SEARS HOLDINGS

Sears Holdings' Fourth Quarter and Full Year 2013 Results
Pre-Recorded Conference Call Transcript
February 27, 2014

Operator: Good day, ladies and gentlemen, and welcome to the Sears Holdings Corporation Fiscal 2013 Fourth Quarter and Full-Year Webcast.

At this time, all participants are in a listen-only mode. If anyone should require any assistance during the call, please press star, then zero on your touchtone telephone. As a reminder, today's call is being recorded.

I would now like to turn the call over to Executive Vice President and Chief Financial Officer, Rob Schriesheim. Sir, you may begin.

Rob Schriesheim: Thank you, operator. Please note that this morning we released our fourth quarter and full-year earnings results, which are now available on our Web site. Also, note that our results are in line with our earnings outlook released on January 9th.

Joining me today is Eddie Lampert, our Chairman and Chief Executive Officer. For our call today, you may access the accompanying slide presentation, which is available on the investor section of our Web site under events and presentations.

Before we begin on slide 1, I'd like to remind you that today's discussion will contain forward-looking statements related to future events and expectations. These statements are based on current expectations and the current economic environment and actual results may differ materially from those expressed or implied in the forward-looking statements.

You can find factors that could cause the company's actual results to differ materially listed in today's press release and the presentation for today's call that is posted at the investor information section of SearsHoldings.com and in our most recent SEC filings.

In addition, on slide 2 our discussion will include certain non-GAAP financial measures. Reconciliations to the most directly comparable GAAP financial measures can be found in the presentation in today's press release.

Any reference in our discussion today to EBITDA means adjusted EBITDA as defined in the press release and presentation. Finally, we assume no obligation to update the information presented on this call except as required by law.

I would now like to turn to slide 3 and turn the call over to Eddie Lampert.

Eddie Lampert: Thanks, Rob. I would also like to thank all of you for joining us today. I'm proud of what Sears Holdings has accomplished in the last quarter and over the past fiscal year. We've made significant progress in important areas of our transportation since we last spoke and have a clear plan to position the company in long-term growth and profitability.

I will take this opportunity to provide you with a more detailed discussion of our strategy and what we believe are early signs of success that give us further confidence in our plan. We will then spend some time to update you on our fourth quarter and full-year results; followed by a discussion of how we are leveraging our risk portfolio of assets and redeploying capital to support our plan.

I want to start off by level-setting where we are. The size and scope of the transformation we are pursuing is substantial. We're in the midst of transforming Sears Holdings into a member-centric business that provides and delivers value by serving its members in the manner most convenient for them, whether in-store, in-home or on the go.

Transforming a business is always challenging. Add to it a highly promotional and fast-changing retail landscape and a consumer that has drastically changed the way they shop, and you have a significant task in trying to adapt a retailer the size of Sears Holdings.

At the same time, we are managing legacy pension obligations while freeing up the resources to invest in technology platforms. Unlike many other retailers though, we're taking a proactive approach and we are altering our business model to create a long-term sustainable advantage.

This is not something that will happen overnight and not something you measure in small increments of time. As CEO, Chairman of Sears Holdings' largest individual shareholder, I'm 100 percent committed to the success of this transformation and have confidence in our associates in the path we are taking.

We hope to accelerate the pace of change to become the leading retailer positioned for continued growth. On slide 5, we listed our 5 strategic pillars. In my annual letter to shareholders released this morning, I noted that in January the Wall Street Journal ran a prominently placed story suggesting that beyond all of the retailers reporting for a profit, there is a, quote, "deeper malaise at work."

A long-term change in shopper habits has reduced our traffic perhaps permanently, and shifted pricing power away from malls and big box retailers. Instead, shoppers seem to be figuring out what they want online than making targeted trips to pick it up from retailers that offer the best price.

While shoppers visited an average 5 stores per mall trip in 2007, today, they only visit 3. Meanwhile, online stores have further sharpened purchased decisions and prices leading some shoppers to come into the stores only when they can cherry-pick discounted items.

