Justice Event with Piper Jaffray

ascena retail group inc.

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Neely Tamminga: Ladies and gentlemen, my name is Neely Tamminga, I'm a Senior Research Analyst/Managing Director here at Piper Jaffray for (all things fun in retail). It's been fun, hasn't it?

Neely: We are just super and excited to have Justice here with us here today. We have the Justice management team, a very important core group representing a much broader team here with us of course of the senior retail group. And we could not be more grateful that you guys are taking time to walk us through all the amazing opportunities of Justice.

Neely: We have President and CEO, Brian Lynch, who I've known for many years, and it has been such a joy to watch him take on an amazing challenge in Justice. Really looking forward to see what he's going to be bringing to the brand in the decade ahead.

Next we have Rob Giamatteo who is the CFO of Ascena. You all know him at this point, I'm pretty sure. And have known him through many ups and downs. I'm really excited about the opportunity for Ascena going forward.

Stacy Turnof, everyone, yay. She's the new IR person. They now have IR people. Stacy Turnof, joining, from recently BlackRock, and also former sell-sider. I can say personally because we've been on the sell-side together. She's one of the few really lovely, lovely ones there. Stacy, so glad that you're with us at Ascena.

We have Sara Tervo, who most recently joined from Victoria's Secret. There's a little brand, you might have heard, called Pink. You've heard of that brand over at Victoria's Secret. Well Sara's been with the Limited Brands organization since 1998. Very instrumental as the Chief Marketing Officer. She is now here at Justice Division, she's the EVP and Chief Marketing Officer. She was very involved in driving the grassroots effort on college campuses very early on for Pink. We're really excited to see what she's going to be doing over here with Justice.

We have Jason Judd. He's SVP and CFO of Justice. He joined nine months ago from Limited Brands and Victoria's Secret as well. Long career there going back to I think 2004.

So without further ado, I'm going to turn it over to Stacy who will kick off our event today.

Stacy Turnof: So let me just quickly go through the Safe Harbor Act. You can also find it on our Web site. Just a couple of things. Give us a minute. So this presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Detailed information concerning those risks and uncertainties are readily available in our Annual Report on Form 10-K for the Fiscal Year Ended July 25, 2015 ("Fiscal 2015 10-K") which has been filed with the U.S. Securities and Exchange Commission. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Where indicated, certain financial information herein has been presented on a non-GAAP basis. These measures may not be directly comparable to similar measures used by other companies and should not be considered a substitute for performance measures in accordance with GAAP such as operating income and net income. Reference should be made to the Company's annual earnings releases for all periods and the Fiscal 2015 10-K for the nature of such adjustments and for a reconciliation of such non-GAAP measures to the Company's financial results prepared in accordance with GAAP.

So I think at this point I'll turn it over to the Justice team. Thank you so much.

Brian Lynch: Thanks everyone. Thanks everybody for coming. Neely, thank you for the time. As always, I have sort of a few comments before I get going here. First of all, I'd love this to be a conversation so feel free to interrupt at any time. We're only doing this for one purpose and that's to make sure that you're totally informed about us.

I'll say this. It actually means something. When I met you most of you in October, and at that point we had back to school done. And I said that we had the proof of concept of all the changes that we were making from back to school. But it was still a story. We hadn't done holiday at this point. And there was much more to be learned.

I tell you this today because today's presentation has shifted from a story to a documentary. We actually know a ton at this point. Its very fact based. We don't need to be as hopeful as we did but want to make sure you're clear on progress which we feel really good about.

Okay. I know you know the journey. It might be a little boring for some. I will go though it fairly quickly but just to make sure that everybody's level set for the start.

Justice, prior to May of last year and that season, five declining seasons, sales and growth margins. After a really tremendous 2012, the company to keep the business going went to more of a high/low strategy. Promotion, promotion, promotion. The net result of that was that literally pricing, ticket prices in the store from 2008 to '15 rose by 52%. Ticket prices.

Now this is again in the backdrop of actually price ticket deflation in apparel but our ticket prices rose 52%. To keep the business going they promoted fairly heavily. So prior to June of 2015 for 400 straight days the promotions in the store were 40% off or greater, everything in the store, 400 straight days.

Ecommerce channel actually was that plus an additional 20% to 25% discount every single day. Those customers and this is really important. This sounds weird but it's not. We didn't own all of them. We rented them. We really did. We rented them.

Because, you know, we bought them through promotions. We bought them through sales. We bought them through price. That was really it. One other thing happened as the business sort of declined in the five seasons. I don't have a real answer for it. I have a guess here which is they consolidated to a safe place.

The product aesthetic in the store became all the same because it was kind of the core of the essence of the business. Basically the sparkle heavily embellished product, that's kind of what they knew. That was the sacred place for them to exist. Believe it or not because of the prices, they actually added the embellishment.

They moved and consolidated all the aesthetics in one place. You actually needed sunglasses to walk into the store. It was unbelievable. The brand became all about price and the sparkle aesthetics, and a new strategy.

Before I get to this question that came up in the past and I'll say it again. It was interesting too because, you know, our goal was to move to full prices and so there was plenty of evidence of people not being able to do that out there.

And during the J.C. Penney/Johnson time period, he said the lessons that he learned was that he moved too fast. I don't know the guy. But he said the lesson he learned was that he moved to fast, and I'm telling you in my opinion, that was the wrong answer. The problem was he made a strategy that had nothing to do with the customer he had or the customer he was going to get. For him, it was all about what he thought it should be, not what the customer thought it should be.

JC Penney, was the net purchasing he was moving to? It worked for me because I was never going to shop at JC Penney. Everything that we did at Justice, everything – strategy, change, adjustments that we made was because, frankly, our customers told us.

When I said piles of research, literally piles of focus groups, research, surveys, videotapes, on what our customers said they liked and didn't like. Certainly, there is a lot of feedback from the ascena team. And actually, I read most of the commentary outside of Justice like from excerpts from you about what's wrong with the company.

And basically they said three things. I mean we had a very, very expensive and ticket, and ticket does matter. No matter what your promotion is, the customer remembers first what they read off that ticket. They get it. It's a promotion. They get it. It's not that they're going to be paying that.

But they're looking at that and they're making a judgement about your company and our tickets were way too high. It was too sparkly. The aesthetic actually was just too narrow. I'll talk about that in a minute but basically we were talking to one girl, one aesthetic.

And one would argue, it was good for some. It was certainly good for the youngest of our girls. It was good for a special occasion because of the photography. But if you're looking at the whole story, you start to look a little bit down market.

And last but not least, to try to keep the promotions going, they had every version of promotion known to man. The 40 percent off obviously every single day. We had lost all integrity in our pricing.

They thought the tickets were too high. And they really thought our promotions were really gimmicky. So actually my job wasn't that tough. We had a very clear roadmap of things we needed to fix. And we moved really fast. That's good news to everybody in this room.

We moved lighting fast but there's plenty still left to be done. There's plenty that we didn't get quite right. Directionally we were, in fact from starting day to deployment, we did it in 70 days and we literally flipped everything on its head.

So 2016 is the year of stabilization but I think it's more than that. I think it is the model for the company that we put in place. And the three targets that we represent, those are directly related to comments that our moms had made, our girl had made and everyone else. To reestablish price integrity, talk with moms.

Really important….when you're talking about this girl, mom and this girl, being the good company, having price integrity is really important. It's a really important aspect of the relationship with the customer. Our pricing was crazy. They couldn't figure it out. Honestly, they couldn't figure it out.

Our sales associates couldn't figure it out. So getting to stable pricing was really important for us, and we've done that. I'll talk about it in a second. The promotional thing, you know, I'll be the first one to say it. The first time we did it, it worked. You look like a hero.

It's amazing. The first time you go full promotional, it's great and you look like a star. It's that second year that's really tough. You can't do it a second time. It doesn't quite work the same. If you keep on feeding that on thesis, you get in big trouble as they did.

