

CASE 26

ASCENA: STILL STRUGGLING IN SPECIALTY RETAIL*

In the first quarter of 2019, nine retailers filed for bankruptcy, including teenage apparel retailer Charlotte Russe, kids clothing retailer Gymboree, and plus-size apparel brand FullBeauty Brands.¹ This was not unexpected. Certain firms in the retail sector had been struggling for several years, especially those dependent on mall traffic. Certainly competition from Amazon and other more nimble retailers with an online presence had put pressure on brick-and-mortar profit margins, but retailers could adapt if they paid attention. For those who did not adapt, reduced traffic, reduced revenue, and subsequent mounting debt would require difficult decisions.

It had been a tough few years. 2018 saw 17 bankruptcies, but 2017 had seen 21 closures, giving it the dubious distinction of being the worst year for retailing since the recession of 2008 when 20 entities closed shop.^{2,3} Names of shuttered and at-risk stores included footwear and apparel retailers BCBG Max Azria, Eastern Outfitters, Wet Seal, Limited Stores, Payless, Bon-Ton, Claire's Stores, rue21, Nine West, and Diesel USA. Other chains such as the department stores J.C. Penney, Sears, and Kmart, and specialty retailers J.Crew, Land's End, Neiman Marcus, and Toms Shoes were closing stores, consolidating operations, searching for refinancing options and trying to figure out what to do when top-line growth inevitably slowed.⁴ The sector was undergoing transformation and it was hard to find a way forward.

Although it was true that shoppers could be fickle, there was still room to create a loyal following, especially in markets where younger, wealthier consumers had the most disposable income.⁵ Customers needed a reason to shop. Whether it be in a physical location or online, the shopping experience needed to be appealing, not only in quality and assortment of merchandise, but also in customer service and personalization options, including how browsing, ordering, and payment systems were integrated seamlessly across channels. Although analysts expected 2019 to be no worse for apparel retailers than 2018, and even expected single digit growth in some venues, the opinion was that the apparel sector would be “forced to evolve to meet the needs of aging baby boomers, casualization of the workforce and competition from fast-fashion and online retailers.”⁶ There was a need for innovative concepts in both the shopping experience and back-end operations, and those retailers

who did not embrace change would suffer: “it will be mission-critical for brands to converge all their channels and touchpoints into single, seamless, branded shopping experiences.”⁷ When Ralph Lauren's New York City flagship store closed, one researcher noted, “at the end of the day, there is no natural law that suggests that an iconic brand, as iconic as his has been, is guaranteed to be successful forever and always.”⁸ This comment could also apply to other iconic retailers. Just having a powerful brand strategy might not be enough. There was a paradigm shift under way, and only those with results-oriented operations might be able to survive and thrive.

Going into 2019, Ascena Retail Group, Inc. (NASDAQ:ASNA), owners of a well-rounded portfolio of brands providing women's and girl's specialty apparel, was trying to position itself for this challenge. Ascena had made several moves to improve its portfolio, most recently with its acquisition of ANN INC., iconic specialty retailer of women's apparel provided under the Ann Taylor, LOFT, and Lou & Grey brands. As a standalone women's specialty retailer, ANN had missed earnings projections, seen stagnant same-store sales, slow inventory turnover, and significant margin compression, with no fix in sight. ANN's activist investors had demanded action, which opened the door for Ascena's acquisition of ANN Inc. in August 2015.

With this acquisition, Ascena Retail Group had become the largest U.S. specialty retailer focused exclusively on women and girls. Only exceeded in net sales by L Brands, the owner of Victoria's Secret and Bath & Body Works, and by The Gap, Inc., Ascena offered apparel, shoes, and accessories for women and girls. Ascena operated four focused, branded retail options—the “Premium Fashion” segment with brands Ann Taylor, LOFT, and Lou & Grey; the “Value Fashion” segment, represented by the brands Maurices and Dressbarn; its “Plus Fashion” segment with Lane Bryant and Catherine's stores; and merchandise for tween girls via the Justice brand, under the “Kids Fashion” segment. Ascena also offered intimate apparel via Cacique and Catherine's Intimates. The ANN acquisition meant Ascena had expanded its brand profile even further across multiple segments, and would operate over 4,500 stores with annual projected sales of about \$6.5 billion.

