

Company Name: Guess?, Inc. (GES)

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<<John Kernan, Analyst, Cowen & Company, LLC>>

Thanks for coming everybody. My name is John Kernan, I cover retail here at Cowen. And I am superexcited to be up here this morning with the management team of Guess. We have the CEO, Victor Herrero; CFO, Sandeep Reddy.

Guess is the top-performing stock in Cowen's entire retail coverage for the last – in 2018. It has been a great turnaround story, the valuation starting to revert to historical levels, because there have been real signs of progress, not just in North America, but globally in terms of what – Victor's initiatives that he put in when he became CEO about two years ago, just a lot of good things happening here both from a top line and a P&L perspective.

And if we could start in North America, because that's where we've seen the biggest turnaround, a very recent, particularly from a profitability standpoint, but also from a same-store sales perspective, you're guiding to flat to up same-store sales for the first quarter, that's pretty exciting after a long string of negative same-store sales. And Victor, you hosted at a store tour at the flagship store about a month and a half ago.

And you talked about a lot of the initiatives that you put in place and you talked about your passion for retail and the big store visits that you do all the time and you could – you did get a sense of from the store associates and managers that there were fundamental changes going on in terms of how you're retailing. So we can talk about the turnaround in North America and what the initiatives you put in place and how early do you think we are here in a turnaround?

<<Victor Herrero, Chief Executive Officer and Director>>

Thank you. Basically, we started – I started in August 2015, so two years and a half ago and we – right at the beginning, we started with five initiatives – strategic initiatives and one of them, let's say, basically strength our visuals, and our sales and merchandising organization. So, this is related to all about the stores, how we do visuals. We tried to be a company, where we were trying to understand a little bit more about what our customer wants, I mean, we always capture the feedback of the customers and also we were trying to do a life-styling concept.

And this is what we've been doing for the last two years and a half, trying to elevate and trying to improve our product initiatives, trying not to be especially seeing one particular product category, mentioned denim or outerwear or t-shirts and being a more broader – collection-based company, where we have the total outlook and total – the comprehensive outfits. And this is what we are trying to achieve in North America and in a way in all around the world.

Also we have several other initiatives, where we're basically trying to strength our supply chain and basically on that, I mean, we've been having a lot of success in improving our IMUs, also we are doing several initiatives as well on planning and allocations, where we are trying to improve the way that we were planning on allocating in the past and also we are trying to be much more vertical organization, where we control the product from the vendor up to the consumer and all the intermediary phases from the vendor to the consumer.

<<John Kernan, Analyst, Cowen & Company, LLC>>

Talk about store closures in North America. You have been active in terms of managing the real estate portfolio. Where are you in that process? We have started seeing a big improvement in profitability. You're almost back to break-even in that segment after pretty significant losses in prior years. So where are you in terms of the overall real estate portfolio in North America and can you talk just about the store closures you expect in the coming years?

<<Sandeep Reddy, Chief Financial Officer>>

I think we've put a long-term goal out there, John, of 300 stores. But I think it's already a directional goal, because if you think about the way we started out this year – in this past year, we planned to close up to 70 stores. But in the end when we went and told the landlords we were closing, in many cases, we got rent reductions that made those stores profitable. So we kept them open.

So we closed 62 in the end, I think, by the time we got through the year, but – so that's why this year, we're saying 20 to 25 stores, but again, it depends on the rent deals we get. We may close less and if some of the deals that we don't get are good enough, that's fine, we can actually close even more.

So it's flexible, but what we want to do is just run for the profitability. And the profitability you've seen significant improvement in the back half of this past year, we expect more of those tailwinds to help us in the front-end. But, if we can actually get the comps to reach our guidance on the full-year basis, getting to break-even is very feasible for us.

<<John Kernan, Analyst, Cowen & Company, LLC>>

Starting out on the biggest drivers to this profitability improvement is obviously pruning the most unproductive stores is a big part of that, but there has been some IMU improvements I believe, there has been some cost reductions. So, just talk to us about the overall profitability improvements obviously, the fixed cost leverage of when comps improve like they have is also pretty significant.

<<Sandeep Reddy, Chief Financial Officer>>

I think profit improvement hasn't really come from any kind of leverage so far, because we've been in a negative comp environment in the entire past year. So, there are four components, I think the first one actually explicitly was what Victor talked about which is IMU. And that's been fairly significant last year for the total company, but America was a part of it.