We had to put that away and we had to make a decision, what could we do in our competitive set that would make us unreplicable. So think about the competitor that, there's really no one that does what we do exactly. But the people that overlap those ages, what they've done, they've won.

It's hard. It's Kohl's. It's JC Penney. It's Old Navy. Are we really going to out-value these guys? No. But what we can do is we can out-fashion them to a customer that's very, very sensitive to that. What we can do is we can outtween them and we'll talk about that in a minute in terms of what we did with this very special customer and her mom.

So we went for that right away. We literally stopped it, the whole pricing promotion thing. We got our tickets to the right places and we moved forward as a fashion first company. Hopefully you've seen that in the stores. It is all about fashion first. It is all about the story. It's about product, and frankly, we're pretty happy with that.

It's about every girl, every day. If you're going to take this select space, right, average customer, things work great.

So 10, 9, 8 7. 10, 11, 12. That's kind of our customer. If you're going to have that kind of narrow mix of customers, you better be every girl every day. Can't have one of seven. You've got to talk to a broader point of view here which we did, which is our shop concept.

We quickly went to much more different stories and different girls and again, I'll talk about that in a minute. And then it was about discipline in inventory management. And discipline in general. And transparency. I'll talk about the ones that are in the room and the ones that are not in the room.

But we weren't very transparent about where we were in inventory historically. We have a new position on that subject. And we have piles of clothes that you couldn't even move around in the store are gone. We've been operating at significantly less than maturity to LY as we should have.

But we choose to manage that way through the middle of Q4. Significant. Still below. And we just are more disciplined on making money which should make everybody in this room happy. And last but not least and it never gets enough credit but I'm going to make sure it does.

We changed out 60% of the management team and brought in experts in roles. Big deal, turnaround. No one has training wheels on. You need experts in roles. So we kept Lece Lohr who's the general merchant in, by the way she's fantastic. I was making the argument that she had a lot of handcuffs on her, you know in how she ran that. Merchandising the way she wanted to.

You know poor management. You understand exactly what I'm telling you. But she is terrific. Glad to have her. She understands the customer and is a big plus. We kept Alan Hochman in real estate. He's been around for a long time and all the way back to Gap. He's terrific.

We kept Chris Kaighn. She's in stores and I would say again, expert in role. And we kept Brian Rogers from HR. Again, another expert in role. We've hired, to my immediate left, Sara Tervo from Victoria's Secret who in her last job ran all the functional areas of all the channels of Victoria's Secret.

But as Neely mentioned, she has the secret sauce of getting Pink to relevancy, the journey there that you could actually mirror here and is going to be pretty valuable to us. I've been trying to get her on board to various companies for about 10 years so it's a big win to get here and I think that she'll tell you that it's the brand that got her here

But Jason Judd also from Victoria's Secret. You know, just a making money kind of guy. Transparency is his middle name and he's a great coach to our team but he's the financial acumen we didn't have before. Cat Van Dyke has been with Ralph Lauren, Gap, and the Victoria's Secret Beauty to run P&A for us and she's also overseeing our factories strategy that we will be deploying. Again, expert in the role one of the best people in P&A flat out.

We bought in Lisa Wegman for strategy. GAP, MA&A, smart, maybe brilliant to help us make sure maybe all of the strategy gets deployed. With my grey hairs with 25+ years of retail from A+ companies, I've had the privilege of having been on a leadership team with Jenny Ming and Maureen Chiquet on that leadership team at Old Navy.

It doesn't get much better than that. It's really a spectacular group so most of what we're talking about, we will actually get done. So that's what's been happening. Turnaround. I'm going to move a little faster here. Sorry. We've been focusing on what our girls want and we've been listening to girls and our moms on relevant issues.

It's a very important thing about our store. We didn't have it. We want to create a highly compelling customer base in the environment of stores which were bad. They were just bad. Now what you're seeing in the stores is the development of shopping in the stores. Lifestyle is becoming more and more clear in the stores.

It's a long way to go but it feels good and it's starting to work. It's a richer environment. We're, we haven't gotten very far and it's all upside. There's a lot going on there. As I talked about before, digital ran kind of its own pricing model up until June, one place, one model. Not one brand organization.

It literally physically moves every single person in the office except for one, me. Everybody changed. They're all in the appropriate functional areas as one brand across all functional areas. True omni-channel. You can see that in the pricing. We are missing significant amounts of relevant platforms to deploy technology and content but it's all happening as we speak.

Today we are launching internally on the new ATG platform. We've got the ascena Shared Services Group. That platform brings lots to the party fairly quickly. I think what we haven't had and will get from that is navigations all the way up and a way to discover them. So it's way up which is pretty weak today.

Imagery insight gets significantly better than it's ever been. We'll be able to actually see the product and graphics is a big, important thing for us. You'll be able to see the graphics. Mobile, as everybody said, as you all know, it's all about mobile.

Today, mobile for us is off of our desktops, not mobile optimized actually very weak. Starting when we launch publicly you'll see it. The mobile site is actually native mobile. It's responsive. And if will be optimized for mobile so the experience gets a lot better real quickly.

And then last but clearly not least we'll be able to operate Omni Channel. So fulfillment of dot com orders from store inventory gets deployed right behind this and we hope to have that in place for back to school. Big deal. Big upside associate with that. And ship to customer from the store out of .com will also be able to happen.

So those are two big slices that we don't have today. But frankly, the whole site, everything from the level of content that we're allowed, that we can put on today, the quality of the site, the experience that you have, the amount of searches that you're going to be able to get all goes dramatically, geometrically up starting this spring.

Sorry. Okay. Tickets. The big complaint here that it's too expensive, and this is an example of kind of what it is. So in the past experience a ticket for this top, as an example, would have been $26. With all of the promos and promotions, et cetera, it may have out the door at $12 and it would have been a less than 50 percent margin.

The current set-up today is we reduce the ticket price fairly significantly in the store and again I'll touch more in detail but 30% to 50% reduction depending on what category it is. Our out the door price is about $14 and our gross margins are 60ish.

Completely different model. Completely different pricing. And again, we're eight and a half months into this at this point. Actually call it nine. We're completely happy with that strategy. Completely happy with it. Working out that ticket price matters. Fashion does matter and she's willing to go to our new setup in terms of how we do pricing.

The big part of that was this movement to style buys. So if you go to the store, and hopefully by back to school we'll have a whole new sign package in but you see these – the pink hearts. We have a couple of examples of them over here, that's the style buy short and style buy graphic tee.

Style buys, we have this reputation, we're the most expensive player. In fact, you know, as I went into stores and asked customers in other stores, I'd be sitting in Children's Place, I was sitting in Gap Kids and I asked the customers, "Where do you go shopping?" And they'd often suggest, you know, go to Justice. They would literally end every sentence with, "But they're really expensive."

And we needed to end that and we’ve got to have good pricing. And so we figured out a way to do that and that was style buys.

Style buys is, as I said, you know, about 40% of sales, about 49% of units. We do not mark these items down, okay, they hold their price until the end of season and then we clear them. Unless of course they – there are some short life style buys, a couple, but not many. But they basically hold their price the whole season. And the customer has loved them. And they've loved them for the fall .

One is the items that we picked, this spring is 19 items; the fall was 16 items. The items that we pick are items that are the most comparable, generally, are the most comparable to our competitors, are denim. Denim is denim no matter what company you look to. We happen to think it’s much better denim but it’s denim.

Shorts, leggings, we picked the categories that are very comparable in the consumer’s mind she can say, wow, they're too expensive because I know what a legging is in this store, I know what denim is in this store. We took the comparable product – easily comparable products – we literally put our price point between JC Penney and Kohl’s on those items.

So now we’re sticking with the value guys on these items. And we get the premium from the fact that our fashion, the level of fashion that we have on these items, quality of fabrication that we have that we have compared to these guys, beats them all day long.