As a result of the ANN acquisition, Ascena not only gained a presence in the premium women's fashion market, but also hoped to realize \$150 million in annualized run rate synergies through the integration of ANN's sourcing, procurement, distribution, and logistics operations. What might this mean for Ascena? Ascena had disappointing

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same-store sales in its previous portfolio for several years, and had boosted overall revenue primarily through acquisitions. Industrywide retail sales projections continued to be on the soft side, and many analysts worried that the increased debt Ascena now carried would need significant positive cash flow in order to provide adequate coverage. Given the uncertainty, analysts wondered if Ascena had pursued this growth strategy at the wrong time.⁹ Although there were operational synergies Ascena could realize, it was still primarily reliant on store traffic, which was declining across many retailing categories.

December 2018 saw the worst overall holiday results in retail in nine years. Although some categories saw slight gains, such as the sporting goods and garden supply stores, others such as furniture and home goods did much worse. Clothing and accessories fell off the most.¹⁰ It was hard to know what to do. In April 2019, Moody's, the credit rating agency, had downgraded Ascena stating that the company's rating is "constrained by company-specific execution missteps and the broader challenge of achieving material earnings improvement with a portfolio of primarily mature, mid- and value-priced brands amid a highly competitive apparel retail environment."¹¹ Ascena was relying on "streamlined operational efficiencies, improved IT capabilities, store-specific promotional activities and store closures" to continue its cost-cutting strategy, but still lacked a "meaningful eCommerce platform," making it difficult to adapt to the new consumer shopping preferences.¹² How had it come to this?

Ascena Retail Group Background

In 1962, there were few wear-to-work dresses and other clothing options for women entering the workforce, so Roslyn Jaffe and her husband Elliot opened the first Dressbarn in Stamford, Connecticut. By 1982 the company had become successful enough to go public as NASDAQ:DBRN and by 1985 they were operating 200 stores through the United States. Their vision of working women ages 35 to 55 expanded in 1989 with the opening of Dressbarn Woman, targeting plus-size individuals.

In the 1990s, trends in workplace fashion for women had shifted to a more casual look, and the company began to offer more sportswear, and expanded into shoes, petites, and jewelry. In 2002, Elliot and Roslyn's son David succeeded Elliot as CEO, while the elder Jaffe remained as chairman. Then, following the diversification trend, in 2005 Dressbarn Inc. acquired Maurices, a clothing chain from Duluth, Minnesota, that catered to women ages 17 to 34 who shopped primarily in the small-town strip malls of mid-America. Maurices was known for having sizing from 0 to 26 and employing "stylists" who could outfit customers for a reasonable price. In 2009, Dressbarn acquired Justice, the tween brand chain from New Albany, Ohio, that offered reasonably priced clothing and accessories to girls ages 7 to 14. Justice was formerly owned by Tween Brands, originally a subsidiary of The Limited.

In 2011, Dressbarn reorganized as Ascena Retail Group and changed its stock symbol to NASDAQ:ASNA. The

following year Ascena acquired Charming Shoppes, adding the Lane Bryant and Catherine's plus-size brands to its portfolio. The Cacique line of intimates, sleepwear, and swimwear and Catherine's Intimates were added later to round out the offerings for full-sized women. The acquisition of ANN with its brands Ann Taylor, LOFT, and Lou & Grey in 2015 meant Ascena had 10 brands across four segments, a portfolio meant to serve the many wardrobing needs of women and tween girls, in all different ages, sizes, and demographics.

The Acquisition of Premium Brands

The ANN portfolio was intended to be a welcome addition to Ascena's portfolio. Founded in 1954, Ann Taylor had been the traditional wardrobe source for busy, socially upscale women, and the classic basic black dress and woman's power suit with pearls were Ann Taylor staples. The Ann Taylor client base consisted of fashion-conscious women from age 25 to 55. The overall Ann Taylor concept was designed to appeal to professional women who had limited time to shop and who were attracted to Ann Taylor stores by their total wardrobing strategy, personalized client service, efficient store layouts, and continual flow of new merchandise.

Ann Taylor had regularly appeared in the *Women's Wear Daily* Top 10 list of firms selling dresses, suits, and evening wear and ANN had three branded divisions focused on different segments of its customer base:

- Ann Taylor (AT), the company's original brand, provided sophisticated, versatile, and high-quality updated classics.
- Ann Taylor LOFT (LOFT), launched in 1998, was a newer brand concept that appealed to women who had a more relaxed lifestyle and work environment and who appreciated the more casual LOFT style and compelling value. Certain clients of Ann Taylor and LOFT cross-shopped both brands.
- Lou & Grey had evolved from the LOFT lounge collection in 2014 as a full lifestyle brand. Incorporating easygoing, texture-rich clothing with a selection of accessories, handcrafted by independent U.S. makers, Lou & Grey was for the woman on the go who did not want to have to choose between style and comfort.

