Q4 Systems

Moderator: Lisa Klinger
June 5, 2014
9:00 a.m. ET

Operator: Good morning ladies and gentlemen and welcome to the Vince Holding Corp Q1 2014 earnings conference call.

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

Please note that this call is being recorded today, Thursday June 5, 2014 at 9.00 AM Eastern time. I would now turn the call over Lisa Klinger, Chief Financial Officer of Vince Holdings. Please go ahead.

Lisa Klinger: Thank you, (Jeremy), and good morning, everyone. Welcome to our first quarter FY14 earnings conference call. I am joined by Jill Granoff, our Chairman and Chief Executive Officer, and we will be your speakers for today's call. Before we get into the 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 first quarter earnings release and related financial information are available on our website under the investor section. For those who cannot listen to the entire live broadcast, a replay will be available for 30 days on our website 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 are presenting our financial results in conformity with GAAP including the financial results of the non-Vince businesses for the first quarter of FY13 as Discontinued Operations. In addition we will be presenting financial results relating to the first quarter of FY13 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 interest expense, adjusted taxes, adjusted net income and adjusted earnings per share. Discussions of these non-GAAP measures and reconciliations of them to our most comparable GAAP measure are included in today's Press Release and the schedules thereto which are available in the investor section of our website.

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. I would like to welcome each of you to our first quarter FY14 Vince earnings call. We look forward to today's discussion. Let me begin by saying that it was another terrific quarter for the Vince brands. We continue to deliver strong sales results as we again had double-digit growth across all distribution channels.

In wholesale, our women's ready-to-wear performed exceptionally well, and our men's business accelerated. In retail we delivered just over 11% comparable store sales growth and completed our 18th consecutive quarter of comp store increases. In addition, our eCommerce business continued its strong momentum benefiting from our website relaunch in February.

This performance demonstrates that our compelling product assortment and everyday luxury essentials continue to resonate with our broad customer following. Additionally, we improved our gross margin rate by 600 basis points over last year's first quarter and increased diluted earnings per share to $0.04. We believe these results further reinforce the strength of our brand and establish Vince as one of the leading contemporary fashion retailers in the marketplace today.

In just a few moments I will provide you with an update on our various strategic plans and initiatives as well as our updated guidance for FY14. But first I would like to turn the call back over to Lisa, who will provide additional details on our financial results for the first quarter of 2014. Lisa?

Lisa Klinger: Thank you, Jill. As I mentioned in my introductory comments, the Company has presented adjusted financial results for the first quarter of FY13 in order to provide investors with additional information to evaluate our comparable operating performance as it relates to our results for the first quarter of FY14. As Jill highlighted earlier, and as we anticipated, the Company had strong total sales growth of 32.4% for the first quarter with net sales of $53.5 million versus $40.4 million achieved during the corresponding period in FY13.

During the first quarter our wholesale segment sales increased 28.8% driven by strong domestic demand and also the timing shift of certain shipments from the fourth quarter of FY13 into the first quarter of FY14. Our direct to consumer segment sales increased 41.6% as we added six net new stores versus last year, and we grew comparable store sales during the first quarter of FY14 by 11.1% over the first quarter of FY13.

This comparable-store sales performance was on top of a 34.3% increase last year for a two-year stack of over 45% and was driven by a balanced increase in both transactions and transaction size. Gross profit in the first quarter of FY14 increased 50.8% to $26.4 million from $17.5 million in the first quarter of FY13 as a result of both an increase in net sales as well as an increase in the gross profit rate.

Gross profit as a percent of sales increased to 49.4% from 43.4% in FY13 driven primarily by cycling on the $1.5 million inventory reserve taken in the first quarter of FY13 worth approximately 370 basis points of the year-over-year 600 basis point increase. Additionally the gross profit rate benefited from the increased sales penetration of our direct to consumer segment and the overall project -- product margin rate improvement.

Selling, general and administrative expenses in the first quarter of FY14 increased $5.6 million to $21.2 million or 39.7% of sales. This compares to 38.7% of sales including public company transition costs in the first quarter FY13. Excluding those public company transition costs, adjusted selling, general and administrative expenses as a percent of sales was 35.5%.

The deleverage in our SG&A rate was driven primarily by increased investments and the hiring of talent required for Vince to be a standalone public company, incremental costs related to our public company status, increased labor and occupancy costs related to our retail growth strategy and strategic investments in our marketing program to build brand awareness and drive traffic to all of our distribution channels. We also incurred higher depreciation expense as we strategically invested in new retail stores and wholesale shop in shops. Operating income for the first quarter of FY14 increased 174% to $5.2 million compared to $1.9 million for the first quarter of FY13.

Public Company transition costs in the first quarter of FY13 reduced operating income for that period by $1.3 million. Excluding those public company transition costs for the first quarter of FY13, operating income for the quarter -- for the first quarter of this year, increased 64.1% and as a percent of sales was 9.7% compared to 7.9% for the same period in FY13. Importantly, this 180 basis point increase in operating income margin was accomplished while we made the investments necessary for Vince to operate as a standalone public company and support our various growth initiatives.