The second one is the link to the planning and allocation strategies and processes that we are improving, so markdowns actually were a tailwind as we move into the back half of last year. The third and fourth ones really are store closures and rent reductions, and these two pieces kind of offset each other in some ways that are trade-offs. We actually were able to close a number of unprofitable stores, but the rent reductions truly have been a big enabler as well as the profit improvement.

So, in spite of actually having double-digit comp declines, we kept pretty much on a flat operating margin, last year give or take, which is really a tribute to these cost reduction efforts. So, as we move into the front half, there are still more tailwinds from those cost reduction efforts and if we can actually move into flattish to positive comp territory, there is definitely a lot more leverage that we can see in the P&L.

<<John Kernan, Analyst, Cowen & Company, LLC>>

Excellent. Victor, you talked in your earlier comments about some of the initiatives you're having in the merchandizing planning and allocation. Can you go a little bit deeper into that the initiatives you put in place, what you're seeing there and some of the future initiatives you have there in terms of just merchandizing design and then the planning and allocation of all stores?

<<Victor Herrero, Chief Executive Officer and Director>>

We will try always to – in terms of product, what we are trying always is to improve our product offering in order to keep our strategy to be a lifestyle company, a lifestyle product. So we need to balance between our DNA product and trendy product, and this is what we are trying to do in this respect. Also visual merchandizing is very important, no matter you're seeing in which distribution channel in retail, in wholesale, or in e-commerce, which has to be a very kind of a cohesive visual merchandizing, where you don't buy only one particular t-shirt and you buy the whole outfit. And this is what we are trying to push or trying to help the customer to go through.

At the same time, I mean we are doing several initiatives in terms of planning and allocations, some of them is basically trying to concentrate on full price sell-through and also trying to clean as much aged inventory as we can in order to have a very clean environment in the retail or in the wholesale.

As well we are doing a lot of initiatives in terms of trying to basically working with the planners and the buyers to reduce the SKU plan and also trying to concentrate or trying to

do a very big core business in terms of basics and trying at the end of the day to simplify a little bit of structure is the planning and allocation to be much more effective and trying to be faster to cope with the customer demands.

<<John Kernan, Analyst, Cowen & Company, LLC>>

Let's jump from North America to Europe. Guess has had a long history of enacting an aspirational brand in Europe. We talked about opening 100 stores I think this year in Europe. Can you talk about the trends you're seeing in Europe? The top line performance throughout the past year has been very strong. So, just walk us through what you're seeing in Europe, the 100-plus stores you expect to open and what you think the future of that market as a whole?

<<Sandeep Reddy, Chief Financial Officer>>

I think we actually said 60 stores, John.

<<John Kernan, Analyst, Cowen & Company, LLC>>

Yes. If it is, sorry.

<<Sandeep Reddy, Chief Financial Officer>>

That is fine, I mean, we can get to 100 at some point. But, I think the real reason is frankly there is a lot of white space that we see in Europe. The opportunities are definitely upwards of 100 stores over the longer term, but I think what we have been is very selective. So, we're looking to actually open stores where there's white space at the right conditions as we go along.

And I think a lot of the confidence that we're getting in terms of why we should be opening these stores is if you look at the history of what we've been doing is coming off 10 consecutive quarters with positive comps in our retail stores, we're trending towards the third consecutive season of the double-digit wholesale order book increases. And I think from an operating margin perspective, we see an expansion happen despite the fact that we have headwinds from the distribution center transition that we're dealing with.

So all put together, we feel very confident that there is a lot of white space in markets like Russia where we're actually expanding fairly rapidly and expect to do more so in the future. Turkey, which I think is a key market for us, where we're not fully penetrated yet. I think Northern Europe and Eastern Europe; there is a lot more opportunity as well as that we can tap into. So you put all these things together, we just want to make sure that we get the right conditions, right locations, but there's a lot of expansion potential for us.

<<John Kernan, Analyst, Cowen & Company, LLC>>

Right, the 100 stores is by fiscal 2020, not specifically this year.

<<Sandeep Reddy, Chief Financial Officer>>

Yeah, we'll probably hit somewhere close to that, yeah.

<<John Kernan, Analyst, Cowen & Company, LLC>>

So, on the point of wholesale that was a channel that was a little messy for a few years for a lot of brands particularly in Southern Europe. Can you talk about what you're seeing and you talked about double-digit order book trends, but can you talk about the future of that wholesale channel in Europe as you build out your directly operated platform?