The acquisition of these three brands had given Ascena a well-rounded portfolio for apparel shoppers.

Additional Ascena Portfolio Brands

In addition to the Premium Fashion brands Ann Taylor, LOFT, and Lou & Grey, the Ascena portfolio included the following:

Total Value Fashion

- Dressbarn—over 720 store locations throughout the United States with private label and contemporary fashions at great value to women in their mid-30s

to mid-50s, including women's career, special occasion, casual, activewear, accessories, and footwear.

- **Maurices**—up-to-date casual, career/dressy, and athleisure fashion designed to appeal to middle-income females in their 20s and 30s in core and plus sizes who preferred a “hometown retailer.” Over 40 percent of the over 970 stores were in the Midwest, with 37 stores in Canada.

Total Plus Fashion

- **Lane Bryant**—with over 740 locations, this was the most widely recognized brand name in plus-size fashion, catering to middle-income, female customers aged 25 to 45 in sizes 12 to 28 through private labels Lane Bryant, Cacique, and Livi Active. Products included intimate apparel, wear-to-work, casual sportswear, activewear, accessories, select footwear, and social occasion apparel.
- **Catherine's**—catered to women in U.S. sizes 16W to 34W and 0X to 5X. With over 340 stores nationwide, Catherine's had a competitive advantage with female consumers looking for hard-to-find extended sizes in clothing and intimates.

Total Kids Fashion

- **Justice**—offering fashionable apparel to 6- to 12-year-old tween girls in an energetic environment. In over 840 locations, products included apparel, activewear, footwear, intimates, accessories, and lifestyle products. The brand was positioned at the mid- to upper-end of pricing.

Heading into 2019, with this portfolio, Ascena appeared solidly positioned to serve the specialty apparel needs of women and girls from multiple consumer sectors. However, there were some significant challenges.

Apparel Retail Industry

Industry Sectors

To better appreciate the issues facing Ascena, it is helpful to understand the apparel retail industry. Several industry publications report data within the clothing sector. In addition to industry associations such as the National Retail Federation (NRF), the *Daily News Record* (DNR) reports on men's fashion news and business strategies, while *Women's Wear Daily* (WWD) reports on women's fashions and the apparel business. Practically speaking, industry watchers tend to recognize three categories of clothing retailers:

- **Discount mass merchandisers:** Chains such as Target, Walmart, TJX (T.J. Maxx, Marshall's, HomeGoods), and Costco.
- **Multitier department stores:** Those offering a large variety of goods, including clothing (full price examples like Macy's and JCPenney, lower price options like Ross Stores and Kohls), and the more luxury-goods-focused stores (for example, Nordstrom and Neiman Marcus).

- **Specialty store chains:** Those catering to a certain type of customer or carrying a certain type of goods (for example, Abercrombie & Fitch for casual apparel).

More specifically in the case of specialty retail, many primary categories existed, such as women's, men's, and children's clothing stores; for example, Victoria's Secret for women's undergarments,¹³ Men's Wearhouse for men's suits, Abercrombie Kids for children ages 7 to 14.¹⁴ Women's specialty stores were “establishments primarily engaged in retailing a specialized line of women's, juniors', and misses' clothing.”¹⁵

Specialty Retailer Growth: Branding Challenges

Unlike department stores that sell many different types of products for many types of customers, specialty retailers focused on one type of product item and offered many varieties of that item. However, this single-product focus increased risk, as lost sales in one area could not be recouped by a shift of interest to another, entirely different product area. Therefore, many specialty retailers constantly sought new market segments (i.e., niches) that they could serve. However, this strategy created potential problems for branding.¹⁶

