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EDITED TRANSCRIPT

Guess? Inc Investor Day

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CORPORATE PARTICIPANTS

Carlos E. Alberini *Guess?, Inc. - CEO & Director*
Fabrice Benarouche *Guess?, Inc. - VP of Finance & IR*
Ilona Cyruli *Vice President of Sales*
Katie Anderson *Chief Financial Officer*
Nicolai Marciano *Director of Specialty Marketing & Brand Partnerships*
Rob Chong *Senior Director of Customer Analytics & Relationship Management*

CONFERENCE CALL PARTICIPANTS

Janet Joseph Kloppenburg *JJK Research Associates, Inc. - President*
Janine M. Stichter *Jefferies LLC, Research Division - Equity Analyst*
John David Kernan *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*
Susan Kay Anderson *B. Riley FBR, Inc., Research Division - Analyst*
Westcott Irvin Rochette *Evercore ISI Institutional Equities, Research Division - Associate*

PRESENTATION

Fabrice Benarouche *Guess?, Inc. - VP of Finance & IR*

Okay. Good morning, everybody, and welcome at the Guess? Investor Day. We are really thrilled to be here today and share with you our strategic plan and vision for the next five years.

As usual, during those events, we want to start by sharing with you our safe harbor statement, so please make sure you take the time to review that. The deck is going to be available online, so please make sure you review it.

The presentation is going also to include some metrics that have been adjusted and non-GAAP. We have some reconciliation tables at the back of the presentation. Please make sure to look at them.

With that out of the way, I would like to call Carlos Alberini, our CEO, to the stage. Thank you.

Carlos E. Alberini *Guess?, Inc. - CEO & Director*

Thank you. Well, good morning, everyone. Welcome to our Investor Day Presentation. We are so excited to have you here. Thank you all for coming. We are very excited to share our 5-year strategic business plan with you today.

So we have a full agenda. We will try to move really quickly. We'll -- I will kick us off and we'll present our 5-year plan, our process, our findings, the opportunities that we see for the next 5 years and how Guess? is planning to attack them.

Then, Nicolai Marciano, he's our Director of Special Marketing and Brand Partnerships, will review brand relevancy for Guess? and how we plan to develop brand partnerships and collaborations. After Nicolai, Rob Chong, he's our Senior Director of Customer Analytics and Relationship Management, and he will share our plan regarding customer centricity, which is a big initiative for us.

After Rob, we'll have Ilona Cyruli. She's our Vice President of Sales, and she will review our plan to deliver product excellence, and she will also be available after our Q&A to review with you and walk you through some of the products that we have here.

We have plenty of product for you to see. And so then you can gain an appreciation for our approach on how customer appreciate -- customer centricity is really influencing our product design. After that, Fabrice Benarouche, he just -- so Fabrice, he's our Vice President of Finance and Investor Relations, and he will review our plan to address our global footprint. And then Katie Anderson, our new CFO, will join Fabrice to provide you with a financial overview of our 5-year plan. So that's -- that will conclude our prepared remarks and presentation. And after that, we plan to have a questions-and-answer session. And I will close the meeting after the Q&A.

We should finish well before 2:00 o'clock, depending on how we can move, but what we are expecting is that we will just present to you our plan, and then we'll consolidate all the questions during the Q&A session.

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So we hope you will find our time together productive and very informative. We've put a lot of effort into this. I have been in the CEO role for Guess? now for 10 months, and I feel that we have accomplished a lot. I feel great about, especially, what we have done with the 5-year plan. I believe that this project brought our entire leadership team together, and we worked in a very collaborative manner to capitalize on our learnings and identify our key opportunities.

As you know, I was with Guess? for 10 years before. I was President and Chief Operating Officer then, and I left in 2010 to join Restoration Hardware as co-CEO. My previous 10 years at Guess? were great, both professionally and personally. We had an incredible period of profitable growth, and we created significant value for our shareholders. I had the opportunity to work with both Paul and Maurice Marciano, both are co-founders of Guess?, whom I learned a lot about how to manage a brand, how to build and grow an international business, and most importantly, how to adapt to change relentlessly. I also learned about life, and we became great friends. And I -- they are still my mentors. I really love them. I consider them great people and brilliant pioneers in our industry. They really did so many things to change the course of how things were at the time and be very proactive with addressing change.

So as I look back into those -- I was looking back there. As I look back into those 10 years, our transformation as a company and business was remarkable. And we went from a brand that focused on single product categories to true brand lifestyle. From a wholesale centric model to a retail-driven organization. From a single brand to a portfolio of brands. We went from a company that was focused in the U.S. alone to one that was focused on the world. And we went from a company that had a product-focused licensing business, it was just about product, to one with a global retail licensing distribution network. And last but not least, we went from a company that just had a local U.S. team when I got there back in 2000 to one with a global team when I left. All these changes were strategic. And in a way, we were ahead of our time, especially with the retail transformation and international expansion that we embarked on. And it paid off, as we were rewarded with great results at the time.

Our performance and the results that we achieved were remarkable. I think strong top line growth and great operating margin expansion over the years to deliver significant operating earnings growth and value. Our compounded annual growth rate for revenues was at 12%. Operating profit grew at a compounded annual growth rate of 26%. And we reached $359 million in fiscal 2010. Operating margin was hovering around 17%. Of course, it was a different business. But those were the numbers. And we were very pleased with our performance. We generated a lot of free cash flow during those years, and we built a very strong balance sheet with about $0.5 billion of cash and no debt in fiscal 2010.

I'm very happy to be back at Guess? today. During the last few years, the company continued to evolve and grew significantly, particularly in the international market.

This is Guess? at a glance today. With almost 40 years in business, today we operate in 100 countries. We generated $2.6 billion last year in revenue. And if you convert those dollars into retail sales, meaning what the customer -- the ultimate customer pays for the Guess? product that is bought, that number puts us at a $5 billion brand. That's the size of our brand.

We offer products in 25 different categories. Some are internally developed and some we do with partner licensees. We have more than 14,000 associates worldwide, and less than 30% of our revenues are generated in the U.S. That is down from 45% about 10 years ago. 71% of our business today is international.

I believe that Guess? today has many strengths, and the company's achievements have been very significant, starting with the brand, which is enjoying very strong momentum globally. Partnering with celebrities has been a successful strategy for us, and collaborating to lead events and develop products with them have delivered good results consistently. So we know that the model works.

Also, having a meaningful social media presence has been a positive move. We currently have more than 7 million followers in Instagram, more than 8 million in Facebook. We are very pleased that we have been able to reach very new, younger consumers that represent the millennials and Z generations. And we are pretty excited about that. You will hear a lot about that during our presentation.

We have achieved significant top line growth, partially through store expansions in both Europe and Asia. And we have improved profitability in our retail business in America through productivity improvement and gross margin increases.

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Also during the last few years, the company has built a very powerful country management infrastructure that offers strong leverage to continue to grow. So we are excited about that.

I believe that now we have significant opportunities in front of us. Starting with our brand reach. While the brand is iconic and recognized in every country, our market penetration is relatively low within markets and among our great target customers that we are going after. We are determined to amplify our brand reach in both.

We also see an opportunity to personalize touch points for millennials and Gen Zs and to increase customer engagement and brand loyalty among them. Regarding product, we see an opportunity to increase penetration of key categories that made the Guess? brand a destination. These are categories such as denim, men's product, accessories. We also see potential in developing product catered to each of our customer groups, so we can really follow and support their occasions and their lifestyles.

In addition, we believe that there is significant white space globally to continue to grow. Our commitment is to become more profitable as a company, stronger financially and more valuable as an organization. Last, we will become a conscious capitalist organization and create an outstanding team to take the company to the next level of growth and profitability.

We have a large global market opportunity. We operate in the $1.8 trillion global apparel market. And if you add accessories, this market is about $2.3 trillion globally. And the market is projected to continue to grow at a 4% compounded annual growth rate. So by 2023, they are projecting that the market would touch about $2.6 trillion in size. That's a pretty significant market.

We have different levels of penetration, depending on the market. We compute this using data by country, compiled by Statista. That's the name of the firm that does this work. Examples of more mature markets for us are Canada, where we have 0.67% penetration. This is the piece of our sales that is represented of the $2.3 trillion that I just spoke about.

U.S. is lower at 0.45%. In Europe, we are well penetrated in Italy, for example, with a 0.73%, but very low penetration in Russia at 0.12%, and that is because we are relatively new to that market.

In Asia, South Korea is at 0.5%, as we have been there for decades, but our penetration rates in both China and Japan are very low at 0.03% and 0.07%, respectively. So a huge opportunity there. And also, we are very new in those markets.

If we take our penetration level in the U.S., the one that I mentioned is 0.45%, and we apply that to the entire global addressable market of $2.3 trillion, we are right at a $10 billion retail global opportunity for Guess. I know that is simplistic. But of course, the countries with the largest opportunities are China, Japan, India, which together would represent more than half of the total global opportunity using this methodology.

To assume that Guess? could be a $10 billion global company may seem aggressive today. However, when you look at other American brands that are playing in this global space, combined, they represent about $35 billion in sales and they range in size between $5 billion and $9 billion plus. Then, the potential size for Guess? in a growing market, seems a lot more realistic. And this is why we remain committed to develop the Asian market.

We also see new dynamics providing future consumer opportunities, and we are looking at this as well. Major markets are emerging. I just mentioned, China is overtaking the U.S. in fashion, if you can believe that. And India, which is pacing to become the sixth largest apparel market in the world, right behind Germany now.

Demographic stats say that there will be more consumers, and the majority will be younger. Consumers are buying much more of our products than they did 15 years ago, and stores remain a relevant space for people to shop. As a matter of fact, 95% of Gen-Z customers visited a physical store in a 3-month period, much more than millennials and generation X-ers, so there's plenty of interest to come to our stores.

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And consumer expectations and behaviors are also evolving. The digital revolution continues as we have seen it for many years now with 40% of retail sales now occurring online and growing double digit. Social media influences 80% of the purchasing decisions of young consumers. 82% of consumers search their smartphones before visiting a store. Sustainability is becoming huge with consumers. And so as policy transparency and social impact. Offering experiences continues to drive connectivity, engagement and loyalty. And we -- when you look at personalization, this has become the preferred method for effective marketing today.

The customer journey continues to evolve. From an already complex process with multiple touch points to a much more complex journey with many opportunities to engage with the customer, but also with many risks of losing them along the way prior to conversion. So developing a good plan regarding this and executing it effectively can make or break the customer level of engagement. This is, in my opinion, absolutely critical and a critical factor to win today.

Switching gears to profitability. We looked at our peer group, and we looked at their operating margin performance to set our targets. If you look at this chart, you have a range that goes from 0 or even minus to a best-in-class operating margin performance of 21%. As we all know, the star in our space at present is lululemon, with a 21% plus. The average operating margin performance for this group is 9%, including Guess?

When we look at our business model, and we reflect on it, the size of our wholesale business, which is pretty sizable, our licensing business, which carries very high margins, our global reach and size, we think that we should operate in the double digits. I am sure most of you will agree with that statement. I'm here to tell you today that we are targeting a 10% operating margin by 2025, and we are very excited about this.

So this is what we plan to deliver by 2025. Approximately $250 million of incremental sales to reach $3 billion, double our operating profit to reach approximately $300 million. This would represent approximately $150 million in incremental operating profit. A 10% operating margin, up 450 basis points from what we are expecting for this year based on our guidance, and we plan to deliver a $3 per share performance, up from our guidance for this year of $1.31 to $1.36.

So how do we plan to do this? We built our plan using this strategic framework that you see on this slide. We started with our purpose. We defined why our organization exists. We then built on our vision. The team worked very hard to identify key strategic objectives and initiatives to make our vision come to life. We're currently in the process of converting all initiatives into personal goals and determine key measurements of success from there.

We are committed to becoming a conscious capitalist organization. We embraced John MacKey's words that companies need to shift emphasis from profit maximization to purpose maximization. Of course, profit matters.

This slide represents the Guess? stakeholder ecosystem. At Guess?, meeting the expectations of all stakeholders is our priority. We will embrace diversity and create a work environment of transparent communication, trust and encouragement. We'll continue to value our partners, including licensees and vendors, as part of our Guess? team. We'll protect the environment and promote sustainable practices. We'll work hard to improve profitability and create significant value to reward our stockholders handsomely. And we will give back to the communities that we serve to make this world a better place. That's conscious capitalism to us.

We engaged our associates to provide their input to define our purpose as an organization. We got an incredible response. I was really blown away with the numbers. This included our entire global team. We had a 27% participation in this survey, and more than 2,200 people contributed their thoughts and perceptions about the brand, the company, etcetera. And these are the words that were mentioned most frequently by our associates, inspiration, empowered, passionately confident, authentic, dream and unique. And this is our purpose to inspire our customers to feel confident and passionate about their style and their future. At Guess?, we dare to dream. This would be our lens and the standard that we will use to make decisions and guide our actions in the future.

Regarding our vision, I shared it with you in -- maybe a few months ago. Our vision talks about our commitment for Guess? to be one of the coolest brands in the fashion industry. We also talked about our passion for our customers and our desire to delight them and deliver a seamless customer experience, and this would include amazing product, true omnichannel capabilities and speed and flexibility as the

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key factors to achieve this.

And last but not least, we want to have a best-in-class global team that works effectively to achieve common goals. So that's our vision.

Represented here are our 6 key strategic objectives that we came up with as part of this -- our work. First listed is organizational culture. We will always strive to have a best-in-class team of highly engaged and highly committed individuals that work together very well. Our next objective is about functional capabilities. And here, we will always invest in our infrastructure, so we can support our business effectively and efficiently.

The next one relates to brand relevancy. We strive for our brands to always be relevant with our 3 target consumer groups, and these are heritage, millennials and Generation Zs.

Our fourth strategic objective is about customer centricity. We will always place the customer at the center of everything we do.

Our next objective relates to product excellence, we'll design and make amazing products and we'll extend our product offering to support our customers' lifestyles.

Our sixth strategic objective is about our global footprint optimization. We will develop an effective and profitable global ecosystem to distribute our products.

Those are our 6 key strategic objectives. As we developed our plan, we have identified 17 key strategic initiatives to deliver on all our key objectives. These are the key projects that, if executed well, we estimate that they can represent more than $200 million of operating earnings potential at our current size, $200 million. This slide summarizes all these 17 key initiatives and the relationship with each of those strategic objectives. And let me now spend some time on each of these projects, so you get a full picture of what we mean.

Regarding organization, this is our first objective and first initiative, which is about the development, design and implementation of an optimum organization. Today, our company operates with strong regional autonomy. Only certain functions are operated globally. We believe that there are significant opportunities to become more efficient and enhance accountability and alignment with reorganizing our structure, and that's what we're trying to do. I also see potential for process streamlining and simplicity as we complete this project.