<<Victor Herrero, Chief Executive Officer and Director>>

One of the strategic initiatives that I came to in August 2015 was basically to revitalize the wholesale business. And we've been doing very effective on that in Europe for the last couple of years, where we have double-digit growth on the order book of spring and also autumn. I mean I think it's related on the initiative of trying to improve or trying to focus the product and to be consistent in product. So, at the end if you are very consistent in product, your focus on the product that you believe is going to be successful with your customer, I mean your sell-through are increasing and basically the wholesale partners will buy more from us, and this is our long-term strategy.

We will continue being very consistent in product. Whenever you say you're consistent in product, sometimes you think it's very obvious. Sometimes it's not so obvious and you really need to be very consistent on how is your strategy in products. And I think we have been doing this for the last 2.5 years, and we have seen a lot of success in our wholesale channel.

<<John Kernan, Analyst, Cowen & Company, LLC>>

Within that, can you talk about the pure-play digital wholesale partners like as Zalando, seeing tremendous growth on that platform for a lot of brands? Are you partnering with pure-play digital players in Europe?

<<Victor Herrero, Chief Executive Officer and Director>>

We have some, but at the same time, I think, it's important as well to continue partnering with well, your own platform and at the same time, as well with the marketplace players. I think B2B is an important part of our business, we are with Zalando, we are with Otto, and we are with several other B2B players, but at the same time, also we are focusing on our own website in Europe, in the U.S., and in Asia, particularly in China. But at the same time, we continue working with all these market players. And this is a very omni-channel strategy, where we are trying to have the same product offering, the same promotions, the same – whatever we are doing we are trying to do in the three distribution channels in e-commerce, in retail, and in wholesale.

<<John Kernan, Analyst, Cowen & Company, LLC>>

So, let's jump to Asia, it's a region you know a thing or two about, for those of you who aren't familiar with Victor he ran Inditex's Asian business for a long time, and we all know how the success Inditex has had globally. So, can you talk to us about your view of that market in China in particular and the Guess brand's potential in Asia?

<<Victor Herrero, Chief Executive Officer and Director>>

Yeah, we've been there last week visiting around five cities there. The five cities they have more than eight million people now each of them. So, I mean it's kind of significant cities, but probably some of you know what I mean Shenyang, Changchun kind of cities that they basically Ninggou. They are kind of not very famous outside China, but with a lot of potential. And we are opening several stores for the last two years there.

But at the same time there, it's very important the e-commerce part. I mean we are partnering with a market, with Tmall, which is a marketplace, where we sell our product. And I think we've been very successful for the last couple of years. Actually, what we are trying to do the strategy there is like they are our partner there, and I mean we are trying to do with them omni-channel. We are trying to do several other initiatives in order to partner with them not only online, also offline.

We are trying to understand very well how is their promotion cadence. And we have to adapt to those promotional cadence as well on our retail organization. I think we built – I think it's important in China to mention that we built a very solid infrastructure over there, where we – I hired a couple of people from Zara, from Inditex, so it was very easy for me to do it. And basically right now, I think, we are progressing very solid there. And I hope that or I think that our potential is going to be strong in that particular market.

<<John Kernan, Analyst, Cowen & Company, LLC>>

Sandeep, can you talk about the profitability in Asia and the margin structure you think that business can generate long-term? You've seen some nice improvements back half of last year. How do you think that progresses in the short-term and long-term?

<<Sandeep Reddy, Chief Financial Officer>>

Yeah, I think if you look at our margins we actually expanded about 450 basis points I think in the past year. And I think what you saw was the result of the China business especially and the Japan business improving in profitability after we put down investments in infrastructure a couple of years before.

So, I think one of the things about Asia is the long-term potential of our revenue base; we talked about \$750 million. We turned the corner at about \$300 million, just over \$300 million. And we think over time that double-digit margin goal that we have for the

segment is not impossible. We definitely think it's in our trajectory. But the paths to getting to that double-digit margin may not necessarily be linear.

So for example, we took in Australia and Singapore as key markets as we want to actually develop a retail infrastructure and we may have to put investments down. So you may have seen some short-term disruption on the margin trajectory, but you can see that we have proved that we've actually been able to get the margin expansion in China and in Japan after actually spending some time building the infrastructure out. So, we are just going out for that \$750 million goal and driving towards a double-digit margin. We will see expansion overtime.

<<John Kernan, Analyst, Cowen & Company, LLC>>

And while we are on the topic of margin expansion, that target long-term operating margin that you put out there. What do you think the biggest drivers are to get there, obviously there's a lot of different regions, there's North America, Europe, Asia licensing. Can you talk about your confidence in that target and what you think will be the critical drivers in getting you there?