The Gap Inc. was an example of a specialty retailer that added several brand extensions to appeal to different customer segments. In addition to the original Gap line of casual clothing, the company offered the following: Old Navy with casual fashions at low prices; Banana Republic for more high-end casual items; Athleta with performance apparel and gear for active women; INTERMIX, an edited selection of clothing from coveted designers; Hill City, a high performance men's apparel brand established as B Corp certified brand, integrating sustainability throughout many of its products; and Janie and Jack, providing fashion for boys and girls up to age 12. Regarding other brand extensions, Gap had once spent \$40 million to open a chain for upscale women's clothing called Forth & Towne, which closed after only 18 months. The store was supposed to appeal to upscale women over 35—the baby-boomer or “misses” segment—but, instead, the designers seemed “too focused on reproducing youthful fashions with a more generous cut” instead of finding an “interesting, affordable way” for middle-aged women to “dress like themselves.”¹⁷

Gap had also acquired Weddington Way, a virtual showroom for bridesmaid dresses: customers could view the items online, discuss using social media, and then visit one of The Gap's other stores to try on and purchase their choices, but this operation was closed down in 2018. These acquisitions had been attempts to adapt to the new retail business models, providing personalization and the ability for customers to browse, order, and shop across what should be seamlessly integrated channels. It had not always worked, but even with these missteps, as of 2019 The Gap was still the apparel industry's leading specialty retailer.

In an attempt to remain in that position, The Gap had decided in early 2019 to spin off the Old Navy brand, and rename The Gap, which still included Banana Republic, Athleta, Hill City, and INTERMIX. The new company would be called “NewCo,” and would help “refine the Gap brand store fleet,” while a separate Old Navy would increase that brand’s ability to be flexible in increasing customer access by “evolving its omni-channel model.”¹⁸ Some analysts were questioning the rationale of this move since, in fact, compared to the higher-end brands’ choice to target more niche audiences, Old Navy was outperforming the rest of Gap’s portfolio due to its focus on the off-price market segment.

Chico’s FAS Inc. was another specialty retailer that had tried brand expansions. Chico’s focused on private-label, casual-to-dressy clothing for women age 35 and older, with relaxed, figure-flattering styles constructed out of easy-care fabrics. An outgrowth of a Mexican folk art boutique, Chico’s was originally a standalone entity, but made the decision to promote two new brands—White House/Black Market (WH/BM) and Soma by Chico’s (Soma). Chico’s WH/BM brand was based on the acquisition of an existing store chain, and it focused on women age 25 and older, offering fashion and merchandise in black-and-white and related shades. Soma was a brand offering intimate apparel, sleepwear, and active wear. Each brand had its own storefront, mainly in shopping malls, and was augmented by both mail-order catalog and Internet sales.

Similar to other women’s specialty retailers, Chico’s had seen increasing competition for its baby-boomer customers, and at one time had lost momentum, partly because of fashion missteps and lack of sufficiently new product designs. The company’s response had been to create brand presidents for the different divisions to create more “excitement and differentiation.”¹⁹ Subsequently, Chico’s FAS had been able to manage its market and by 2017, with a strong balance sheet and little debt, had become a specialty retailer focused on the omni-channel customer experience. This had not been enough, however, and in 2019 the company announced it would close at least 250 U.S. retail stores to better balance its mix between physical and online venues. Chico’s FAS was also partnering with Amazon, ShopRunner, and QVC as well as thinking about implementing the buy-online-pick-up-in-store (BOPIS) model to drive traffic to the physical stores.²⁰

In an attempt to better manage the proliferation of brands, many firms, similar to Chico’s, created an organizational structure in which brands had their own dedicated managers, with titles such as executive vice president (EVP), general merchandise manager, chief merchandising officer, or outright “brand president.”²¹ With each brand supposedly unique, companies felt the person responsible for a brand’s creative vision should be unique as well. Ascena was an example of how this structure worked: each of the segments was led by a CEO, CFO, or president with expertise in that area. For instance, the Premium Fashion

segment, containing the ANN brands, had initially been run by Gary Muto, previously president of all ANN’s brands, throughout all channels.

An alternative to brand extension was the divestiture of brands. In 1988, Limited Brands acquired Abercrombie and Fitch (A&F) and rebuilt A&F into what would become its current iconic representation of the “preppy” lifestyle of teenagers and college students ages 18 to 22. In 1996, Limited Brands spun A&F off as a separate public company, and by 2017 A&F was facing declining revenues, closing stores, and was rumored to be looking for a buyer.²² Limited Brands had continued divesting:

- Teenage clothing and accessories brand The Limited TOO was divested in 1999, eventually became Justice, and was acquired by Ascena in 2009.
- Plus-size women’s clothing brand Lane Bryant was sold to Charming Shoppes in 2001 and subsequently bought by Ascena in 2012.
- Professional women’s clothing brand Lerner New York was divested in 2002, and in 2007 the casual women’s clothing brands Express and The Limited were sold to Sun Capital Partners. Sun Capital ran these stores under The Limited brand until it filed for bankruptcy on January 7, 2017.