All of these dynamics are ones for which Sears Holdings has been preparing for years. As I – as I have described before, the five key pillars of our strategy are, one, creating lasting relationships with members by empowering them to manage their life; two, attaining best-in-class productivity and efficiency; three, building our brands; four, reinventing the company continuously through technology and innovation; and five, reinforcing the SHC way by living our values every day.

Our two key platforms: Shop Your Way and integrated retail, continue to become more prominent both in how we run the company and in how we serve our members. Slide 6 outlines how we are accelerating our pace of change to position ourselves in the changing environment.

We are proactively learning more and more each day about how our members want to shop and what resonates with them. We're utilizing this feedback as we continue our transition and invest in two primary areas: Our member based platform, Shop Your Way, and integrated retail.

These two key elements represent a different way of doing business at Sears Holdings, and are the foundations of our other programs and initiatives. Within these two key areas, we're making substantial investments in engaging members with personalized, relevant content, offering more capabilities to our members, continually enhancing member engagement, and building out our platform technology.

To enable this change, we have been strategically realigning our portfolio businesses to focus on our core strengths, simplify Sears Holdings and become a more focused company that is more efficient to manage and easier to understand, all while enabling us to better optimize our allocation to capital and attract the best talent.

We are also enhancing our financial flexibility by reconfiguring our asset base to redeploy capital while we meet all of our financial obligations. Finally, we are providing opportunities for our shareholders to participate in what we believe are value accretive activities.

As indicated on slide 7, we believe that we are proactively transforming our business to benefit from the changing retail landscape. We believe we're ahead of the game by transitioning to a member-centric integrated retailer leveraging our Shop Your Way platform.

Shop Your Way is unique in that it is a program that rewards members, enhances interaction with members and delivers useful information to them.

As a result, we’re able to be more strategic in how we, one, invest in capabilities to enable our members to access the widest possible assortment of products and services; two, use data and analytics on member trends to make targeted offers and decisions delivered in realtime.

We’re becoming a more fact-based company and are making decisions based on analytical data as opposed to gut feelings, and our members will expect us to provide them with offers that are relevant to them as individuals.

Three, expand our rates through Sears marketplace, our innovative community that allows third-party merchants to advertise or sell their products on the Sears Holdings family of Web sites where we now offer over 100 million items and multiple delivery options.

Four, enhancing our Shop Your Way membership benefits. Membership is free and we want everyone to know the significant benefits of membership as our members always get more. And finally, developing digital and social relationships with our members as we aspire to do more than simply transact.

We are working to build value-trusted relationships with our members by providing differentiated products and services that will be difficult for others to replicate. At a high level, we are seeing increases in key member engagement metrics giving us confidence in our strategy and demonstrating tangible progress.

As indicated in our release, 72 percent of sales are now made to Shop Your Way members up from 58 percent during the fourth quarter last year, and we experienced year-over-year growth of 10 percent in online and multi-channel sales showing steady growth in both channels since 2006.

And on slide 8, you can see our framework for investing in integrated retail capabilities. Integrated retail is a business model where members can shop our entire portfolio of offerings any time and from anywhere.

We believe that retail in the future will be about transacting with customers on their own terms whether it is in stores, in-home or on the go. And we believe that we are the best company to serve members across all of these channels.

We have a physical presence in many communities, something which the pure play online retailers do not. We're the undisputed leader through our home services business, which is nearly 8,000 service associates making approximately 14 million calls into the home each year providing us with another way we can interact and service our members, and we have a robust online platform that is demonstrating consistent growth.

We believe Sears Holdings is uniquely positioned to win in the world of integrated retail. Integrated retail combines the best of the various channels, broad product selection, ability to touch and feel the product and access from anywhere through mobile applications.

And all of these capabilities are accentuated through our Shop Your Way platform. With Shop Your Way, we can pride our members with a differentiated and more convenient shopping experience.