GAAP reported net income for the first quarter of FY14 was $1.4 million compared to a net loss of $15.1 million for the first quarter of FY13. Again the FY13 results include the impact of public company transition costs and the results of the non-Vince businesses that were separated on of November 27, 2013. Diluted earnings per share for the first quarter of FY14 were $0.04 compared to a net loss per share for the first quarter of 2013 of $0.58.

However, on an adjusted basis, net income for the first quarter of FY14 increased to $1.4 million from $100,000 in FY13, and first quarter diluted earnings per share increased to $0.04 in FY14 from $0.00 on an adjusted basis in FY13.

Now moving on to the balance sheet, the Company's cash balance at the end of the first quarter was $21.8 million compared to a balance of $21.5 million at the end of FY13. During the first quarter of FY14, the Company voluntarily paid down an additional $20 million of debt resulting in total debt outstanding of $150 million as of May 3, 2014, compared to a balance of $170 million at the end of FY13. Since the IPO we have paid down $25 million of the original $170 million term loan facility.

Inventory at the end of the first quarter of FY14 was $31.9 million versus $34 million as of February 1, 2014 and $20.1 million at the end of the first quarter of FY13. This year-over-year increase was driven by the addition of six net new retail stores, the rollout of our omni-channel replenishment program and received increases to support our sales growth and category expansion initiatives. Capital expenditures for the first quarter of FY14 totaled $1.3 million, $1 million of which was attributable to real estate activities such as new and remodeled stores and shop in shop build out.

As of the end of the first quarter of FY14, the Company had signed five leases for stores that will open in 2014 or beyond. Two of these stores opened in the past few weeks, and as of June 5 the Company now has 30 stores in the US including 24 full price stores and six outlet stores. Additionally, during the first quarter of FY14, the Company opened its second freestanding International store in Istanbul Turkey with a third-party partner.

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

Jill Granoff: Thank you, Lisa. We are proud of our strong first-quarter 2014 performance, and we are even more excited about the continued progress we're making in our evolution to becoming a global, dual gender lifestyle brand. I would now like to update you on that evolution and share with you our increased financial outlook for the year.

First, as you know, product is paramount. In the first quarter we maintained our leading position in women's contemporary apparel, and we continue to expand our assortment with an increased focus on outerwear and dresses. Our women's ready-to-wear business continue to provide a solid foundation for us, and we are very enthusiastic about our elevated men's collection which will build upon this foundation. We recently completed our fall market and press days for women increased and pre-spring market and press days for men, and the reaction to both collections were quite positive from retailers and fashion editors alike.

From a licensing standpoint we continue to see strong demand for Vince women's footwear, which is now sold in over 300 points of distribution worldwide. Men's footwear is scheduled to launch in July of this year in direct response to our male customers' request for cool, casual contemporary shoes similar to the need we field with our women's footwear offering. In addition, the new Vince kids apparel line will launch in stores this month and our premier department store partners and select Vince retail locations.

Initial production quantities are sold out, and we are optimistic about the potential of this license brand extension. We are also 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 that initial market reaction has been favorable.

Second, we plan to expand our various channels of distribution. In our domestic wholesale business we remain focused on maximizing productivity in existing doors and continuing our history of strong sales growth. Leveraging the prior success of our shop in shop investments, we are planning to open an additional 15 to 25 domestic shops in FY14 including a new women's shop at Bloomingdale's 59th Street in New York, opening this week, and several additional men's shops based on the strength of our new men's assortment.

In our retail channel we continue to grow our highly successful retail footprint, and we are on track to open seven to eight new stores in FY14, and our pipeline remains strong into 2015 and beyond. We opened our first new store of FY14 two weeks ago on Newbury Street in Boston, and we opened our very first men's only store in the meat packing district of New York, earlier this week. This will be a great learning lab as we continue to optimize our men's business. Both projects are very exciting and will further our brand penetration in two of our key markets. And in our eCommerce channel we continue to focus on accelerating our growth in FY14 supported by our recently relaunched website.

Third, we continue to pursue International expansion as we diversify our business geographically. With our new product introductions and new partner relationships, we have developed plans to drive our International growth in both existing and new markets. During the first quarter we continue to see growth in the UK and Japan and achieved sales increases in new territories, such as Scandinavia and Benelux which opened in the second half of FY13. Additionally we opened one new shop in shop in Japan in March bringing our total International shop in shop count to 11.

Fourth, we continue to leverage our scale and overall growth to gain operational efficiencies. As a result of better product to market planning, we have dramatically lowered our air shipment rate and believe there is still substantial improvement available in this area. Additionally, we have lowered our freight costs through various supply chain initiatives, and we have also recently signed an agreement with a preferred sourcing partner in Asia. This partner will open and staff a Vince Asia office in Hong Kong and will assist us with product development, quality assurance and vendor evaluation as we grow our business.