In 2013, Limited Brands renamed itself L Brands. Paring down in order to focus mostly on its key assets, Victoria’s Secret and Bath & Body Works, the corporation had made a clear strategic decision to limit its exposure to changing clothing trends.²³ This strategy had been successful. In 2017, L Brands, at \$12 billion net sales, with Pink, La Senza, and Henri Bendel in addition to its other two iconic brands, was the second largest specialty apparel retailer in the United States. However, by 2019 it had to consider the changing retail environment, and closed the Henri Bendel brand.²⁴ It had also sold off the Canadian lingerie brand La Senza in December 2018 and was planning to close over 50 Victoria’s Secret stores in 2019 as it re-evaluated options. Victoria’s Secret, the iconic brand known for its sexy lingerie and “angel” runway models, was no longer the brand of choice for those women seeking intimate apparel. The trend was to a more comfortable style and a shopping experience that was more inclusive of all body types and lifestyles.²⁵ Regardless, L Brands still secured the top revenue spot behind Gap and just ahead of Ascena. Gap had seven brands, L Brands had five, and Ascena had ten.

Ascena Retail Group Operations

According to Ascena’s CEO David Jaffe, at the end of FY2018 Ascena was the largest specialty retailer focused exclusively on women and girls, and had a well-diversified portfolio of brands, covering multiple customer segments: Ascena served women and girls across generations, identities, affiliations, and body types.²⁶ Ascena had a revenue base spread across multiple real estate formats, and an

efficient, scalable shared services platform. A \$3001 million investment from FY13 to FY16 had consolidated corporate functions and created a global sourcing capability. An efficient distribution and fulfillment network fully supported an omni-channel platform, both online and in store. In 2018 Ascena's strong cash flow and liquidity appeared positioned to navigate industry change.

By 2019, Ascena had intended to evolve from the original seven \$1 billion companies into one \$7 billion powerhouse, using that "combined strength, expertise, and scale to exceed our customers' expectations and become a leader in specialty retail."²⁷ Ascena planned to do this via "centers of excellence" in procurement, global sourcing, real estate expertise, digital/customer platforms, supply chain optimization, and advanced analytics, with corporate oversight for human resources and finance. Refining the capabilities it had acquired with ANN, this would transform the enterprise through centralization, standardization, and using better methodologies and best practices. Through efficiency (reducing costs) and effectiveness (increasing capabilities) Ascena hoped to drive top line sales at profitable margins.

At the end of FY2018 Ascena had over 4,900 stores located throughout the United States in various real estate configurations. The majority of stores, especially the Maurices and Dressbarn stores that served the mid-America heartland, were located in strip malls, but the ANN properties were in downtown locations that attracted more affluent lifestyle customers. Acknowledging the challenges, Ascena had agreed it "probably" had too many stores, and was developing a "fleet optimization project" that would reduce the physical footprint as it transferred more business either to nearby stores or online.²⁸

In addition to physical shopping locations, Ascena was investing in technology platforms to support the growth of its omni-channel strategy. ANN, Justice, and Maurices had all had e-commerce platforms, but the other brands needed to do the same. Retailers had to have an omni-channel strategy in order to compete. ANN had already brought Ascena the capability to ship from store, use an iPad app to shop an "endless aisle," do cross-channel returns, and use an "online find" app in the store. Going forward ANN and other Ascena brands would have to add the capability to buy online and pick up in the store, provide for alternative payments using a 1-click checkout, and allow enhanced site reviews.²⁹

Ascena Retail Group Financial Profile

After the acquisition of ANN in 2015, sales at the Ascena Retail Group hit almost \$7.0 billion. Growth had been the result of acquisitions and the expansion of technology platforms to augment e-commerce, but the trend over the next two years had been downward, and by 2019 the Ascena Retail Group had seen share prices drop, market capitalization decline, and comparable store sales in one of its four operating segments post a significant loss. Bloomberg noted that Ascena had over \$1 billion in losses since 2015 and was more than \$1.6 billion in debt.³⁰ Exhibit 1 represents

a detailed income statement by segment for the last three fiscal years. Assets and liabilities, and a consolidated statement of operations and cash flows since 2015 are in Exhibit 2.

