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PIER 1 IMPORTS (PIR) ADOPTS "POISON PILL" MEASURE TO DISCOURAGE TAKEOVER

1) Pier 1 Imports, under scrutiny by an activist investor, announced late Tuesday that it would institute a shareholder protection plan designed to discourage any single shareholder from acquiring a stake of 10% or more in the company.
2) The adoption of a so-called poison pill plan comes a week after hedge fund Alden Global Capital revealed that it had accumulated a 9.5% stake in the home-goods retailer and that it had plans to take a more active role.
3) Today, the company reported fiscal 2Q17 revenues of $405.8 million, down 6.7% from the year-ago period. Comparable sales fell by 4.3%, which was far below the (1)%–1% comp growth the company had expected. Pier 1 also lowered its full-year guidance. The company now expects net sales to decline by 4%–6%; previous guidance called for a decline of 1%–3%. Full-year EPS is now expected to be $0.24–$0.32, compared with $0.32–$0.40 previously.

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The adoption of a so-called poison pill plan comes a week after New York hedge fund Alden Global Capital revealed that it had accumulated a 9.5% stake in the home-goods retailer and signaled plans to pressure Pier 1 to make changes by taking a more active role with the board. In the filing, Alden Global Capital said it had opened a dialog with Pier 1's board on issues that included the retailer's operations, shareholder representation on the board and the search for a new chief executive.

Under the shareholder protection agreement, Pier 1's existing shareholders will receive a dividend of one right per share. Each right allows the holder to buy a fraction of junior preferred stock at an exercise price of $17.50. The right becomes exercisable when a shareholder buys 10% or more of the company's common stock. The greater the number of shareholders who buy additional shares, the more diluted the bidder's interest becomes and the higher the cost of the bid.

Though the retailer acknowledged it cannot prevent a takeover of the company, it said the program may cause substantial dilution to anyone acquiring 10% or more of the company's common stock, which may block or render more difficult a merger, tender

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offer or other business combination. In addition, the maneuver will make a takeover of the retailer more costly and pay shareholders an "appropriate premium."

Pier 1's President and CEO, Alex Smith, who has led the company since 2007, said earlier this month that he will leave the company at the end of the year. The announcement came on the same day that the chain reported disappointing preliminary fiscal 2Q17 results amid heightened competition from online-only and off-price retailers.

In a statement announcing the new measure, Pier 1 Chairman Terry London said that "the board remains focused on our search for a new CEO to guide and execute the company's omni-channel strategy, and is committed to driving increased value for our shareholders."

Today, the company reported its full fiscal 2Q17 results. Revenues were $405.8 million, down 6.7% from the year-ago period and below the consensus estimate of a 1.3% decline. Comp sales declined by 4.3% year over year, versus the consensus of (0.4)%. Results came in below company guidance, which had called for a sales decline of 1%–3% and comp growth of (1)%–1%. The company continues to face falling traffic, increasing sales in its low-margin online business, declining brand relevance and a more promotional environment.

Pier 1's EPS was $(0.05), at the lower end of the company's guidance range and below the consensus estimate of $(0.00).

As a result of the quarterly performance, Pier 1 lowered its full-year guidance. The company now expects net sales to decline by 4%–6%; previous guidance called for a decline of 1%–3%. Full-year EPS is now expected to be $0.24–$0.32, versus $0.32–$0.40 previously.

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