



# J.P. Morgan SMid Cap Conference

December 11, 2013 | COMPANY OVERVIEW

# Safe Harbor Statement

---

## **Forward-Looking Statements**

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

# Agenda

---

## **Company Overview**

Strategic and Operational Initiatives

Financial Overview and Conclusion

# The Fundamentals



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

# Agenda

---

Company Overview

**Strategic and Operational Initiatives**

Financial Overview and Conclusion

# Strategic Initiatives

---

## Talent

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

**Focused  
Digital  
Marketing**

**Technology  
Initiatives to  
Transform  
Business**

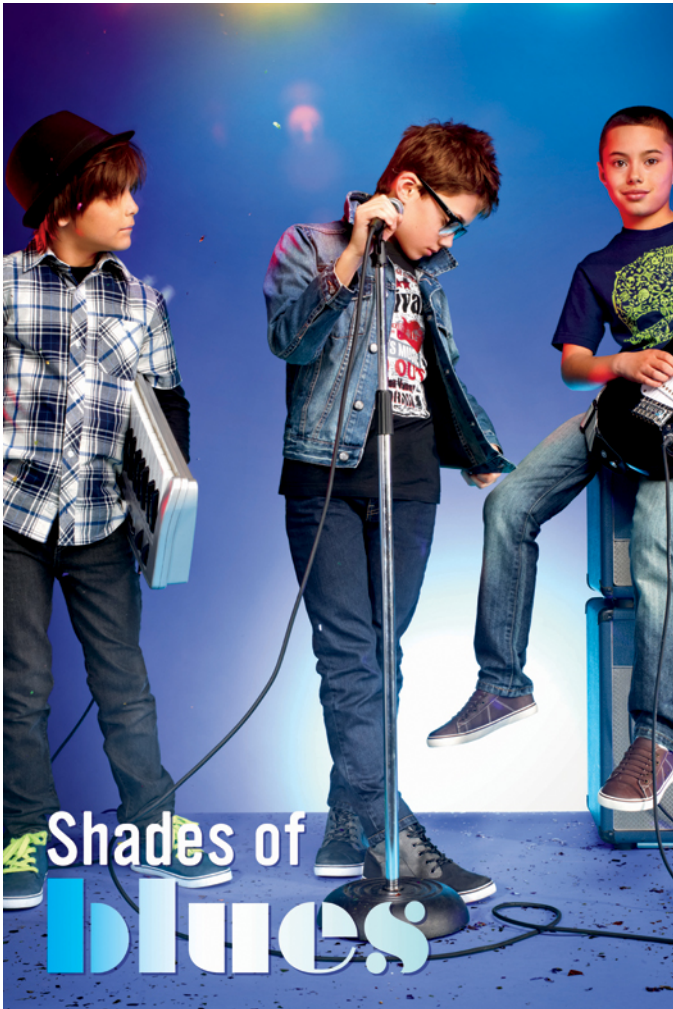
**Fleet  
Optimization**

**New  
Channels of  
Distribution**

## Operational Excellence



# Trend-Right and Differentiated Assortments



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

# Made-for-Outlet Strategy

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

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





# Digital Marketing

---

Focus on Digital Communications



```
graph TD; A[Focus on Digital Communications] --> B[Enhancing Customer Relationship Management Capabilities (CRM)]; B --> C[Leader in Social Media Space]; C --> D[Growing Loyalty Program Membership];
```

Enhancing Customer Relationship Management Capabilities (CRM)

Leader in Social Media Space

Growing Loyalty Program Membership

# Technology Initiatives to Transform the Business

---

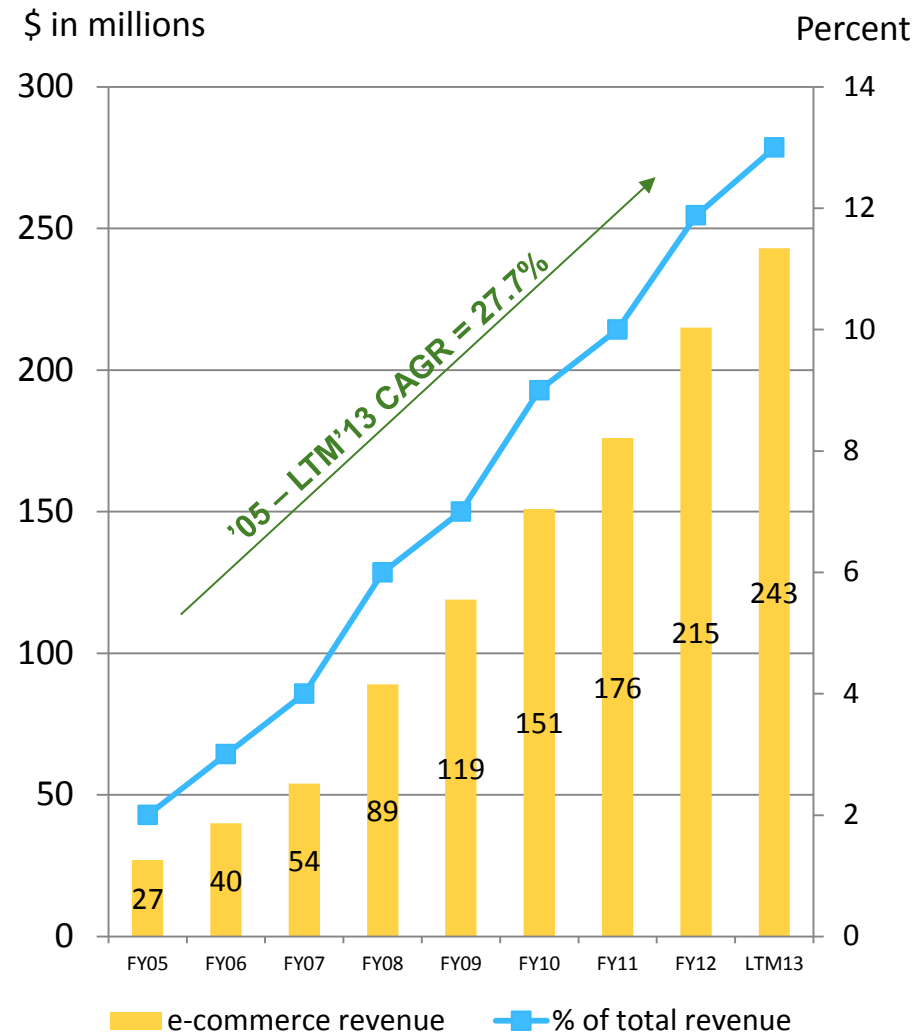
## Investing in systems to enhance capabilities