And frankly that’s kind of a rainbow effect on the whole store. Even though we might be more expensive on our fashion items, since these are the comparable items we got this whole kind of rainbow that said, hey, they’re not too expensive anymore. And those items have been incredibly productive for us. We have not had to mark them down.

We are now more enthusiastic about style buys, not less enthusiastic about style buys. We actually moved up the penetration of style buys for the spring season. So feel really good about it. Like the strategy, it's working great.

I talked about assortment and I talked about the sparkle, the inventory select, she didn't like it, it was too narrow.

Neely: Could we just ask you a real quick question style buys?

Brian: Yes.

Neely: Do you often see a really high attachment rate for just style buy and leave? Or do people go in for style buy and buy other items in that basket? Do you have specifics around that?

Brian: We do. But I don't know that we can get those – or give those or not. But we do and we have them, we could actually share them. We have effectively stayed about where they were prior to all that discounting. So pretty healthy before, and the mix of those is almost – I think it's perfect.

When the style buy bottoms she's buying fashion tops to go along with them and we're getting the complete rainbow effect of that's great, I'm buying this denim. I'm not going to leave without buying the top to go with it. Or the reverse, top to go with bottoms. We're absolutely seeing that in the numbers. I would have been worried if our UPT's dropped but they didn't.

Brian: Thank you for the question. I don’t know who has the daughter or can remember their daughter when they were in the ages of 6-12 years old? Got to raise your hand. One?

Man: Can’t remember.

Brian: Holy smokes. Wrong audience. Okay well let me tell you. As the – you know, I hate being the spokesman for 10-year old girls.

Brian: This is a really special age. You got to get this, it’s important you get it because it means a whole lot. This is an age where she is making first decisions. She may be going into our store and she might be just making the first purchase decision of her life.

Before that mom picked everything and said, “Here you go.” Now she comes into Justice, she’s at that age where she’s not making a call. She is developing a point of view. She is starting to show her independence. And it’s a really special age. And this girl is encumbered by nothing. All the boy crap and the peer pressure stuff, it hasn’t happened yet. It’s coming but it’s coming after she leaves us.

Right now she can be anything and wants to be anything. In fact every day is different. You know, today she wants to be an athlete, tomorrow she wants to be a fashion model, next week she wants to be an astronaut, it changes every day. This girl is in the very inventive stage. Self-esteem is everything. And it’s all about girls. Again, when we dropped out of the (Brothers) business, which by the way, is a very good thing, our girl effectively cheered. She doesn’t love boys. This is the gold. This is about girls, girls being girls.

This very special stage is about all girls, all have different points of view. But if you think about whether you hate sparkles by itself or you hate the idea that it's too narrow a mix of product, either way works for me. We needed to have diversity in terms of what we offered. And we've done that. And we'll continue to exploit that.

Much better balance of products and basics in everyday fashion. We're really architecting for different girl types. We're trying to stay on the hottest fashion. And this slide here actually is pretty meaningful, it kind of checks – and this is a little more forward time, it's not – we're not 100% wedded to these are the only categories.

But it's good to help people understand the girl – kind of our girly-girl aesthetic in our store. There is absolutely a casual kind of point of view. There is a sporty girl for sure. There is a fashionista girl. We need to have those aesthetics in the store. It's really, really important.

I'll talk to that in a second when I talk about the shops and targets around here. But as we've done that we've seen great progress in terms of absolutely in terms of where we're going with our ASPs going up but also in our lack of need to most of this product now, just pretty exciting.

I want to bring you to one more semi-historical slide. Again, these are terrible photos. They're bad. You have the lab shots down here in Justice and the old store. If you can remember the old store it was a sea of 40 or 40 plus 20 percent signs all over the store.

The store was chock full of product. There was no differentiation in the spaces that you're in. And I would make – the only comment that was different was the specialty product was very toy-like back then. It was in its own section in the back. You almost had two different stores.

Today it is all about shops. Hopefully you've been into our stores because this picture does not do any justice to it at all. But you see much more of a shop concept, a lifestyle concept in our stores. And I'll go to that right now. So this is – actually I think our current floor plan. If you look at it, you would have our Boho spirit product is the first two mannequins here in the front. And that's our fashionista girl, totally accessorized, all accessories, shoes, jewelry everything. You find that in the shop all merchandise together.

In the next one you find swim. If any of you are looking for a great present for a 10-year old girl that is a mermaid tail. It's probably the only one left in the company today so if you want to steal it off the mannequin, arrest report, whatever works for you guys, grab those things. It is unbelievable how hot those things are. But our swim category, going toward the swim section, is everything from suntan lotion to goggles to flip flops, to jewelry that you can wear with your swim, to towels, to some beach toys, all that lifestyle in that section.

The next one is our to be fierce section but it's active. Active has been good for everybody. It's certainly good for us. There's actually components of that but it's been really owned. I'll talk to dance and gymnastics in a minute here which I actually think we can own it.

But all active is a very important category for us. And again you find everything in that category including our activity tracker, we have our Justice own FitBit and it's very successful. We sold out of this twice during the Holiday timeframe. We had it back for spring. It's – our twist on it, it's all about fashion. All the bands are all about fashion for our girls.

Back there is our sleep shop. Sleep is a big category for us. Again, for those of you who don't have kids, you're not going to get this, but believe me, this is the biggest event of this 10-year old girl's life, her first sleepover. This is as big as it gets. I tell people who have 10 year old girls, think of Justice as your first sleepover. It speaks monumental and they're there by themselves with their friends, with other girls, talking about whatever life has to bring, first sleepover is a big deal. We're going to own sleepover. It's all about that girl.

We're learning, in the back corner I'm pointing to learn. That's actually our sparkle shop. So remember when I talked about sparkle, didn't really love it? We want aesthetics, I kid you not, I am not exaggerating, when we pulled sparkle out I received death threats from 10 year olds. It was unbelievable.

I got a letter from a girl and on the top of the letter, you are the worst man ever because you took sparkle out. It was a good thing but part of every girl every day is sparkle. You've got to bring it in. You've got to have it. So we quarantine it now. It's small. It's not bleeding into everything we do. But it works.

By the way, it's unbelievably successful for spring. So but it's going to always remain that way. It leans a little younger and can't get old and young at the same time. You're going to make mistakes doing older. So quarantined for spring.

And last one, this is our graphic tees. We do a big graphic tee business. The more fun the better. But what I'm showing you an example of style buys and their hearts aren't attached to the product but the signs actually have the big hearts on them. I've got the tee at $12 and shorts were $26, $26 last spring.

Those t-shirts would be $18 to $22 a year ago so completely different setup and price.

All merchandise in shops, all merchandise by lifestyle. And we believe that that is a unique differentiator about business as we get better at that. Remember, our lead time on this thing was 70 days to get this up and running. We're going to get a lot better at doing this. Haven't really done anything from a significant fixture and standpoint in our stores. But we believe in this. It's working great. And we think we can own lifestyle.

Question: On the shorts $26-$30, but last year 50% off, 40% off they were going out the door at $16. The style buys now at $18 so we're not promoting them?

Brian: Think of this girl – think of this lifestyle thing, think about our kind of story that we're trying to tell and ask yourself the question, who can do that? It's about our competitor set. If anybody could actually distort this, would anybody distort this is a better question. I would argue that they can't or won't. This is something that we really can own and we need to learn how to exploit it and we are going to, going to leverage that like crazy.

Okay last but not least real quick for me, I'll come back to customer service. Short and sweet. Our people were basically stock keepers in the past. We've moved them to help mom and the girl on the journey in fashion. We've done everything from the model which most of the label is actually – or a lot of labels place that stock keeping we've put all of that labor back on the floor.

I think about three-fourths of our stores have one coverage until approximately one o'clock in the afternoon. Now we've redeployed that coverage so now you have two people in the stores in the morning when moms happen to be in the store and can actually service them. We've seen benefits from that. But it's a much more of a focus about the product, fashion and being able to elevate that story.

