lisa?

Lisa Klinger: Thank you, Jill. As I mentioned in my introductory comments, the Company has presented adjusted financial results in order to provide investors with additional information to evaluate our operating performance. As such, most of my commentary will be focused on these adjusted results and noted accordingly.

For the fourth quarter, as Jill highlighted earlier, the Company had strong total sales growth of 20.5 percent for the fourth quarter, with net sales of \$87.8 million versus the \$72.8 million achieved during a 14-week period ended February 2, 2013. During the fourth quarter, our wholesale segment sales increased 16.7 percent and our direct-to-consumer segment sales increased 36.5 percent. Comparable store sales for the fourth quarter of FY13 increased 12.2 percent over the comparable 13-week period for FY12.

While weather did not have a material impact on sales performance on a consolidated basis, we did experience numerous store closures in roughly one-third of our retail stores.

Gross profit in the fourth quarter of FY13 increased 22.9 percent to \$40.1 million from \$32.7 million in the fourth quarter of FY12 as a result of both an increase in net sales, as well as an increase in gross profit rate. Gross profit as a percentage of net sales increased to 45.7 percent from 44.9 percent in FY12, driven primarily by the increased sales penetration of our direct-to-consumer segment.

Selling, general, and administrative expenses in the fourth quarter of FY13, which included public company transition costs, increased \$4.9 million to \$25.2 million, or 28.7 percent, as a percent of sales compared to 27.9 percent in the fourth quarter of FY12.

Excluding public company transition costs in both periods, adjusted selling, general, and administrative expenses as a percent of sales was 25.8 percent for the fourth quarter of FY13, as compared to 23.2 percent for the fourth quarter of FY12. The deleverage in our SG&A rate was driven primarily by an increased investment in hiring talent required for events to be a standalone company, incremental costs related to our public company status, increased

labor and occupancy costs related to our retail growth strategy, and higher depreciation expense as we have strategically invested in new stores and wholesale shop-in-shop.

Operating income for the fourth quarter of FY13 increased 21 percent to \$14.9 million compared to operating income of \$12.3 million for the fourth quarter of FY12. Public company transition costs in the fourth quarter of FY13 reduced operating income by \$2.6 million and operating income in the fourth quarter of FY12 by \$3.4 million. Excluding these items, adjusted operating income for the fourth quarter of FY13 increased 11.2 percent to \$17.5 million, and as a percent of sales, was 19.9 percent compared to 21.6 percent in FY12.

GAAP reported net income for the fourth quarter of FY13 was \$600,000, which includes the impact of public company transition costs and results of the non-Vince businesses that were separated on November 27, 2013, compared to a net loss of \$11.7 million for the fourth quarter of FY12. Diluted earnings per share for the fourth quarter of FY13 was \$0.02 compared to a net loss per share for the fourth quarter of FY12 of \$0.44; however, adjusted net income for the fourth quarter of FY13 increased 15.1 percent to \$8.7 million from \$7.6 million in FY12, and fourth-quarter adjusted diluted earnings per share increased 15 percent to \$0.23 in FY13 from \$0.20 in FY12.

Now moving to the annual results for FY13, net sales for the 52-week fiscal period were \$288.2 million, an increase of \$47.8 million, or 19.9 percent, over the 53-week period of FY12. On a consistent 52-week basis, total net sales increased 29.7 percent, driven by a 23.5 percent increase in wholesale segment sales and a 62.6 percent increase in our direct-to-consumer segment sales. Our comparable store sales for FY13 increased 20.6 percent over the comparable 52-week period of FY12.

Gross profit for FY13 increased 22.9 percent to \$133 million from \$108.2 million in FY12. The increase in gross profit was driven primarily by the approximate 20 percent increase in sales and an increase in the gross profit rate. Gross profit as a percentage of net sales for FY13 increased to 46.2 percent from 45 percent in FY12; the increase in gross profit rate was driven

by increased penetration of sales from our direct-to-consumer segment and overall product margin rate improvement, offset slightly by increased inventory reserves versus 2012 levels.

Selling, general, and administrative expenses for FY13 increased 24.4 percent, or \$16.4 million, to \$83.7 million versus \$67.3 million in FY12. Excluding public company transition costs in both periods, adjusted selling, general, and administrative expenses for FY13 increased \$16 million to \$73.9 million compared to \$57.9 million in FY12.