Commentary on Ascena's financials from Moody's in 2019 noted that even though the business had an uncertain future, as did so many other specialty retailers, so far its "conservative financial policies and good liquidity" boded well for the repayment of debt over the next few years.³¹

Odds of Survival in Specialty Retail?

In the 2018 Annual Report, CEO David Jaffee said:

As we enter fiscal 2019, we are leveraging the foundation we've build over the past two years to pivot the organization toward the most critical pillar of our transformation program—reinvigorating growth from our core.³²

Actions Ascena had taken toward this "reinvigoration" included closing underperforming stores across all segments, and addressing the "unacceptable level of profitability" in its value brands by offering up Maurices for acquisition by an affiliate of OpCapita LLP. The deal, which valued Maurices at an enterprise value of \$300 million, was closed in May 2019. Ascena maintained a minority interest in the brand, and used the proceeds from this sale to pay down existing debt.³³ In the wake of this announcement, rumors were floated that Dressbarn was also up for grabs. This might fix the value segment's underperformance, but financial fixes would not help a company attract customers. Retailers needed to do something that would drive sales.

At the start of 2019 it appeared that the acquisition of the ANN portfolio had indeed helped Ascena—the premium brand segment was the best performing of the four—and moves were under way to fix the value brands, but things were still unresolved in the plus fashion segment. Although this was a sector of the apparel market Ascena had once dominated, both Lane Bryant and Catherines same store comparable sales had fallen eight and four percent in the second quarter, continuing a trend noted in 2018 and prompting a comment by Ascena Brand President Gary Muto that "Lane Bryant must enhance its emotional connection with its core customer."³⁴ But would that work when plus-size women could find fashionable items in stores like Target or even at Lou & Grey? In addition, sales in the Cacique intimates division were down as well. Just as Victoria's Secret had discovered, customers were looking for a more inclusive environment: "inclusivity is no mere fad . . . [retailers] should embrace different views, races, gender identifications, styles, along with sizes."³⁵

In 2017 one fashion watcher had pointed out that customers wanted the opportunity to discover trends for themselves, openly seeking "self-expression through shopping," feeling that "they created the outfit, rather than it was created for them. . . . The future success of fashion retailers will be found when they offer up the unexpected in interesting, stimulating and exciting ways."

EXHIBIT 1**Net Sales and
Operating Income,
2016–2018**

	Fiscal Years Ended		
	August 4, 2018	July 29, 2017	July 30, 2016
Net sales:	(millions)		
Premium Fashion^(a)	\$2,317.8	\$ 2,322.6	\$2,330.9
Value Fashion	1,820.5	1,950.2	2,094.6
Plus Fashion	1,340.0	1,353.9	1,463.6
Kids Fashion	<u>1,100.0</u>	<u>1,023.1</u>	<u>1,106.3</u>
Total net sales	<u>\$6,578.3</u>	<u>\$6,649.8</u>	<u>\$6,995.4</u>
Operating income (loss):			
Premium Fashion^{(a)(b)}	\$ 135.2	\$ 140.9	\$ 13.3
Value Fashion	(83.2)	12.2	92.0
Plus Fashion	27.1	15.5	36.9
Kids Fashion	39.1	(36.7)	29.0
Unallocated acquisition and integration expenses	(5.4)	(39.4)	(77.4)
Unallocated restructuring and other related charges ^(c)	(78.5)	(81.9)	—
Unallocated impairment of goodwill (Note 6)	—	(596.3)	—
Unallocated impairment of intangible assets (Note 6)	<u>—</u>	<u>(728.1)</u>	<u>—</u>
Total operating income (loss)	<u>\$ 34.3</u>	<u>\$(1,313.8)</u>	<u>\$ 93.8</u>

^(a) The results of the **Premium Fashion** segment for the post-acquisition period from August 22, 2015 to July 30, 2016 are included within the Company's consolidated results of operations for Fiscal 2016.

^(b) The results of the **Premium Fashion** segment for Fiscal 2016 include approximately \$126.9 million of non-cash purchase accounting expense related to the amortization of the write-up of inventory to fair market value.

Source: Ascena 10K for the fiscal year ending August 4, 2018.