As our members tell us more about their preferences and unique needs, we can better target these preferences and anticipate and meet these needs. As shown on slide 9, we are investing heavily in our strategy across an array of fronts in specific applications and offerings.

In particular, through ShopYourWay.com, members can share information on products they like with their friends, post a review of any product, research products from other member reviews, win prizes and execute transactions.

Our celebrity partners such as Nicki Minaj and Adam Levine also provide content and interact with our members there.

As you can see on slide 10, we are showing consistent annual growth in our online channels. Approximately half of the business is cross channel, buy online, pick-up in store or order in-store, ship to home.

We realize higher growth in the cross channel online sales in recent years, which we consider to be a prove point for integrated retail strategy. We have invested heavily in integrated retail including initiatives such as our Shop Sears mobile app for associates, as shown on slide 11.

Shop Sears was launched in early 2012 and over 300 stores, and as of the end of fiscal 2013, we're in more than 400 stores. This solution is currently accessed by our consultant of associates in departments like home appliances, consumer electronics, tools, lawn and garden, to name a few, via their assigned iPads and iPods.

This capability now provides our associates the opportunity to have a more engaging conversation with our members on the sales floor. This also enables our associates to have all the information they need to assist members in making decisions on the products to purchase based on the member's needs.

In 2014, we will continue building and investing further on this solution to provide our associates more tools that enable them to assist our members. Shop Sears is an application that focuses on addressing an important element of integrated retail which is bringing the digital into the physical world.

I am proud of the progress we have made in this area, which provides a better experience for our members.

On slide 12, you can see another example of how we are marrying the digital and physical world through our investments and integrated retail. In-vehicle pick-up is a new service that we have launched powered by the Shop Your Way mobile app, which enables our members to pick up their online purchases at any Sears store within five minutes of arrival without ever leaving their car.

To do this, members can simply choose the in-vehicle pick-up option at check-out on Sears.com, then upon arrival at the store, they can use the shopping feature on the Shop Your Way app to initiate the in-vehicle pick-up process and an associate will deliver the product to their car within five minutes.

On slide 13, you can see that we are also investing in capabilities, which we believe will help us build digital relationships with our members. Two concrete examples of these applications are e-Receipts and Shopper Recap.

E-Receipts is a program that provides our members with the option to have a digital version of their sales receipt e-mailed to them instead of a paper receipt or if the member prefers in addition to a paper receipt.

We believe that this provides our members with a more convenient way to receive and archive their sales receipts. Shopper Recap is an integrated retail capability powered by the Shop Sears' app that allows us to continue the conversation with our members even after they leave our stores.

Through Shopper Recap, we can send our members a follow-up e-mail with information on the specific items they looked at in-store, providing them with the information they need to make an informed purchase decision in the future.

These functions are supported by our investment and technology platforms, as well as, our investment in wireless networks and devices at our stores. Moving to slide 14, one of the primary ways that we engage our Shop Your Way members is through ShopYourWay.com and the Shop Your Way mobile application.

Through our investment in these digital platforms, we're helping making our members' lives easier by offering them personalized deals, fun experiences, advice from associates, and the ability to connect with other members.

Throughout the last year, we continue to see significant increases in the number of members utilizing these platforms to save money, seek information on products and brands, and participate in rewarding sweepstakes.

Turning to slide 15, one of the exciting ways that we attract members to our digital platform is by offering exclusive products and content that reflect current social trends and pop culture.

In 2013, we expanded our celebrity relationships with Adam Levine and Nicki Minaj to engage their fans on social media and through all of our channels using Shop Your Way as the platform to bring the social experience and commerce together.

Both of these celebrity partners offer a line of exclusive clothing and products to Shop Your Way members. In addition, Adam and Nicki offer exclusive content and allow members to follow their activity.

In turning to slide 16, you can see the traction we believe we are gaining in our member program. While we use many metrics to shut – track our Shop Your Way program and member engagement, one important metric of note is member penetration where the percent of total sales that are derived for – from our members in Sears full-line and Kmart stores.

