



# Imperial Capital 7<sup>th</sup> Annual Global Opportunities Conference

September 19, 2013 | COMPANY OVERVIEW

# Safe Harbor Statement

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## **Forward-Looking Statements**

This presentation may contain certain forward-looking statements regarding future circumstances, including statements relating to the Company's positioning, and forecasts regarding store openings and earnings per diluted share from continuing operations. These forward-looking statements are based upon the Company's current expectations and assumptions and are subject to various risks and uncertainties that could cause actual results and performance to differ materially. Some of these risks and uncertainties are described in the Company's filings with the Securities and Exchange Commission, including in the "Risk Factors" section of its annual report on Form 10-K for the fiscal year ended February 2, 2013. Included among the risks and uncertainties that could cause actual results and performance to differ materially are the risk that the Company will be unsuccessful in gauging fashion trends and changing consumer preferences, the risks resulting from the highly competitive nature of the Company's business and its dependence on consumer spending patterns, which may be affected by the continued weakness in the economy or by other factors such as increases in the cost of gasoline and food, and the uncertainty of weather patterns. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they were made. The Company undertakes no obligation to release publicly any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. The inclusion of any statement in this presentation does not constitute an admission by the Company or any other person that the events or circumstances described in such statement are material.

# Agenda

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## **Company Overview**

Strategic and Operational Initiatives

Financial Overview and Conclusion

# The Fundamentals



- The largest children's specialty apparel brand in North America
- Strong brand; well-positioned competitively
  - #1 awareness among children's specialty retailers
  - Known for fashion, value and convenience
- Strong balance sheet and free cash flow

# Agenda

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# Strategic Initiatives

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## Talent

**Trend-Right  
Assortments,  
Differentiated  
by Age**

**Focused  
Digital  
Marketing**

**Efficient Global  
Supply Chain  
Enabled by  
Technology**

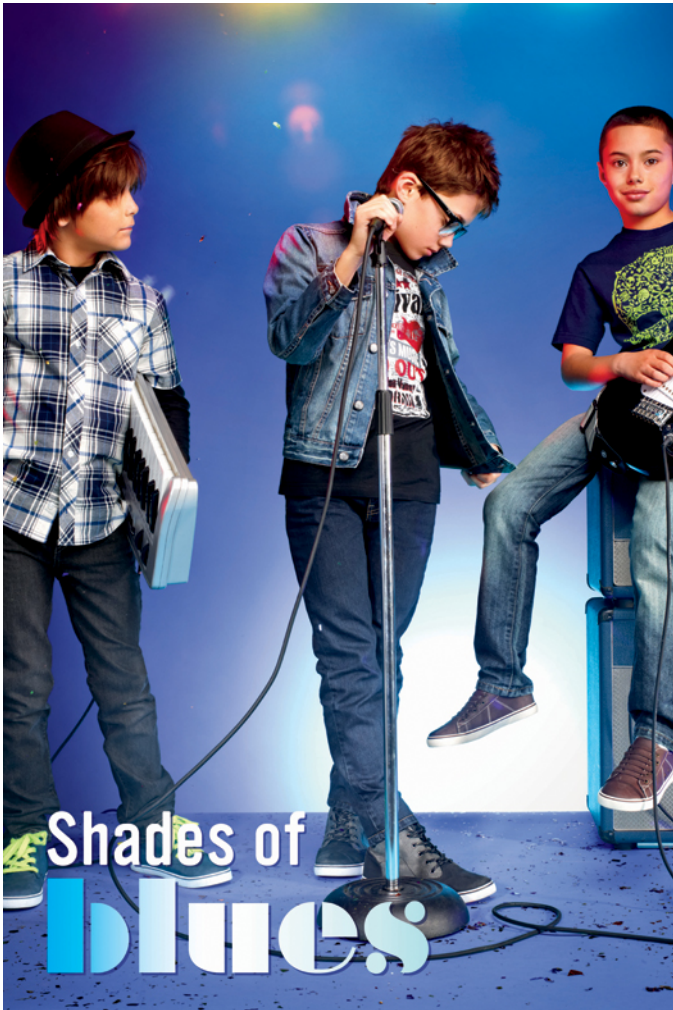
**Fleet  
Optimization**

**New  
Channels of  
Distribution**

## Operational Excellence



# Trend-Right and Differentiated Assortments



- Strong, consistent product execution
- Differentiated merchandise is resonating with customers
- Head to toe outfitting, including apparel, accessories and footwear

# Made-for-Outlet Strategy

Transitioned from “clearance center” model to more profitable “outlet exclusive” model

- Made-for-outlet product is 80% of the assortment
- Merchandise margins improving – goal is to have MM parity between Place stores and Outlets