EXHIBIT 2**Consolidated Balance
Sheet, Statement of
Operations, Cash Flows**

	August 4, 2018	July 29, 2017
	(millions, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 238.9	\$ 325.6
Inventories	622.9	639.3
Prepaid expenses and other current assets	<u>248.5</u>	<u>157.4</u>
Total current assets	1,110.3	1,122.3
Property and equipment, net	1,205.3	1,437.6
Goodwill	683.0	683.0
Other intangible assets, net	516.0	532.4
Other assets	<u>55.9</u>	<u>96.2</u>
Total assets	<u>\$3,570.5</u>	<u>\$3,871.5</u>

	August 4, 2018	July 29, 2017
	(millions, except per share data)	
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 437.6	\$ 411.6
Accrued expenses and other current liabilities	326.3	352.9
Deferred income	121.7	121.5
Income taxes payable	5.1	7.1
Current portion of long-term debt	<u>—</u>	<u>44.0</u>
Total current liabilities	890.7	937.1
Long-term debt	1,328.7	1,494.1
Lease-related liabilities	315.2	348.3
Deferred income taxes	29.6	79.3
Other non-current liabilities	<u>207.8</u>	<u>191.7</u>
Total liabilities	<u>2,772.0</u>	<u>3,050.5</u>
Commitments and contingencies (Note 15)		
Equity:		
Common stock, par value \$0.01 per share; 196.3 and 195.1 million shares issued and outstanding	2.0	2.0
Additional paid-in capital	1,088.2	1,068.2
Accumulated deficit	(278.8)	(238.8)
Accumulated other comprehensive loss	<u>(12.9)</u>	<u>(10.4)</u>
Total equity	<u>798.5</u>	<u>821.0</u>
Total liabilities and equity	<u>\$3,570.5</u>	<u>\$3,871.5</u>

	Fiscal Years Ended		
	August 4, 2018	July 29, 2017	July 30, 2016
	(millions, except per share data)		
Net sales	\$ 6,578.3	\$ 6,649.8	\$ 6,995.4
Cost of goods sold	<u>(2,786.8)</u>	<u>(2,790.2)</u>	<u>(3,066.7)</u>
Gross margin	3,791.5	3,859.6	3,928.7
Other operating expenses:			
Buying, distribution and occupancy expenses	(1,281.1)	(1,274.3)	(1,286.5)
Selling, general and administrative expenses	(2,036.7)	(2,068.5)	(2,112.3)
Acquisition and integration expenses	(5.4)	(39.4)	(77.4)
Restructuring and other related charges	(78.5)	(81.9)	—
Impairment of goodwill	—	(596.3)	—
Impairment of intangible assets	—	(728.1)	—
Depreciation and amortization expense	<u>(355.5)</u>	<u>(384.9)</u>	<u>(358.7)</u>
Total other operating expenses	<u>(3,757.2)</u>	<u>(5,173.4)</u>	<u>(3,834.9)</u>

EXHIBIT 2
(Continued)

	Fiscal Years Ended		
	August 4, 2018	July 29, 2017	July 30, 2016
	(millions, except per share data)		
Operating income (loss)	34.3	(1,313.8)	93.8
Interest expense	(113.0)	(102.2)	(103.3)
Interest and other income, net	2.2	1.8	0.4
(Loss) gain on extinguishment of debt	(5.0)	—	0.8
Loss before benefit (provision) for income taxes	(81.5)	(1,414.2)	(8.3)
Benefit (provision) for income taxes	41.8	346.9	(3.6)
Net loss	<u>\$ (39.7)</u>	<u>\$(1,067.3)</u>	<u>\$ (11.9)</u>
Net loss per common share:			
Basic	<u>\$ (0.20)</u>	<u>\$ (5.48)</u>	<u>\$ (0.06)</u>
Diluted	<u>\$ (0.20)</u>	<u>\$ (5.48)</u>	<u>\$ (0.06)</u>
Weighted average common shares outstanding:			
Basic	<u>196.0</u>	<u>194.8</u>	<u>192.2</u>
Diluted	<u>196.0</u>	<u>194.8</u>	<u>192.2</u>