As a percent of sales, adjusted selling, general, and administrative expenses for FY13 increased to 25.6 percent from 24.1 percent in FY12. The deleverage in our SG&A rate was driven primarily by increased investment in Corporate expenses related to the hiring of new talent and the procurement of services required for Vince to be a standalone public company, labor and occupancy costs related to our retail growth strategy, and strategic investments in our marketing program to build awareness and drive traffic to all of our distribution channels.

Operating income increased \$8.4 million, or 20.6 percent, to \$49.4 million from \$40.9 million in FY12. Excluding public company transition costs of \$9.8 million and \$9.3 million in FY13 and FY12 respectively, adjusted operating income increased \$8.8 million, or 17.6 percent, to \$59.1 million in FY13 from \$50.3 million in FY12. As a percent of sales, adjusted operating margin for FY13 was 20.5 percent compared to 20.9 percent in FY12, as we made investments necessary for Vince to operate as a standalone public company.

On a GAAP basis for FY13, the Company reported a net loss of \$27.4 million, which includes the impact of public company transition costs and the result of the non-Vince businesses that were separated on November 27, 2013, compared to a net loss for FY12 of \$107.7 million. Net loss per share for FY13 was \$0.98 compared to a net loss per share for FY12 of \$4.11; however, adjusted net income for FY13 increased 23.6 percent to \$28.1 million for FY13 from \$22.7 million for FY12 and adjusted diluted earnings per share

increased 21.7 percent to \$0.73 in FY13 compared to \$0.60 in FY12.

Now moving on to the balance sheet. The Company's cash balance at the end of FY13 was approximately \$21.5 million, an increase of \$21.2 million compared to the cash balance at the end of FY12; this increase was primarily attributable to cash generated from operations. Additionally, the Company paid down \$5 million of debt during the fourth quarter of FY13, yielding a FY13 year-end total debt balance outstanding of \$170 million. Also, we are voluntarily paying down an additional \$5 million of debt today.

Inventory at the end of FY13 increased to \$34 million versus \$18.9 million at the end of FY12, as we took steps to right-size our inventory to support increased sales volumes, new retail stores, and shop-in-shop. Inventory also increased due to the planned delay in timing of certain shipments to select retail partners.

Capital Expenditures for FY13 totaled \$10.1 million, \$9.2 million of which was attributable to real estate activities such as new and remodeled stores and shop-in-shop buildout. The Company also spent \$900,000 on various e-commerce, information system, and merchandising initiatives.

During FY13, the Company opened six net new stores and remodeled two stores. In the fourth quarter, we opened one store on the Upper West Side of Manhattan.

The Company currently has 28 stores in the U.S., including 22 full-price stores and 6 outlet stores. Additionally, during FY13, the Company opened 19 new shop-in-shops globally and opened its first freestanding international store in Tokyo, Japan, in partnership with ITOCHU.

That concludes my comments regarding our fourth-quarter and FY13 financial performance. I will now turn the call back over to Jill so she can provide you with an update on key strategic initiatives and our outlook for FY14. Jill?

Jill Granoff: Thank you, Lisa. I'm very excited to update you on our evolution to becoming a global dual-gender lifestyle brand and to share with you our financial outlook for the year. First, as many of you have heard me say previously, this is a product growth story. We plan to generate strong revenue growth by capitalizing on both new and existing product opportunities.

In FY14, we plan to maintain our leading position in women's contemporary apparel and we will continue to expand our existing product categories with an increased focus on outerwear and dresses. We are very excited about the elevated product assortment in our men's business that will launch in Fall 2014, along with an expanded replenishment program.

From a licensing standpoint, we continue to see strong demand for our growing women's footwear business and we plan to introduce two new categories, children's apparel and men's footwear, in the second half of this year. In addition, we are developing a new handbag collection in house for launch in early FY15. We are delighted that our new product development efforts are on track and initial market reaction has been positive.

Second, we will focus on maximizing our domestic wholesale productivity, continuing our history of strong sales growth. Given the success of our shop-in-shop investments last year, we are planning to open an additional 15 to 25 domestic shops in FY14 to bring our total count at the end of FY14 to 26 to 36 domestic shops.

With the increased focus on developing a cohesive men's assortment, we are also looking to grow our men's business, as our partners can now purchase a full collection rather than simply certain key items. Lastly, we are also looking to invest strategically in store sales support and co-op advertising with our top wholesale partners to help drive our sales productivity both in store and online.