Our member penetration has increased for the full year from 59 percent in 2012 to 69 percent in 2013. And for the fourth quarter, from 58 percent in Q4 2012 to 72 percent in Q4 2013. Additionally, we're seeing increased engagement from our members on our ShopYourWay.com platform as well as through increases in the redemption of the points our members are earning every day on every transaction.

As we set ourselves up for success in 2014, we continued our efforts in 2013 to simplify our company and to focus it while simultaneously creating long-term value for our shareholders. As Rob will detail, we met or exceeded our key objectives related to expense reduction and inventory management, while also generating $2 billion of liquidity.

Also, we have announced we're evaluating the separation of our Lands' End business, do a spinoff to shareholders, and have made filings with the SEC to accomplish this through a pro ratta distribution to Sears Holdings shareholders.

We're also considering strategic alternatives for our Sears Auto Centers business subject to board approval and other conditions. We expect that through these actions and through working with the Sears Canada board and management, with a goal of increasing and realizing the value of our investment in Sears Canada, we will raise in excess of $1 billion in proceeds to Sears Holdings in 2014 creating value and helping to fund our transformation.

In short, we believe that we're entering 2014 well positioned in what we believe is a clear plan for success. I will now hand the call off to Rob.

Rob Schriesheim: Thanks, Eddie. On slide 18, we review our performance against the three financial actions laid out at the beginning of the year. First, we plan to reduce our fixed expenses by 200 million. We believe we achieved that objective with total selling and administrative expenses being down 431 million on an adjusted basis, which excludes significant items and by about 200 million when excluding the impact of buying related expenses.

Second, we exceeded our objective of reducing our domestic inventory balance by 500 million at peak, achieving a reduction of about 620 million at the end of the third quarter. Third, we generated 2 billion of liquidity through real estate transactions and our term loan financing against their liquidity objective of 500 million.

Slide 19 is a summary of our fourth quarter and full-year consolidated results, which are consistent with our release of January 9th. As we continue to invest in Shop Your Way as part of our business model transformation, we are seeking to improve member engagement and enhance margins as we transition to a more variable base promotional cost model.

In the near-term, we incur the cost of two promotional programs impacting rates. Long-term, if successful, we will expect our fixed promotional cost and SG&A to decline, and our variable promotional costs result in higher margins.

We have significant revenue scale, which provides us with substantial operating leverage from small improvements.

For each 100 basis point improvement in margin, we would see a $364 million improvement in EBITDA. For each 100 basis point improvement in SG&A expense, we would see a $100 million improvement in EBITDA.

Let me now take you through some of the year-over-year changes underlying our results. Slide 20 is a waterfall chart providing components of the decline revenues from 12.3 billion in the fourth quarter of last year to 10.6 billion in the current year quarter.

As shown in the slide, the primary drivers of the year-over-year revenue change include closed stores for 317 million, 53rd week for 465 million, 598 million for domestic comparable store sales and Sears Canada, which represents 213 million of which 35 million was related to the 53rd week, 85 million was due to unfavorable exchange rate impact, and 60 million due to comp store sales declines.

As you can note in the box on the upper right-hand corner of the slide, about 64 percent of the 1.7 billion year-over-year decline is due to factors other than domestic com store sales performance. As indicated on slide 21, for the quarter, our comp store sales declined by 6.4 percent as Kmart experienced the 5.1 percent decline and Sears a 7.8 percent decline.

We had reported on January 9th in our release that quarter-to-date comps were down 7.4 percent. So we did see an improvement in our comp sales through the month of January. While still early in the quarter, we are seeing positive domestic comparable store sales for the month of February for Sears' full-line and Kmart formats combined.

For the quarter, Kmart experienced declines across most categories. The most significant decline was in consumer electronics where we experienced a significant improvement in year-over-year profit largely driven by a change in promotional strategy.

Sears experienced declines in most categories including consumer electronics, tools and home appliances partially offset by an increase in the lawn and garden category. Slide 22 shows that for the quarter, our gross margin decreased about 681 million to 2.5 billion in 2013.