With respect to functional capabilities, second strategic objective, we identified six initiatives. I will spend more time on this specifically in a few minutes. But these areas include supply chain, sourcing and production, logistics and distribution, our IT roadmap, inventory management and then overall efficiencies, cost savings and profit improvement projects, and we have a lot here.

As we have previously discussed, we have engaged a consulting firm to help us identify opportunities to improve labor scheduling and to better align resources to customer traffic patterns, and we see a lot of opportunity there and cost savings in many other areas within the organization. So we will continue to work. And that's the last of those initiatives.

As we move into brand relevancy, initiative number seven consists of conducting a brand assessment, which I will describe next. And initiative number eight is about optimizing our brand partnerships model, which Nicolai will review later.

In connection with customer centricity, we have 3 big initiatives. Initiative number nine relates to designing and implementing a road map for customer centricity.

Initiative number 10 is about implementing sales force in the U.S. and Europe initially. And initiative number 11 relates to redesigning our omnichannel experience.

Rob will review our plans for all these initiatives later. But our goal here is to improve our customer experience in general and offer a seamless omnichannel one. We want to enhance data capture, strengthening data analysis capabilities and develop a personalized marketing model. You will hear more about that.

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On the next strategic objective of product excellence, we have 3 key initiatives. Initiative number 12 is about developing a model to deliver excellent product for each targeted customer group. This will include analyzing each customers' lifestyle and targeting specific occasions of their lifestyles so then we can design product to support them.

And then initiative number 13 is about exploring additional product licensing categories. We see opportunities there.

And the last initiative number 14 for product excellence is about global product development, which I mentioned in our call last week, and it relates specifically to our outlet line consolidation for Europe and the U.S. initially. Ilona will review these initiatives later as well.

The last 3 key strategic initiatives relate to our global footprint objective. Initiative number 15 is about further development of our global footprint in all regions, including on expansion and with partners, which we do very effectively.

As I said before, the numbers prove that we still have significant white space in the world to continue to grow, and Fabrice will elaborate on this more later. Initiative number 16 relates to optimizing our real estate, including sales productivity improvement, rent negotiations and store rationalization, and we see opportunities in that as well.

And the last initiative here, which is number 17, relates to the development of an Asian hub to service the Asian region and the market there more effectively.

We were able to size each of these projects and assign a priority to each regarding their financial importance and their strategic significance. So you can see the two arrows there. So if you go take the most valuable from a strategic standpoint and from a financial standpoint will be in the upper right corner, right?

Each circle has been sized based on its relative earnings potential and the value creation opportunity that it has. This slide maps the outcome. I strongly believe that this is a strong roadmap to grow our company strategically and achieve a 10% operating margin in 5 years.

I couldn't be more excited about this, as most of our initiatives are in our hands, in our control. And in each case, we have a clear plan to achieve them.

Next, I will touch on our culture and functional capabilities. When we talk about our culture, we refer to 4 big assets: our brand, our people, our customers and our business model. We will always protect our brand with integrity and will never compromise on quality. At Guess?, we do what we love with people we love. That's the kind of environment we want to create. We will focus on the quality of the people that we hire, and we will foster a spirit of diversity, inclusivity, collaboration and partnership. We will always place the customer at the center of everything we do, and we will develop amazing products for them. That's our purpose.

In our business, we will always invest in growth, but we want to grow muscles, not fat. We also want to always grow profitability at a faster rate than we grow revenues.

Regarding functional capabilities, we will invest in our infrastructure to support our business effectively and efficiently, and we will always build capacity to support our planned growth. We will build a supply chain model with improved -- higher improved cost, higher quality and faster lead times. We are reducing significantly our dependency on China to reduce tariff costs. And you can see the numbers there. We're going from 47% to 23%. We have talked about this last week.

We will leverage our European capabilities to source and procure products for our business in North America. And we think that this is a great idea to really gain in efficiency.

We're going through a significant consolidation of our vendors in North America and Europe, and we plan to reduce our base from 529 vendors last year that we had between the two, to about 200 next year, and we will emphasize sustainable manufacturing with all of

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them. We have eliminated most agent relationships that we had, and we will work directly with vendors, reducing commissions and improving speed.

And last, we plan to digitize our supply chain to capture an opportunity to reduce lead times by almost 2 months. We're working on that project as we speak.

Regarding logistics and distribution. We plan to reduce operating costs, improve service levels and optimize our distribution network here, and we have opportunities in both North America and Europe for improvement across the board. Our plan is already designed, and we have line of sight to about 150 basis points of operating margin expansion when fully implemented. This is 150 basis points on the company. The full execution of our plan regarding this should take us between 2 and 3 years, and we are already starting.

Our 5-year plan for IT is focused on consumer-facing applications and also on our infrastructure. The sales force implementation, strengthening our omnichannel capabilities and upgrading our stores are all part of this consumer-facing initiatives that we have. Globalization of our main systems, supply chain and wholesale distribution upgrades are all part of our infrastructure investment plans. We see a lot of opportunity here for a richer customer experience, better information for decision-making and analysis and additional speed and efficiency gains as well.

I believe that we have big opportunities to improve our inventory management functions across the globe. As is always the case in our business, the key here is to have the right product at the right time in the right location while we protect our gross margin performance, easy to say.

We need to optimize our assortment by country within seasons. For this, we will use data analytics regarding SKU productivity and customer data to improve selection of the products that we put in those countries and stores.

With respect to time, we're working on our allocation and replenishment processes and also on fast-track models to increase speed to market. And then regarding location, we are working with vendors and logistic partners to reduce lead times and use omnichannel capabilities to optimize inventory utilization.

Last, regarding gross margin performance, we'll focus on our markdown clearance strategy and in-season promotions, so then we can improve sell through. We made good progress this year in this area. I'm talking about inventory management. But here, I am talking about not only controlling inventories to a number, but to maximize sales and optimize margin. And to implement this, we plan to leverage AI and machine learning with the use of smart automated solutions. We are looking at multiple solutions available in the market today. And they all focus on merchandise planning, allocation and markdown optimization, and that's what we are planning to implement.

Regarding our brand portfolio, we plan to do 2 projects. The first one is about a Guess? brand assessment. And we are in the process of selecting a firm to help us with this project. We want to assess the market position, consumer perception, distribution channel impact on synergies, social media sentiment, new customer acquisition opportunities for Guess? and a bunch of other things that we think that we can accomplish with this project.

The second project is about our portfolio of brands, and we have several. Here, we want to fully assess how our brands can play together to optimize our go-to-market approach and capture the target customers that we have identified for each brand. This will take us a good part of this coming year. And we plan to touch multiple territories and the perception of the brand differs by market, so it's going to be a long process, but -- especially if you want to complete this at a regional level. So we are excited about the project, and we think that we can learn a lot about where to go next.

To build a brand I think is a difficult thing. To build a global brand is exponentially more difficult. And to stay relevant for decades and continue to grow I think is the hardest thing to do in our industry. Guess? has done that. This icon is recognized in every corner of the world. Since I first joined Guess? in the year 2000, that was my first time, I've always been fascinated with a strong image that the brand has in our market and how strong its identity is with consumers. Even if we were not speaking about Guess?, you would guess that this is

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a Guess ad, no pun intended. That's due to brilliant marketing, I think, that took place over the years and a unique approach to captivate the minds of consumers and let them dream of a lifestyle.

This was accomplished with a lot of creativity, consistency and very smart media placement for decades. The brilliant mind behind all this belongs to Paul Marciano, who till this day has the passion and the commitment to reinvent the model every day, to proactively set the best new way to get the consumers' attention, very hard to do.

Very early on, Paul discovered talent in people that did not have a name in the industry, and he developed them into icons over time. Names like Claudia Schiffer, Adriana Lima, Laetitia Casta, Anna Nicole Smith and many others are examples of this. And in many cases, this discovery started very early on. This is Gigi Hadid, who was in our ads, for our kids' line, when she was a little girl. We all know the career that she has had with Guess? and after Guess?

Fortunately, Paul is not alone in this field in our company. His son, Nicolai, joined Guess? more than 5 years ago. He's a Gen-Z ambassador in our company, and he's here with us today. Nicolai is connected with a very deep network of young people with multiple interests in the arts, music, vintage, fashion, sports, technology, movies and many others, and he began forming collaborations and partnerships with some of these talented individuals to do different projects together to market our brand and events, and he did this very successfully. He will tell you more about this, but I want to tell you that we have a very unique model, full of authenticity. A model that has been proven with multiple projects. That has connected our brand with the new generations very effectively. We are in the early innings of this, but we have a strong start and a great model.

Prior to my time at the company, Nicolai was on his own and had very limited resources to drive his agenda. Nevertheless, he had a big impact on the business, and I'm talking about millions. Now we are an incubator of him and his business. He has a team with designers, product development people, media team, operations and others. And to tell more about his world, here is Nicolai. Thank you.

Nicolai Marciano ***Director of Specialty Marketing & Brand Partnerships***

Thank you. Good morning, everybody. First of all, I'd like to thank everyone for being here and joining us. And thank you, Carlos, for your clear leadership, vision and support. I'm very excited to be here and share with everyone today.

Just to give a little background on myself, as Carlos mentioned, I've been with the company for almost 6 years. I have a background in product development and production. Being able to work in different departments of the organization has given me perspective on each function of the business. In 2015, we began with a few special projects that quickly evolved into a process and a department that has changed the way of thinking within the organization.

We started with a team of 2, lots of borrowed help, like Carlos had mentioned, and we now have a real team and a structured business model. I'm going to start by introducing each division of the brand. At the top, you're going to see Guess Jeans U.S.A., which is our incubator division of the brand, which is really working with opinion-leading people in the cultural space, whether it's from the music space, the art space to design and a lot of this is pushing the legacy of the '80s and '90s of Guess? with a lot of the designs, graphics, everything being sourced from the archives, but being reintroduced by different creatives in the industry today. All of these projects for Guess Jeans U.S.A. are going into a high-end specialty part of the market, pop-ups, activations, so it's really something that is just leading the energy and creating a halo effect around the brand.

Moving into Guess Originals. Guess Originals is from our retail stores to contemporary wholesale, which is the Urban Outfitters and Pacsuns of the world. That is something that's -- we're able to introduce a retro-influence product at an accessible level and at an accessible price range for that generation.

And then, of course, we have the mother brand of Guess? And from a partnership standpoint, when you go into the Guess? level, that's when you're getting into the global pop stars, the global endorsements, working with sports teams, stuff like that with really working with the pop culture of everything.

And when I'm referencing culture, what goes -- what fits perfectly with the different brand segments here is with the creative culture. Like

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I mentioned, we're really working with all the opinion-leading people in that space. And the way we see it, we see this as a trickle-down strategy or a halo effect, where whoever we're working with at the top is influencing the contemporary part of the culture. And whoever we're working with at the Guess Originals level is then influencing the pop culture. So us being able to have this kind of 3-prong approach really it gives us a dynamic situation to be able to work with anyone and everyone.

And by creating these 2 new divisions, which we didn't have before, we're able to create tailored partnerships with everyone that we work with without compromising their brand, their interest. If it was just one company alone, that would kind of handicap us in terms of how we can would work with people, but we're really able to do -- to tailor something really special for anyone that we do work with.

So first off, we're going to start with a few of the many examples that we've done in the past couple of years, and we're on a schedule today, so I can't share everything. But we're going to start with Guess Jeans U.S.A., which is at the top here. And these are like the 3 kind of big projects in the past couple of years. We're going to be starting with -- here we go, we're going to start with a video from the farmers market.

(presentation)

Nicolai Marciano ***Director of Specialty Marketing & Brand Partnerships***

So the Guess farmers market. This was the first global, big scale Guess Jeans U.S.A. project that we had. And it started with the community experience in LA. This is the first time we're introducing our LOT 5 venue, which is actually the parking lot of our office downtown, and where we created a full farmers' market experience with 6 different brands from the streetwear world. We had different local talent there from LA and from what started in Los Angeles, which was about 5,000 people over the course of 2 days, then we took on a global tour around the world. And I think for us it was important to show that with these new initiatives we're also thinking like in a global perspective where we did pop-ups in Paris, London, Tokyo, Melbourne, Perth. And from that, that kind of solidified how we were doing things, and we're doing localized kind of different versions of the farmers' market, where we're going to Tokyo, we're doing localized fruits and different inspiration and whether it's cherry blossom.

So there's a lot of different kind of creative elements that went into all of this. And this is really was the beginning of us kind of starting our global customer around the world for future projects that go into it.

After farmers' market, which was in May of last year, we go into Places + Faces, which is another similar project in terms of having a global tour. So we have a little video to go into that.

(presentation)

Nicolai Marciano ***Director of Specialty Marketing & Brand Partnerships***

So again, we had another project, very limited. And just to mention, for all the product that was released for this project and the project prior, everything was sold out the first day. All of this had doubled the resale value. So just to give kind of that perspective of how we were creating a supply and demand kind of technique with all these different activities that we're doing.

And Places + Faces is a local brand from London, from the U.K. It's 2 photographers, so we talked about working with different creatives in the space. And these guys had a really interesting story to tell with us because we shot the first campaign for Guess? on films since 2001, which is something that was really interesting. A big part of their brand, because they do flash photography, is reflective, and this was a really interesting moment for us from a product innovation standpoint.

We created multiple different fabrics with reflective yarn weaved into the shirts. I don't think anyone's ever seen that before, so that kind of created this whole kind of noise and buzz around the whole collection.

We started in Los Angeles at ComplexCon, for those who don't know about it, it's a consumer-facing trade show in LA with Murakami, Pharrell Williams. So it's kind of this opinion leading event to be at. And we had -- I think we had about 5,000 people through our booth through the 2 days. We had the longest line there with this project.

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And another thing, like you saw in this video compared to the farmers' market one is we added the whole party aspect. (inaudible) were the founder of those brands. They also DJing there part-time. So we're kind of extending that experience from just a pop-up in clothes to a 360-degree experience from -- they went to -- people went to the pop-up, they came to the party later that night and kind of creating this whole lifestyle around the new kind of Guess? perspective that we're doing.

The next project that we're going to get into is GUESS Sport. GUESS Sport -- this is a personal favorite category of mine from the late '90s, and we're going to have a little video to go into that.

(presentation)

Nicolai Marciano ***Director of Specialty Marketing & Brand Partnerships***

So as you can see, GUESS Sport, this was -- I think a lot of everything that we're doing now has to do with experience, and GUESS Sport is a part of the Guess? catalog from like about '92 to 1997. And it's something that we've always thought about doing and just figuring out the right way to do it and back to experience.