Third, we will continue to grow our highly-successful retail footprint. We are on track to open six to eight new stores in FY14 and our pipeline remains strong into 2015 and beyond. We are also continuing to focus on all of the

key drivers that will help deliver the high single-digit to low double-digit comp store sales growth we have planned.

We intend to make investments in marketing program to drive traffic to our stores and to invest in our store Management and sales associates to convert that traffic effectively. We believe our focus on providing our customers with a compelling and engaging shopping experience will continue to generate strong comp store sales performance.

Fourth, we plan to accelerate our e-commerce growth in FY14 with our recently relaunched Web site. This new site places a greater emphasis on wardrobe merchandising, suggestive selling, and an omni-channel shopping experience that should lead to both higher traffic and conversion metrics over FY13 statistics. Our e-commerce sales should also increase as we grow our existing and new product categories, expand our digital marketing efforts, and invest in our e-commerce team.

Fifth, we will continue to pursue international expansion. With our new product introductions and new partner relationships, we have developed plans to drive our international growth in both existing and new markets. We are projecting to open up to 5 shop-in-shops internationally, which would bring our total international shop-in-shops to a total of up to 20.

In addition, we just recently opened our second free-standing Vince store in Istanbul, Turkey, with our distribution partner. We are now actively looking to lease our first international showroom in Paris, France, to further build our European business.

Sixth, we are planning to increase our marketing investment in FY14 to approximately 3 percent of net sales in order to increase our brand awareness and drive traffic to all of our distribution channels.

Our key marketing objectives are to: one, showcase new and existing product categories; two, ensure dual-gender support across channels; three, provide year-round advertising; four, enhance our digital marketing and social media programs; five, support our retail expansion with regional initiatives; and six,

continue to build our wholesale business by a continued co-op advertising and store specialist support. As a result of these collective efforts, we expect 2014 to be another strong year for both sales and profitability growth for Vince.

Here is our guidance for 2014. The Company expects to achieve total net sales of \$325 million to \$340 million, including revenues from six to eight new retail stores and comparable store sales growth in the high single-digit to low double-digit range. The Company expects to expand gross margin 150 to 250 basis points, driven primarily by the higher penetration of direct-to-consumer sales and margin rate increases due to operational improvements such as a reduction in air-to-vessel shipping ratios, vendor and agent term renegotiations, and overall supply chain efficiencies.

We expect to increase selling, general, and administrative expenses as a percent of sales by 150 to 250 basis points over the adjusted FY13 rate of 25.6 percent, as we expand our retail operations, invest strategically in marketing programs, and incur incremental public company costs for a full 12-month period. Taking into account our current net sales, gross profit, and SG&A forecast, we anticipate generating diluted earnings per share of \$0.85 to \$0.90 for FY14. Finally, we expect our capital expenditures to be in the \$15 million to \$20 million range in FY14 as we open new stores, add shop-in-shops locations, and relocate and combine our New York Corporate offices.

In summary, we are optimistic about the prospect in 2014. While we cannot control the world around us, we are confident in our sales plans and the great work being done by our design and merchandising team to deliver compelling new product to the marketplace.

We continue to exploit new sales opportunities in each of our distribution channels and we remain focused on expanding our gross margin rate through various operational improvement initiatives. These items, combined with our loyal and passionate customers who love the Vince brand, have us very excited about our future. Thank you. Operator, we will now open the call for questions.

Operator: Thank you. At this time if you would like to ask a question, please press star then the number one on your telephone keypad.

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

Annie McCormick: Good morning, it's Annie on for Matt. Your gross margin guidance for next year – it's a touch higher than we had originally expected. Given the current promotional environment, particularly at some of your wholesale partners, can you just give us a little color on puts and takes there and what's embedded within your guidance for promotion? Thanks.

Jill Granoff: Hi, Annie. Great to have you on the call today. We're very excited for our first earnings call. With regards to margin for next year, a big part of the increase is the increased penetration of our direct-to-consumer segment.

In addition to that, also, we have a lot of operational improvement initiatives underway, so when you look at all of that together, we feel pretty confident that we have a lot of expansion ahead of us and we are really projecting a promotional cadence that's very consistent with what we had in 2013.

Lisa Klinger: Yes, and honestly, Annie, we provided the range, so while we are hoping for and planning for the high end of the gross margin expansion range, we do recognize that there are some external factors out there, which is why we have the range of 150 to 250. So we're very confident in that range, given the two major drivers, as Jill mentioned, being the direct-to-consumer penetration and the operational initiatives that we see that those will just clearly come through.