<<Sandeep Reddy, Chief Financial Officer>>

I think we are really confident that that target is very achievable. I think it's a combination of factors. I think the investments that we are making should be delivering returns and help us to leverage our cost structure. And we expect to grow sales faster than our cost structure over time.

And I think currency was one of the things that hurt us in the past. Now currency all of a sudden is turning to a tailwind. That actually does help us. So if currencies remain where they are, that actually will benefit us as we move forward towards that goal. So I think for the coming year we said 4% to 4.5% in operating margin, but that's 300 basis points away from 750 basis points at the top-end of the guidance. So we are on our way. It's just a question of time.

<<John Kernan, Analyst, Cowen & Company, LLC>>

Sure. One of the beauties of the Guess business model is the licensing business because it funds a lot, it's a big funder of your dividend. It generates a lot of cash, it's – almost 90% operating margin segment. Can you talk about the trends you are seeing in the licensing segment, your confidence in that segment long-term? And category-by-category what you are kind of seeing within that license business?

<<Sandeep Reddy, Chief Financial Officer>>

I'm actually going to go back to your previous question and then I will talk about licensing. And the reason I'll say that is, if you look at our history, go back four, five years, the licensing business was important, but it was the operating businesses in the

different segments that were driving the profitability of the Company. The strategy that we've actually laid out over here is to drive the profitability of those operating segments back up towards the levels that they use to be in the past.

And so in the future that's where we'll see a lot of incremental growth coming from. The licensing business is important, but we don't necessarily see this specifically as a significant profit contributor relative to the operating segments in terms of where the profit grows...

<<John Kernan, Analyst, Cowen & Company, LLC>>

Improvement in the other segments.

<<Sandeep Reddy, Chief Financial Officer>>

Correct. But I think that being said within licensing we are pretty comfortable where it's actually going in the right direction. If you saw sequentially as we went through the year we improved in trends. And towards the end of the year we really accelerated on the licensing segment as well. So we feel that that's become relatively more stable than it was at the beginning of the year. But again, I'll go back to what I said earlier. Look at the operating segments outside of licensing versus licensing itself.

<<John Kernan, Analyst, Cowen & Company, LLC>>

Sure. While we were on the topic of financials, you talk about capital allocation. You have a very clean balance sheet in funding and a nice dividend yield is even with the big move in the stock the last couple months, there's still fairly healthy yield in the stock, the dividend has been very stable, tax reform is unlocked. I think a lot of you – what international cash? Can you talk about capital allocation going forward?

<<Sandeep Reddy, Chief Financial Officer>>

Yeah, I think we talked about on the call and I think the first priority is obviously investment so we talked about the white space in Europe and Asia especially so investing in our growth in those markets and those two regions is critical. The dividend is obviously, a fairly critical component of where we're deploying our capital and we are not shy of doing share repurchases and we spent \$50 million on share repurchases last year, there is more of that that we can do, it's opportunistic of course. But we have the resources that are disposable to do that when it make sense.

<<John Kernan, Analyst, Cowen & Company, LLC>>

Excellent. Victor, shifting back to you, I just hosted a fire-side panel with the CEO of Fila, another European brand with a lot of heritage. And what they're seeing is a resurgence in brands that have a lot of heritage from the 90s and seen before that and Guess? certainly, kind of fit into that with the heritage that you've built both in North

America and Europe. So can you talk thematically about the shift back towards some of these lifestyle brands that have been with consumers for a long time across a lot of different categories?

<<Victor Herrero, Chief Executive Officer and Director>>

Yeah, I think that definitely there is resurgence on the 90s and the 80s and I mean we belong to that for example, in terms of the logo T-shirt or the triangle, a red triangle with a white cotton T-shirt. I mean, it has been very kind of iconic and we've been selling a lot of those T-shirts and it's not only the T-shirt, I think this is also helping us to sell other things. You know what I mean we have to be prepared to have that particular product in our stores or in our distribution channels.

What we are trying to do as well is basically trying to endorse celebrities, which are going to help us – for example, we had during the last couple of years, we have Joe Jonas, we have Camila Cabello, at this moment for our Spring/Summer campaign, we have Jennifer Lopez, which are really basically a good ambassador of that particular let's say heritage on 90s and 80s trendiness, that are happening in the market.

But having said that, I think it's very important and Fila is one perfect example of what is happening is that I mean, at this moment this is happening, but let's see what happen in one year time. So and to be ready that's why I was saying that all our initiatives of the product is listening to the customer, the customer – whatever the customer they want and try to adapt to that particular needs. And this is what we are trying to do from very first day that I started working in Guess?