And lastly, we remain focused on building the right organization and team that will support Vince's long-term growth initiative. Over the past 12 months we've added numerous new positions and departments with a focus on design, product development, merchandising, marketing, retail and eCommerce. We have also added key infrastructure support in the areas of human resources, legal, finance, accounting and operations.

I am also very happy to announce that we have recently hired Natalie Ratabesi as Creative Director of Women's Design effective June 16, reporting directly to President and Chief Creative Officer, Karin Gregersen. Natalie most recently served as creative Director of Philosophy and has held key design roles at many prestigious global fashion houses including Christian Dior, under John Galliano, Oscar de la Renta, Gucci and Ralph Lauren.

In seeking a creative director we knew we needed someone who possessed a modern, sophisticated design sensibility as well as the ability to develop all of our women's wear line under a unified fashion forward vision, while maintaining our brand identity. We feel confident that Natalie's background makes her the perfect fit as we continue to become a global lifestyle brand.

Given these activities, along with our strong first-quarter performance, we have increased our expectation for FY14 as follows. The Company continues to expect to achieve total net sales of $325 million to $340 million including revenues from seven to eight new retail stores and comparable store sales growth in the high single digits to low double-digit range.

The Company also continues to expect gross margin expansion of 150 to 250 basis points driven primarily by the higher penetration of direct to consumer sales and margin rate increases due to operational improvements. We continue to 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% 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 now anticipate generating diluted earnings per share of $0.88 to $0.92 for FY14 versus prior guidance of $0.85 to $0.90 per share. Finally, we expect our capital expenditures to be in the $17 million to $22 million range in FY14 as we open new stores, add shop in shop locations, relocate and combine our New York corporate offices and relocate and expand our LA offices.

In summary we are optimistic about the prospects 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.

Now, before turning the call over to questions, I would like to thank our amazing Vince team in New York, LA and the field for their tireless efforts in building the brand and driving these impressive results. Thank you, operator. We will now open the call for questions.

Operator: Ladies and gentlemen, that is star one to ask a question.

Matthew Boss, JPMorgan.

Matthew Boss: Hi, congrats on a great quarter.

Jill Granoff: Thanks, Matt.

Matthew Boss: Wanted to start off on the gross margin line. So the performance in the quarter here, I mean it's clear, rarity in overall retail today. Can you just talk about your ability to buck the promotional warfare going on out there? Your view on the environment going forward in the back half of the year? And really the overall gross margin opportunity looking forward?

Jill Granoff: Sure, Matt. We are definitely pleased with our gross margin improvement. As you know a large part of it does come from the cycling of our inventory reserve that we took in Q1 last year. That was roughly 370 basis points. But, the balance obviously is good promotional performance, driven by increase in the direct consumer mix shift as well as the strides that we're making from our operational improvement initiative and also focusing on some higher-margin categories.

From a promotional perspective, obviously we are seeing promotion within the industry. But I think the key thing is that brands like Vince serve a slightly more affluent shopper and offer a great perceived value with highly desirable and also wearable products. And these products are really doing well.

So I think one of the ways we've bucked the trend is that we're one of the leading brands for our retail Partners. They look to us to help them achieve their sales growth objectives. Customers really love our products, and we sell a lot on full price. So we're cautiously optimistic about the future. We know the environment is certainly promotional going forward, but we do think our product offering is differentiated from many of our competitors.

Matthew Boss: Great, and on that product offering, can you speak to brand awareness today and some of initiatives underway to build momentum in this brand? What you're seeing out there and also where you see the most low hanging fruit over the next couple of years?

Jill Granoff: Sure. So we actually have some market research underway right now to gauge how our brand awareness may have increased over the last two years since we initially did our study. We do believe that the additional stores and shop in shops will certainly help with our brand awareness.

But also we're increasing our marketing investment as we've talked about on previous calls. Last year we were at 2.6%. This year we're planning 3% of sales. Obviously that's on a higher base.

For the first quarter alone, we did increase our marketing spend probably by around $1 million. We put a campaign in place for spring which we did not have in the past. We increased our co-op spend in line with our wholesale sales growth, which as you know grew roughly 29%.

In addition we increased our investment in SCO and SEM as we relaunched our website, and we know that digital is a key part of our future. So we think the combination of print advertising, co-op advertising, SCO and SEM, outdoor, even store events, all of these things will help us increase brand awareness, and hopefully by the time of our next call, we will be able to share results with you.

Matthew Boss: That's great. Congrats again.

Lisa Klinger: Thanks.

Operator: Evren Kopelman, Wells Fargo.

Evren Kopelman: Good morning, congratulations. First question is on the footwear, the women's footwear we've also heard is selling through really strongly like you imagine. Can you talk about what kind of build in that distribution we can expect for next year? And also maybe comment on the initial kind of men's distribution maybe the size of that?

Jill Granoff: Sure. Our women's footwear business is doing very well. As you know, it is sold a developed in partnership with Brown Shoe, who is our licensing partner on this. And if you listened to their recent earnings call, they did site phenomenal growth for the line.