	Fiscal Years Ended		
	August 4, 2018	July 29, 2017	July 30, 2016
	(millions)		
Cash flows from operating activities:			
Net loss	\$ (39.7)	\$(1,067.3)	\$ (11.9)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization expense	355.5	384.9	358.7
Deferred income tax benefit	(47.1)	(371.3)	(26.8)
Deferred rent and other occupancy costs	(47.1)	(62.7)	(74.4)
Loss (gain) on extinguishment of debt	5.0	—	(0.8)
Gain on sale of fixed assets	(1.6)	—	—
Amortization of acquisition-related inventory write-up	—	—	126.9
Stock-based compensation expense	19.8	24.5	26.2
Impairment of tangible assets	49.2	35.6	13.3
Impairment of goodwill	—	596.3	—
Impairment of other intangible assets	—	728.1	—
Non-cash interest expense	11.9	12.1	11.3
Other non-cash expense (income), net	0.2	10.9	(0.9)
Excess tax benefits from stock-based compensation	—	—	(1.5)

	Fiscal Years Ended		
	August 4, 2018	July 29, 2017	July 30, 2016
	(millions)		
Changes in operating assets and liabilities:			
Inventories	16.4	10.0	111.4
Accounts payable, accrued liabilities and income taxes payable	(11.2)	(26.0)	(133.6)
Deferred income	13.0	15.6	7.8
Lease-related liabilities	20.9	31.4	52.5
Other balance sheet changes, net	<u>(71.3)</u>	<u>21.5</u>	<u>(12.8)</u>
Net cash provided by operating activities	<u>273.9</u>	<u>343.6</u>	<u>445.4</u>
Cash flows from investing activities:			
Cash paid for the acquisition of ANN INC., net of cash acquired	—	—	(1,494.6)
Capital expenditures	(186.3)	(258.1)	(366.5)
Acquisition of intangible assets	—	(11.6)	—
Proceeds from the sale of assets	14.6	—	—
Purchases of investments	—	—	(1.1)
Proceeds from the settlement of corporate-owned life insurance policies	37.5	—	—
Proceeds from sales and maturities of investments	—	0.8	26.5
Other investing activities	<u>(0.2)</u>	<u>—</u>	<u>—</u>
Net cash used in investing activities	<u>(134.4)</u>	<u>(268.9)</u>	<u>(1,835.7)</u>
Cash flows from financing activities:			
Proceeds from revolver borrowings	553.5	1,221.9	1,510.5
Repayments of revolver borrowings	(553.5)	(1,221.9)	(1,626.5)
Proceeds from term loan, net of original issue discount	—	—	1,764.0
Redemptions and repayments of term loan	(225.0)	(122.5)	(77.4)
Payment of deferred financing costs	(1.3)	—	(42.6)
Purchases and retirements of common stock	—	—	(18.6)
Proceeds from stock options exercised and employee stock purchases	0.4	1.6	10.6
Tax payments related to share-based awards	(0.3)	—	—
Excess tax benefits from stock-based compensation	<u>—</u>	<u>—</u>	<u>1.5</u>
Net cash (used in) provided by financing activities	<u>(226.2)</u>	<u>(120.9)</u>	<u>1,521.5</u>
Net (decrease) increase in cash and cash equivalents	(86.7)	(46.2)	131.2
Cash and cash equivalents at beginning of year	<u>325.6</u>	<u>371.8</u>	<u>240.6</u>
Cash and cash equivalents at end of year	<u>\$ 238.9</u>	<u>\$ 325.6</u>	<u>\$ 371.8</u>

Source: Ascena 10K for the fiscal year ending August 4, 2018.

This commentator went on to say, “today the Ascena brands are a completely known quantity. And while they may be trusted and dependable, that also makes them boring.”³⁶ In 2019, it was more apparent than ever that the changing consumer behavior was transforming retail. As The Gap, L Brands, and Ascena discovered, it appeared the odds of survival in specialty retail were not favorable, even for top companies.

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- Abercrombie & Fitch, as of 2015, had three brand divisions in addition to the flagship Abercrombie & Fitch stores—abercrombie (the brand name is purposely lowercase) for kids ages 7 to 14; Hollister Co. for southern California surf/lifestyle teens; and Gilly Hicks: Sydney, launched in 2008, specializing in women’s intimate apparel. RUEHL No. 925, launched in 2004 with more sophisticated apparel for ages 22 to 35, closed in 2010.
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- According to the American Marketing Association (AMA), a brand is a “name, term, sign, symbol or design, or a combination of them intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of other sellers. . . . Branding is not about getting your target market to choose you over the competition, but it is about getting your prospects to see you as the only one that provides a solution to their problem.” A good brand will communicate this message clearly and with credibility, motivating the buyer by eliciting some emotion that inspires future loyalty. From marketing.about.com/cs/brandmktg/a/whatisbranding.htm.
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