Right now, we have this heritage trend. That are very important and we are trying to capitalize on that trend. But we are more worry about what is going to happen, what is next, and I'm trying to see what the future will be.

<<John Kernan, Analyst, Cowen & Company, LLC>>

Sure. And on that point, at company you've spent a lot of time with Inditex that's very good kind of – reacting to changing trends. What have you done for the initiatives you put in place at Guess to read and react and become faster in the supply chain and the whole product development supply chain design and merchandising?

<<Victor Herrero, Chief Executive Officer and Director>>

I think it's very important to whenever you chase product, try to chase product as quickly as possible. The fabric platforming is helping us a lot, because whenever you have already that fabric, it's easier the production cycle could be from four weeks to six weeks. We are trying to always keep a lot of open-to-buy in order to be flexible. I mean for example – in one particular collection, you are not really hitting the trends, trying to react to those particular trends that are really important for the customer.

So we are trying to be very flexible and at the same time, trying to be very effective on our production cycles, on our – but also having said that that's where we have a collection to do for our wholesale that is taking a little bit longer than a six weeks, but at the same time, the adoption rate of further distribution channels like retailer or e-commerce will be smaller than for the wholesale channel.

So I think flexibility have been more – to be more effective, trying to understand the customer demand to react and for example, instead of betting one particular product that they've already done, maybe in the past what we're doing, let say, okay. We are going to bet only for denim, and wait or try to understand, if denim is going to be the next thing, trying to have some denim and in case denim is the next thing, we will react fast and in terms of the replenishment, open-to-buy, chasing product will be very fast in order to try to cope with the best seller in that particular systems.

<<John Kernan, Analyst, Cowen & Company, LLC>>

Excellent. I think, what are you most excited about over the next – forget about this year, the guidance was out there, the business plans, things are going pretty good. What are you most excited about over the next three to five years for the Guess brand?

<<Victor Herrero, Chief Executive Officer and Director>>

I think what is very important is the growth. Since I've been here almost we've been growing for the last, let's say, six quarters and we will continue to grow, I think it's a great brand with a very, very relevant. And we will continue, I think we have a lot of white space everywhere and the growth is one important part of the strategy. And the second thing is consistency. We will continue, trying to deliver a good product on time, trying to have a good quality, trying to understand the customer needs. So basically I would say the growth and the consistency on everything we do.

<<John Kernan, Analyst, Cowen & Company, LLC>>

And how do you – within that, how do you view the overall competitive environment. It's been, you seen volatility in apparel retailing, some of that subsided recently with strong holiday. But how do you view the overall competitive environment going forward? I mean, recently in Europe we have seen some big fast fashion houses, have a big moderation in some other same-store sales and margin trends. So I'm just – how do you view the overall competitive environment globally and Guess is positioned within that environment?

<<Victor Herrero, Chief Executive Officer and Director>>

I think, what happened last year in North America we learnt a lot, and I think we are a stronger company, because I mean we learnt a lot on things that we have to improve because it looks like I mean, the retail was no longer an option in North America. So at the same time, I mean, we think about how to improve, how to be more effective, how to

be more appealing to our customer, how to develop our digital strategy, how to develop. So I think the more we see all these competitors environment or having some difficulties the more we are going to learn and the more we are going to adapt to the new needs of our customers.

And this how we have been adapting for the last 2.5 years and we will continue doing. I think sometimes this type of problems are – not only in North America by now as you mentioned in Europe are helping us to become better company and trying to understand how to win in a very challenging environment.

Q&A

<Q – John Kernan>: Excellent. So those are my questions. Does anybody in the audience have any questions for Sandeep or Victor? Go ahead.

<Q>: [Question Inaudible]

<A – Sandeep Reddy>: I think one of things that we talked about is digital first initiative and I think specifically in terms of the way, consumers interact with the brand, its most – it's for all generations. But I think especially the Gen Z and the Millennials communicating through social media is absolutely critical. So our messaging on a brand perspective is definitely delivered more and more through that medium, and that's how we are actually connecting with them.

<Q – John Kernan>: More questions, don't be shy. We got about 30 seconds left, but I'm going to just take the time to say thank you on behalf of Cowen for attending. Congratulations on all the progress. Like I said in my opening remarks, this has been the top performing stock in all of Cowen's retail coverage listed so far in 2018. And it's been great to see the turnaround. So Victor, thank you Sandeep. Thank you and congratulations.

<<Victor Herrero, Chief Executive Officer and Director>>

Thank you.

<<Sandeep Reddy, Chief Financial Officer>>

Thank you.