As shown in the table on the upper right-hand side, about 38 percent of the year-over-year decline was due to a combination of comp store sales and rate with remaining change of 62 percent due to other factors.

The year-over-year impact of closed stores accounted for approximately 71 million or about 10 percent of the change. The impact of the 53rd week represents about 161 million or about 24 percent of the change.

The setup bars labeled, "Domestic operating performance" is a net amount of 261 million or about 38 percent of the total margin decline. The first bar in this set represents the margin impact of 116 million related to our comp store sales decline.

The next bar in the set represents the impact of margin rate, accounting for 145 million of the margin decline, which was driven by higher promotional markdowns most notably in home appliances, and increase clearance markdowns in apparel due to lower end-of-season sellthroughs than planned.

Next, as indicated, we increased our year-over-year investment in Shop Your Way points by 108 million. The higher cost of points demonstrates increased member engagement and is an indicator of the progress that we are making in our transformation to be a member-centric integrated retailer.

Furthermore, it is important to understand that we recognize the points expense when points are issued to our members. Since the majority of these points are valid for 12 months, we expect to see additional revenue and margin benefits from the points that were issued in Q4 within our 2014 results as the points will continue to be redeemed in the future.

Also, as previously noted, we have continued with our traditional promotional programs at historical levels as we are intending to move through the transformation in a thoughtful and deliberate manner.

As a result, we are carrying the cost of two promotional programs. Finally, Sears Canada's gross margin declined by 80 million for the fourth quarter accounting for approximately 12 percent of the total year-over-year margin decline due to a $23 million effect from foreign exchange rates and reduced margins in home furnishings, fitness, home décor, electronics, footwear and children's wear.

An analysis of our full-year revenue and margin results similar to the previous three slides is covered on slides 43 to 45 in the appendix. While I will not speak to the full-year results for the sake of time, note that the analysis are largely consistent with our fourth quarter analysis with the one notable exception being the impact of Sears' hometown and outlet stores, which were separated in the third quarter of 2012.

Slide 23 summarizes some of what we believe are our substantial financial resources. We had $1 billion of cash at year-end. In addition, we also had immediate availability to borrow 885 million on our credit facilities, which reflects the effect of both the springing fixed charge covenant ratio and the borrowing base requirement, which reflects the effect of both the spring fixed charge coverage ratio covenant and borrowing base requirement.

We also had $4.5 billion of equity in inventory. Inventory is a current asset which should be converted to cash very quickly or on average in 90 days in the normal course. Taken together, we had about 6.5 billion of liquidity or assets, which could be converted into cash in the near-term.

In addition, we have up to $500 million in an uncommitted commercial paper program, as well as, having potentially available $760 million of secondly deck capacity subject to borrowing base requirements.

Slide 24 presents our inventory payable and net inventory balances for the past 3 years. We have had success reducing the capital required to run our business as we have reduced our net inventory investment by about $1 billion over the past 2 years.

By reducing our net inventory investment and our payables, we have decreased the level of vendor support needed to run our business, derisking our business model in a way that benefits both us and our vendor partners.

Slide 25 itemizes our debt balances as of the end of the year and after making some adjustments provides our adjusted consolidated net debt positions. Let me offer a few comments.

First, as the call box on the upper right notes, while our consolidated short-term borrowings are up by about 238 million, our consolidated cash is up by 419 million, meaning that our net short-term borrowings are down by 181 million.

We continue to have 500 million in an uncommitted commercial paper program, which we manage on an as-needed basis. Second, note that despite the added term loan debt of 1 billion, our adjusted net debt position when including the affect of our unfunded pension obligation, which has improved by about 600 million, is about flat year-over-year as we continue to fund the legacy pension obligation.

Note that the company’s legacy pension obligation essentially a form of debt has influenced revolver usage. The contributions in 2012 of 516 million and in 2013 of 360 million have been funded by revolver borrowings.