Annie McCormick: Great, thank you, and then just one housekeeping question. How should we be thinking about interest expense for next year?

Lisa Klinger: As we mentioned on the call, we paid \$5 million of our \$175 million term loan down in January and we're paying another \$5 million off today.

Our plan is to pay down another \$25 million this year. Obviously, the majority of that is going to be coming in the back half of the year and it

certainly depends on actual business performance so that pay down assumption could be higher or lower, but in our current plans we have us currently paying down another \$25 million.

Annie McCormick: Great, thank you.

Operator: Your next question comes from the line of Edward Yruma from KeyBanc. Please go ahead.

Edward Yruma: Hi, good morning, and thanks for taking my question. First, how should we think about inventory growth for 2014 as you grow your direct business? Is the numbers you put up in 4Q consistent with what we should expect for the remainder of the year?

Lisa Klinger: Yes, as we mentioned on the call, there were really some major drivers that influenced our increased year over year inventory position at fiscal year end – obviously, the new stores, the increased shop-in-shops that we added, and then certainly the planned delayed timing that we had on certain deliveries. I'd say that those are one-time baseline changes and so we would look for similar type growth in our inventory position from a sales perspective for 2014.

Edward Yruma: Got it, and ...

Lisa Klinger: But once (we've) -- the baseline is set – I don't know if that was clear.

Jill Granoff: The other thing, Ed, is I was just going to say, one of the things we really look to do is to right-size our inventory. We look at our weeks of supply across categories and channels to ensure that we have sufficient inventory to meet projected demand and what we saw in 2013 was that we needed to increase our inventory in certain areas to drive our weeks of supply up to the target levels.

We also needed to increase our replenishment inventory, as we saw that we were missing sales opportunities on selected key items. Really, 2013 was to get our inventory in line with our projected sales plans and new store openings

and the shop-in-shops that were opening but, as Lisa said, just to reinforce her comments, we believe inventory growth and sales growth will be very much aligned in 2014.

Edward Yruma: Great and one follow-up. How should we think about the stores that are entering the comp base and any color you can provide on the maturation of some of these newer stores? Thank you.

Lisa Klinger: Many of the new stores that we opened in 2013 were actually highly productive stores here in Manhattan and in other large urban street locations that we have.

Those stores, from a maturation curve, are actually started off a little bit higher than the average mature store anyway, so it's a little bit – you can't really say that they're following the natural maturation curve, but with regard to that, what you will see is when those stores do enter our comp base, it will have a very good positive influence on comps for the year.

Edward Yruma: Great, thanks so much.

Operator: Your next question comes from the line of Lindsay Drucker Mann with Goldman Sachs. Please go ahead.

Lindsay Drucker Mann: Thanks, good morning everyone.

Lisa Klinger: Good morning.

Jill Granoff: Good morning.

Lindsay Drucker Mann: I was hoping – could you give us some color on how your fall order book is shaping up in some of the specific areas you're seeing good demand from your retail partners?

Jill Granoff: With the exception of providing and/or updating our guidance, as you may know, it's our current Company practice not to provide any information on an intra-quarter business trend basis, but what I would say is that we are very

confident in the guidance that we provided today for FY14, and we have reflected our current business trends, including our order writing, in that guidance.

Lindsay Drucker Mann: OK.

Lisa Klinger: And again, from a category perspective, and again, Jill can share more color here as well, our categories all continue to perform very positively. We're seeing strong demand in pretty much every category and so we think that, that is a good continuation and has been reflected in the guidance that we have.

Jill Granoff: Yes, I have to say I'm really pleased that we are seeing strength in many of our categories. Sweaters, obviously – we are known for our sweaters; we're doing very well there, especially in mixed media and color block sweaters.

Jackets, especially our leather jackets, are performing quite well; we're seeing strong demand for our iconic leather scuba, our paper leather jacket is doing very well. But also we're seeing strength in dress classifications and also in our bottoms, as we really look to become a much more diversified product assortment and create head-to-toe looks.

We're really pleased that each product category seems to be resonating well. I would just add that footwear also has been getting very, very strong feedback.

We had very, very good performance in 2013 and we do expect that to continue in 2014. Obviously, you only see that through our royalties, as opposed to a direct impact on net shipments, but as we evolve to becoming a lifestyle brand, we are seeing a lot of our newer product classifications resonating well.