We're now sold in over 300 high-end doors worldwide. We've increased our distribution significantly. When we launched in FY12 fall I think we were in 15 maybe 20 doors. There's really been a lot of growth to get us over 300 today.

We believe additional growth will really come through our International Partners, but I think the key thing is that growth will come through an expansion in the product assortment. We feel that the success is because we have great product, appropriately timed, and what we were really happy to see is that we had good performance across many key categories. So we had modern dress up shoes. We had a upfront block heel styles, sneakers -- everyone is loving our sneakers, sport sandals, espadrilles.

And we think that there are other classifications within women's that will help fuel further growth. There will be door count expansion again primarily internationally, but we know that we will get increased penetration in the doors that we're in by expanding some of the product categories.

As far as men's we will be launching men's next month. The reviews from both the fashion editors have been quite strong as well as our retail Partners. It's interesting people continue to come up to me, and they tell me how much they love our women's shoes, and they wished we offered them for men which is really how this came about. Our customers just came in. They said I want that fur sneaker, I want that checker boot. So we developed that line.

I think right now we're looking at between 25 and 30 stores for the initial launch, which is actually more than double what we had for our women's launch. But we think it's important to really learn about which lines sell the best, and what we're most pleased with is that this has been picked up by our key department store Partners in line with where our women's footwear is sold.

Evren Kopelman: Great. Can you also update us on the handbags and small leather goods timing, maybe if you had any -- if you could share any initial thoughts on initial size of that distribution?

Jill Granoff: I have to say I saw the samples the other day, and they look amazing. That's my point of view, obviously, we have not shared them yet externally.

But we are on track to launch women's handbags for spring of 2015. This is an in-house development. That's important to differentiate from footwear. Footwear is licensed, so we get royalty income. Handbags is being done in house, so we will obviously report the sales and margin on that business.

But we are on track for spring 2015, and again I think the samples look great. We are targeting what we believe is white space in the $500 to $1000 price point, below designer, but above some of the other competitors. And we'll have more to share in the future. We don't have any distribution that we're ready to share at this time.

Evren Kopelman: Okay, thank you. And then lastly maybe for Lisa the wholesale business you mentioned the first quarter there was a timing shift somewhat from Q4 into Q1. Maybe can you tell us what the underlying wholesale growth was excluding that shift, and are there any shifts we should be aware of in second and third quarters?

Lisa Klinger: So, to answer your last question first, we're pretty comparable for the rest of the year on a shipment perspective. I think when we had our call in the fourth quarter we did highlight that we had this one remaining shift that would move from Q4 of 2013 into Q1 of 2014.

The baseline domestic and International wholesale business continues to perform really strongly. Both had strong double-digit growth rate even despite this timing shift. Again it's hard to exactly quantify, because again there's always some moving shipments. But again, it still both the domestic as well as International grew at strong double-digit growth rate. So very, very healthy baseline growth.

Evren Kopelman: Thank you very much.

Operator: Edward Yruma, KeyBanc.

Edward Yruma: Hi, good morning. Thanks for taking my question and congrats on a great quarter.

Can you talk a little bit about the gross margin improvement and kind of delineate what component of it was due to positive mix shift from stronger growth rate in direct versus kind of some of operational improvements you are implementing? Then can you give us some idea as to when these other operational improvements will hit the P&L as we cycle through the rest of 2014?

Jill Granoff: Sure as we mentioned in our comments, 370 basis points of the overall 600 basis point improvement was the cycling on inventory which is again sort of one-time in nature. But the remaining components of the expansion really are what I would view as ongoing opportunities that we're evaluating.

So the direct to consumer penetration increase actually was additive and enhanced margin by about 50 basis points, that's 50. And operational improvements that we have as well as increasing our mix as we look at IMU from a product performance perspective, our mix of full price and [off-sides] that really added the remaining 180 basis points.

So while we're in somewhat of the early stages of some of the operational and supply chain improvements that we have slated on a multi year aspect, we are starting to see some of those improvements come through.

And I think, when we view gross margin, there are so many outside influences that we cannot control as a retailer. And we recognize that there are ones that we do control, and those drivers such as product costs, supply chain expense, operational costs and even to some degree retail pricing are all items that we have some degree of control over as a Management team.

And we're constantly evaluating those opportunities, those drivers in order to make sure that we have the ability to mitigate any of the unforeseen or uncontrollable margin pressures out there that we have. We have that luxury of being able to focus on the things we can control that can continue to enhance our gross margin going forward.

Edward Yruma: Got it and a follow-up if I may. The men's shop in shop opportunity I know that you had success doing this for women's, can you kind of quantify when you do a men's shop in shop, how much more space you get Then as you look across your portfolio, how should we think about the men's shop in shop opportunity going forward? Thank you.

Jill Granoff: Similar to what we had said initially with women's, we don't really have full-year results to talk about the type of relative space we get when we just have a few points of distribution. But the first men's shop that we opened was with Bloomingdale's 59th Street. We also opened one with Nieman's, and we have several underway with Nieman's this year in the double digit range where we're seeing terrific growth in our men's business.