Before I hand it over to Sara. I'll say this. We've had the marketing department in Justice since – well for years but we were not marketers. Put prices on catazine, that's all we really did. We were not marketers. We didn't do it, you know, formally; we didn't talk about a brand. It's my great pleasure to hand it over to Sara who gets brands and knows how to market and that is a giant upside for us.

Sara Tervo: Thank you. Hi. So Brian did a great job setting up our business strategy. And I'm about three months in. And he's been an incredible inspiration to me and one of the key reasons I joined this business. You know, clearly we have a unique market position. And we have a huge amount of opportunities to build a relationship with our customer both our girl and our moms. We've barely scratched the surface in doing that.

So I'm here to build and grow this brand in a meaningful way. As Brian mentioned, the prior marketing strategy was purely a promotional strategy. We were 100% promotions and just different ways to slice and dice it. And the customer was very confused. And our margins were poor.

The dress business was actually doing that plus extra discounts and were feeding the business through bottom-feeder customers, customers who just looked for the best discount and were not really capitalizing on the brand experience that we could provide to our customer.

So this spring we started thinking about an omni-channel experience and how to tell stories and how to connect with the customer, how to stand for fashion. How can we build a brand narrative that ties to the customer mindset.

Spring break was our first step out. You know, spring break is an important time period for our customer and her family. She's out there getting that mermaid skirt and her swimsuit and her flip flops and her graphic tees and thanks. And want to tell the right price story. We want to bring her in with our great value and our fashion.

So we, you know, built a campaign handle: "Ready, Set, Spring Break." We told that story across all of our platforms. Which, you know, in some brands is how we do things but here it's a great leap forward for us. And the customer is really responding.

So as you look across our marketing platform you'll see consistency with our creative in the handle, and the catazine is seen in the windows, the catazine is still an important piece of our marketing strategy but not the only piece of our marketing strategy which in old Justice that was really the only marketing vehicle. So we crammed as much as we could in there because that was the only way we were really talking to the customer. And now we're thinking about it much more in healthy shops today which is multiplatform.

We know our girl and mom love to get the catazine at key moments. They like to browse the shop together, and they like to get excited about upcoming events and travel etcetera.

On the next page, you'll see an overview of what our typical experience was across unpaid social, email and LookBook. We've created our hashtag status here around spring break smile with a limited edition spring break t-shirt. We actually sold that at almost 400% sell through. We did that to drive traffic excitement and right price business and to own the spring break moment for our customer.

I would also like to mention that the Look Book is also online. We are just building functionality and experiences that sell the outfit. We know she loves the outfit and we know we can do a much better job building experiences online to help her see the outfit, shop the outfit and understand what's happening from a Look Book fashion perspective.

We know that mom and girls are preview shopping online and are getting excited about where they're going to go when they go to the mall. We want to make sure she's seeing our assortment and we are learning how to drive the outfit and experience to the optimal manner.

As Brian mentioned, girl care is important for us and we want to own her makeup and own her hair care. We want the girl to start building her self-confidence and self-esteem. So this past week, we launched Just Shine, our beauty line. We sent samples of our new product line to our most socially active customers and a bunch of brand influencers in the social environment to create buzz and excitement. The girls were so excited to receive a special gift from Justice, and posted it on Instagram, helping to drive girls to the stores. The initial response on this product has been fantastic. We believe that this is a great additional product assortment that can drive repeat purchase and fit within this girl's lifestyle. So again, across the creative, you'll see social landing page. We did a special catazine insert to drive excitement around this launch and are seeing some very exciting initial results pegged to that.

The next page is further illustration on promotional clarity. The customer was confused. There were moms and sometimes even associates using a calculator to try to figure out what the transaction price would be. We needed to clean that up and really, you know, be somebody the mom could trust and shop and feel good about her purchase.

You will see the transformation here from being a highly promotional retailer to very clear focused promotions at key moments (always excluding style buys). We want to also stand for style buys in a meaningful way. So when she comes in to our store or goes online, she understands our pricing, she understands what is on sale, and she sees fashion at the right price. It's a great transformation here and assignments and this is just the beginning.

We're building strategic launches with our merchant partners and our planning partners and really working on how we can focus on key products and how we can story tell around right price in fashion that fits with what the customer is loving the most. So to me, there is great initial progress but there is a lot more opportunity as we build our process, our team and our platform to support this multichannel customer.

So I believe at this point I pass it over to Jason, our CFO of Justice, to hit the numbers and then I'll be back up to talk a little bit about sales strategy.

Jason Judd:

Thank you, Sara. One of the things that really has impressed me about coming to Justice is the discipline with which we are adhering to the new strategy. It's fantastic because people bring that discipline to every decision that we make and this is probably the clearest slide to represent that. In the center of the slide, we show the 2015 fall promotional cadence where we were literally had all store promotions every day of the season. So that meant that there was not one sale that went out the door or was transacted online that was at full price. We'll talk further about that in just a second.

As Brian referenced, when you do 40% that first time it feels great. When you have to lap it you have to do at least 40% or more to feel good. That was a spiral that just kept on occurring and so what you see here is that we had 40%

off, 50% off, 40% plus 20% which we internally called deep purple and colored our marketing cadence during the course of the season. So when I came in, I had a calendar that was pretty much dark purple and I couldn't even read it.

Then you juxtapose what we ran in fall 2016 where we didn't run one day all store promotion. Even on Black Friday, where you had a deep discount, but it excluded style buys (read the footnote for details). So we never touched the entire store during the course of the fall season. We're going to have a hybrid strategy when you hit holiday but you want to be targeted in a promotional way. We're not going to be all store promotions. That level of discipline that we brought in really drives your decisions when it comes to inventory buys, strategy decisions to the levers and the flexibility that Sara can help when it comes to marketing. It's just the great mindset that we have.

If you turn to the next slide, you will see the impact of what the promotions. So in fall 2015, 88% of our sales out the door were all store promotions, 40% off, 50% off, and 40% plus 20%. This leads to an erosive margin environment. There's no other way to describe it. Then you also had clearance sales because where the merchandise wasn't working, that they needed to burn through. That's going to happen in every retailer. There are going to be a hit rate for the merchandise that you pick. You want the margin to be as great as possible but you have to expect to have to clear through some merchandise (product that was not selling).

In fall of 2016, the dynamic that we had was close to 70% of our out the door product was at full price. A lot of that was bolstered by the fact that we have style buys never hitting promotions or promotions never hitting the style buys. So we had 21% that were sold out the door, transacted under a target promotion, and then still roughly 12%, which makes sense, under clearance.

This dynamic led to an 880 basis point increase in gross margin year over year in fall (Q1/Q2 period). We alluded to that when we were at the investor conference last fall. But, you know, obviously as Brian said, we were a number of weeks in and we hadn't had the full test of Holiday. It materialized. And it was a powerful statement within for the strategy but also within retail.

So in order to keep this going, you need to have the discipline of inventories being bought at a thinner level then we had bought in the past. You had the right presentation, it looked very attractive to the mom and to the girl. They know what the shops are.

That's done, one for presentation purposes but also from a financial standpoint, it mitigates the markdown risk. If you're not too heavy on inventory and you are clear with your inventory buys, you know what you can chase into and what you can't based on the sourcing partnership and what type of product it is. It really sets you up for a financially non-volatile margin rate.

You know that you're going to miss some things. You're going to have to sell some things at a targeted promotion or at clearance but you know what relative rates are going to be and what you can chase into if you have winners. We were able to take advantage of that last season and we're taking advantage of it now.

So what does that mean from the financial architecture standpoint? From a financial architecture standpoint, everyone is aware of 2015 and where we finished off. It's not a positive year from an operating margin standpoint. The benefit of this strategy is from a financial standpoint, 100% within the growth margin expansion. As I mentioned in fall (Q1 and Q2), we saw 880 basis points. We expect spring to be on the same track. It is the cornerstone of the financial architecture standpoint of the strategy.