Operator: Your next question comes from the line of Evren Kopelman with Wells Fargo. Your line is open.

Evren Kopelman: Thanks, good morning, everyone. My question is on the wholesale side. First, qualitatively, can you talk a little bit about what introduces maybe

surprises in that business, how much of that business is replenishment versus not?

Secondly, when we look at the – last year, there was a lot of volatility around the quarters with shipments moving in and out of the quarters. As we think about our model this year, especially in Q1 here, is there anything to call out as we model that wholesale business? And maybe, lastly, you mentioned the replenishment program; how significant can that be – how should we think about the impact of that?

Lisa Klinger: We believe just given our products and how our consumers wear us that replenishment can be a big growth opportunity for us and so we're excited about that opportunity. I would say that in the FY13 sales, that, that was not a material piece of our wholesale business. Again, we see that more as a forward-looking opportunity for us, which is why we were increasing some investments in our inventory to prepare for that growth that we plan to come.

I'm sorry – I'm – what was the second question that you had, Evren?

Evren Kopelman: On the quarterly last year, there was a lot of volatility, (just) during the quarter ...

Lisa Klinger: Oh, yes, I'm sorry. Again, we wanted to get FY13 shipments in the correct quarter and so what you'll see this year is that the year over year comparisons are going to be very, very similar. Just some minor tweaks, but we really used 2013 to reestablish the right shipping cadence.

Evren Kopelman: Great, and then if I could add a question on the margin. With your guidance for gross margin, SG&A, there's a lot of different scenarios for this year for operating margin – it could be flat, up or down. Can you talk about what's assumed within those high- and low-end of those ranges you gave for growth and SG&A? Thanks.

Lisa Klinger: The way I'd rather answer it is, if you notice the ranges, they're quite similar. While we can certainly influence certain aspects of gross margin, there are

other aspects that we cannot manage from a Management team, from a market perspective, but what we can always do is manage our SG&A cost and so I almost view those as moving somewhat parallel.

If we do see the margin flow-through coming in at the lower range of our guidance, we will certainly react very quickly and have done so in the past as a Company, to manage the spending in order to meet our expectations from an EPS perspective.

Jill Granoff: The other thing that I would say, and obviously you know this quite well, that the wholesale channel and direct-to-consumer channel have very different economic models where the direct-to-consumer channel obviously drives higher margin, but also higher SG&A, including rent and payroll, and amortization of the buildouts, et cetera.

So clearly, as our direct-to-consumer business grows, you will see that drive margin expansion. You will also see the impact of that in SG&A, so there is a relationship between those changes.

In addition to that, on the SG&A side, as we have mentioned before there is the increase in public company costs for a full 12 months versus 3 months last year.

And as we have stated previously, we are looking to drive increased marketing investment to drive brand awareness and traffic, because as our research has shown us, those customers that are aware of Vince have very high affinity and very high purchase intent, so we have really a game plan underway to increase our investment in marketing up to competitive levels.

This last year, we were roughly 2.6 percent of sales and the goal for next year is to drive that up to 3 percent of sales, so obviously, that is also going to impact the SG&A rate. Those are some of the key factors that are influencing the ranges.

Evren Kopelman: Thank you, very helpful.

Operator: Your next question comes from the line of Robbie Ohmes with Bank of America. Your line is open.

Robbie Ohmes: Good morning, guys.

Jill Granoff: Good morning, Robbie.

Robbie Ohmes: Two questions. Jill, could you talk a little bit more about, in your guidance for 2014, how much international plays a role? I think you mentioned five shop-in-shops, but is there other wholesale growth beyond that and where are you seeing the brand perform the best outside the U.S.?

And then the second question for Lisa is just a little more detail on the CapEx going – you guys said in the release to \$15 million to \$20 million – how much of that is weighted towards shop-in-shops versus new stores or other projects?
Thanks.

Jill Granoff: Sure. Basically, we're projecting our international business to continue double-digit growth, as we have experienced in the past. While we are looking to open up to five shop-in-shops, a lot of the growth is going to come from increased penetration in the doors that we're in.

We're doing very well with key international department stores and we're showing very nice year over year growth, good sell-throughs, and we're in the top five in most stores. Most of our partners are also buying footwear now, which is great to see the expansion of that product classification.

