



Francesca's shines amid retail gloom

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Photo: Bill Montgomery

A plastic bag from the Houston-based retail chain Francesca's.

Francesca's outperformed many other shopping mall stalwarts during the cutthroat holiday season and plans to defy a sectorwide trend by adding stores this year.

The Houston-based specialty chain on Tuesday reported fourth-quarter results that beat Wall Street expectations as retailers across the board grapple with changing shopping habits. The company's quarterly earnings fell only slightly, and same-store sales remained flat despite declines in mall traffic throughout the season.

"Most retailers experienced very inconsistent traffic patterns in brick-and-mortar stores during the quarter," president and CEO Steve Lawrence said during a conference call with analysts. "We believe that we fared pretty well."

Francesca's posted a quarterly profit of \$14.6 million, or 39 cents a share, down from \$14.7 million a year earlier. Revenue rose 9 percent to \$146.3 million, in part because the company added 55 stores in 2016.

Other specialty retailers, including Express and Chico's, saw declines in same-store sales during a quarter marked by intense competition and deep holiday discounts. Major players including Macy's and J.C. Penney also reported disappointing results.

Wedbush retail analyst Morry Brown said that on a relative basis, Francesca's "had an outstanding fourth quarter."

"You have to give them a tremendous amount of credit," Brown said.

It was the company's first holiday season under new leadership. Lawrence, formerly chief merchandising officer for Houston-based Stage Stores, replaced interim president and CEO Richard Kunes in the fall.

The results capped a relatively strong year for the company, which posted a \$42 million



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annual profit. Same-store sales rose 2 percent during the course of the year, and e-commerce sales rose 42 percent.

The continual rise in online shopping has challenged traditional retailers to invest more heavily in e-commerce operations and create more differentiated experiences in stores. Online retail sales increased more than 15 percent in 2016, according to Census estimates, while total sales grew only about 3 percent.

Plus, some of the malls where many retailers operate are struggling as well. Macy's, for example, plans to close locations at Greenspoint Mall, West Oaks Mall and Pasadena Town Square this spring.

About half of Francesca's 671 locations are in malls, although most of them are high-performing properties. But traffic in all kinds of malls has fallen to some degree in recent years, and Brown said further declines could challenge Francesca's and other traditional tenants.

"Mall traffic is their single biggest question," he said.

During the conference call, Francesca's executives outlined a multifaceted plan to boost online sales and attract more foot traffic across an expanding store base. The company expects to add as many as 65 locations this year, including three prototypes that will influence future store remodeling projects.

"For our company, the lines between online sales and brick-and-mortar will get a lot blurrier in 2017," Lawrence said. "We are not oblivious or immune to the many challenges that all retailers in America are currently facing."

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In an effort to create crossover between digital and physical shopping, the company will offer customers the option to have online orders sent to stores for pickup. And it will ship home any items customers choose to purchase online while browsing in stores.

Brown said those strategies, though somewhat common throughout the industry, have the potential to boost online sales for a company that has been slower to develop its e-commerce operations than some of its competitors.

"I do think those are fairly straightforward initiatives that will yield some dividends in 2017," he said.

Throughout the year, the company plans to refresh its merchandise more often and keep leaner inventory levels to encourage customers to buy on the spot. Frequent turnover of more limited product lines creates a sort of "treasure hunt" that has driven the rapid growth of off-price retailers such as T.J. Maxx and Nordstrom Rack.

Francesca's also plans to roll out in-store technology to streamline operations and collect more information on customer demographics and preferences. It plans to pilot a loyalty program during the summer, before the holiday rush begins.

SunTrust Robinson Humphrey analyst Pamela Quintiliano wrote in a research note that the company "remains a compelling growth story with clear initiatives in place to ensure ongoing momentum," particularly in light of its fourth-quarter results.

Despite its investment strategy, the company doesn't expect same-store sales to increase this quarter. It plans to close four stores as part of an effort to prune lower-performing locations from its portfolio.

The company's stock closed Tuesday at \$15.70, up 1 percent.

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