They want to give us more space. As I said earlier the Department stores want to invest behind the brands that are doing well. Again it's hard to say. We did get more space in Bloomingdale's. The space is kind of similar at one of the Nieman's.

But we're looking right now at floor plans for many additional locations. So we're excited about the potential there, and we'll be able to share more as plans are solidified the future.

Edward Yruma: Great, thanks so much.

Operator: Amy Noblin, William Blair.

Amy Noblin: Thanks and congratulations on a great quarter. I wanted to follow-up on the brand awareness question.

I know it's difficult to capture this information in wholesale, but you have a sense of the rate at which the brand 's attracting new customers versus increasing sales to existing customers? Or is that something we'll need to wait for the market research for?

Jill Granoff: We really don't have a great handle on that. We can certainly track that in our own stores, and we've just really beefed up our efforts. We've hired someone to focus on CRM and loyalty, because we know it's important to both increase penetration with existing customers as well as attracting customers.

It's just harder for us to say on the wholesale side since we don't have direct access to the data. We're hoping to get some of that through the market research that we're doing, but right now unfortunately I can't really answer that question.

Amy Noblin: Okay. And just a couple of follow ups. The inventory to sales spread narrowed quite a bit versus last quarter. Do you still see that narrowing as we move through the year despite your efforts to build replenishment? And then what sort of payback are you seeing on the replenishment efforts?

Lisa Klinger: So on the replenishment side it's certainly one of the big contributors that is helping to drive some of our double-digit wholesale growth. So we think that that is a very nice additive program for our wholesale business. So again it's a program that we're very excited about.

As far as the rest of the year I think we will start to see a narrowing of that. It's always influenced a bit by the timing of some of our new stores. So as we have our store planned out now, we would see that continue.

But much like we just had, as Jill mentioned, we just opened two new stores over the past couple of weeks. So that influenced our Q1 inventory position as we had inventory for those stores that were yet to be opened. So it will be influenced a bit by the potential timing on new stores. But it should be more closely in line with our sales expectations.

Amy Noblin: Okay, great, thanks. And then finally just one more if I could.

I know last year you kind of expanded some of the color ranges and prints within the assortment. What was the response to that as we kind of look going forward you see expansion opportunities in that area as well? I know you also took a price point in certain areas related to kind of a mixed media and the influence of leather. Did you see any resistance there, and what might we see there going forward? Thanks so much.

Jill Granoff: Sure. The reaction to the pops of color and prints has been very, very strong. Obviously we maintain our neutral color palette which we're known for, but we have very, very strong customer reactions. As a matter-of-fact just last night we were showing our pre-spring collection to one of our key department store Partners, and their initial feedback was how much they loved the prints and the color which they thought was just so spot on for pre-spring. So we definitely see that fueling the business. Again this is pops of color and prints against that neutral foundation, and it's definitely resonating well.

And then from a price point perspective, we haven't really taken our price points up. Our price points have really been fairly consistent. I mean certainly as we have items like leather and fur the price points will be higher, but we think it's really, really important to offer great perceived value to our customers.

So we're not really seeing any resistance to our pricing strategies. As a matter-of-fact we continue to get positive feedback as to how well priced we are. And

I think a big part of it is that we have these everyday luxury essentials. People wear our products all the time.

I think value is not just based on price point. It's based on frequency of wear occasions, so we're not seen any resistance at all in pricing, but we are seeing a lot of positive reaction to some of the newness that we're infusing in the line.

Amy Noblin: Okay, thanks so much and congratulations again.

Jill Granoff: Thanks.

Operator: Mark Altschwager, Robert W Baird.

Jacob Zitter: This is Jacob Zitter in for Mark. I just quickly first given the $20 million debt payments that pay down in Q1 should we expect upside to that original $25 million plan for the year?

Lisa Klinger: Yes, that's correct. We're currently -- our expectations are now that we are looking to pay down about $45 million of debt in FY14. For the remaining $25 million of that $45 million should come fairly ratably over the next three quarters. This obviously depends on our actual business performance, so that pay down could be higher or lower per right now we're looking at $45 million remaining $25 million over the next three quarters.

So it does mean that are projected year-end balance right now would be $125 million, and this is versus our original $175 million term loan issuance that we did in connection with the IPO. So $50 million in total pay down off of the original $175 million.

Jacob Zitter: Okay, great, thank you, and then could you elaborate on outlet and off-price channels? I guess how outlet stores have been performing versus full price locations? And just give an update on the progress on increasing the made for outlet penetration in how's that product been received?

Jill Granoff: Sure. The existing full price and outlet stores continue to improve in both sales productivity and four-wall profitability. So we're seeing strong performance really in both channels. As you know we have many more full price stores than we do outlet stores.

As of today we have 30 stores in total, 24 of those stores are full price and six are outlets. But we are seeing, again, improvements in productivity and profitability in both. Certainly, the MFO is contributing to improve performance in the outlet. It's being well received. It helps to create a better shopping experience for the customers, because you want to be sure that you have size integrity and that you have appropriate colors in order to create outfits and head to toe looks.