This is something that, obviously, we could create something really interactive, have an all-ages event, have people with their kids come out. And from skateboarding, basketball to soccer to racing, we've got about 7,500 people at LOT 5. This is the second event we've done there over the course of 2 days, and this is the way we wanted to introduce this and back to the kind of the block before that showed Guess Jeans U.S.A., Guess Originals and Guess?. In terms of the distribution, we launched this in a very Guess Jeans U.S.A. way, where if you weren't at the event or you didn't get that online drop that first week, you weren't able to purchase it. But the plans that we do have for Guess Originals is to move it into the Guess Originals segment where it's going to go into that contemporary wholesale part of the market. And we do see a big, big opportunity. A big opportunity for this.

Next, we're going to be moving into Guess Originals. And just to reiterate, Guess Originals is a vehicle where we can deliver retro-influenced product with a more commercial appeal at an accessible range. It's bringing a new customer to the Guess? Stores. And it's not only bringing a new customer to the Guess? stores for that product, but it's also introducing them to the mainline assortment, where I think a lot of these activities that we've done in the past have been to a focus group of people that were really -- that were very tapped into being there at the moment, but now we're starting to migrate that new audience into the Guess? stores, which is obviously, like, very important for us in evolving our new customer.

And when I talk about contemporary wholesale, that's also very valuable for us with Guess Originals as a vehicle because, especially in later-adopting markets, you were introducing Guess? to a customer that would never use -- that isn't currently shopping at a Guess? store, and that's very valuable in itself. The collaboration project that we're going to be talking about for Guess Originals is with 88rising, and we have a little -- we have a small video to kind of give a recap of that partnership in the past year, 1.5 years.

(presentation)

Nicolai Marciano ***Director of Specialty Marketing & Brand Partnerships***

So 88rising, which is one of our largest scale collaborations that we've done in the past 2 years, is a very interesting -- it was a very interesting collaboration and partnership we have with them that's ongoing. This is -- obviously, we have a huge Asia push, but they have a very interesting company. It's a media company and a record label, and they have about 10 different artists, some are Asian-American but predominantly Asian focused.

They had the first all-Asian music festival in North America last year with about 10,000 people. This year, it was 20,000 people, and so they have a huge audience in not only North America, but where, obviously, a lot of the artists are from. So whether that's China or Southeast Asia or Korea or Japan, so this has been a very lucrative partnership for us because we've been able to talk to a lot of the different parts of the market with the same kind of -- same group of people. We launched the first year, it was with a small capsule released at their festival on their U.S. tour that they had.

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We did an online strategic release with HYPEBEAST. Sold out in about 15 minutes. Then the second collection, which we launched this year, which was launched at the LA festival, again, which has kind of been like the inspiration, which is kind of head in the clouds behind all the design and kind of the concepting of the content, and that build into our retail for region 3. So this was a launch in a lot of our top doors in Southeast Asia, China, Japan, Korea. We did a few pop-ups in the U.S. and this drove an immense amount of traffic to the stores, similar to the success that we've had with A$AP Rocky starting in 2016. This really drove a lot of energy to those stores, and that's already a market that's already been primed by a lot of the A$AP Rocky initiatives, Guess Originals initiatives, where we've gone with Places + Faces. So this is a very exciting partnership for us as well as in the U.S. and for the U.S. distribution for this project, we did an exclusive with Urban Outfitters. I believe they had almost a complete sell-through in the first 2 weeks or something like that, and that went to all doors.

So next, we're going to be moving into our Guess Originals -- in, our, Guess Originals main line, which is actually releasing in the next couple of days. And we've talked about Guess Originals already where that has its place in the market, and we have an example of how the window is looking. So I think Guess Originals is a good vehicle for us because we can do cooler ideas, cooler collaborations, but whilst still keeping it kind of commercial. Not commercial, but being accessible and still having kind of a cool twist in terms of the creative and seeing that creative at the store level.

Next, we're going to be moving into the main line, which is Guess? And like I mentioned before, this is where we're looking at endorsements with global pop stars, global people and different sports teams, but being at a more pop culture kind of level. We've done stuff with Jennifer Lopez in the past for our campaigns. We've done tour integration with her. We did the campaign with Camila Cabello just before her huge Havana #1 single came out.

And the one artist that we're going to be highlighting today, which we're still currently working with, is J Balvin. So we have a small video just to show a little bit about who he is and what we've done with them in the past year.

(presentation)

Nicolai Marciano ***Director of Specialty Marketing & Brand Partnerships***

So for those who don't know J Balvin or aren't familiar with him, he's the first Reggaeton artist to perform main stage at Coachella. He was the first Latin artist to headline Lollapalooza last year. I think last year, he was the top 3 most streamed artists in the world, behind Drake and Ed Sheeran.

So back to Carlos' speech, we're a global company. We're in 100 countries around the world. And this is definitely a global citizen, someone who I've been to shows with him in Morocco, in France and Mexico City, in the States, in Asia, and I've seen the same response everywhere we've gone, and he's someone who we have an ongoing partnership with that is not only embracing our Latin customer base and supporting the expansion of Latin culture globally, because he's really pushing that message and Reggaeton is really becoming like a hot sound everywhere in the world, but his message is to make it for the world and to make it for everybody. So it's not specific to the Latin market. But the way this artist is collaborating with different people from like the Western world and stuff like that, he's really bridging that gap and has been a very successful partner for us.

Our first collection with him launched in end of January, in January last year, and this was a global campaign, so we're at Guess? level. This is going to every Guess? store around the world. And this is an amazing campaign for us. We had his collaboration, which was very colorful. It was very widely appreciated by all of our customers and new ones that were brought to us. And I think this is someone who is very active all the time. We have an ongoing relationship with him.

After our campaign launch with him in, like, the early spring, he performed at Coachella. We dressed him at Coachella. Then he had his summer tour in Europe, which we did a few pop-ups at some of those festivals in Europe. I think we did one in Ukraine. And then he had his North American tour this fall, which was about 30 cities in the States. We did tour management for the whole thing with a different collaborator, which is an artist who did all the stage design. So it's been a very lucrative partnership for us.

And I actually just came from Medellín, where he's from, 2 days ago, and he filled up a stadium of about 60,000 people. So being able to

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-- be aligned with someone like this for a brand that's as global as us has been -- has proved to be very successful.

So basically, over the last few years, we've tested and understood what strategies, regions and experiences have been most effective for us, and we're now starting to scale those efforts. At a first glance, with each division of the brand, each collaboration and each experience, they may not seem like all these efforts are connected, but in whole, this authentic and organic approach is what is defining the new perception of Guess? to our future customer and keeping Guess? in the conversation.

With this model, we will continue to reinforce and drive new customer acquisition by creating unique and relevant experiences globally. These initiatives have translated into 20% of our customer base being part of the Gen-Z audience, which we did not have prior to these initiatives.

Now I'm going to introduce you to Rob Chang, who's going to explain a bit more about our customers and customer centricity. Thank you.

Rob Chong ***Senior Director of Customer Analytics & Relationship Management***

Hello. Good morning. Hi, my name is Rob Chong. I'm Head of Customer Analytics and Relationship Management, and I'm excited to talk to you today about how we're using customer centricity to innovate within our business.

Customer centricity is the mindset of placing the customer at the center of everything that we do. At Guess?, we believe that not all customers are created equal, that we must commit to identifying those customers who matter most and have a willingness to dedicate disproportionate amounts of resources to understand and deliver on what they want. At Guess?, this is how we plan to enable customer centricity. We leverage all of our first-party data from personal demographics to engagement data to purchase behavior that we synthesize into a single view of the customer to create customer segments, which fuels marketing to each one of our customer touch points, including e-mail, the website, social media, direct mail and even the merchandising that's in our stores. All of that, that touches the customer.

Our customer-centric roadmap starts with collecting data across all of our customer touch points to enrich our understanding of the customer and then we segment using machine learning and AI to transform our customer data into actionable insights and personas that represent our most valuable customers. This segmentation helps supercharge both digital and social media marketing because now we can efficiently acquire new customers across our channels using lookalike targeting, and we can better retain them as well with specific messaging or retargeting, especially on social media.

And what we know, who they are, we can leverage both personalization and localization. E-mail, for instance, can be personalized based on both loyalty data and purchase behaviors. The website can also be localized using customer product affinities, price sensitivity personas to inform merchandising in site experience. And this combination of both customer data and purchase behavior helps design, identify new product opportunities for our customers.

So it's important for us to cultivate the feeling of this one-on-one relationship. And to do this, we leverage what we call "I'm Special" offers that are unique to each customer persona. Not just the website will be personalized, but also the stores as well. They will be segmented by geography-based trends and localized customer affinities, assuring that each store receives assortments and allocations optimized for their local customer base. And we're going to help the field understand their consumer bases by upgrading our clienteling app to allow them to develop more relevant and more engaging dialogue with customers as well as capture valuable customer information in the stores.

And lastly, a mindset of innovate, test and react, where we constantly test and launch initiatives like new distribution and fulfillment such as same-day delivery or subscription box with highly segmented product targeted towards the customers with the highest brand affinity. All of this to fundamentally align Guess?' products and experiences with the wants and needs of our most valuable customers.

So when we talk about placing the customer at the center of everything that we do, the Guess? model works like this. We distill it down into 3 pieces. It first starts with truly understanding the customers' lifestyle to derive insights that can in turn inform decision-making

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around the products that we design and how we place our buys. And once we have the products, we craft the go-to-market experience. And lastly, capture that data to keep this process in perpetual motion.

To understand our customer, we begin with our robust loyalty program. Our loyalty customers in North America are 3x more valuable to us than a nonloyalty customer in what they spend. But that is not the only value that they bring. They offer an incredible source of insights and data that help us truly understand their lifestyle, their wants and needs, and we see this globally.

In the Americas, we have 2.8 million customers on our loyalty program, over 1.4 million in Europe and 1.4 million in Asia. Out of the 1.4 million in Asia, 1 million of them are from China alone. And we just got started in that country. So we're hyper focused on growing our loyalty database and have been seeing month-over-month growth of our loyalty program, particularly with new first-time purchasers to the brand.

So with over 5.5 million loyalty customers globally, we are able to focus our lens on an understanding of the consumer to a level of clarity that we've never seen before. So when we analyze our customer, we found at Guess? that we resonate across 3 generations of consumers with substantial buying power. Our heritage segment has our large -- has a large buying power, that of over $1.3 trillion. Same as our millennial consumer. And our Gen-Z has over $400 million directly, and even more when you consider their influence power over the household. And the fact that they are the largest generation in the history of generations, roughly 40% larger than the next-generation before them.

And while we resonate across this wide range of segments, it's really important to understand that Guess? means something different to each particular segment. We know that our heritage segment is our most important volume segment. 40 years old -- 40 years old plus and made up of Gen X. They're responsible for 45% of the sales of our North America website. They're also very loyal, very well-educated and have a high household income. Our focus here is to maintain this base.

Our millennial segment makes up 35% of the sales. They are 25 to 39 years old, and we are focused on continuing to grow and nurture this audience.

And now our youngest segment, Gen-Z, they're 10 to 23 years old and are responsible for 20% of the sales, which sounds like a modest number until you consider that we've historically provided them only a handful of Guess Originals collections per year.

Needless to say, as you saw from Nicolas, we are excited to even better serve this customer and feel that it is one of our biggest growth opportunities because they shop each Guess Originals drop, each special partnership and they purchase at full price. Using all of this big data in our customer, we transform this into insights that inform our product and buying decisions.

Our customer centric model helps us understand our customers to see how we can position ourselves to support their complete lifestyle versus offering just a set of product categories. These data-driven personas highlight opportunities for assortment expansion and help us acquire our customers efficiency -- efficiently using lookalike advertising as well as maximize our customers' current lifetime value.

So later on today, Ilona will elaborate further on how these insights inform product innovation and product excellence. And now that we have a deep understanding of our customer and the product we need to bring, we need to bring it to market in the form of a tailored and personalized experience.

One of our first pilots was to segment by customer our North American website. And what you see on the left is the original homepage design. And the other side is the new design. The original website showed all of our best selling product, which, by nature, of sheer volume, is always going to be our heritage product. But the new homepage uses a tile design that devotes at least 1 tile to each of our unique customer segments and allows us to showcase the right message and right products for each one of our different customer personas.

This was especially important for our youth audience of Gen-Z and millennials. And I'm going to show you what is called the scroll map.

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It tells us how far down people scroll on a page and it's how we measure engagement. On our original homepage, 37% of the people scrolled down. And on the new design, over 82%.

We increased engagement by over 100% by segmenting our messages towards different and unique audiences, and we saw a boost in audience conversion, in which our Gen-Z customer segment became our highest converting audience in North America. The potential for upside for us is obvious, and improving the customer experience online is a key initiative for us. But to do so, we must first modernize our digital footprint. You see our current e-commerce platform is over a decade old, built in-house and very difficult to scale. And as such, keeping pace or exceeding the expectation of the modern digital consumer has been a challenge. And at the end of the day, this has impacted 2 key KPIs, primarily conversion and secondarily traffic.

We will be transitioning our e-commerce platform in North America and Europe to Salesforce Commerce Cloud. And we picked this platform because it's built for performance. The customer realizes this platform as a benefit to their customer experience: they will get increased site speed, especially on mobile, of which the majority of our traffic and conversion come from; improved search capabilities that help users more easily find what they're looking for; and get intelligent product recommendations based on browsing and buying behaviors and personalization powered by AI.

You see, on average, customers that move to the Salesforce platform see conversion growth improvement of about 12% and order growth about over 25% and traffic growth by about 12% as well. But again, this is on average. And as Carlos stated previously, our current e-commerce conversion and penetration of e-commerce sales to our brick-and-mortar is well below the standard for a retailer of our size. But if we achieve even parity, with the average, this represents a huge upside win for us. You see, if we do this well, the payback is huge. And while those that migrate to Salesforce generally see a 12% improvement in conversion while our conversion is well below the average.

So simply achieving just the industry standard conversion of 2.5% could lead to increases in conversion of not 12%, but for us that could potentially equate to roughly 70%. And keep in mind that every point of conversion is very efficient as we gain sales dollars even without driving any additional traffic.

At the end of the day, you can see how meaningful this is for us, for our online sales and being able to improve the digital customer experience. And we're not stopping just online, we're approaching customer experience from an omnichannel point of view. You see, it's key for us to ensure that a great experience online translates to the stores in the form of a consistently powerful customer experience as harmonious across both physical and digital channels. To do this, we are focused on 4 key things in our omnichannel roadmap. Creating an omni-channel accountability in the form of a cohesive company direction that allows Guess? to put this customer at the center of everything we do. We are also expanding our assortment with an omnichannel product strategy, introducing a reconceptualized store experience in design and upgrading our clienteling app to improve that in-store experience.