The other thing I'd say is while we're in the very early process with regards to our two new freestanding stores, one in Tokyo and the other in Istanbul, they are performing in line with what we planned. Obviously, it's still early, but both Vince and our partners are excited with this new way to build the Vince retail footprint internationally.

We certainly feel good about our international growth and we'll see the largest movement in our four key markets – U.K., Canada, Japan, and obviously

Korea is a big contributor.

Lisa Klinger: And then on your follow-up for CapEx, Robbie, in the range of \$15 million to \$20 million, we have embedded about \$3 million for our shop-in-shops activities for the year.

Robbie Ohmes: Got it. Anything else that upticked there?

Lisa Klinger: Yes, I would say the major driver year over year is the new headquarter that we're doing for the consolidation and combination of our offices here in New York. That's going to be close to \$5 million of the investment.

Robbie Ohmes: Got it.

Jill Granoff: You may know, we have two different buildings today. We have our showroom on Bryant Park and then we have our corporate offices in Times Square. We will be moving in late August, hopefully before spring market, to consolidate our teams into one building.

Also to really accommodate the growth of the brand, we need larger showrooms, we need more showroom space for men's, women's, handbags, our whole accessories business.

And then in addition to that, just the growth in our team, where we used to be reliant on (Kellwood) for certain activities and now we have built those capabilities in house – areas like legal and HR and accounting and others. So we're very excited to all be housed together in one building – again, right on Bryant Park – hopefully by September market.

Robbie Ohmes: Got it. That's really helpful. Thanks guys.

Operator: Your next question comes from the line of Joan Payson with Barclays. Please go ahead.

Joan Payson: Hi, good morning, and congratulations on your first call.

Lisa Klinger: Thank, Joan.

Jill Granoff: Thank you.

Joan Payson: Could you give some more color in terms of the drivers within your 12.2 percent comp growth in the fourth quarter? Maybe specifically what traffic trends have been versus any ticket increases and also in the context of a tougher environment in the first quarter to-date, maybe what you've seen in traffic?

Jill Granoff: Obviously, the major driver of our comp store sales (increases) are compelling product, which our customers love because at the end of the day we sell product and we're generating great comps because our products continue to resonate with our customers.

I'm sure, though, what you really want to understand are the retail metrics behind that, and so that, what I would say is just looking at the fourth quarter alone, we had a nice contribution of both an increase in transactions, as well as an increase in transaction size.

What I would say is with six fewer days of holiday shopping and also taking into consideration the various weather challenges, we're extremely pleased with our transaction growth year over year, despite modest declines in overall traffic.

We, as I said previously, we are not really giving any guidance at all on the first quarter, so I can't comment on that, but what I would say is if you look just beyond Q4 into the full year of FY13, our comp growth was driven primarily by an increase in average transaction size, because our strategy is really to focus on increasing the number of items that our customer purchases by providing head-to-toe looks. Also, we did increase our AUR with the elevation of several product categories.

Joan Payson: OK, thanks and then in terms of your outlet business versus full price, can you provide any detail on how those have been performing separately and maybe also what you've learned in terms offer your first six outlets that guide to your

outlet strategy going forward?

Jill Granoff: Yes, we're actually pleased to say that we're seeing solid performance in our full-price stores, as well as our outlet stores. As you know we have 22 full-price stores today and 6 outlet stores, and we find that they are really performing equally well, for the most part, other than those that have been impacted by the weather.

We do have a lot of stores in the northeast and probably 9 of our 28 stores, one-third of our fleet, was impacted by weather, but aside from that, they are performing equally well.

We are starting to see, though, nice increased traction in our outlets, as we have introduced some MFO product, which is also driving improved margins and profitability of our outlet stores, where we used to have just an excess liquidation model.

And now we're actually combining it with excess inventory, along with some made-for-outlet product to really enhance the customer shopping experience, ensuring that we have the breadth of color and sizing that our customers are looking for.

Joan Payson: Great, thank you.

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

Mark Altschwager: Great, good morning and thanks for taking the question. Congratulations to the whole team for getting to this point. I was hoping you could talk about the appetite for inventory with your wholesale customers. Just trying to get a better sense of sell-in versus sell-through in those figures, especially given the expansions to the products?

Jill Granoff: Look, we all know that the environment is tough out there. There are a lot of things we don't control. (Shop) traffic has been down overall, but we feel

pretty good about the relationship that we have with our key department store partners.

One of the issues here is that we serve a more affluent consumer, our products have higher perceived value – we have some static feedback on the line – OK, did you hear what I was saying because we had static feedback here?