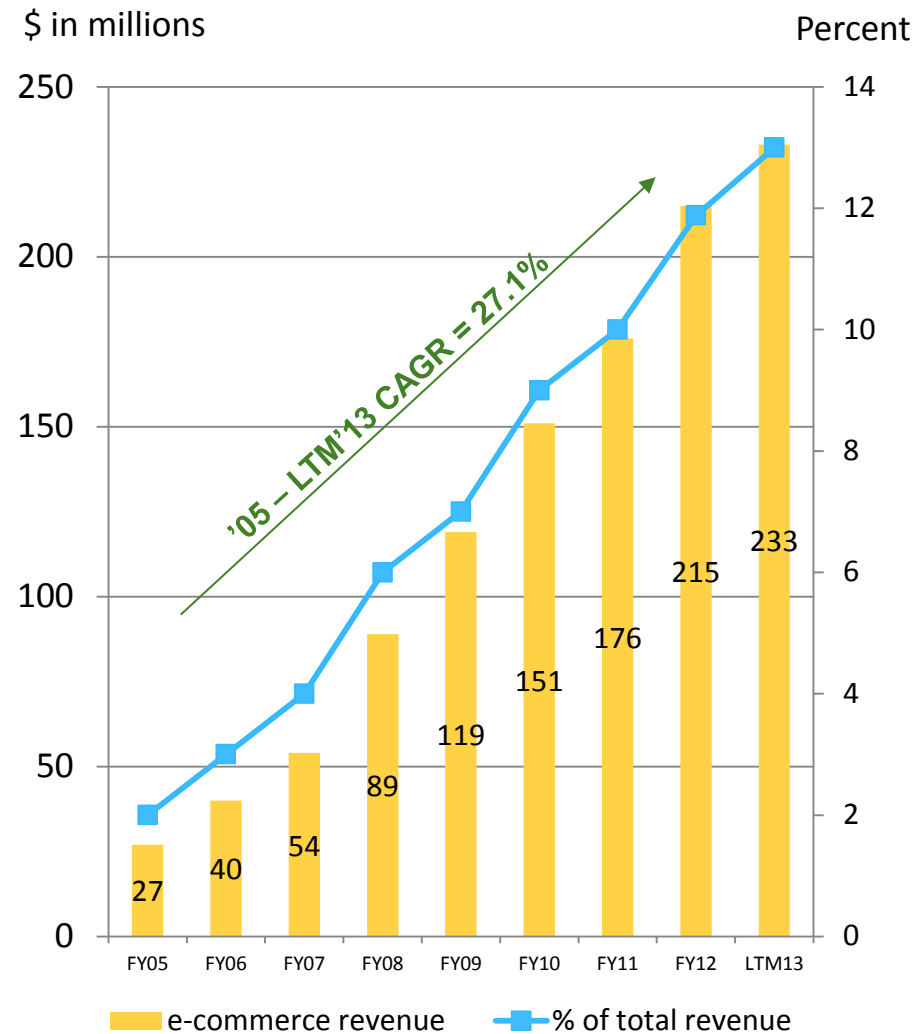




# E-Commerce Growth

## Online business growing rapidly

- Accounted for 13% of sales over last 12 months
- Childrensplace.com offers expanded sizes and exclusive products
- Company's most profitable channel
- Upgrading infrastructure to support rapid growth; migrating US website to new platform 1H2014




# Digital Marketing

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Focus on Digital Communications



Enhancing Customer Relationship  
Management Capabilities (CRM)



Leader in Social Media Space



Growing Loyalty Program Membership

# Efficient Global Supply Chain

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## Optimizing the global supply chain through:

- Strategic Sourcing
  - Strengthening capabilities in our Asian offices - we source apparel direct; accessories & footwear through an agent
  - Consolidating vendors and migrating countries
- Logistics and Distribution
  - Focus on improving reliability, cost and speed
- Inventory Management
  - Systems investments next 12-24 months to enhance capabilities
  - Complete implementation of SAP core merchandise module 1H 2014
  - Add sophisticated planning, allocation and replenishment tools 2H 2014

Goal: High quality, low cost, trend-right merchandise distributed quickly and efficiently to each channel

# North American Fleet Optimization

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## Focused on improving fleet productivity and 4-wall profitability

- Closing 100 underperforming stores over next 3 years; 45 in FY13
- Reviewing options to improve financial viability of 70 additional stores
- Slowing new store openings to ~25-30 annually in North America; square footage ~flat
- Increasing hurdle rates for new stores
- Booked \$12.1M impairment charge in 2Q13

### Fleet Facts

1,116 stores in N. America

- 88% in US
- 12% in Canada

Brand performs well across variety of formats

- 53% Premium Malls
- 22% Value Centers & Small Markets
- 13% Outlets
- 12% Street/Strip/Other