So, we continue to evaluate appropriate categories to expand into our MFO program. We've done women's MFO to date. We will soon be launching men's MFO, and we're looking for a penetration of roughly half in total. But certainly we're seeing good performance in retail across the board.

Jacob Zitter: Okay, great, thank you.

Operator: Erinn Murphy, average I pray.

Erinn Murphy: Great, thank you for taking my question and congrats on a fantastic quarter. Jill, I was just hoping you could speak a little bit higher level on what are you seeing are the key drivers in the momentum of the overall contemporary category? It just seems to have exploded in the last couple years.

It seems like there's a lot of mechanics working toward it. But I would love to see how you're thinking about sizing up that market and what are those key things you're looking at as you kind of flow into this market in the space?

Jill Granoff: I think there's a combination of things that are happening in the broader market. Number one I think you have the designer customer trading down in many cases, because there's terrific high-fashion offerings at a more attainable price point. So you certainly have that dynamic going on.

You also have a lot of aspirational customers reaching up, and the reach isn't as far as it has been to designer. So there really was this sort of gap in between, and I think the key is just really having compelling product.

From our point of view, we're seeing good year-over-year performance in almost all of our product categories. I would say our largest growth has been in pants, knit and woven tops, sweaters and dresses. As we have mentioned in the past we have had a focus on increasing our dress offering in response to customer demand as well as outerwear -- the outerwear in the fall will be great.

We're seeing that our bottoms demand was strong in both wovens but also in our leather pants. We have I think some of the best leather leggings out on the market. As a matter-of-fact our black leather legging is on replenishment just to give you an idea of how much our consumers, our female consumers really love it.

We're also doing really well and things like our mixed-media products, cashmere, color blocking, still continues to do well, and as I said our dresses are doing well especially where we have new prints and also new silhouettes.

Erinn Murphy: That's super helpful. And then just maybe taking that conversation across the pond as we think about International opportunities and you guys are kind of scratching the surface there. How is that contemporary market? What's the key white space opportunity and kind of what are some of your marketing strategies as you really kind of focus on the International side of your business over time?

Jill Granoff: I think the good thing is that the Vince brand really does a lot of global appeal. And we see this just based on the high amounts of tourists that are shopping our stores in the major metropolitan markets. I think the contemporary landscape is not as well developed internationally as it is domestically which actually is a good thing, because it means there is a lot of room for growth.

And in terms of marketing, the marketing in large part is being done by our Partners. As I think you know we have Partners in many of our overseas markets, and they are investing behind the brand. And as we open new stores, we do events and things like that.

So, it is a slower build than what we see in the US, because we just have a lot going on. But we think that the potential internationally is quite, quite strong, and what we're doing is focusing on our key target markets. And we're seeing very good traction as I said earlier in the UK, in Japan, Korea and Canada are still very large markets for us. But in addition to that we've seen nice growth with some of our newer territories like Benelux and Scandinavia, even the Middle East we're seeing some nice growth there.

And we're talking about some new partner relationships right now that we hope to share with you in the near future, that will further build that awareness and also sales momentum.

Erinn Murphy: Great, that's great to hear and thank you.

Operator: Richard Jaffe, Stifel.

Richard Jaffe: Thanks very much and really well done guys -- great quarter. Can you talk I guess bigger picture about the inventory investment you made this quarter and how well it seems to have worked out being able to replenish into your wholesale Partners presumably into your retail channels as well? How we should think about that going forward if replenishment come to a bigger part of the story and a broader assortment then we're seeing today? Thank you.

Lisa Klinger: Yes. I think replenishment is absolutely one of the drivers that allows us to forecast double digit wholesale growth for the foreseeable future. We had talked about lots of different drivers that we had in our large, wholesale particularly domestic wholesale business that we had coming out of the gate, and replenishment is certainly one of those key initiatives that we think will give us the ability to growth domestic wholesale, coming in that low single high double-digit range for the foreseeable future.

So, it's very important. It is actually outside of our wholesale Partners open to buy when they come in for their seasonal purchases. So, in that regard as long as we have inventory that is resonating with the consumer and it churns and it sells, it is additional buy dollars that we get from our Partners. The replenishment increase from an inventory perspective it was roughly a quarter of that inventory investment that we had.

Richard Jaffe: Should we model that kind of increase for the next three quarters or for the balance of the year? Is that reasonable?

Lisa Klinger: It won't be as large as it was in the first quarter, because we did start with the replenishment in the back half of last year, but you'll see that contribution to an increase on a year-over-year basis start to get a little bit more narrow.

Richard Jaffe: Got it. Thank you very much.

Operator: Janet Kloppenburg, JJK Research.

Janet Kloppenburg: Good morning, everyone, and congratulations on a great quarter, nice job. Just a couple of follow-on questions.

I know that outerwear and dresses were very important. I was wondering if you could comment on the performance of your core knit categories? There's been a lot of competition in the last -- in those categories, Jill. And I'm just wondering how you guys are performing there versus your expectation?