So let's talk about the assortment. We are focused on expanding our base assortment with an omnichannel product strategy that leverages e-commerce's endless aisle to provide the greatest representation of the Guess? brand of products. And we're making it easier for stores to access this assortment and fulfill from e-commerce. This allows the customer not only to access an additional breadth of product styles, but expanded colors and sizes as well.

And to make this connection seamless to the customer, we are in development of a new technology-rich elevated store design. A key focus of this new design is to deliver a shopping environment that is not only easier to shop, but that is also experiential and is aligned to the customers' needs and wants.

In addition to key destinations being built out for things like denim, it will also have additional seating, charging stations, WiFi, which, in turn, helps us capture data from our customer, an espresso bar, tea bar and an overall warm and inviting feel that helps draw in foot traffic. And of course, we will make it easier for the customer to shop with a new mobile POS system and magic mirrors that also allow for access to the expanded product assortment that I just spoke about.

And lastly, we will be upgrading our clienteling app to be more customer-centric and engage customers on a very personal level. To do

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this, the field gets easier access to information that can really power their business in the form of localized customer insights, customer call lists and predictive purchase recommendations to name just a few.

So to round out our customer-centric approach, once we have used customer insights to derive relevant product, we deliver that in the form of a personalized go-to-market experience. And we are taking advantage of all of our opportunities to capture data via POS, e-mail sign up, app download and more. And this allows us to not only continue the customer relationship but fuel the flywheel of Guess? customer centricity. Thank you. Appreciate the time.

Now I'd like to call up to stage Ilona Cyruli to talk about product excellence.

Ilona Cyruli ***Vice President of Sales***

Hi. My name is Ilona Cyruli, and I'm excited to talk to you about how we're taking many of the concepts expressed earlier and crystallizing them into product excellence. At Guess?, we are committed to being a worldwide leader in the fashion industry. We deliver products and services of uncompromising quality and integrity, consistent with our brand and our images. By focusing on our customers' needs, our products will always be inspired by the Guess? DNA while designed with quality and materials and sustainable practices. We always strive to achieve speed to market on immediates while maintaining our standards for product excellence.

Now to explain our strategy a little further, our focus is on our 5 key pillars: customer profiles, catering to our different demographics; product innovation, evolving our design process; sustainability, committing to maintaining high standards throughout our product life cycle; visual merchandising, presenting product in a way that aligns with -- sorry, product globalization, thinking globally while acting locally; and then visual merchandising, presenting product in a way that aligns with our customers and how they shop.

So first are our customer profiles. As you heard from Rob, based on analytical data, we will anticipate what our customers will most likely want by having a better understanding of our different demographics and customer profiles or personas. Of course, we can't be all things to everyone, so we will identify what trends are relevant to our brand for these different profiles.

There will now be architecture in our line plans, provided to design, so capsules are created with the end consumers' needs in mind. With these insights, we can see what each generation prefers to purchase from us. And by better understanding them, we will develop products that caters to them.

We know that we have an extremely loyal heritage customer, and our focus will be to maintain them. Our designs have always had a strong alignment with these clients in mind, and we will ensure to continue to offer a balance of updated fashion styles for them.

We also realize that we have a highly engaged millennial customer that cascades between the other 2 profiles, with similarities to both Gen-Z as well as heritage.

These aspirational customers are attracted to our brand as we continue to remain relevant in the market, and we are often their choice destination for outfitting them for nights out. In addition, going forward, we will focus on maximizing the extremely limited collaborations that Nicolai spoke about that are introduced by the influential creative culture and scale them to lead to business growth in emerging channels.

These exclusive events can make a big difference by connecting the high-level limited experience in Guess Jeans pop-ups to a broader channel via Guess Originals. Operating these partnerships will evolve from informal to strategic, as we will be leveraging the activities, which have had a halo effect on our brand by tapping into the younger Gen-Z consumer and bringing in new energy. This will also allow us to further explore and grow as we engage with this generation directly, which can lead to additional gains in market share.

Product innovation is the second pillar. Our design process is evolving, and we are starting to develop assortments for all targeted generations, servicing all occasions from day to night. In order to capitalize on these learnings, our SKU plans will not only be in proportion to gender and classification penetration but will also incorporate our customer profiles to support their needs for daily events. We will, of course, collaborate with our licensee partners to ensure consistency in product development for our entire brand. A complete

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outfit will be available from head-to-toe based on our consumers' lifestyle and destination. By having a best-in-class design team that is now further informed on the end-use of product, we will offer authentic and desirable assortments as we explore opportunities that were previously under penetrated.

Sustainability is our next pillar, and the plan is organized into commitments and goals that focus on our world, the people, operations, the suppliers we work with, our brand, the customers and the communities we connect with. Everywhere, we operate globally, we strive to work with integrity, doing what is right and working to continuously improve and evolve. To do this, we regularly monitor our performance, engage and collaborate with stakeholders throughout the value chain and transparently report our progress.

The fourth pillar is product globalization. We are aligning our process globally. But while we are thinking globally, we have regional design teams to ensure we are also executing locally. Our assortments will continue to service each country's needs as we evaluate opportunities for crossover styles based on our learnings that often a best seller is consistent across the world.

We will also do research on our adoption rates to better understand if we have potential to reduce development while leveraging production of goods. A good example of this is what Carlos mentioned on our earnings call about consolidating our factory outlet line to serve both North America and Europe. Another example is in mainline Guess? where we have also identified key denim fits that will be available to our customers across the globe. Further to this, we will explore alignment on additional classifications. And in the end, we will work to ensure all product is merchandised, not only consistently across all channels but presented in a relevant way that is aligned to our wide base of consumers. We will strive to offer an affordable luxury experience while focusing on having the right product in the right place at the right time.

Building destinations for each persona, where our customer shops, is a strategy we've started and plan to expand on. Not only is there a strategic architecture in our product design, but also in mapping out our stores and online to direct the consumer to the product that resonates best with them. As you can see, we have quite a bit of product here from our upcoming spring collection that I'd love to take you through after our Q&A session. The room is set up to showcase how the different product caters to all of the different customer profiles that we now understand, starting with the Marciano capsule over here on your left.

We flow into the Guess? women's collection. We have intimates, swim, active, we have a small representation of what our core is, which is on both sides and both genders. And then we have accessories. In the back, we have kids, showing the range of infants to big girl and boy, followed by men's accessories. Then to your right over here. We have the men's main line collection. Again, the mannequin is set up to show the different generations, from day to night, and then ending with the small capsule of what our brand partnerships, collaborations, product looks like.

Thank you very much. And I will now introduce Fabrice Benarouche to talk about global footprint.

Fabrice Benarouche ***Guess?, Inc. - VP of Finance & IR***

Thank you. Thank you very much, Ilona. So what I would like to do now is share with you our plan in terms of how we are projecting and planning for global footprint for the next 5 years. But I think before doing that, it's really important to understand our current footprint. And this is what you have on the slide behind me.

And I think it perfectly illustrates how global the company has already become today, with over 1,700 stores globally, of which almost 1,200 are directly operated by -- in more than 100 countries.

And I think what's nice about that map is that you can see that the stores are nicely distributed across really all the 3 key regions: Americas, Europe and Asia. So if we start to look at the footprint for the Americas, we currently have 481 stores, of which 439 are directly operated by us. And that number is much lower than what it used to be few years back. As over those last few years, we took advantage of the flexibility of our store fleet in terms of store coming up to really -- we negotiate lower rents as well as closing underperforming store.

And this is exactly what we intend to do going forward. I think, I think we were at almost 600 stores in the Americas. And when we talk

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about the Americas for directly operated stores, we have stores basically in 4 different markets, the U.S., Canada, Mexico and Brazil. If we move to Europe, we currently have as of the third quarter, 743 stores, of which 516 are directly operated by us.

And I think what's very interesting there is that Europe has become our biggest region in terms of store footprint from a global point of view. And I think another point too that's worth mentioning is that Europe is not a monolithic block. It's really a combination of many, many different markets. And as a matter of fact, those 516 stores that we directly operate are distributed across 26 countries. So when you do the average per country, that number is not that high. And I think it speaks about the potential, the remaining potential of the brand in that region.

Moving on to Asia. We currently have 519 stores, 219 of those stores are directly operated by us, which means that the vast majority of the stores are operated by our franchisee partner. Another point that you don't really see on the slide is related to our business in Korea, which still is a material portion of our overall business in Asia. And the business in Korea is done through concession in department stores. So it's -- the concession store count is not really there. But again, it's an important part of our business in -- overall in Asia.

So that was our current snapshot of our current footprint. So now if we move to how we are planning our store count for the next 5 years, this is what you have on the map. And let me start by saying that Carlos was saying, we still believe that there's material room for growth for the brand overall globally. If you think about that $10 billion number of potential that Carlos was mentioning. But at the same time, we are fully cognizant of the challenges we are facing in Americas Retail and Asia. So based on that, we decided to really put together our plan that we thought was somewhat conservative and modest in terms of store openings. So if we start with the Americas, where you're going to see that we are basically planning the America store count to decline compared to current levels and to be around 405 stores within 5 years.

So we are basically expecting net closure store closures for the Americas. Turning to Europe. I mean, Europe has been performing extremely well for us over the last few years.

We've had more than 4 years of positive comps, overall, e-commerce is doing great. Wholesale has been performing extremely well as well. But again, we took an approach here, and we're expecting the store count to be at 600 stores by fiscal year 2025. And again, keep in mind, those 600 stores are distributed -- will be distributed across 26 countries. So again, I think if you do that average store count by country, the number is not that high. And in terms of average annual growth rate in store count for Europe, we are talking about something in the very low single digits per year in terms of store -- in terms of store openings.

Finally, we move on to Asia. And here, basically, what we are saying is that we expect the store count in Asia to remain relatively flat compared to current levels. Again, we believe that considering the current environment, managing the capital investment in Asia very carefully is the right thing to do, but it doesn't -- we're still committed to the vision, and we believe there's potential, tremendous potential beyond those numbers. And I'm going to be sharing with you a few numbers later on in the presentation.

So really, when you put all of those numbers together, what we are seeing globally is that we expect our global store count for directly operated stores to be around 1,230 stores. And again, I think if you do the math, what we are basically saying is that we expect the store count to grow on an annual average rate of 1%, give or take. So now if we drill down into specific regions or countries. If we start with the U.S. and Canada, we currently have 367 stores in the U.S. and Canada. That's way lower than at peak level. I think at peak level, we were around 512 stores there. And again, like I was mentioning prior, we do full benefit from the flexibility we had in our store fleet in terms of exiting underperforming stores, but as well, renegotiating lower rents. And as you can see on the slide, we still have a lot of the stores that are coming up in the next 3 years, around 75%.

So same thing here, we fully intend to leverage that flexibility to drive improvement in the P&L going forward by renegotiating lower rents and closing underperforming stores.

But I think what's also interesting on the slide is if you look at the mix by concept, you're going to see that we only have 96 Guess? stores in the U.S. and Canada. And I think when you think about the size of the market, we are talking about there's got to be a way for that store footprint to be bigger -- and the point there is, if you go back to everything that's been said before in terms of really improving and

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becoming a fully customer-centric company, improving and providing a seamless omnichannel experience, enhancing our product portfolio, all of those are really aiming at, obviously, improving the productivity of our businesses online, but in the stores as well. And that should really provide us with more flexibility in terms of seeking new real estate opportunity down the road.

Having said that, I don't think that looking at the past footprint is necessarily a good representation of what our potential footprint could look like going forward. I think, especially because of the higher mix of e-commerce, and that might impact the size of the stores going forward, where we may not need as big of a stores that we had in the past.

So I think it's really important to keep that in mind. Moving to Europe. So Europe, again, has been performing extremely well. But what's interesting is that we have roughly 2/3 of the stores coming up in the next 3 years. And here, I think when we think about the momentum of that we've had in the business over the last few years. When we think about the strength of the brand in that region, we fully intend to use that flexibility of 2/3 of the stores that are coming up in the next 3 years to really drive lower rents. And actually, we intend to use the momentum and the strength of the brand as well in terms of pushing lower rent on new stores that we plan to open. And one point, again, about -- on Europe, which is not really on the slide there, but Europe wholesale, the wholesale businesses in Europe still represents a material portion of our business. Actually, the expectation for the current year is for Europe wholesale, the wholesale to represent a little bit over 40% of the entire mix in Europe.

And that business has been performing extremely well. We've just closed our sixth consecutive season of double-digit growth in Europe. And to understand what it means, it means that we've had 3 years of double-digit growth. That's the equivalent of that sixth consecutive season of double-digit growth. So the business has been performing extremely well. And actually, and I shared that with you more going forward in the presentation, where expectation for that business going forward is to remain relatively flat. So here, again, we took an approach to quite conservative. And now if we switch to Asia and specifically China. Again, I mean, here, you can see on the slide, we have 166 stores. And I think to me, when I look at that store count, and when I look at the size of the market in China, it really speaks about the potential of the brand that remains in Asia.

Of course, considering the current sales trend, we want to be very careful in terms of how we are allocating capital investment. And as you could see on the prior slides, we are not projecting any net store openings in Asia, and we intend to use the flexibility we have in the fleet, with 90% of the stores coming up in the next 3 years to really drive improvement to the P&L again through lower rents and exiting underperforming stores. But again, I want to go back to what Carlos mentioned earlier, we want to win in China. And I think if you go back to all the business initiatives that we have mentioned before, again, whether it's customer centricity, omnichannel, already enhancing the product portfolio to really cater to the local test of our customers, all of those apply to China. And we want to be -- those initiatives to be successful in China. So by no means are we saying we stay, we are remaining, we stay committed to that market.

So that was our plan, kind of for the brick and mortar. But I think what's interesting is to look now at the distribution by channel of our business today and what it is expected to be going forward. So if we move to the next slide. Today, this is our penetration by channel, again, some I'm just going the numbers here, but 58% of our revenues are generated through stores, 9% through e-commerce, 30% through wholesale and only 3% for licensing. But keep in mind that, that licensing business is a big contributor to the overall company's operating profit.

And if we look at what we're expecting or what our goals are is for e-commerce to become a bigger portion of our overall business. And really, what's happening there is, again, we are making a big investment in e-commerce, where we've talked about Salesforce, and we believe that we can play a bigger role there. And what's really happening on that chart is really e-commerce really getting some good momentum there as well. And as I said before, we are planning wholesale to be basically relatively flat. And in the stores, we're expecting to add revenues. But again, with a very modest comp growth assumption and some very slight expansion in terms of stores. So now if we try to look at what those numbers mean for the e-commerce penetration to the entire retail business and by entire retail business, I mean, brick-and-mortar and e-commerce combined, this is what they mean. So today, our e-com penetration to our entire retail business is around -- is expected to be around 13% for the current year. And going forward, for the next 5 years, we expect to reach 18% by 2025.