# New Channels of Distribution: International and Wholesale

## International Expansion

- Void of high-quality, value children's apparel retailers internationally
- On-track to have ~40 stores in the Middle East by year-end 2013
- Opening stores in Israel in 2014
- Exploring additional markets for 2014 and beyond

## Wholesale Business

- Expanded wholesale customer base in 2Q13
- In strategic discussion with additional retailers

Over next few years, these new channels are expected to increase in scale and help drive sales and operating margin growth



# Operational Excellence

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- Company-wide expense management
- Systems implementation
- Improving store operations and customer experience
- Professional, strategic staff support
  - Finance
  - Legal
  - Human Resources
  - Compliance (regulatory)

**Strong base to support other  
strategic initiatives**

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# Fiscal 2012 Financial Results

Fiscal 2012, Income Statement Summary			
	Fiscal 2012	Fiscal 2011	Change
Net Sales	\$1,809.5	\$1,715.9	5.5%
Comp Sales			2.0%
Gross Margin	38.2%	38.4%	-20 bps
Adj SG&A % of Sales	28.0%	27.8%	+20 bps
Adj Operating Margin	6.4%	6.2%	+20 bps
Adj Net Income	\$78.8	\$72.1	9.3%
Adj EPS	\$3.25	\$2.81	15.7%

Source: Company filings and press releases. Figures in millions of USD (except EPS). Fiscal year ended February, 2, 2013 and January 28, 2012.

Note: Adj measures are non-GAAP and exclude transactions that are not indicative of the performance of the core business. A reconciliation of GAAP and non-GAAP measures is provided in Table 4 of the Company's fourth quarter and fiscal 2012 earnings release which is available at <http://investor.childrensplace.com>.

# 1H 2013 Financial Results

Income Statement Summary					
	1H 2013	1H 2012	YOY Change		
			1H 2013	2Q 2013	1Q 2013
Net Sales	\$805.6	\$799.3	0.8%	6.0%	(3.5)%
Comp Sales			(3.2)%	(0.4)%	(5.5)%
Gross Margin	35.9%	36.7%	-80 bps	+120 bps	-210 bps
Adj SG&A % of Sales	29.9%	29.9%	Flat	-100 bps	+70 bps
Adj Operating Margin	2.0%	2.6%	-60 bps	+280 bps	-300 bps
Adj Net Income	\$9.9	\$13.3	(25.6)%	+37.3%	(31.8)%
Adj EPS	\$0.43	\$0.54	(20.4)%	32.2%	(27.2)%

Source: Company filings and press releases. Figures in millions of USD (except EPS). First half ended August 3, 2013 and July 28, 2012.

Note: Adj measures are non-GAAP and exclude transactions that are not indicative of the performance of the core business. A reconciliation of GAAP and non-GAAP measures is provided in the Company's second quarter 2013 earnings release which is available at <http://investor.childrensplace.com>.

# Company Outlook

## Company Guidance as of 8/22/13

	3Q 2013	FY 2013
Adj EPS	\$1.83 to \$1.89	\$3.15 to \$3.28
Comp Sales	Flat	Negative LSD
Gross Margin	Leverage 10 to 30 bps	Deleverage 20 to 40 bps
Adj SG&A % of Sales	Leverage 20 to 40 bps	Flat
Ending Inventory PSF	Increase mid-teens	NA
Square Footage	NA	Flat
Capital Expenditures	NA	\$90 to \$95 million



## Strong Balance Sheet and Cash Flow

- \$185 million on balance sheet to fund growth opportunities
- Returning excess cash to shareholders through share repurchase program

Fiscal 2013	\$ millions
Beginning Cash (2Q'12)	\$159
LTM Cash Flow from Operations	209
LTM Capital Expenditures	(85)
Share Repurchase Program	(102)
Other	4
Ending Cash and Short Term Investments (2Q'13)	\$185

Source: Company filings and press releases.

# Long Term Operating Margin Expansion

**Key Focus: Generate steady increases in operating margin**

## Revenue Growth Drivers

- Enhanced merchandise and assortments
- Positive low single digit comp sales; rapid e-com growth
- Incremental international and wholesale revenue

## Margin Expansion Opportunity

- Modest merchandise margin expansion
- Supply Chain optimization
- Outlet strategy and outsized growth in e-commerce
- Alternate channels of distribution
- Systems implementation
- Improved inventory management

## SG&A Flat-to-Slightly Leverage As % of Sales

- More stringent focus on cost control
- Leverage fixed expense

# Wrap-Up

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- Strong leadership team in place
- Strategic initiatives underway to drive growth
- Strong balance sheet and cash flow
- Committed to delivering sustainable, profitable growth



THE CHILDREN'S  
PLACE