What that mean though when you're first going into it is the promotion? There was an impact on the topline, and that was discussed last year as well That's going to lead to expense deleverage in that first year. But you have the right set the architecture to support the topline. Unfortunately, historically the expense architecture was built in a way that once you had a soft year in sales, you couldn't support that expense and you start deleverage even without the new strategy.

With the new strategy, you're going to have at least one year of softness there. As we start turning the corner, lapping the period that Brian mentioned that crisp turn between May and July of launching the new strategy when we start having the opportunity to have positive comp sales. This is towards the back half of Q2 into fall when you start leveraging your expense.

When you start growing the direct channel because we're providing the appropriate functionalities, the appropriate social environment, and the appropriate omni-channel view between store and direct, both channels supporting each other and the top line can grow.

Then we took some actions last year to rearrange the home office to be an omni-channel organization, pulling out some expenses. So once topline does grow, you'll see the expense leverage driving to the bottom line. It's a very compelling strategy.

The only way that we can keep it fulfilled and actually materialize it is by adhering to the disciplines that we've introduced. Thin inventory, truly prioritizing expenses, and holding each one of our Justice leadership teams leaders responsible and accountable for their home office budget and for their spending. By doing that, you'll see the operating margin accretion that we have on the slide here and that Robb will talk through a little bit more in a moment. This is all critical for us to succeed. The partnership is just amazing between Sara and myself, and the balance of Brian's team to fulfill.

Question: What level of comps are you rolling into the 10 to 13% (Justice)?

Robb Giammatteo: We're not talking about 2017 forward guidance today. The team wanted to convey is that they confidence in these numbers. When we start talking about forward guidance, we will doing that at our October analyst day. Brian will talk in a moment about those drivers.

Jason: So before turning it back over to Sara and Brian, one of the things that I want to call out is just continue to share it through the strategy. Spring 2016 growth initiatives. This is the new status quo that we've built. This is the new foundation that we've set.

We want to maintain the financial with the expense and inventory management that I mentioned. Continuing to really focus in on those targeted margin friendly promotions rather than the margin erosion that that we've seen in the past. We are focusing in on style buys, holding in on promotions so that we're able to bring the girl in and see the highly comparable but compelling fashion that we can provide. Then the truly Justice specific fashions at regular price. Enhancing the customer experience, we talked about the style advisors, our store associates. How they turned from being stock keepers to style advisors, mirroring the experience that we provide online. Highly important. That's what Brian's message is launching internally now and over the next few months externally.

We are really providing those compelling fashions, but also focusing on the distinct shoppers in the store so every girl could identify with where they feel their fashion should be. They can start developing their own personal view of that, of course with their mom, but this is the transition period for them because they're making those first decisions.

So it's highly compelling. We've seen over the past few months that it drives a profitable architecture. We're going to attribute that over the next couple months and well into the future. So I'll hand it back over.

Brian: I'm going to speed through growth initiatives here really quickly. So we talked about style buys. We are basically deepening our penetration in that. Spring, we thought it would be a much lighter penetration in style buys. We are bringing that up to 40%. We had planned originally for spring close to 30% of sales. We really moved the needle on that. Big believer and working all day long. People ask how are you doing with "chase"? This is where we are wanting to perfect "chase" and this is something that the company hasn't done for literally five seasons. They never had to. They always had too much press. They're trying to get better at that. The "chase" will start in the fall and is price oriented. We did a pre-season shop. We are going to get to be experts at doing that to make that work.

Dance and gymnastics -- think of who owns that business right now for a 10-year-old girl? There's a bunch of little boutiques all over every village in America. It's not owned by anybody. We believe we can own that business. We have a thousand stores, we absolutely, positively can be the leader in that. So this is part of the active group, and we're doing this the spring this year. A sport bras has become a top. Where do you get a sports bra for a 10-year-old girl? Can't get it but we had that business and it happens to be huge. We believe that again, we can own it.

We tried to own the first bra business already, and sports bras are the transition for that. We happen to have some experts in the business who know that business real well, and we're going to grow that up in a big way.

The uniform business was run by the dot com group, which really frankly didn't have strategy in. We know we have demand in about 300 stores for uniforms from a demand sale point so we're going to have uniform programs in stores.

We have omni-channel fulfillment, and this is not going to become a fulfillment problem. So really stretching the inventory here to keep efficient here, and you'll see as we unveil our .com presentation for uniform this summer. It will be a big deal.

Just Shine for the girl care is really young and there's a real need for this. Again, this is a first for her into the girl care world. We just are dipping our toe in the water. We are very happy with the results. We are going to continue to grow that business and get a little bit broader interest of what the offering is going to be.   It is a great program. We are really happy about it.

If you think about it, we have an opportunity to be a natural for the birthday business. Think of all the – sorry, all the hostess gift things, you know, the party bags and all that stuff, we should own it. We're kind of seeing that right now. So really happy with that.

Next, the jewelry relaunch. Jewelry was kind of ugly. It was expensive, and it didn't go with the apparel product. So if we're dealing with a product that's dropping the price and it's more appealing. We feel like that's enough price for our promotion.

Get romantic about this. Justice is a big deal. It's about our girl that's got a point of view, and they talk. 10year-olds are walking in with iPhones. They are. Believe me, they are. We believe that Justice has the opportunity to be more than just products. We actually believe that Justice has the opportunity to actually espouse these values that are important to these girls, to promote them in many different ways.

You can think all you want. But think about Justice girls. Maybe a Justice ambassador. Think about Justice events, in store and out of the store. You're talking about things that matter to this Justice girl. Think about all the social connections that we are going to make in this environment of what's important to her.

Think about and ask. It's a place where she can go and she can actually have fun and do things that are fond and hope and great. It's something also that we can own and we have permission to own. If you meet a true Justice girl, they're fanatics. They're crazed about Justice. They really are. We believe there's an opportunity here as we embrace first, as we embrace this lifestyle, we embrace the callings of this 10-year-old girl. We'll also make sure mom loves us too, because she doesn't always love us. We've allowed that to happen. So I'm giving that a really short shift here. But it's a big deal, looking more into the culture again for the fall timeframe.

We operate in 113 factory locations. We have some significant experience in our group about running high volume factory stores and looking at a factory model. We'll have 25 stores this fall.

Internally, we are currently in 14 countries, and how did we end up in 14 countries, nobody knows. So it was a non-strategic, somebody called us. We are rebuilding the strategy and rebuilding the personnel as we speak. We are hopefully days away from agreements in two fairly big countries, but not China. This is an opportunity for us to plant our flag. There's a ton of demand for Justice internationally, and we expect to grow that business and we'll make that important. In Canada, we changed the pricing strategy in Canada. We do not run any promotions at all, none. Absolutely none. Not a single thing. They're really good. Really, really good. Margins are fantastic. We are going to continue to grow Canada in a very productive way. We are thrilled about the business up there.

And last but not least, sourcing opportunities. We reduced the pricing after the product was already gone. We didn't change any of the costs. We didn't have a chance. It was already done. So we didn't have the opportunity to re-strategize sourcing in this new cost structure. We are doing that as we speak. We're looking at opportunities to get costing better and finding the right countries, finding the right factories, opening up our resources. Again, our costing and pricing model -- we think there's upside there that we could procure over time. That's the good news, right. There's plenty left for us to do, and it's a great phase to be in. And so with that, I hand it to you.

Neely: So this is what we're going to do. We'll take a quick break and come back in here and we'll do Q and A. Okay.

Robb: Good afternoon everyone. Thanks for being here with us again. Thank you to Brian, Sara and Jason, also for pulling yourselves out of the business on short notice and being here. This is really important for us.

We hope that you can feel the energy from this team. So we're really, really excited about the future.

I’m going to start with a brief update. So the total Q3 quarter-to-date comp performance remains in line with our expectations. For the spring season, which represents our combined Q3 and Q4 periods, we continue to expect that the missy brand will be up modestly to low single digits and Justice will be down mid-single digits.

Total comp performance for the spring season, inclusive of Justice, is expected to be flat to slightly negative. Underneath the total comp figure, we see some significant regional differences.