And then one thing here that's important, I don't know if you remember, but Rob was mentioning earlier, that 2.5% of industry average

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standard conversion, this is not even assuming we reach that average 2.5% conversion rate for our e-commerce business. So I think it really means that there is probably even further potential and opportunity beyond that -- those numbers here on the slide. So I think that concludes the -- my remark on that and I'm going to call up now, Katie, so we can walk you through the financial overview of the plan.

Katie Anderson ***Chief Financial Officer***

Good morning. I'm Katie Anderson, the new CFO. This is my second day on the job, so take it easy on me just this one time. I thought I'd take a minute to introduce myself and walk you through my background before we get into the financials. I started my career in investment banking here in New York, then in London and then in LA. My last deal as a banker was the sale of the then public California Pizza Kitchen to a private equity firm in 2010. While working on that deal, I fell in love with the CPK brand and the opportunity, and I left the banking world to work at CPK in various senior finance and strategy roles for 6 years.

In 2016, I was the CFO of Sprinkles Cupcakes for about a year. I gained 15 pounds eating cupcakes and ice cream every single day before returning to CPK to be the CFO, where I've been the CFO for the last 3 years. At CPK I ran the company's global finance, strategy, tax and treasury functions, as well as supply chain and technology, which I think positions me really well in this new role as a CFO of Guess?. I have an undergraduate degree in economics from Northwestern University and an MBA from UCLA Anderson. I'm absolutely thrilled to be here at Guess?. Let me tell you why. Mostly, I really believe in the strategic plan that we're presenting to you today. Guess? is an iconic global brand with enormous growth potential. And on top of that, there's real opportunity in the middle of the P&L to drive profitability and free cash flow, which, especially for a finance person is super, super exciting. You know the first day I met Carlos, he asked me, "Katie, what are you looking for in a job? "

I told him I want to be at a brand that I believe in. I want to work with smart people who want to win. And I want to be at a place where I have value. And this job checked all 3 boxes for me. Okay. And enough about me. Now we're going to talk about how the strategic work we just presented to you, translates into the financials. So the moment you've all been waiting for. We'll take a quick look at where we've been over the last 3 years, and then we'll walk you through our financial road map for the next 5 years. I want to start with a brief overview of how we're thinking about capital allocation to optimize both our business and shareholder value, which isn't expected to change materially going forward. Our first priority is to make the investments we need to execute our strategic plan. Our second and third priorities are to support return of capital to shareholders through our quarterly dividend and opportunistic share repurchases.

Let's talk about investments in the business first. To deliver on a true data-driven customer-centric model and provide our customers with an omnichannel experience, we need to make some investments in technology. These investments will be in consumer-facing platforms, as well as some behind the scenes infrastructure that we need to support the omnichannel experience and our growth in e-commerce. And the salesforce platform is a good example of this. The next bucket of investment is in our store base, both new stores and renovations. We've opened more than 350 stores in the past 3 years and now have almost 1,200 directly operated stores. We believe the brand has significant white space, and we'll be investing in new stores where it makes sense. Some focused markets, for example, are in Russia and Northern and Eastern Europe.

In terms of renovations, as our store base matures, we'll be deploying appropriate capital to ensure that our stores are well maintained and showcase the brand's relevancy in conjunction with our strategic plan.

There'll also be some costs associated with the savings we have planned in logistics and operational efficiencies. We expect these investments to yield extraordinarily high returns. The first 3 buckets of investment are the most material part of our CapEx going forward and carry similar weights. Now let's talk about our quarterly dividend program and share repurchases. As a reminder, earlier this year, we made a strategic redeployment in the balance of returns to shareholders by reducing the quarterly dividend by 50% and simultaneously repurchasing a significant number of shares. To fund this purchase, we raised $300 million and a 2% 5-year convertible debt offering. The debt offering was combined with a call spread structure to protect, again, shareholder dilution from the convert up to a price of $47. All the net proceeds from this transaction have been deployed to share repurchases. Year-to-date through the third quarter, we have completed $281 million in share repurchases, retiring 20% of our outstanding shares at an average price of $17.13. I think this transaction sets up shareholders really nicely to capitalize on the profitability growth and free cash flow generation that we believe we can achieve in this 5-year plan.

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I'm so thrilled to be here today to share it with you and bring it to life over the next 5 years. And with that, I will give it back to Fabrice to walk through the numbers.

Fabrice Benarouche ***Guess?, Inc. - VP of Finance & IR***

Thank you, Katie, and welcome at Guess?.

Katie Anderson ***Chief Financial Officer***

Thank you.

Fabrice Benarouche ***Guess?, Inc. - VP of Finance & IR***

Okay. So before moving on to our financial projection. I think it's really important to understand our journey over the last 3 years, as we've seen a significant turnaround in the overall company's results. Actually, if you look at the chart behind me, you see that based on the current guidance for the current year, we're expecting operating margin to almost double compared to level we achieved 3 years ago. Sales in the 3-year time frame, including the guidance for the current year, are expected to grow at a CAGR of 7%, and operating profit are expected to grow at a CAGR of 32%. So what it means is when you put all of those numbers together, we are effectively expecting operating profit for the current year to more than double compared to fiscal year '17. And I think what's interesting is to look at what we really drove that performance. And this is what the next slide is doing. So I would start with the right-hand side of the slide, and effectively, what we are saying is we're expecting to add roughly $500 million of revenues in fiscal year 2020 compared to fiscal year 2017. And the drivers, really, of that growth are basically starting with first store expansion, especially in international markets, Europe and Asia. I think Katie just mentioned, we've opened 350 stores, roughly over the last 3 years. And obviously, that really drove a big portion of that revenue growth, positive comps as well, including e-commerce has been performing again, extremely well, like I was saying before, in Europe.

And then always in Europe, we've had very strong wholesale growth over the last 3 years. And more recently, for the current year, we're expecting also to see some nice momentum in our wholesale business in the Americas. And all of that really, when combined, contributed to $500 million of revenues. And from a margin point of view, basically, those levers from sales levers really contributed to 260 basis points of our pricing margin expansion, which happens to be the entirety of the expected operating margin expansion in 2020 compared to 2017. So I think to understand why all of the leverage really happened on the right-hand side, we need to look at the left-hand side and the operational levels. And obviously, what you're going to see there on the top, the first item relates to logistic cost pressure we've faced over the last couple of years. And those were, obviously, are driven by the transition of our distribution center in Europe to a new facility, and that really became a headwind over the last few years.

But beyond those, we have had several areas where we've had a lot of successes and the first one is going to be supply chain efficiencies. You've heard us talk a lot about progress we've made on IMU over the last few years, especially in the Americas Retail and Europe. And through those, we were basically able to drive most of that 150 basis points in supply chain efficiencies that you see here on the screen. I was mentioning earlier, the fact that we had a lot of flexibility in our store portfolio in the U.S. and Canada, and again, we took full leverage and full benefit of that, and we were able to drive 30 basis points of operating margin expansion by exiting underperforming stores and renegotiating lower rents. We've been very diligent also in terms of looking at our expense structure and trying to optimize it and streamline it, and we were able to drive another 20 basis points of margin improvement there. But the thing, again, is that when all of that put together, because of the pressure in logistics, where basically, the overall impact from operational levers was very minimal overall, and all the growth was really in margin was really driven by basically leverage from revenue.

Now like Carlos mentioned earlier, we are basically targeting. Our goal is to get to 10% operating margin by 2025. And effectively, again, what it means is that we -- our goal is to almost double operating margin in that 5-year time frame. And if we want to understand how we expect to achieve those improvements, I think this is what we have on the slide, very similar to the chart of the prior slide. And again, I will start with the right-hand side of the slide in here. The expectation is again that through all the initiatives we have, whether it's customer centricity and really getting a better understanding of our customers being able to deliver a better and more seamless experience from an omnichannel point of view, enhancing and augmenting our product portfolio and really taking leverage of the fact we have a global footprint, we expect to drive only 100 basis points of margin improvement. Again, I think we believe that the brand can play a much bigger role globally. Again, I'll go back to what Carlos was mentioning earlier with the $10 billion. But here, we wanted to take a

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very prudent approach in terms of revenue growth.

And now if you look at the left-hand side of the chart, again, I'll go back to everything that has been said before, from a business and functional point of view, where our objective is really to optimize our logistic network in Europe and in the Americas. And here, we expect to recover 150 basis points of margin through those initiatives. So compared to the 200 basis points that we've lost over the last 3 years, if you think about that 8-year time frame, we still expect a little bit of pressure. And I think it's really driven by the fact that e-commerce is becoming a bigger portion of our business. And as you probably know, e-commerce is a business that is more expensive to serve from a logistic point of view than wholesale and retail. And that's why we don't recover. We don't expect to recover the full headwind we face. But think of that more like a mix impact.

Moving on, I mean, I think again, Carlos talked about supply chain efficiencies where we believe we can really drive more efficiencies by managing a global chain -- supply chain, really, from a global point of view and drive some vendor consolidation that is expected overall to drive a 100 basis point operating margin expansion. I was just talking earlier about the fact that we have a lot of flexibility across all of store portfolios around the world, whether it's in the U.S. and Canada, in Europe or China. And again, we intend to take full benefit of that by negotiating lower rents and exiting underperforming stores. And then on the expense side, we probably -- we have some investment to do to be able to support our overall business. But we have areas where we believe there's opportunity to drive a lower cost. So when you put all of those operational levers together, effectively, they add up to 350 basis points of operating margin expansion.

And I think that's the beauty of the plan we put together where when you think about that 400 in basis points of project margin expansion, we are shooting for. Basically, what we are saying is that almost 80% of that improvement is expected to come from operational levers, which are mostly in our control. And then for the remaining 20% or slightly more than that. Again, I think the big driver there is really e-commerce.

And the expectation in e-commerce improvement is not to improve traffic, but really providing a better experience and improving our conversion rates. So to some extent, it's also, to some extent, under our control. So now if we try to understand what that means in terms of the P&L architecture and try to understand the earnings power of our business model, I'm going to walk you through the -- what it means for the company. And what you have here on this slide is the first column on the left is going to be basically a recap of the guidance, with a bit more color on the P&L, you're going to see. The column in the middle is going to be the expected average annual cadence in terms of growth. And then the last column is basically the ending point of our estimates -- estimated projection for 2025.

So if we start at the top with revenues, we -- for the current year, we're expecting revenues to grow between 2.7% and 3%. But going forward, assumed annual average growth rate is in the low single digits, slightly below 2%, despite the fact that we believe there's a lot of white space beyond those numbers.

So when you do the math, what we are effectively saying is that we expect to add $250 million of revenues by 2025 compared to the expectation for the current year. And I would tell you that half of that revenue growth is expected to come from e-commerce. The remaining portion is expected to come from retail. Again, we are assuming a slight expansion in terms of store footprint, and we are assuming some very modest growth in comp sales. And wholesale is expected to remain relatively flat overall. Again, we believe those assumptions to be conservative or prudent, but we believe it's the right way to approach the business considering the environment in the Americas retail and in Asia.

Moving on to operating profit. So as you can -- as most of you remember in the prior slides, but we've had a CAGR of 32% in operating profit growth over the last 3 years. This year is, we're expecting operating profit to grow between 26% and 30%. Going forward, we are only assuming growth in the mid-teens for operating profit. And again, when you do the math, like Carlos mentioned earlier in the presentation, basically, we're expecting -- our goal is to add $150 million of operating profit by 2025 compared to the current level, which is almost doubling, basically, operating profit. Now if we drill down into the P&L and try to understand really the architecture, we will start with gross margin. So for the current year, we're expecting gross margin to grow by roughly 160 basis points. Going forward, on an annual average guidance, we're expecting to add 80 basis points per year. And what it means, actually, if you do the math, is that we're expecting gross margins to be roughly around 41.5% by 2025. And the way we expect to drive that improvement in gross margin. Again, it goes back to all the initiatives that we've been talking all along. Now supply chain efficiencies, logistic, store portfolio optimization,

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growth of e-commerce and really leverage. That's the -- that's how we expect to deliver that basically 400 basis points of gross margin improvement.

If you move down to SG&A, where you're going to see that we have -- we are just expecting some very moderate leverage from an expense point of view. And really what's driving that is the expense streamlining I was mentioning before. As well as better logistic cost, as you -- some of you probably know, our logistic cost are impacting both gross margin and SG&A. So we expect to see some benefit in the SG&A line as well. But as I was mentioning before, we're expecting e-commerce to represent a bigger portion of our business, and the e-commerce business comes with higher variable cost impacting the SG&A. But at the same time, it's impacting gross margin beneficially. Net impact at the end of the day from -- is accretive based on the e-commerce business. So what it means, overall, that's -- it means that, again, we have a plan to get to that 10% operating margin, and we're expecting basically to grow operating margin on an annual average rate of 90 basis points per year.

So now if you come down to really the bottom of the P&L and you look at earnings per share, basically, here, we are expecting earnings per share to be up in the high teens on average per year.

And you're probably going to notice that this is slightly higher than the CAGR on the operating profit. And this is really driven by the incremental impact of the accretion for fiscal year 2021, where we're going to have the annualization of the convert and transaction -- convert transaction and share repurchases we've executed in 2020 in the current year. So again, if you -- now if you do the math, what we are saying is basically, we're expecting to grow earnings per share by a multiple of 2.3x and reach $3 in EPS by fiscal year 2025. Those assumptions are not assuming any additional share repurchases going forward. But like Katie mentioned earlier, we have a very opportunistic approach to share repurchases. We don't really operate by a formula there. So now if we move on to the -- some color by segments. If we start with the Americas retail, we're expecting revenues basically to be up in the low single digits on average per year.

And I think a lot of that is coming really from e-commerce, where, again, we are making a big investment in terms of Salesforce, and we're expected to see some of the returns over the next 5 years. From an operating margin point of view, we're expecting 400 basis point margin improvement. And a lot of that, again, I'm sorry, because always the same things, but it's really coming from supply chain efficiencies and store portfolio optimization, and as well as the growth of e-commerce, which should help us really leverage the overall P&L.

If we move on to the Americas wholesale, the business in the Americas wholesale has been performing extremely well and is expected to perform extremely well this year. We're expecting revenues to be up in the high single digits for the current year. But again, looking forward, we decided to assume that revenues will be up in the low single digits CAGR. Very moderate expansion in terms of operating margin. But I would tell you that the operating margin in our Americas wholesale business are already very, very healthy. So here, that business is and is expected to continue to be a nice contributor in terms of operating profit dollars going forward.