And in terms of the men's business, it sounds like it's going very well, and I'm wondering about opportunities for store sizes to increase so that you can accommodate your larger women's offering including accessories as well as the larger men's offering and the men's offering going forward?

And lastly on the handbag launch, are you developing an in-house team for that product development and merchandising program? And I guess that's Incorporated in your SG&A outlook, Lisa, I just want to make sure? Thanks.

Jill Granoff: Okay, Janet. You have a lot of questions, I think I got them all but …

Janet Kloppenburg: Okay go ahead.

Jill Granoff: Okay so certainly we have expanded our assortment to include outerwear and dresses and this is driving our sales growth as we get more share of wallet from our customers which is good. But I have to say it's on top of our core knit performance.

We are known for our knits whether it is our tees, our tanks, our cashmere sweaters, cut and sew remains a strong category. So we are seeing continued strength and continued growth in our core knit program for women. We're also seeing strength in core knit for men.

That is sort of our best at category, and we don't intend to ever forget that. And we will always continue to reinforce that, these new categories are layered on top. But we're doing really well with knits.

We have a terrific design team out in LA, and they're just coming up with just great new style, yarns -- it's beautiful. I can't wait for you to see what we are going to be launching for the fall season. It's really terrific. So that's that.

In terms of our men's business, we are also seeing very nice growth there. As I mentioned the strength of again is in our iconic essential items like our T-shirts, our hoodies, on the woven side, our five pocket pants.

But we are introducing a lot of newness in tops. We introduced color blocking with our men's which has resonated well -- a lot of cashmere, nice branding detail.

As we look to elevate men's, we're looking to reinvent leather for that men's with some elevated skins and also slub is -- slub jersey is also working very, very well on the men's side. So we're seeing nice growth in men's and women's, really equally across the board which we're very, very pleased about. From a store size perspective, our stores are definitely getting bigger. We have planned that in order to accommodate the assortment both men's and women's but also with our footwear. You need an area to sit down, try on shoes, merchandise the shoes, have some back stock. But the good news is our productivity is actually increasing in our larger stores, and actually our productivity is just around $1000 a square foot now. So it's really been nice increases that we've seen.

In some cases, however, the stores, the existing stores are too small. And that's exactly why in our meat packing store we just converted that store to women's only so that store can accommodate footwear and handbags appropriately as well as another dress room, another cash wrap.

And then we opened our men's only store just steps away. We had a pretty strong penetration of men's in meat packing. We think it can justify its own store two doors down, and this will be a great learning lab for us

And obviously if it does well, that can be a format we rollout in the future. The store literally just opened earlier this week but we are looking at what is the ideal store size, how do we fit the assortment in, and we also tailor assortments to whoever the local customer is.

I think your last question was on handbags, and we are it is sort of a combination of an in-house team and also working with a team that is currently based in Italy. We do have a design team in Italy that is working very closely with factories and also with the suppliers on skins, but we have recently hired some people in-house as well.

We just had an accepted offer this week on someone to do accessories merchandising. We also have someone that we just brought in on the production side. And to your question about is the investment reflected in the go forward forecast, all of the expense is reflected in the go forward forecast. We don't have any sales reflected in the go forward forecast.

We're hopeful that we might be able to get some handbags out into our own retail stores, possibly for holiday, but right now we have the expense. We don't have any sales right now. We feel confident that we'll have sales for next year, so that's where we poll.

Janet Kloppenburg: Congratulations on a great quarter. Thanks so much.

Operator: Once again, that is star one to ask a question.

Marni Shapiro, The Retail Tracker.

Marni Shapiro: Thanks, guys, congratulations. And Jill I think I'm going to use your frequency of wear valuation on my Vince apparel, because it makes it really, really, really inexpensive. In fact you might want to prices up based on that.

So following up on we're talking about handbags with Janet, if think about it when you launch into the handbag business is this strictly into women's handbags, or will it be small leather goods like wallets and clutches? And would you have any men's product involved?

Jill Granoff: So, the initial assortment that we defined is primarily handbags. It's a wide variety of handbags, whether that's totes or cross body or satchels, et cetera. We have a -- we do have clutches as well. We're debating on whether or not to introduce some of the small leather goods initially. We will certainly have them eventually.

We want to be very, very focused in our launch, so we should really think about it as core women's handbag collection with small leather goods to come. And there is nothing currently planned in men's, although that is certainly a longer-term possibility for us.

Marni Shapiro: Great and when I think about distribution for this brand in handbags, should it be more along the lines of say Alexander Wang or should it be more like Kate and Kors. Where would you like to be on the floor?

Jill Granoff: We'd like to be on the floor with the other designer and advanced contemporary lines. I don't think that the distribution is going to be as broad certainly as Michael Kors. We don't have an intention of going into Macy's. We are really focused on our key department store Partners. You know who they are, Nieman's and Sachs, Nordstrom, Bloomingdales, Bergdorf and select specialty stores. Obviously we think there's an International opportunity as well with Partners like Lane Crawford or Harrods, et cetera.