The Northeast has experienced more moderate weather conditions this spring, which certainly helped mitigate some of the concerns with the earlier Easter. The Northeast is an important region for several of our brands, including dressbarn, Ann Taylor and Loft.

On the West Coast however, it’s been unseasonably cool which is dampening the results there. Aside from weather, we see some traffic challenges in the Midwest which we believe are related to regional economic conditions. The Midwest is an important region for our maurices brands.

We’re pleased with the growth we’re delivering in average selling price, where disciplined inventory management across our brands, has allowed us to pull back on the level of promotional activity. Inventory levels remain very well positioned across the company.

We continue to get traction in the direct business. You heard Brian talk about this earlier. We’re very excited about the omni-channel capability across our portfolio as we move through this calendar year.

Specifically related to Justice, the brand is tracking in line with our expectations.

On the earning side, we're reaffirming our Q3 EPS guidance in the range of 10 to 14 cents. So despite the mixed selling environment, we're generally pleased with where we are coming out of Easter.

Moving on the to the full-year outlook, I wanted to take the opportunity to again reaffirm our EPS guidance range of 75 to 80 cents for the full year. Note that we continue to expect full year EBITDA in the range of $670 and $700 million and cap ex in the range of $375 to $400 million. This includes the capital required to integrate ANN INC. So no changes here.

Now, onto our fourth quarter EPS guide, which represents the 13 week period ending July 23, 2016. We've gotten a number of questions regarding the relevant strength in the fourth quarter versus the third, and I wanted to spend a moment on specific drivers.

This chart walks our prior year fourth quarter net income as a standalone company to our guidance for this year's quarter, which is inclusive of ANN INC. Last year, legacy ascena had delivered almost $10 million in net income, which is highlighted on the box to the left, resulting in 6 cents of EPS on a 166 million diluted share base.

This year we're expecting approximately $25 million of year-on-year growth for the legacy ascena brands, driven primarily by the improvement of Justice. The other big driver of fourth quarter improvement comes from ANN INC., which is typically much stronger in the fourth quarter versus the third. I'll provide a bit more detail on the ANN INC. and Justice division in a moment.

The remaining components of the fourth quarter EPS guide are the incremental interest expense related to our $1.8 billion term loan and tax on the expected incremental pre-tax income.

Our Q4 guidance reflects expected net income in the range of $52 to $57 million on a 198 million diluted share base. The 28 cents outlook for the fourth quarter represents the middle of this range.

Now, moving onto detail for ANN INC. We don't typically provide brand specific detail by quarter but given the lack of publically available prior year fourth quarter information for ANN INC., we wanted to provide you with a baseline for the spring season.

Historically the fourth quarter at ANN INC. has been significantly stronger than the third quarter, representing roughly two-third of total Spring season earnings over multi-year period.

This spring, we have ANN INC. positioned to deliver roughly $32 million of operating income in Q3 and $65 million in Q4, which is consistent with historical patterns.

The incremental $30 million or so in the fourth quarter versus the third translates roughly 10 cents of sequential EPS growth from the third quarter to the fourth. So big driver here in terms of relevant strength for the fourth quarter.

And finally, on to Justice. You'll see we have comps positioned to accelerate coming out of the second quarter, as we lap easier compares last year. As with the Fall season, we expect continued strength in gross margin rate versus the prior year, as Justice has maintained very strong inventory discipline coming out of the second quarter.

A couple points to note – first, as Jason referenced earlier, the full year gross margin rate we are expecting represents record performance for Justice. Brian and the team have done a great job reestablishing pricing integrity with the customer, and the brand is getting paid for the fashion it is delivering. So we're very, very happy with that.

Second, we are expecting negative operating margins at Justice for the third and fourth quarter despite the significant gross margin rate increases for both quarters. This is caused by expense rate de-leverage from the top line loss over the past two years.

I'll note that the operating margin expected in the third quarter is roughly in the range of what Justice delivered last year while the operating margin rate in the fourth quarter represents roughly an 800 basis point improvement from last year. So big pick up.

The relative improvement we expect from the third to the fourth quarter at Justice represents close to 8 cents of sequential EPS growth from Q3 to Q4. So again, if you think about 10 to 14 cents in the third to 28 in the fourth, those are the two drivers, ANN INC. and Justice. So just hope that this gives people some comfort in why the fourth quarter is so strong.

Finally, we continue to expect full-year fiscal 2016 year Justice operating margin is in a low single digit range. It's consistent with what we told you from the beginning of the year. The brand is tracking right in line with what we expected it to be.

So the path back to double digit operating margin that Brian laid out earlier clearly lies in the company's top-line we've lost over the past couple of years, and doing it through a brand and product-led organic growth versus the inorganic growth we've seen with promos in the past.

So this team is religiously focused on doing in the right way, and I think you heard all the exciting things that are coming in the future.

Brian's focus has been in the spring detail and has given you a quick preview of what's coming in fiscal 2017, which I'm very excited about and heard a little bit of it, but really, really excited about what's coming.

We're just looking forward to this year to continue running out and delivering on the plan and again, just thrilled about the future of the brand what what's to come. So it's certainly an extremely good hand from what we've seen this morning from Brian and his team.

So that's the end of my prepared remarks. Now I'll now hand it back over to Neely, and we can probably just sit down and get some questions.

Neely: What comp do we need to really start to gain leveraging operating expenses?

Robb: So leveraging operating expenses typically for ascena at large and most of the brands, it's around 2 to 3 points of comps we'll start to leverage. I think you're question, Vince, was about when do we start seeing positive operating margins in the spring season.

Look what I'd say is from fiscal 2013 to fiscal 2015 and then into 2016, we've lost $200 million in [Justice] top line. That's a big number, regardless of the fact that they were poor quality sales.

There was a gentleman in the back who asked the question earlier saying what's the comp assumption? We're not going to share that today, but again, we're excited about what this Brand can do. I think there will be more to come when we talk to you again at the Investor Day in October where we'll lay out the specific assumptions around what these initiatives can do.

Question: So let's assume their fourth quarter you go out basically flat (according to your comps) and you begin to see an uptick in 2017 comps? Now let's assume +2 to 3% comps and if that happens, the gross margin basically gets to flow through? The higher gross margin isn't going to be dinged by the negative leverage?

Robb: From this base, which is resetting the baseline, sales above this level, will flow through at the normal rate. And that's why this team is so disciplined that we're not going to grow the topline by eroding the gross margin rate.

So certainly, it's at record levels and we might event say it's too high. But it's a very, very high number. How high is it relative to historical peak?

Jason: From a historical peak, it is 200 to 300 basis points higher depending on the month.

Robb: Yes this is a big, big deal.

Question: What has to happen – you kicked up your gross margin. What happens to your operating expenses on a normal basis as you go forward?

Robb: Well, I mean you traditionally have inflationary pressures on the opex base. But I think one of the big opportunities here, and Jason will have a lot more detail for you, that the store base that Justice has was never really dealt with when they reflagged Limited Too.

So many places, and even sometimes in the same mall, you've got two Justice stores today that we know we can do better business in the market by shutting one.

So if you think about operating expense opportunities, there's occupancy expense. There's store payroll expense that goes with that. Then I think just generally some of the synergies from the ANN INC deal in terms of the transportation logistics which Justice will benefit from. There are a number of margin drivers that are built into the picture.

Jason: We also go from a very passive selling environment where it's self-serve because we're 50 off, to an active style advisor environment where we're focused on conversion.

So while the expenses when it comes to store payroll obviously will grow with other merit and other factors. The sales respond to the way we're selling, and so you have a leveraged opportunity that's inherent in that.

Question: What I'm getting at, you're at record gross margins level. It seems as though you've got leverage to the operating expense line on a going forward basis…

Robb: Absolutely.

Question: We're showing there a 10 to 13% operating margin. Shouldn't you surpass your previous record operating margin of close to 14% at some point down the road?