If we move on to Europe, again, I think Europe has been performing extremely well for us across all channels. We still see a lot of white space overall. But here in the plan, we are assuming that revenues are going to be up low single digits overall on average per year. And you see there a big improvement in operating profit of 500 basis points, where the logistic pressure we faced in over the last 3 years, we're really focused on Europe. So this is really the place where we expect to see the most benefit of really optimizing our logistic networks going forward. We expect also to benefit from supply chain efficiencies by consolidating our vendor base across different regions. We expect also to see some benefit from really leveraging the flexibility we have from a store point of view. And then we expect also to see some benefit from e-commerce growth. So when you put all of that together, that's how we get to 500 basis point of operating margin improvement. What it means is that our goal is to get to operating margins in Europe in the mid-teens, around 15% by fiscal year 2025.

And when you do the math, on that 15% and the revenue growth, what we are effectively saying is that we expect operating profit in Europe to be well above $200 million. So that should be a big, big contributor to operating profit at the company level. And I think, again, when you consider the momentum we're experiencing right now in Europe, I think we feel good about that number. Now moving to Asia -- moving on to Asia. Asia is clearly almost a challenged business. We are planning for revenues to be up in the low single digits on average. And really, what's happening there is 2 things. I mean, we believe that once we lap the tough traffic we've experienced this

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year, we should be operating the business in an environment that's more normalized. That's for one. And for two, we are making a big push in e-commerce as well in in Asia. And that's the other driver around behind that low single-digit increase in revenues. From a margin point of view, we're expecting 500 basis point improvement in operating margin. And a lot of that is going to come through store portfolio optimization. And if you remember, where we've said to exit Australia in the middle of this year, and that should really drive some improvement going forward. And there's other levers there. And then e-commerce should help us really leverage the P&L overall. But I think what's -- one point that's important to understand here is that when you do the math here, what we are saying effectively is that only 5% or less, slightly less than 5% of the total company's operating profit are expected to be generated by Asia by 2025. So what it means is that the downside risk is somewhat limited overall at the company level. What we believe is that the upside opportunity is significant at the company level, and we're going to go. That's what we are remaining committed to. So I think it's very important to understand that. And then if you look at licensing, licensing has been -- we expected it to be relatively -- slightly down for the current year, and we're expecting that business to remain relatively flat going forward.

But again, that business is a big contributor to the operating profit at company level. So I think that's important as well. So if we move on now away a little bit from the P&L, and we look at free cash flow and what those projections means for free cash flow.

We are expected to deliver some nice improvement for the current year in free cash flow. We're expecting free cash flows between $57 million and $62 million. That's an improvement of roughly at the top end of $90 million compared to the prior year, and that is after absorbing the payment of the European commission fine of $46 million of this year, okay? So now if we look forward, if we go back to what I was just talking about previously about really being able to double operating profit over that 3-year -- 5-year time frame going forward, where, obviously, that should help operating cash flows. If we go back to what Carlos was mentioning at the -- early in the presentation in terms of really trying to manage your inventories much more tightly, well, that should benefit working capital. And if you go back to what we talked about last week in terms of extending our payment terms with the vendors, I guess, what that should help our working capital. So the expectation for operating cash flow is to basically double over -- by 2025 compared to the current level that we're expecting to achieve for the current year.

From a CapEx point of view, if you go back to what I was talking about during the global footprint, our store expansion plan are relatively modest. We're going to invest in the business and infrastructure and growth but at the end of the day, our expectation is for CapEx to remain relatively flat by 2025. So what's really happening there is that because CapEx are expected to remain flat, but operating cash flows are expected to double, basically, we should be in a position where we should be able to leverage free cash flow and the expectation. Our goal there is to really triple free cash flow by fiscal year 2025 compared to what we are expected to deliver this year, which means basically that we are expecting -- our goal is to deliver $180 million of free cash flow in 2025. And obviously, all of that should result in a much stronger capital structure of the company by then. So I know it's a lot of information, and it's a lot of numbers. So what I would like to do now is really a little bit -- wrap up the -- that financial overview with basically 5 key data points that I think are important. The first one is the fact that even though we believe that the brand can play a much bigger role and has a lot of potential, we took a prudent approach from a revenue point of view. We're going to go for more. But from a projection point of view, this is what we have with that low single-digit CAGR for the next 5 years. We have a lot of operational levers at our disposal to drive improvement to operating margins, that when combined with that low single-digit CAGR improvement in revenues should get us to that 10% operating margin by 2025. When you put those 2 together, we're expected to double operating profit in 5 years' time compared to the expectation for the current year.

Because of the accretion and the incremental impact of the accretion we're expected to get next year, we expect actually to multiply -- to increase earnings per share by a factor of 2.3x. And then finally, we expect to triple our free cash flow compared to the expectation for the current year. And I think, again, that's the value proposition from a shareholder point of view is obviously here very, very strong and I think that concludes our prepared remarks for the presentation. And I think I'm going to open up now the presentation to Q&A.

QUESTIONS AND ANSWERS

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Yes. Let's go and sit there.

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Fabrice Benarouche ***Guess?, Inc. - VP of Finance & IR***

Yes.

Katie Anderson ***Chief Financial Officer***

I'm going to take the stairs.

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Are we connected here?

Fabrice Benarouche ***Guess?, Inc. - VP of Finance & IR***

Yes.

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

So who [Glenn]?

Unidentified Analyst

I have a question regarding that what would you think North America, mainly the U.S. So you've got a very strong outlook-centric mix today, which is very different than the rest of the world, and also seems at odds with a lot of the things that Nicolai was discussing in terms of brand positioning. And I understand that wholesale is an important part of the U.S. need to look at retail and wholesale together. But it just seems to me that the footprint is not consistent with where the brand seems to be going as you talk about it. And I'd like you to talk about sort of how you see the evolution, the footprint in the U.S., specifically as it relates to the evolution of the brand?

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Yes. I think Fabrice touched on this during his presentation. I mean, obviously, what used to be the Guess? footprint is a very different situation today. But so is the market, I think. So I think we have been proactive in changing that footprint over time, and we took advantage of opportunities to reduce store occupancy and, in many cases, close underperforming stores and so forth. And that's how we ended up with a much smaller number of Guess? full-price stores in both U.S. and Canada. Now this was also a response to what was happening in the world and especially the growth of e-commerce. And I think that, that was absolutely the right thing. Our stores were way too big, considering where the company is today and how the business is divided between channels.

So I don't think that 96 stores, I think, is the number that we are flashing for 2025 is the right number of full-price stores in North America. Maybe the number is different, and we will really go through that as over time and take advantage of opportunities. But probably, the complexity and the composition of that network will be significantly different in terms of size and how we service the customer in an omnichannel way. So...

Unidentified Analyst

But I guess, Carlos, what I'm -- maybe I didn't asked it well is the outlets are a very big percentage.

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

No. Yes. So -- I mean, you talk about outletes-- I think that there are multiple brands where that phenomenon is here. And I don't think we have to talk about who does what or how the different networks are. But I mean, we definitely -- I mean you know our way to really solve this is to continue to expand the full price presence of the brand.

And that is what we are going to attempt to do. What Nicolai is doing is exactly completely aligned with that type of goal. And that is what we're going to do in our plans. But when it comes to a financial plan and what we think that we are ready to commit to all of you here today is a plan that is significantly more conservative. We have to prove success before we can go into an expansion spree.

Unidentified Analyst

So I mean, just one last thing on this. Do you expect most of the downsizing in North America to be in the outlet part of the business? The 180, 190 stores, I think you said.

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Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

There's a -- it's a mix, and there is a very small downsizing that you're talking about. But it's a mix, and it's more -- we expect that every project, every store, every remodel has to stand on its own. So we don't look at this as -- with a big brush, we just look at every project on its own.

And if we see that the financial returns and the opportunities are justifiable, then we support the projects. And in many cases, we are making assumptions about how those stores that we have today that are becoming due in terms of the lease terms are performing and will perform. And then based on that, we are making our assumption on this plan. But really, the goal is to continue to support our brand at full price.

John?

John David Kernan ***Cowen and Company, LLC, Research Division - MD & Senior Research Analyst***

Carlos, thank you for...

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

How are you? Thank you for coming.

John David Kernan ***Cowen and Company, LLC, Research Division - MD & Senior Research Analyst***

Thank you for the very detailed presentation and congrats on the momentum as you go into the next year.

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Thank you.

John David Kernan ***Cowen and Company, LLC, Research Division - MD & Senior Research Analyst***

I want to talk about logistics. I think that's the biggest bucket of the operating margin recovery that you're pointing to. And you're not pointing to a full recovery of the 200 basis points that you've lost. Can you just walk through where you're gaining the margins back from in that logistics bucket? Because...

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Yes, I think it just -- we have to be careful with how much information we can provide today. As I said in my prepared remarks, we have a plan, and the plan is very clear. We -- as Fabrice indicated, the biggest issues that we faced on logistics were in Europe with the change of our network. And in that case, we created a lot of vital capacity that has been just weighing on our cost structure. And also, we are operating in a much more expensive environment than we used to. So we are looking at optimizing that entire network. And that may mean making changes that could be pretty significant in terms of where we are, how we are operating and what we are spending to process and support our business. We -- and that is, by far, the biggest contributor of the 150 basis points that we're looking for company wide.

But we are not stopping there. Actually, as we looked into this opportunity, we saw that the Americas also offer a big opportunity.

We have a couple of DCs in Canada, for example, that are operating to support the business, and we see an opportunity to consolidate and run an automated environment and to support the Canadian business, that should cost significantly less to operate. And on a per unit basis, for sure. And also, we see opportunities for further automation in the U.S. We have a big DC in Kentucky and that we own that property, and we have an opportunity to make it significantly more efficient. So there is a lot coming from there as well.

John David Kernan ***Cowen and Company, LLC, Research Division - MD & Senior Research Analyst***

Got it. And then maybe one follow-up on the free cash flow generation, which would be obviously, pretty transformational to triple free cash flow. I think what we see is inventory has been a big drag on cash flow. The inventory turn has slowed a lot, Carlos, from your prior tenure at Guess?.

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Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Yes.

John David Kernan ***Cowen and Company, LLC, Research Division - MD & Senior Research Analyst***

Can you talk to the inventory management? You did allude to some of the payables. And yet proven you could see. If you can talk to specific initiatives within inventory management that would enable you to essentially triple free cash flow.

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Yes. So inventory, I think when I came into the company that was one of the big issues that we faced. We closed last year with a lot of excess inventory. And it was very clear what had caused that. We spent some time to really analyze how to address the issue. And I think we did a good job in addressing how excess inventory was being created to support the business. And as a result, I think we mentioned during our call last week that we expect, that we'll end this year with a decrease in inventory relative to last year in the double digits, and we are committed to that. The great thing is that not only we are taking care of the excess inventory that we inherited from last year, but also we have corrected the way we are buying. So then we don't perpetuate that kind of error on the way we want inventory. So -- but that is just to really modify the things that we have just to do a better job in assigning or allocating inventory to the different businesses.

I think that there is a lot -- a big step change opportunity here if we use technology more effectively. We do have assistance, but there is a little about machine learning, a little about analytics that can really, I think, in today's environment, can help us to put inventory in the right place at the right time and with the right type of breadth of assortment. And we are talking to several companies that have applications that are doing that, just there was a company -- just was -- just bought by Nike called Select, who really were experts at this. I work with them in my previous life, and very successfully. But we know, and we are talking to several other companies that have similar type of applications, and we are talking about perfecting buying, perfecting ordering. And when I say perfecting, we're talking about what is that you're going to buy? Where are you going to put it? And how much of it you're going to buy?

Talking about allocation and perfecting that whole process. And whether it's initial allocations. And what do you do with replenishment. And how do you really make that whole cycle much more efficient? And I'm talking about fulfillment, which is also a big part, especially now where we have a world where omnichannel gives us an opportunity to optimize the use of inventory across the entire chain or network. So we are working on all that. I think that there is a big opportunity for Guess? to improve on inventory turns. But I'm going to say that the business that we have today, is a very different business than the one that we had when I left.

At that time, we had a business that was primarily wholesale-driven or a lot of it wholesale driven. And obviously, wholesale operates with a much faster inventory turn than a retail business can. So we have to be very careful with how we think about, okay, how far can you take this? But I know that there are significant opportunities. Some of the work that our consulting partners have done in this have also demonstrated that there is a big opportunity here.

So it's not just us thinking we can do things better. But they have been able to prove with data that the opportunity is there. So we're going after it. Obviously, this is a big part of our asset utilization. So becoming significantly better in inventory is not only a great cash flow generator, but also it should help us to optimize margins as well because the faster we are in the fashion business. So this doesn't get better with time. And you know becoming much more nimble with the way we buy and moving inventory quickly obviously has a major impact on profitability and margins.

Janet?

Janet Joseph Kloppenburg ***JJK Research Associates, Inc. - President***

Carlos, I have 3 questions. The first is on the pretty honest discussion about having the right product, right time, right place, basically retailing 101. So I wanted to understand a little bit more the obstacles, the hurdles that are preventing you from having the right product in the right place at the right time? And how long that takes to fix? Obviously, some of it is technology, but I'm just wondering, is it process? Is it technology? Is it the structure of your design and merchandising team? I need to understand that a little bit better. The second question is on Asia. You're not adding any stores. It's a huge market. What's behind that? To talk maybe a little bit about the

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stores that will open over the last 3 to 4 years and the productivity levels of those stores. And a concern I have is maybe that some of the location aren't as optimal as they should be. And if there's any flexibility there? And lastly, a really small question, but Marciano is a very tiny concept. And I wonder about capital allocation to a business that's so small, and perhaps it should be consolidated. And those dollars, those investments placed in the core business.

Thanks so much.

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Thank you, Janet. Well, I'm going to start with the 101 question that everybody in this planet is trying to solve, which is having the right product, at right place at right time. Yes, very basic, but nobody does it really well. And I think that technology is the big answer here. I think that we do things as well as most in terms of -- we have good buying teams, we have good planning teams, we have good allocation teams. People know you talk about design and product development. Those teams have been doing this for a very long time. They're very experienced. We have made -- put an emphasis on becoming faster. That is very difficult to do for us and for anybody who has a similar business to us because we have a very strong wholesale business, and that adds a lot of milestones in that product development cycle.

So you have to develop a line, but then you have to sell the line. And that means that there are needs and big points there within that life cycle that really slows you down. So that is part for the course. We have a very, I think, a very good plan to digitize most of the supply chain, and we are starting that process now.