On a pro forma basis, the revolver balance would be 447 million absent these contributions. We have used one form of debt, being the revolver, to fund another form of debt, the pension. Of the fiscal year 2013 revolver balance of 1.3 billion, about 876 million was driven over the past 2 years by pension contributions, which should be distinguished from funding operating expenses.

In the box on the upper left-hand side of slide 26, we show our domestic net short-term debt position of 755 million. We had 1.3 billion in borrowings under our domestic credit facility versus 750 million last year; however, we have less commercial paper at 9 million this year versus 345 million last year, which impacts the level of credit facility borrowings.

We ended 2013 with cash of 577 million up nearly 200 million from last year. By taking these changes into account, net short-term debt is up about 40 million versus last year. Next, we show year-end availability on our committed domestic credit facility in the box on the lower left-hand side of the slide.

I'd like to make two points about the year-over-year change, both of which are primarily driven by our more efficient management of inventory. First, our capacity at year-end 2013 was $2.5 billion.

Although the credit facility provides for up to 3.275 billion of revolver commitments, our ability to use the entire facility was limited at year-end by our borrowing base, which is determined relative to the value of eligible inventory and other collateral.

Also, just as last year, we did not have access to about 10 percent of the total commitments because we would've not have met the springing fixed charge coverage ratio covenant. Second, the end of the year marks our seasonal low point of inventory levels, meaning that resulting potential reduction of our borrowing capacity occurs at a time of year when we don't need full access to the credit facility.

As we have managed our inventory more efficiently, we have less need to borrow and our resulting borrowing capacity is about $350 million lower than this time last year. At seasonal highs during the 2014 holiday season, we currently anticipate that our domestic inventory will be at a level that the bond base will not limit access to the credit facility.

After deducting year-end borrowings and outstanding letters of credit and factoring in the impact of the springing fixed charge coverage ratio covenant and borrowing base requirement, availability to borrow was 549 million at the end of 2013 down from 1.4 billion at the end of last year; however, as with net short-term debt, that doesn't tell the whole story.

Cash was nearly 200 million greater than last year reducing the difference versus last year to about 700 million. When we add back incremental capacity under our 500 million, uncommitted commercial paper program, we had 1.6 billion of potential liquidity compared with 2 billion last year.

Again, the 400 million difference from last year is mostly due to our more efficient management of inventory and its impact on our borrowing base at a time of year when we employ less capital in the business.

Note, that we also are permitted to raise up to 760 million in additional second lien debt subject to borrowing base requirements.

I'd also note that we would substantially delever our balance sheet and increase our availability to the extent we are successful in generating in excess of 1 billion of liquidity from the combination of the $500 million exit dividend in connection with the contemplated Lands' End separation, our continuing work with the board and management of Sears Canada to increase and realize the value of our current $620 million stake and our consideration of strategic alternatives for the Sears Auto Centers' business.

As we have commented, we believe that we have ample liquidity to run the business and also have the benefit of access to a rich portfolio of assets. On slide 27, we show that over the past 5 years as part of our transformation, we have honored all of our legacy pension obligations contributing about 1.7 billion.

While the pension plan remains unfunded by about 1.5 billion at year-end, it is down by about 600 million from the prior year and based on current assumptions and estimates as indicated on the slide, we currently expect the unfunded obligation to decline to about 980 million in 2014.

The pension funding is highly sensitive to both the regulatory environment and interest rates. Note, that a 100-basis point increase in the discount rate would reduce the pension liability by approximately $460 million.

On slide 28, note that we have continued to manage down our retail store footprint and the associated present value of lease obligations. Over the last 3 years, we have reduced our lease obligation by about $1 billion as we have adjusted our store base.

As we continue to manage our store footprint, we expect to reduce these obligations in the coming years. Reducing our net minimum leased payments decreases corporate obligations and further derisks our business model.

As shown on slide 29, our debt structure is in place for the next few years as our domestic revolver extends into 2016 and we have negligible term debt maturities over the next several years.