Robb: If you hold the gross margin rate there, and our intent, and speaking on behalf of Brian and the team here, is that we are not going to ever do the promo strategy again. But where will we be at to get this record level two years from now, and is it the right place for us to be? If it's right for the customer and if the styles buys are driving the business, we are going to drive the business. We don't tell the customer what to buy anymore. We tried that in the past. That really doesn't work so well. So we're going to respond appropriately based on business conditions.

Gross margin, which again is several hundred basis points higher than it has ever been, and perhaps driving a bit more volume and a bit more creative promotions that Sara is probably going to be leading.

But yes, we should as the top line comes back. that's why that 10% to 13% is right here. We've delivered 13 plus percent in fiscal 2013. We feel that we can get to that level again.

Question: That should be an interim level?

Robb: If we go higher than this, I'll be thrilled. But we're trying to put our target on what we feel we can deliver with confidence, and that 1 billion EBITDA target in fiscal 20 18 is not a number, its something that we are very committed to deliver.

Neely: The spirit of the question is around the current experiences of mall traffic and their own store traffic. How much growth margin is a buffer for mitigating some external factors?

Jason: Okay. So there's definitely been a correlation to us pulling back the all store promotion, and the traffic that has been in excess of the decline that you saw in general index. But what we've seen I think is very interesting is even despite the pullback in promotion. When it's a peak time, meaning back to school, holiday, if it's a true holiday, Super Saturday, Black Friday and Easter build week, Justice traffic is highly comparable to the index.

What's more important in my standpoint of setting the foundation is building in, as I alluded to before, the conversion of it. Right, so taking advantage of the traffic that's walking in the door. That's where we're seeing some benefits, even despite walking away from promotions, specifically in the peak time, but we're doing pretty well at the other times as well.

So from a traffic schedule and below the index as we pulled back on those promotions, but at the peak time or those decision-making days, we're right there. People are really excited about the goods in the store and the way we're selling it.

Brian: It's important that customers in the 7 to 12 age group, now there are two million girls entering this marketplace every single year and two million exiting.

It's like we get to reset with these customers. This is not a small deal. You're a women's brand, and you own them for 20 and 30 years. Whatever your sins were, whatever your bad strategy was, it lives. We hit the reset button. We literally get to hit the reset button with a new family, new kids, and new everything.

So the expectation that were built up against a heavy promotional thing, that actually washes the next one, and I actually think that we can do better than that because we have been true to our strategy, more consistent and have that diversity involvement.

And I'll say this again, I love this space. Love this space. Love, the fact that we hit the reset button. I believe if we do the strategy the right way, we do the right thing, we'll do better this year.

Robb: Let's jump a little bit into general portfolio. I mean again, the shopper track has been negative, mid-singles, give or take. So with the portfolio, you'd expect we have some brands doing a little better, and some brands doing a little worse.

And some of these are condition-based, like for maurices, some of that Midwestern traffic we've seen. They just had a store concentration. It's not like their brand - the brand is doing great. They have a store concentration in part of their country that we know, there's some macro traffic challenges.

Lane Bryant, starting to be encouraged by some of the things we're seeing there. You know, some of those detailed marketing investments we made over the past three seasons. We're starting to see, some responses there. It's not like traffic is suddenly, you know, up 10%, but it certainly the trajectory is changed, and we're happy with what we're seeing there. The challenge is how do you convert these people coming to your box, right? Because it's not like people that have been coming to Lane Bryant for a while. There are new customers. So we have work with these still to convert that customer, but we're pleased with some of the traffic that we're seeing.

And for dressbarn. Again, some of this is that Northeast has been a bit warmer, and so we've been pleased with that, but certainly more work to do there, right.

Again, more marketing, new customers, acquisitions. So there's a lot going on in ascena a lot of the time with the footprints in different brands. We got one in turnaround. So there's a lot there but generally traffic is manageable.

You know, between conversion opportunities and between average dollar sales, which for us is driven by average selling price, which is then driven by very tight inventory management and very disciplined work on the promotional level and pulling back there.

So when traffic when traffic is down, you got to work through it, but we're making decent progress there.

Your question on inflationary pressures, so what I'll first say is yes, there's an opportunity of gross margin offsetting, but there are levers within operating expense to offset.

So if you can be more profitable in a market with less stores there's less occupancy expense, less payroll expense – that's a win. You may just have people working your store for 25 years, she may be wonderful. She may be earning as much as a manager, and she may not be selling product.

So what is the customer proposition? What does the customer want? How do you train our associates? What mix of associates do we need? Do we need a manager, or do we need sales leads?

So there's lots of things that brands can execute at a tactical level to take, you know, some expense out against that pressure of increase. So it's there. The pressure of increase is there, and then Brian talked about product cost.

Look, we have a global sourcing team that's very, very mature and very capable. But one thing that we're not is we're not compliance experts in all areas of the world right? There's a country called Bangladesh that has very low labor costs, but it's a compliance issue because if you work in that country, you're going to do the right thing for the people there. You're going to be a socially responsible company. We've never gone into that country alone. But with ANN INC coming onboard, their agent relationship with Li and Fung - there's a lot to explore. Maybe there's something in Justice where we can go source some product there. So Brian and team as a first adopter has a lever and can go look at it. There's a lot more to come there. So there are lots of levers his team has and ascena has to deal with some of this traffic headwind.

Jason: Just to add to that. The fact is that we have pulled expenses out of the system over the last 12 months that while we still deleverage, we've done the right thing by expense dollars to set up a foundation that once you to start hitting the positive comps that you were referencing, it does flow through. And you do see the expansion on rates.

Your question about does the margin buffer protect us? Absolutely, but this also is a benefit that we're looking forward to and, Robb alluded to over the next 12 to 24 months of you get ANN INC into our distribution centers. Now I have DC savings. And we're experts in all those areas. So we've offered efficiencies that are being searched for. Logistics, same thing, because those areas affected, which I don't necessarily control, but which our shared services really helped with were also going to be a lot of leverage points from almost despite what happens on the topline.

And so there was a lot of excitement there too. So it's how do we run the store? How do we optimize sales? I mean we've gone through a process over the last four months and spread it to all stores for the spring, sort of laboring a store's traffic rather than just the sales.

Do you look for optimal opportunities? And so that doesn't necessarily affect your payroll dollars, but it optimizes your conversion. So it optimizes your use of traffic. That gives us a leverage point. So there's a lot of little things that we do to try to take advantage of those leverage opportunities.

Question: Can you discuss the promotion of non-style buys?

Brian: So we need to have activity in the stores. We have what we have category promotions. What that means is anything that's not a sell buy or not clearance could get put into a category promotion. One version of it is we might do the Boho collection on sale, and that generally is in the 30% off range in general with either promotion.

We have had a couple unique circumstances where frankly we're operating very efficiently on inventory, very efficient on inventory. We haven't had a lot of inventory. We haven't had to mark it down.

So as of recent, and I'm referring to a recent comment up there. We did an up to 50% off spring sale. It was on I believe 12% of the inventory. It was really nothing. It was because we didn't need to mark this stuff down because we just simply didn't have a whole lot of inventory. So we got the bloom and brights collection. We let it live on the floor for a long time and didn't mark any down. We did it as a promo and got rid of it that way. So the way to think about our category promotions in general is something less than 20% of the inventory may be on a promotion for a short period of time, five or less days.

That's what our strategy is. The fact that we had some certain things where we literally didn't have any inventory and didn't need to mark things down, we decided to handle some odds and ends through that promo into a high traffic period. It is a little bit of flexibility.

Our standard is 20% of inventory, five-day promotions, think around 30%, that's kind of what you'll see coming and going.

Question: When should we expect to get a little more involved with inventory?