So then we could cut, and we believe that there is 2 months that we can cut out of a development cycle. So by using a lot of 3D technology to support our development efforts. So -- but I think the big answer is technology because the only way to get really better and better at this, is to use data and use prior history to improve what you're going to do next. And the only way to do that in a sensible way is with the help of technology. The great thing is that, as I said before, there are a lot of companies, and there is a lot of money that is going to fund these companies because the potential benefit is so big that are really perfecting these methodologies.

And I think that, that is where we are going. And in terms of timing, it's not going to take that long.

Janet Joseph Kloppenburg ***JJK Research Associates, Inc. - President***

So it's in the earliest part of the 5-year plan?

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

So -- oh, yes, yes, yes. No. So we are talking about -- the great thing is that these companies that I'm referring to they operate with applications that sit on top of your systems environment in a way. So it's not that we have to go and all of a sudden, we have to create a big system implementation here like it used to be. This is more about bringing that technology and aligning it with the rest of our network. So we think that the implementation time, significantly less. I'm talking about months as opposed to years. Okay. So that's with respect to the first one. You asked about Asia. And as I mentioned, we see Asia, especially China, but also Japan, to be just incredible opportunities for us. And why do I say that? Well, first, because the brand is meaningful and relevant and is a brand that the consumers there like and enjoy. And that's why we had early successes there. So to me, that hasn't gone away. That is, yes, we are going through a challenging time. But we still think -- I still think that the brand is strong in China. So then the question is, okay, just -- is this a lot that happened at a macro level? Or is it something that we did to ourselves?

And I think it's a combination, frankly. We said this last week. So -- but once you put it all on the side. And if you say, okay, all this is happening now. But you put that on the side and you say, well, is this a risk worth taking? Because right now, Asia is not a contributor. And obviously, we want it to be, and we are looking at every potential opportunity here to improve those contributions, right? But like I said last week, I see it as a great example of asymmetrical risk, where you have a downside that is very well-managed and kind of like protected, just Fabrice, just took us through those numbers. And then you have an opportunity for revenue growth and, therefore, profit growth that is immense. So should we play this hand? Absolutely, and we remain committed to that. But it all goes back to the fact that the brand is a prominent relevant brand in the Asian markets, and we have proven it. I showed you our penetration in Korea because I think that's a good example. I mean, the economy is not even comparable in terms of size, but we have been able to be very successful

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there with the same brand. And we have seen success in China for a couple of years, too.

You asked about the stores, are there stores in the wrong locations? Absolutely, not. Just I haven't visited every store, but I have to tell you, we are in 34 of the top 60 cities in the country. That is absolutely the right place to start. I mean, I have absolutely no concerns about what our real estate plan has been and how it has been executed. So I think that there are many other opportunities. And frankly, the plan, assuming that we renew success there. The plan will be to really continue to grow into those big cities. I mean, we're talking about 100 cities that have more than 1 million people each. I mean, think about the size of that market, when you have a brand that is meaningful and relevant. To me, that is huge. So now the great thing is, again, going back to that asymmetrical risk. We still have the opportunity to say, well, you know what, "this store is not working."

And within 3 years, we'll have 90% of chances to do that with every 1 of our -- or 90% of our stores. That's huge and a huge opportunity to really continue to fine-tune and optimize. And that is what we're going to do.

And your last question about Marciano, I have to say, I personally love the Marciano opportunity. I have to tell you, yes, it's a small business. Most companies start as small businesses. I think that we have an opportunity in that market today that is pretty incredible. And why do I say that? Because there were many brands in that space that were very successful and have built multi $100 million businesses that now are no longer existing. I'm talking about companies like many that I shouldn't name. And -- no, but there is an opportunity in that space that I think Marciano could play a significant role in. And that's what we are playing for. Now if we -- and by the way, you said there is a significant capital allocated. Frankly, the capital that has been allocated is a relatively small from -- considering the size of the company. So -- and we are not spending. We're not opening a lot of stores. We are not spending significant money in funding this initiative. And as a matter of fact, in many cases, Marciano is helping us to really make the spaces that we're having in Guess? more productive because we have representation of the Marciano line in many of our Guess? stores.

Hey, Westcott.

Westcott Irvin Rochette ***Evercore ISI Institutional Equities, Research Division - Associate***

One financial one strategic. So on the financial, you guys laid out a really detailed plan to 2025, but there's a lot of investments that need to be made, particularly on the e-commerce side that the benefits will come kind of down the line. As it stands now, it seems like 90 basis points, it would be kind of your proxy for next year. Is it going to be, kind of, a back-end loaded as the investments that you make in e-commerce, activate, drive improvements in the business? And how should we think about the cadence of operating margin improvement over the next 5 years?

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

So let me just take the investment side. And then Fabrice, maybe you can go into the operating margin issue. So I want to say that we have already assumed that the investments, especially to fund the e-commerce changes are going to be embedded in the guidance that you got between this year and what Katie and Fabrice talked about today in terms of capital.

So we do not anticipate that we will have this massive investment in capital required to support our e-commerce initiatives. In fact, the Salesforce implementation, obviously, there is a cost to implement, which is not a huge cost. And it's already embedded in our CapEx expectations for both this year and next year, and we said that, that CapEx is expected to be about at the same levels as what we are seeing this year. So that gives you an idea to frame it. But also, a lot of these costs are going to be showing up in the P&L, in fact, because a lot of this is not about buying something, but it's more about using services for something, okay. And Salesforce is a good example of that. Okay. So that's in terms of investment.

We do not have big expectations for increased investments. Now of course, we are using the fact that we are not opening a lot of stores to really fund our needs, right? So when we talk about whatever, I think we gave guidance for this year, that we'll spend between $63 million and $68 million in CapEx, right? So I mean, obviously, that's is a very different type of spending than we have last year in terms of the store openings. But last year, we spent $108 million on CapEx. So we do not expect a big change in CapEx spending, and we try to include all those needs in those projections.

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Westcott Irvin Rochette ***Evercore ISI Institutional Equities, Research Division - Associate***

I guess I'm thinking more along the lines of the expense and turning on the capabilities as you move to putting the app, moving on the platform, things that are going to drive the productivity gains that are going to fuel your growth over the next 4 or 5 years?

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Yes.

Fabrice Benarouche ***Guess?, Inc. - VP of Finance & IR***

Yes, yes. I'll go ahead on this one. So on the cadence, basically, I think if you look at the last 3 years, amount, we've been adding roughly give or take, I think, 80 basis points of operating margin on average per year. And if you go back to the chart we had up there, we are at 2.9%, I believe, operating margin in fiscal year '17, and we expected to end at 5.5% at the middle of the range of our guidance for the current year. So it's give or take 80 basis point. And -- so the 90 basis points, I would tell you is not completely -- I mean, again, the CAGR, it's an average per year, but I'll tell you that based on our history it's not completely unreasonable. But you could always have some timing in terms of how the initiatives -- the different business initiatives are basically rolling out and impacting the business. But again, based on history, we've not been that far over the last 3 years.

Westcott Irvin Rochette ***Evercore ISI Institutional Equities, Research Division - Associate***

And then on the brand, and you guys have done a phenomenal job of engaging with the younger Gen Z consumer, which 3 or 4 years ago, seemed unfathomable. But as you look to continuing to engage with that customer, does it -- can you do it in your existing stores? Can they sit side-by-side with the heritage customer, does that Gen Z customer want, kind of, a different place and not shop with their mom? And then how do you continue to build excitement around that cohort and that brand while kind of maintaining your emphasis on heritage?

Nicolai Marciano ***Director of Specialty Marketing & Brand Partnerships***

I mean -- I think there's a mixture, and we have certain plans, we're seeing the heritage, millennial, Gen Z customer, all living together within the store. And I think it's just a matter of like the correct kind of merchandising or creating different shop-in-shop experiences, but that is definitely something that is like -- that is noticeable for us and that we're addressing on how we're going to be evolving or moving that new Gen Z customer into the Guess? store even with -- given that the current concept, but there's definitely a process of creating...

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

As a matter of fact, I think we've disclosed in one of the -- our conference calls, we have conducted a test with a few stores that had shown an indexing of those categories above the average of what we saw in the overall Guess? chain. And we took those stores and then we repositioned the product. At the time, we were not necessarily intentionally thinking, okay, what is going to be the product that we're going to develop for that particular customer group? And how are we going to display that in the store? So we were somewhat limited in the power of this test. But we're able to collect those products that we thought were right for that type of customer and what we saw was a pretty nice performer. So we don't think that the 2 or the 3 customer groups can't coexist in our existing stores. Frankly, we haven't seen that -- anything that would suggest that.

So -- and our people in the field. They are saying, no, in fact, this is acting as a great catalyst. One of the comments that we keep hearing is that, that younger customer not only likes to come to the stores and see the merchandise but also they come in groups. And that is kind of like part of their behavior, and they enjoy that. So I think that it goes back to is the brand relevant to that consumer? And as long as we can do that, that consumer is going to find us. And if we give them a great experience, I think that they're going to enjoy and want to engage with us. Yes. Let me see. Janine. We have another one, I'll come back to you. Janine.

Janine M. Stichter ***Jefferies LLC, Research Division - Equity Analyst***

I just wanted to ask a little bit about the product assortments. I think you've talk to the opportunity to expand key categories, categories are underpenetrated. So maybe give some perspective on just what you think the total opportunity is as you grow key categories that you think maybe aren't fully represented globally. I think in the past, you've talked about, for example, in Italy, I think people think Guess? is a handbag brand, in France, it's a watch brand. So what's the opportunity as you round out the assortment globally? And where are the biggest opportunities where you think you're underpenetrated?

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Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

So can you repeat the piece about Italy? I can't hear.

Janine M. Stichter ***Jefferies LLC, Research Division - Equity Analyst***

Yes, I think in the past, we've talked and you've said that -- the company, at least has said that, people identify Guess? with certain product categories regionally. So for example, I think in Italy, people tend to associate it with being a handbag brand. In France, I think people will think of it as a watch brand. And there's regional differences in how people associate the brand, for example, in the U.S., will think of it as jeans. So how do you think the opportunity frames up as you grow other categories that maybe it's not as known more globally?

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Yes. So just, frankly, we don't know exactly how big this opportunity is. And as you can see in the drivers of our growth and our profitability in our plan, there is very little about that in terms of numbers. That being said, I believe that the big opportunity here is for productivity improvement. Just I look at our stores, just we definitely are not delivering the kind of sales per square foot that we should in order to get to a much healthier profitability for those businesses. And I think I'd look at the different product categories. I have been talking about denim for quite some time now. I think that there is a big opportunity in denim. Partly was due to the fact that we pursued a strategy to become a lifestyle brand.

there was no category that really had to shine more than others. And I think that, that was -- that leaves us today with an opportunity.

But you mentioned handbags. Handbags has always been a very strong category for us. And in some cases, we are not as penetrated. And there is, I think, a big opportunity to continue to grow even if we are penetrated. So handbags will, I think, can continue to be a very big driver of our productivity.

I think that the -- we know we have a whole lifestyle. And then when you start thinking about users, I think that, that's where the big opportunity is.

We -- I don't think that we have thought about the product development cycle and process the way we are now, meaning being a lot more strategic in analyzing the different lifestyles.

We never had clarity until now, frankly, about these 3 very distinct groups, where the brand is resonating and really appealing to.

So there are multiple opportunities with each of those groups to really do a better job in developing product for them and then analyzing occasions. Just -- we just talked about Marciano, for example.

Obviously, in Marciano, the dress assortment is a big part of the assortment of the brand now. But we cater, primarily, to night occasions. But that customer participates in daily occasions too. And there is a big opportunity to go after that day occasion. And -- but for that, we have to put our intent and our plans together to be able to deliver on that.

So just -- there are -- we see opportunities everywhere. There are big opportunities in -- for exclusive development as well. And then what Nicolai and his team are doing adds a completely new layer on things that in the past, we wouldn't have considered.

So I think that the opportunities are everywhere, and the different teams are looking into each. The way we are thinking is, once we have the data that we can say, okay, this is what this lifestyle looks like, and these are the occasions that this customer participates in. Then we are going to make a conscious decision and said, okay, we want to play on this occasion and on this occasion and on this, and this is the type of product that we need. The merchants will decide what kind of product they will need from the designers, and that goes to the designers with the line plan and the designers design into that line plan. So that's kind of like the way we are planning to approach it.

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Janine M. Stichter ***Jefferies LLC, Research Division - Equity Analyst***

Okay. And then just one more on the operating margin target. I think you've mentioned a number of areas where you feel like there's been some conservatism embedded, and it seems like a lot of the things that you're attacking are very much in your control, they're not top-line dependent. But if you had to characterize the risks of the plan, where would you say the biggest risk is in the double-digit operating margin target?

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Do you want to take it?

Fabrice Benarouche ***Guess?, Inc. - VP of Finance & IR***

Yes. Yes, sure. I'll take this one. I think, again, I think you have to go back to what's driving the operating margin goals. And again, like I said, I think, if you think about it, 80% -- slightly or below 80% of that is driven by -- or expected to be driven by operating levers, which should be mostly in our control. And if you look at the remaining portion, which is expected to come from revenues, it's coming from -- mainly from e-commerce. And again, when you think about e-commerce, our expectation is not that much to drive incremental traffic, but really to improve operations and drive better conversion. And again, if you go back to the numbers, we are not expecting that we are going to reach the industry average conversion of 2.5%. So it's still below the overall industry. So we believe, it's realistic enough. And I think, again, if you think about revenues, what we are saying is we believe the brand can be much bigger than what we are putting here in the plan. So if anything, we see upsides. Now things could turn around, anywhere in the world in terms of traffic. But again, if you think about store traffic, again, we are giving a big push in e-commerce. And again, a lot of the growth is coming from e-commerce, not really from the other channels. So I think it's important to keep that in mind.

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

What I would say is, to add to that, and I agree, e-commerce is the biggest driver. But the good thing is that when we see what others in the market have been able to accomplish with exactly the same type of tools and environment we think that we should be able to at least match that. And obviously, business continues to evolve. So maybe the opportunity becomes even bigger over time. But what I would say is a lot of these things are in our hands, in our control. Definitely, those 17 key initiatives are -- but it's a full play. And we have to execute.

So just -- I think that that's a big deal. I feel that we have a good team. I think that there is a lot of clarity in where we want to go. So I feel very, very empowered and happy and excited about tackling this. But obviously, we're talking about a multi-year type of projects. So that's it. Just at the end of the day, it's going to be a matter of us executing in all these opportunities. Thank you. Glenn?

Unidentified Analyst

I'd like to just ask one. Within -- you talked about white space geographically. I think you touched on India(inaudible) mentioned once and talked about this under-penetration in China for 100 cities. As you think about that, and at this point, you have very limited store growth. So are your thoughts in attacking that as you gain more knowledge to go at that with either a licensed model or e-comm model or some combination? Or is it too early to talk about sort of how we might go after that geographic white space? That's my first question. Second is, as you look at the full-price stores in the U.S., do you think sort of in this world that we're in, you need to reinvent the environment, I mean, is there a working with the branding of -- and whatnot, is there a reinvention of that store environment that you have to figure out over the next 5 years.