Mark Altschwager: Yes, I heard you.

Jill Granoff: OK, great. Look, our department store partners are certainly looking for their inventories to turn faster overall, which certainly would impact, in the aggregate, sell-in rates versus sell-through rates.

At the same time, what's really important to note, is being the leading contemporary apparel brand. Many of our department store partners are really looking to Vince to help drive their own growth objectives, so while they might plan tighter inventory levels in the aggregate, I believe they do have distortion strategy to those categories that are performing well. Sometimes they want to leave a little bit more for chase later in season but that's another reason why we have our inventory levels where they are so that we can fulfill the chase requirements as needed.

Mark Altschwager: Great, thank you.

Operator: Once again if you would like to ask a question please press star and then the number one on your telephone keypad.

Your next question comes from the line of Amy Noblin with William Blair. Please go ahead.

Amy Noblin: Thanks, good morning, and congratulations. My first question is on the wholesale side. Did you maintain your rankings with each of your respective wholesale partners last year or were there any changes to note there?

And then also, as you noted, many have suffered from a lack of traffic, making your performance and guidance that much more impressive. Is there

anything specific to call out, whether it be product categories, fashion trends, increased marketing around the brand, that you think is enabling you to really perform well against those headwinds, or across the board, just any particular areas of strength? And then I've got one more on the men's business?
Thanks.

Jill Granoff: Sure. As we understand it, we have maintained all of our rankings with department store partners, consistent with what we have communicated in the past, and I'm just – what was your other question?

Amy Noblin: Well the question was about – just, obviously, there have been widely-noted headwinds out there in the retail environment and your performance in the fourth quarter and it sounds like even first quarter to-date, is very impressive.

It looks like ex the 53rd week, your wholesale channel grew 10 percent to 11 percent. So I'm just curious if there's any specific call-outs, whether it be the addition of certain categories or trends within your assortment that really enabled you to buck those trends at the wholesale level?

Jill Granoff: It really comes down to our brand positioning. We serve slightly more affluent shopper and what we've heard consistently is that we offer really great perceived value with highly desirable products that are still doing well. Many of our items are seasonless, they are products that women and men love, they wear every day – the value is not just in the price point, but also in the frequency of the wear occasion and we know that our customers are so loyal and passionate.

So even in a more difficult environment, people really continue to go and seek brands like Vince that really support numerous wear occasions, and they'll keep in their closets for a really long time. Obviously, people call us fashion basics, but we have a lot of great newness, whether it's our color blocking or mixed media, texture blocking, so many things that we do well and a lot of that has driven our growth.

The other thing I should mention, obviously, is our fit. We really appeal to a broad age range. Many, many of our competitors are very focused. They

might be more fashion-forward or more traditional, but we appeal to customers from 16 to 60-plus, so the fact that we serve a broad demographic and also that we pull from designer, the contemporary customer, the aspirational customer, that enables us to buck some of the trends that we're seeing in the marketplace overall.

Amy Noblin: OK, great, thanks. Then my second question is on the men's business. Obviously you've been in the process of repositioning that. Where do you think you're at in terms of that evolution? You said you're going to relaunch it in the fall. What can we expect to see with the new assortment? Thanks.

Jill Granoff: It looks great. I think you're going to be really excited. We'll begin to see an increase in the fall season, as I've said. The response from the retail partners has been terrific. And I think our retail partners really all believe in the potential of Vince men's as do we.

In the past, we've really been more of an item business. This is how Vince women's started out. We're really looking to develop Vince men's into more of a collection business or even where we have key items to do more color multipliers so that we can make great presentation from a classification perspective.

Really, you're going to see both a broader assortment but also a more elevated assortment that addresses a broader variety of wear occasions. The proof is in the pudding and the testament is that we're rolling out a lot of men's shops.

So initially we talked about a lot of women's shops. You know our first men's shops was at Bloomies. We are rolling out and have rolled out men's shops at Niemen's as well, and we are certainly in discussion with other of our retail partners. So they're obviously feeling good about it to give us increased space and location in their stores to showcase the product, and again, it demonstrates their belief in the brand's potential.

Amy Noblin: Great, thank you.

Operator: There are no further questions at this time. I turn the call back to Lisa Klinger.

Jill Granoff: Thank you all for listening and participating in our call today. We look forward to speaking with you again in early June for our first quarter of 2014 earnings call.

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

END