Brian: We were on vapors after Black Friday. We did not have enough. Dot.com coming into clearance. So the question brings up dot.com. After the third week when you can realistically ship to your stores, we kind of moved to clearance because that is where all the action is. We were 88% below last year. It was gone. We can use inventory for sure. I think the key is again, do the right thing. You know, why are you buying the inventory? You know, we're not loading it up because we'll try to be close enough in terms of our promotions. That's not how we do that. We definitely are, as I've mentioned, getting more practice on chase for style buys. It's a known deal. We're going to do that for sure. We absolutely need more inventory for this fourth quarter, no doubt about it and back to school because you can't even try to buy a size 8, 10 or 12 after back to school in our style buys, you would not find one.

So really need a little bit of inventory there. But it's not crazy. It's not across the board. Very, very strategic and very, very pointed. But yes, a lot of people would love more inventory.

The other thing is just you can't give enough credit to what omni-channel fulfillment will be for us. I mean if we could pull clearance or anything into that dot.com for the fourth quarter, that would be a giant number.

Robb: And Brian's comment on inventory, we talked about on the second quarter call that you left a little bit of business on the table after Black Friday. We were thrilled with where the business performed because we didn't have too much inventory, but at the same time, we'll settle for a lower gross margin rate to have more gross margin dollars. We're not out to set records in gross margins rates. We're out to drive operating income. So there a very focused discipline here on inventory control. And what Brian's talked about, we'll be higher. Keep in mind in the second quarter, we were down 30% to last year. So if we were up a couple percent to drive comps in excess of that. That's a winning model. Again, we're never going to be in that situation where we're buying inconsistent with trend.

Neely: The question is around the guidance and whether or not components of the guidance have been rethought or refigured?

Robb: So we, at the corporate level when our brands give us their outlook for the full year, we always take a look at it and say maybe a little risk here, maybe a little risk there.

So what I would tell you is we don't at the corporate level say, maybe the Midwest will be low on traffic. So what I would tell you that we feel we have an appropriate hedge at the beginning of the year to account for these things, as which ascena most of the time. We don't use weather as an excuse, but we need to plan for it. You got six scale brands that are $1 billion each with distributed footprints. We have some brands that are doing extremely well, you know, better than we thought with some brands have a little bit of headwinds but for the portfolio is right where we needed to be.

And so I think it's more a question of, you know, how do you not become a victim of these exogenous circumstances by appropriately risk assessing the outcome?

Neely: Talking about marketing.

Sara: So I mentioned briefly that our prior marketing platform was basically a catalog and then whatever we had on promotion. So we are spending a lot of time thinking about customer life cycle marketing and how we can connect with her across all the platforms.

So email is definitely something we're working on optimizing and driving. We see a pretty good traffic lift when we trigger emails. Social, huge upside in social. We launched social platforms last fall for the first time as a brand. And we know we can reach mom on Facebook. We can, you know, send messaging against key moments on Instagram, et cetera.

We are also optimizing print. So we're thinking about the evolution of when we do catalogs and direct mail and other things to get to, you know, the best mix as it relates to direct mail. So there's a number of different things that we're doing.

And as Brian mentioned, we're really thinking about how we can build word of mouth through our customers and through the moms and drive brand credibility, excitement and awareness through those vehicles, which is also, you know, extra important because it's as much about your customer talking about the brand as it is a brand talking to the customer. We want to create that excitement.

Question: Do you have any bloggers?

Sara: Yes. We actually have leveraged bloggers to some extent, but it's just the beginning. We think that we can obviously target aspirational influences for this target demo. But we can also start creating more of a culture of Justice girls that can speak on behalf of the brand and leverage their excitement across all of our platforms, whether it be .com, social or even hosting in-store events and those sorts of things, so multi-channel.

Brian: In a very genuine way.

Sara: Yes.

Brian: It's very important – genuine, authentic, true, real, legal, all of those things.

Question: You just mentioned earlier that you have, you know, you do have a chance yet work on strategizes on sourcing? Should we be thinking about a means of increasing the gross margin, or is it a way of creating better value for the customer and a better product?

Brian: That's a great question. The way we have thought of it here is I honestly don't think we want to grab more gross margin rates than we're at here. So it gives us a lot more flexibility for us to give some girth to the category like promotions that we do.

So I like that room, I like that space. And if it turns into more gross margins, you know, I'm going to get arrested. It just feels wrong. But it's a great question. That's how we're thinking about it.

Question: On the balance sheet…cash flow does not get a lot of attention. Can you please talk about what is embedded in the $100 million plus right now and what other items are falling off? If you take one items out, your $100mn really accelerates? How much falls off?

Neely: The question is around the dynamics of free cash flow and balance sheet and asking for Robb to walk us through some of these key components.

Robb: We've shared, you know, more than $100 million in free cash flow. I haven't said whether that's $101 or $199. I'm not trying to be cute, but just, you know, if you want to stick with me and say look assume, it's 100, just if you want to be conservative. This year, I'm not proud of it, but we paid out $85 million, $50 related to the Justice litigation. That is behind us now, and $35 related to prior leadership. That is behind us now. We're thankful for what they did and we're very thankful to have the new leadership in chair. So $85 million there, one-time items that we certainly do not expect to recur. On top of that I've shared cap ex today at $375 to $400 million. ANN INC. integration capital of that is $40 to $50 million. So we're not going to be unless David surprised me, buying anybody next year. So, you know, there's $40 to $50 million, we're not going to need.

If you think about other things that are not in our capital spend this year. We're spending $30ish million related to the completion of the Omni channel platform. This is a multi-year, much more than $30 million project, but this is the final year of big spend in fiscal 2016. So a good chunk of that will drop away. Of course we'll have some maintenance of the omni-channel platform.

We'll put some of that back to work but, you know, certainly not the $30 million. We're finishing construction of the maurices headquarters in Duluth, which again is a multi-year project. This year is the last year of the spend. It will be opening this June. That's another $20ish million dollars that we're not planning to build any other buildings in Duluth.

So, if you think about that there is $85 million, if you want to say we shared that cap ex target of getting down to $300 million. So you see we're at $375 and we can get to $300, there's another $75 of cash flow on top of the $85 we talked about.

And then synergies, we haven't talked about the synergies. Our objective with that $235 million combined for deal synergies and cost savings is still tracking. If you assume this business does nothing, no growth, just goes sideways, you know, a substantial amount of synergies will start to accrue in fiscal 2017. So again, we're expecting, of the deal synergies, $150 portion of the $235 that's coming primarily over the next two years. And we have good line of site to it. And we talked about the distribution center. As soon as we open the West Coast distribution center, which we signed a lease for and we've procured the capital for the material handling equipment.

We no longer have to ship product from the West Coast to Ohio back to the West Coast to serve the customers. So we know what those savings are. And again, you can choose the number you want to choose. So you got, you know, 85, 75 and pick a number in terms of what the synergies are. You can look at some of the public disclosures we've had. You get to a pretty big number pretty quick just assuming the business goes sideways.

Robb: There's a path to $300million with the business going sideways. There is a very clear path of $300million.

Question: Working capital?

Robb: Working capital has helped us a bit. Working capital has helped us a bit this year. And that's why, and I don't want you to assume $100 more, but I was just, you know, giving you lower a lower bound case. But certain the Justice brand has been down, the second quarter it was down 30%.

So there's been a substantial working capital benefit, and we love that. Right, that's resetting the baseline and plowing capital toward the debt payment. So a little bit of help there.

I think that, you know, Brian talked about some of the strategies about how outlets and that will required a little bit of working capital to drive more years. But we'll do that all with (unintelligible) that's growth supporting. So I think a little bit of help this year.

And again, don't expect us to be buying a ton of inventory going forward. You've seen what it does. And with omni-channel coming, we've talked about that before, you can buy less of a single pool and fulfill the customer all around versus buying a lot more and sending to all the stores.

So I think that's going to be another lever for us to continue to ratchet down inventory, not only Justice but the other brands as well.

Neely: So we have to end our wonderful event. All good things do come to us.

Neely: There's good things left yet for ascena and Justice specifically. So we'll thank them, Brian, Sara, Rob, Stacy, and Jason.