So -- but we believe designer and advanced contemporary where states permits, but we don't intend to have brought distribution. So we will see. We haven't even put it out yet. We'll see how it evolves over time.

Marni Shapiro: Great and then two more quick ones. It sounds like you've hired a lot of people recently, so are there any big spots left on the team to fill?

And if you could just touch on average unit cost for the core collection not obviously something like handbags or additive new items, but are you seeing any pressure on AUC or are you still seeing improvements as you build and improve the sourcing side of the organization?

Jill Granoff: Sure from a talent perspective I have to say I'm so delighted. I think we have a world-class team. You know that I have spent the last two years building the team. You can have a great brand. You can have a great vision. You can have the strategies outlined to achieve that vision, but if you don't have a team to execute the strategy successfully, you don't deliver results. And I think we just have an incredible team. They are killing themselves working really, really hard, and that's why I wanted to recognize everyone for results.

I think the biggest hole that we have, not that it was a huge hole, but was in the Creative Director for women's design position, and we just announced today that Natalie Ratabesi is joining us. We think that she is terrific, and she has a very, very impressive track record. She most recently comes from Philosophy, but before that she was at Dior under John Gagliano, she worked at Gucci, Oscar de la Renta, actually two tours of duty at Ralph Lauren where she actually was senior creative Director.

We think that she has really a modern sophisticated design sensibility and that she'll be able to develop all of our women's wear line under a unified fashion forward vision while maintaining our brand identity. So Natalie's background makes our the perfect fit. She will be in LA full-time which is something we needed desperately.

Karin has been going back-and-forth, so she will continue to work in close partnership with Karin who remains our Chief Creative Officer, but I think it's ideal given the growth of our business that we have someone there full-time that can oversee knits, hard wovens, soft wovens, now accessories to ensure we have a unified women's vision.

85% of our business is really important. So that was the biggest job to fill, it's filled as of today. We have some other openings at the VP level and below, but I'd say the Senior Management Team is now in place.

Marni Shapiro: Fantastic.

Jill Granoff: And from AUC I will turn that over to Lisa. Thanks, Lisa.

Lisa Klinger: I'm sorry could you repeat the question?

Marni Shapiro: I was just curious if you're seeing -- I know costs are going up in the aggregate, so I was curious if you guys are seeing any pressure on your AUC, or are you still seeing improvements as you improve and strengthen the sourcing side?

Lisa Klinger: Yes. So we are seeing pressure on certain commodities, and it's primarily in our cashmere area. We are looking at not only production alternatives that we have there to help mitigate some of those commodity cost pressures. But, to your point, we are absolutely looking at the supply chain opportunities that we have again reducing air freight and going to vessel, being a little bit ahead of calendar and so not being forced to produce and keep time periods.

So we're trying to handle all of those operational things that are under our control to help mitigate some of that commodity pressure. And again that pressure is primarily right now in the cashmere space.

Marni Shapiro: Great thanks, guys best of luck for the fall season.

Jill Granoff: Thanks.

Operator: Joan Payson, Barclays.

Joan Payson: Hi, good morning and congratulations on a great quarter.

Jill Granoff: Thanks, Joan.

Joan Payson: So I was wondering about your men's and children's launches that are upcoming. What does those represent within your fully revenue guidance if you see any order, color or shipments that you could talk to so far?

Jill Granoff: Sure. So I mean the first thing that I just want to reinforce is that both children and men's footwear are licensed categories. So what will flow-through our P&L are the royalty streams from those sales.

So it may not be that material especially on the wholesale side. We do believe it will ultimately grow on the retail side as we open up more stores. But we are very excited about both launches.

Kids especially the campaign looks adorable. We are doing a kids look book. The reaction has been very strong. Production quantities are actually sold out. All of our key Partners are picking up the kids line. We don't even have enough to do an International launch at this point.

So we're certainly excited, but I mean the reality is our P&L and tax is half a year on a license business will be small, but I think it firmly establishes us as a lifestyle brand and gives us growth potential as we expand our retail footprint.

Men's side, same story, reaction has been terrific. It's a little too soon to tell, but I think the way to think about it is, it really positions us as a lifestyle brand, enables us to create textile looks, dress the family, give great gifts, all of those things which will begin to have more of an impact on the P&L as the distribution grows in wholesale and as our retail footprint grows in direct consumer.

Joan Payson: Okay, great and I'm sorry if I missed this question earlier, but what did traffic contribute to your comps in the first quarter, and what's embedded in terms of your full-year guidance for comps in terms of traffic assumption?

Lisa Klinger: Yes so of 11.1% comp, it was pretty balanced between transaction increase as well as transaction size. So it was pretty well-balanced between those two drivers. For the full-year we're looking at that same sort of a mix from a contribution perspective.

Joan Payson: Okay, great, thank you.

Operator: This concludes our Q&A session for today. I would like to now turn the call back over to Ms Jill Granoff for closing remarks.

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 second-quarter earnings call.

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

END