- ERP Implementation
  - Complete installation of SAP core merchandise module 1H 2014
  - Add sophisticated planning, allocation and replenishment tools 2H 2014
- Upgrade eCommerce infrastructure to support rapid growth
  - Migrating U.S. and International website to new platform 1H 2014

# E-Commerce Growth

## Online business growing rapidly

- Accounted for 15% of sales during 3Q
- Childrensplace.com offers expanded sizes and exclusive products
- Company's most profitable channel



# North American Fleet Optimization

---

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

- Closing 110 underperforming stores over next 3 years; 43 in FY13
- Reviewing options to improve financial viability of additional stores
- Slowing new store openings to ~25-30 annually in North America; square footage ~flat
- Increasing hurdle rates for new stores

### Fleet Facts

1,123 stores in N. America

- 88% in US
- 12% in Canada

Brand performs well across variety of formats

- 54% Premium Malls
- 22% Value Centers & Small Markets
- 12% Outlets
- 12% Street/Strip/Other

# New Channels of Distribution: International and Wholesale

## International Expansion

- Void of high-quality, value children's apparel retailers internationally
- On-track to have 36 stores in the Middle East by year-end 2013
- Expect to have ~55-60 stores in Middle East and Israel by end of 2014
- Exploring additional markets for 2014 and beyond

## Wholesale Business

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

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



# Operational Excellence

---

- Efficient global supply chain
  - Strategic sourcing
  - Logistics and Distribution
- Company-wide expense management
- Improving store operations and customer experience
- Professional, strategic staff support
  - Finance, Legal, Human Resources, Compliance/Regulatory

**Strong base to support other  
strategic initiatives**

# Agenda

---

Company Overview

Strategic and Operational Initiatives

**Financial Overview and Conclusion**

# Year-to-Date Financial Results (Q1-Q3)

YTD 2013/12/11 Income Statement Summary			
	YTD'13	YTD'12	YTD'11
Adj EPS	\$2.30	\$2.23	\$1.98
% Chg	+3%	+13%	+13%
Net Sales	\$1,298.3	\$1,300.3	\$1,258.4
% Chg	0%	+3%	+3%
Adj Gross Margin	37.9%	38.7%	39.5%
Deleverage/Leverage	-80 bps	-80 bps	+50 bps
Adj SG&A % of Sales	28.1%	28.5%	28.3%
Leverage/Deleverage	+40 bps	-20 bps	-90 bps
Adj Operating Margin	6.1%	6.2%	6.7%
Deleverage	-10 bps	-50 bps	-20 bps

Source: Company filings and press releases. Figures in millions of USD (except EPS). First three quarters ended November 2, 2013, October 27, 2012, October 29, 2011.

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

# Company Outlook

## Company Guidance as of 11/26/13

	4Q 2013	FY 2013
Adj EPS	\$0.90 to \$0.98	\$3.20 to \$3.28
Comp Sales	Negative LSD	Negative LSD
Adj Gross Margin	Deleverage 20 to 60 bps	Deleverage 50 to 70 bps
Adj SG&A % of Sales	Approximately flat	Leverage 20 to 40 bps

## Strong Balance Sheet and Cash Flow

- \$194 million on balance sheet to fund growth opportunities
- Returning excess cash to shareholders through share repurchase program

Fiscal 2013	\$ millions
Beginning Cash (3Q'12)	\$203
LTM Cash Flow from Operations	161
LTM Capital Expenditures	(76)
Share Repurchase Program	(96)
Other	2
Ending Cash and Short Term Investments (3Q'13)	\$194

Source: Company filings and press releases.



# Long Term Operating Margin Expansion

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

## Revenue Growth Drivers

- Enhanced merchandise and assortments
- Slightly positive comp sales; rapid e-com growth
- Incremental international and wholesale revenue

## Margin Expansion Opportunity

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

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

- More stringent focus on cost control
- Leverage fixed expense

# Wrap-Up

---

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



THE CHILDREN'S  
PLACE