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Yes. Thank you, all. So with respect to the white space, I mean, it is clear, unequivocally that there is a ton of white space for the brand. I think that just -- I hope there's no doubt about that. The great thing that we have as a brand and as a business model is a lot of flexibility in how we can approach different markets, different product categories. I mean, it's like the model is remarkable in that way. And it's highly synergistic. So I feel that we have all the tools to be able to approach any market in the world. Now that said, there was a decision made at some point, just prior to my time, about owning a lot of the stores in China, for example. But we have proven, and we have a couple of relationships where those stores are not owned. They are operated by franchisees or licensees. And we're not opposed to exploring that type of opportunity. So we're not in a position to say, okay, it's going to be another 300 stores and 200 are going to be from here and with partners and -- but are we going to look into that? Absolutely. Because, in some cases, these licensees, franchisees have tremendous relationships in real estate, for example, to be able to get into the best locations and so forth. And we will not be

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opposed to that.

We are familiar with that type of model we're doing in Europe in multiple countries very successfully. So to me, that's definitely an open opportunity. India is a similar type of opportunity, probably a more challenging market, but we are seeing that the e-commerce business is developing quite nicely. So there is a lot of opportunity to -- on entering this -- some of these markets through e-commerce, and we are not opposed to doing that as well.

And with respect to full price stores, Rob touched on our new project, just we are taking the Rodeo drive store in Beverly Hills, and we're going to use it more as a lab. We are doing a lot in technology. We are adding -- just sitting areas, making it more comfortable and more open experience. And that is going to be the beginning of this, and we will probably take what works and what we think can be amplified to other stores. So definitely, just we are challenging the whole store experience in a very significant way. And he also talked about the idea of making just our web selection, a much broader one and using that to really funnel into just our teams in the field. And giving the customer more options, more choices, both in color, sizes, exclusive product and other things that maybe we couldn't offer in every single store.

Unidentified Analyst

Just one follow-up with -- you see the opportunity to enter new geographies on an e-comm only basis?

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

No. I mean, I'm not saying that. But I mean -- frankly, we haven't considered that as an only strategy. We have been very successful when we go with a multi-pronged approach. And I think that, that helps us to give a lot more visibility to the brand, and I think that we are good in all those channels. So it's -- and again it's a very synergistic model. So I think -- I like how we have done it, and we have won. So we are going to continue to do that. Thank you. Yes. How are you, Susan?

Susan Kay Anderson ***B. Riley FBR, Inc., Research Division - Analyst***

Susan Anderson, I don't know if this is on. I was wondering, Carlos, if you could talk about -- it looks like the margin opportunity is really coming a lot from supply chain, logistics, expenses. Is there any opportunity, I guess, on the merch margin front, particularly, as you talked about cleaning up the inventory, making it more efficient. Is there anything at all factored into improving merch margin? And maybe if you could talk about where you're at right now versus historically?

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Yes, I think that it goes back a little bit to the previous question. Just this year has been -- just challenging from a margin standpoint because we had to really move through a lot of the excess inventory. And in order to do that, we use partially our own network of stores or outlet stores. But also, we have to go outside and sell a lot of product to jobbers and -- in the off-price channel. Frankly, that's not our goal going forward. So -- but those -- the margin impact, which impacted last year in the fourth quarter, we took some charges. And also some -- to a certain extent, may have impacted this year, but not to the same degree, and we do not expect that, that will be the case in the fourth quarter. We don't want to annualize that. And our guidance shows that we are not expecting to take a similar type of charges at all. So -- but I think that those charges have been kind of like taking out of the equation as the plans were developed. So you should not expect - Fabrice talked about a 41.5% gross margin by 2025, and that assumes a pretty lean inventory position and just running the business the way we want to run it.

So that's -- and it's not aspirational because it's kind of like reflective of what we think we can do, and we have proven that we can do.

Susan Kay Anderson ***B. Riley FBR, Inc., Research Division - Analyst***

Got it. And then when you look at the North America store concept, the new one that you talked about in the slides. How are you guys thinking about in terms of the North American store fleet in terms of how many can be converted into this new concept? And maybe if you could talk a little bit about the cost to remodel the stores.

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Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Yes. So just -- this is a -- this requires a lot more work to be able to quote a number on this. Frankly, just there. Many of those stores are coming to lease expiration. We want to be careful with that, obviously, and use, like Fabrice said, just that to our advantage and try to optimize how we do things and lower cost. The -- we -- it's very early to start talking about what this new model could do. So I would rather table that question until we have a little bit more real data and analysis to be able to say, okay, this is what we are going to do. And in all these many stores. I mean, obviously, if we are talking about adding technology, Wi-Fi and things like that, and sitting areas and so forth. There are multiple stores in our fleet that could do that, that where we could do that. But at this point, I think it will be premature to talk about those. And what we are spending in Rodeo Drive is not going to be an enormous amount of money. We're talking about doing things in a very nimble way. So thank you. Yes, we'll come back to you.

Unidentified Analyst

I just wanted to give Nicolai a call out because I think you worked with such a great heritage brand, but you've really made it relevant for today's consumer. And I really think -- as much as the 5-year plan is laid out, it means something, and I'm excited for you all. I'd really like to hear more about how you see the brand developing in the next in 5 years.

Nicolai Marciano ***Director of Specialty Marketing & Brand Partnerships***

Yes. Well, I mean, back to the presentation, I think the past few years have really been in like incubation phase. And I think that's like -- to one of the bigger benefits for us is we started a lot of these initiatives in a very small way, or I think today, most companies would try these things in the full fleet right from the get-go. Where I think we're we've understood them, and now we know how to apply them into our businesses, respectfully.

As I mentioned before it's the comment from the gentleman in the blue we're planning on looking at all the Guess? like main fleet stores and seeing how we can further integrate the GUESS Originals assortment with an essentials assortment, like the same sensibility to further stimulate that customer, so that there's a better destination for them when they're coming to the Guess? store, but still holding on to the loyalist customer from our heritage side, but kind of reinforcing it.

But I think it's safe to say that there could be some new concept stores that are directly in that vein like that kind of product and that kind of energy and marketing.

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Thank you. Westcott?

Westcott Irvin Rochette ***Evercore ISI Institutional Equities, Research Division - Associate***

I guess you laid out the kind of the breakdown of the U.S. customer, and when you think about...

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Do we have a mic to give him there? Can you -- Jonathan, can you pass the mic? Okay, thank you. It's -- okay.

Westcott Irvin Rochette ***Evercore ISI Institutional Equities, Research Division - Associate***

The U.S. customers that break down. And when you look at either the Asia -- sorry, I can hear you. When you look at other markets, where the brand isn't as established and you're kind of moving in, do you have more of a gender balance? Is it skew younger? Because In the U.S., like the heritage, I assume, would be mostly women, right? Like, but as you kind of move into new markets, and you've been able to define the Guess? brand as you're moving into those markets, how does that segmentation differ?

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Yes, I know, I would like to come back to that. We are in the process of looking at all this. Just -- you saw that we have over 6 million people in our database, and it's very exciting to see all that. Just when you look at it it's varies, too. We know that. You go to China and you see a lot of very young customers, which is very interesting in the stores just that. So I think it varies, but we are planning to take a

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very disciplined approach to looking at that. Similar to what Rob shared today, just we are planning to dissect and we are in the process of doing this dissect the -- all the different databases in a similar way. And then design what we're going to do with each of those groups, depending on the markets.

Nicolai Marciano ***Director of Specialty Marketing & Brand Partnerships***

I would say, just in general, like all of the efforts that we have from Guess Jeans USA, GUESS Originals to Guess? We're really focusing on like a youth culture approach globally wherever we're going. And we're really trying to tap in to know the young consumer base, even from the age of 12 to 25, that's really where we're focusing our energy on.

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Okay. Yes? Hi.

Unidentified Analyst

Hi

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Yes.

Unidentified Analyst

One of the biggest differences that I see between you and your peers is distribution. And I'm wondering if you think that you need to call your distribution points in North America in order to maintain and grow your margin and...

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Do what?

Unidentified Analyst

To maintain and to grow margin.

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Yes, but it is -- you think we should do what, close?

Unidentified Analyst

To call. To -- Yes.

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

To call? To reduce?

Unidentified Analyst

Yes And then furthermore, do you need to do that specifically in the e-comm channel in order to drive those conversion goals that you've laid out?

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Yes. Actually, we have been closing a lot of stores. As you know, over time. And partly, that was intentional with our own fleet. But also the department store industry where we used to play a very significant role, we still play a significant role, but that industry has contracted over time. So as a result of that just -- we also closed or they closed, a lot of points of distribution. So I think that, that has happened over time. And then -- and I feel that we have a great distribution at wholesale today. And I feel that if you look at where those 96 stores are, they are in very compelling places and well represented by the brand. So to me, in terms of that network, I like where we are. With respect to e-comm, I think that we are also being very careful. If you look at one of the drivers of margin growth in the last few years has been the reduction of promotional activity by us. So I feel that this is one of the brands that you can say, "Oh, wow, you are

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promoting less, when everybody else is promoting a lot more." So I feel that, if anything, and I don't take any credit on this. I think that this happened prior to my time, but I think that the brand has been repositioned during the last few years into a much more of a full price environment than it used to be. Thank you. Yes, Janine?

Janine M. Stichter ***Jefferies LLC, Research Division - Equity Analyst***

I wanted to ask a question on Marciano, I wanted to see if you could address G by GUESS I guess , I think it's pretty small, not as small Marciano, but still small. So how do you think of the strategic importance there? Do you actually see a younger customer come into that brand and then eventually migrate up to the actual Guess Brand or how do you think about its positioning and the need to keep it alive?

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Yes. There's more work to do. I share with you that we're planning to do this brand assessment project, and then a part of that is to really further identify what role each brand will play in our portfolio and with which customers. What we know is that G by G, we call it now, is definitely relevant with a different consumer that we have with the other brands. And we like that because, obviously, it can be just an opportunity to add and serve a different consumer. We do extremely well with the Hispanic Latino community, and we like that very much. But really, with all that being said, we have to see if there is an opportunity here to create a completely different brand that doesn't depend on Guess? Or if that opportunity doesn't exist, and then we have to think about what we do in that case. So more work to do on this area. But just the good thing going back to the capital invested and so forth. I mean, yes, we do have 70 stores? 80 stores?

Fabrice Benarouche ***Guess?, Inc. - VP of Finance & IR***

In G?

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

In G.

Fabrice Benarouche ***Guess?, Inc. - VP of Finance & IR***

Yes, less than 70.

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Yes, less than 70 stores. But the brand was profitable last year. So I mean, not that, that is -- that's enough for us to say, okay, we're going to stay where we are. But for now, we are -- it's not that we are opening new stores, actually, we are watching this. And we'd rather take more time before we make this type of decisions. The great thing here is that there's plenty of real estate available if we wanted to grow. Plenty, at very attractive rent. But definitely, this is not what we are planning to do right now. Yes?

Unidentified Analyst

Carlos, maybe you could expand a little bit about the history of you coming back, what the Board wanted to change in a strategy from your predecessor. And then since you've come back, what you've been more excited about or less excited about over the last several months as you've developed this plan? And since you personally bought a lot of stock, maybe you could talk about that.

Carlos E. Alberini ***Guess?, Inc. - CEO & Director***

Thank you. Well, the Board was very clear. When I joined -- just the Board wanted to see a focus and emphasis on good growth and operational discipline, and asset evaluation and building a business strategy that really resonated with the brand opportunities. And the potential that we have. So -- and I feel that, that has been where the team and I have spent most of our time to really build that. I think that when it comes to me, and the things that I found that were exciting and things that were more challenging. Just the opportunity is what is the most exciting. And the opportunity, I think, is fueled by a lot of additional space to continue to grow. And the opportunity is -- I started in finance. So for me, similar to what Katie said before, just seeing that there are big opportunities to improve profitability, and it's all within the P&L and things that we can control, gets me very excited, and I'm very passionate about attacking those opportunities. I think that the culture that we have at Guess? I had spent 10 years here. And I decided to come back because I enjoy everything that we did back then. And I feel that we have an opportunity to really create a very unique environment and very exciting environment. And I think that the team is really embracing that new beginning in a way. so in terms of challenges, I think that the -- some of the biggest challenges are about what's happening in the macro area. Just frankly, I wasn't happy with our performance in Asia. But it just happened very quickly, and it was driven by customer traffic slowdown, and it's just a very difficult thing. We did identify things that we could do

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better, and we are already are reacting to that and putting plans in place and so forth. And it's primarily what we are offering the customer that is a lot more localized. You've heard a couple of times that we think globally, but we have to act locally.

And I feel that when it comes to product, that is very much the case in places like China and Japan. And I think that another big area that I think is exciting but it's going to take a lot of work is to complete some of these big projects. We talk about kind of like we doing an entire logistics network. That's -- That takes a lot of work and a very -- a lot of effort, but I feel that we are completely ready for it. And yes, I see a lot of value in this company. And that's why I made a big personal investment in it. And the biggest one is was to come back. I think that we are good. Thank you so much. I just -- first of all, thank you for using all this time as everybody is busy and this is a very valuable time, we greatly appreciate you coming.

I just want to leave you with a few thoughts in terms of why Guess? Why this is a great just -- company, and why we are -- we plan to deliver a lot of value. We have a highly recognized iconic lifestyle brand with a very strong following both from heritage and millennials and Gen Zs. And we think that this is a very important aspect of what we offer, what we have. We have a diverse global footprint, and I feel that the business, as I said, the business model is highly synergistic, is a multichannel model, and that works really well together and has done that for 40 plus -- almost 40 years. We have a lot of white space, and that white space is not just in regions or markets, but also across product categories, as we just mentioned.

The enhancement for margins is, I think, is very obvious, and we try to size that for you today. But we think that it's, again, in our control. We have a strong balance sheet. And if we deliver on these numbers, the balance sheet only gets stronger. And we are a shareholder driven company. We really want to create significant value for shareholders. And that is at the top of our priority list as well. I just want to say thank you to the team here. Everybody worked very hard. And not only the team here, but the team outside. We had a meeting in Europe, not too long ago. We had 40 key executives from the entire company participating in developing this strategy and I know that everybody is very proud, starting with me. Thank you so much. Thank you for coming. Thank you.

Our Board members are here today with us. And I want to introduce them, Deborah Weinswig here and Lorianne Goldman over there. Thank you very much for your commitment to us, to the company, to the Board. Thank you.

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