Next, as shown on slide 31, we are reconfiguring our asset base as we accelerate our transformation. In 2012, we separated our Sears hometown and outlet stores business through a rights offering transaction. We consider the transaction to be successful.

It generated 450 million of gross proceeds for Sears Holdings, did not reduce our overall scale as our products and services are sold to their locations, and allowed existing shareholders the right to participate in value creation generated by Sears hometown and outlet stores, which we refer to as show.

We recently announced that we intend to separate Lands' End and are exploring strategic alternatives for our Sears Auto Centers business. We believe these strategic actions are beneficial for a number of reasons.

First, Sears Holdings becomes a more focused company that is more efficient to manage and easier to understand. Second, the management of these separated businesses are better able to pursue their own strategic opportunities, optimize their capital structures, attract talent and allocate capital on a more focused manner.

Third, they provide multiple opportunities for our shareholders to participate in the value creation generated by these businesses. Finally, they potentially enhance Sears Holdings and the separated entity's financial flexibility.

As we have demonstrated on slide 32, we believe Sears Holdings is asset rich. We believe we can readily generate liquidity from this asset base. In fact, this year we generated 2 billion of liquidity consisting of 1 billion through real estate transactions, the United States and Canada, and another 1 billion as we executed a 5-year secure term loan in October.

On slide 33 – on slide 33, we provide an update on our asset reconfiguration activities. We believe that we are executing on a clear plan to increase financial flexibility, further derisk our balance sheet and create shareholder value.

We expect to continue with these types of activities during 2014. We currently anticipate generating about 500 million from an exit dividend in connection with the previously announced separation of Lands' End through a pro ratta distribution to our shareholders with the separation being subject to board approval and other conditions.

We currently expect that the combination of, one, the Lands' End transaction; two, our continuing to work with the board and management of Sears Canada to increase the value of our investment, which has a market value of about 620 million and realize significant cash proceeds; and three, our valuation of opportunities with respect to a potential separation of our Sears Auto Centers, when taken together, will result in cash proceeds to the company in excess of $1 billion in 2014 to help fund our transformation and create value.

In addition, we are capitalizing on our flexibility in our real estate portfolio to reduce unprofitable stores as leases expire and in some cases accelerate closings when circumstances dictate, as well as, continuing to benefit from the value of our real estate in both United States and Canada.

Finally, managing our store base and inventory more efficiently. Also, on a separate, but related note, please see the N.R. earnings release this morning. We provided a preliminary, and unaudited summary outlook, which is subject to change, of the Lands' End fourth quarter and full-year showing EBITDA improvement, about $31 million and $42 million respectively as shown on slide 46.

Slide 34 substantiates our belief that we are an asset-rich enterprise with multiple levers at our disposal to generate what we believe to be ample financial flexibility to both meet all of our financial obligations, as well as, fund our transformation.

We are focused on investing on those initiatives that we believe will create long-term sustainable shareholder value. We have demonstrated our ability and willingness to monetize assets as we redeploy capital in support of our transformation to a member-centric model leveraging Shop Your Way and integrated retail.

More specifically, in the past 2 years, we have generated about $4 billion from a range of actions including inventory, fixed expense reductions, real estate, asset reconfigurations, and a continuing adjustment of our store base.

We have executed these transactions in a way that we believe has been value accretive to our shareholders as we fund our investments and honor our financial obligations.

Now, let me turn the call back over to Eddie.

Eddie Lampert: Thanks, Rob. As I mentioned earlier, as the largest individual shareholder and the CEO, I am personally committed to investing in and driving Sears Holdings' transformation, improving the profit performance of the company and creating shareholder value, all while continuing to meet all of our financial obligations.

While I am not pleased with our profit performance, I am pleased with the progress we have shown in our transformation by continuing to improve our member engagement by leveraging Shop Your Way and integrated retail.

We are working in a very focused and diligent manner to drive this transformation to a member-centric model and achieve improved levels of profit performance. Thank you for joining us this morning.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day.