

RETAIL VENTURES, INC.

**Moderator: Jim McGrady
September 8, 2005
8:00 a.m. ET**

Operator: Good day and welcome to today's Retail Ventures quarterly conference call. As a reminder, today's conference is being recorded.

Our discussion leaders today are Mr. Heywood Wilansky and Mr. Jim McGrady.

And at this time, I would like to turn the call over to Mr. Jim McGrady. Please go ahead, sir.

Jim McGrady: Thank you, Lori. Good morning everybody and welcome to our discussion of RVI's second quarter 2005 operating results. Housekeeping before I start.

I would like to restate for you the Company's policy with respect to forward-looking information pursuant to the Private Securities Litigation Reform Act of 1995. Statements made in the course of this call that are not purely historical, such as statements regarding the Company's or Management's intentions, expectations or projections of future -- of the future are forward-looking statements.

Actual results could materially differ from the forward-looking statements. Factors that could cause or contribute to such differences include but are not limited to the factors and risks discussed in the Company's Annual Report on Form 10-K for the fiscal year ended January 29th,

2005, the S-1 filed by DSW, Inc. and other reports filed from time-to-time by the Company with the SEC.

Any forward-looking statements made during this call are based upon information presently available to the Company and the Company assumes no obligation to update any such forward-looking statements.

As you all are aware, today we announced a second quarter net loss of \$115.5 million or \$2.96 a share on a diluted basis compared to a profit of \$800,000 or two cents per share in the prior year quarter. For the six month year-to-date period we reported a net loss of \$127 million compared to a prior year net loss of \$1.2 million. The loss per share for each respective period is \$3.38 and four cents.

Each of these periods include a non-cash accounting charge of \$95.8 million related to the modification and issuance of warrants pursuant to FAS 133. In accordance with FAS 133, the detached warrants with a dual conversion (ops out), it met the criteria for classification as a derivative. This requires that the warrants are to be recorded as a liability at their fair market values and mark-to-market thereafter. You'll also that no tax benefit has been recognized in connection with this charge. Future periods will also recognize this non-cash impact caused by the variations in the mark-to-market value of the warrants. Adjusting for the FAS 133 charge, the net loss for the second quarter is 19.7 million or 50 cents a share. Year-to-date it would've been 31.2 million or 83 cents a share.

As we take a look at our sales for the second quarter, total sales increased \$35 million or 5.6 percent to 666.7 million from \$631.7 million in the last year's quarter. Comp store sales for the quarter decreased by 1.1 percent. By business segment these were a decline at Value City, in the quarter, of 4.8 percent, an increase at DSW of 3.3 percent and Filene's Basement improved 1.6 percent. Value City's comparable quarterly sales decreased due to declines in customer

traffic and also, we had declines in non-apparel hard lines of 9.7 percent and an apparel of 5.1 percent. Our Value City's apparel categories of men's and children's had decreases of 6.9 percent and 13.1 percent respectively and shoes were negative by 9.9 percent. Ladies had an increase of 1.5 percent in the quarter and jewelry had an increase of 2.2 percent. DSW sales were \$276.2 million, a 17.8 percent increase in the quarter, which includes a net increase of 26 stores, 10 not affiliated leased shoe departments and five Filene's Basement leased shoe departments. This includes the re-categorization of two Filene's Basement combination stores. Again, comp sales for the quarter improved 3.3 percent for DSW. Filene's Basement sales increased 13.5 percent in the quarter to \$89.4 million, which includes a net increase of three stores and comparable store sales increase of 1.6 percent. The merchandise categories of men's, ladies and children's had comp sales increases of 0.1 percent, 2.4 percent and 6.9 percent respectively. Jewelry category had an increase of 11.3 percent driven by watches and costume jewelry.

Turning to our margin, total growth gross profit increased -- or excuse me, decreased \$200,000 to \$259.4 million. In the second quarter, gross profit as a percent of sales decreased 220 basis points to 38.9 percent from the previous year quarter of 41.1 percent. All three operating segments had declines. Our gross profit, as a percent of sales by segment, was Value City Department Stores at 36.9 percent in the quarter, DSW 42.4 percent, Filene's Basement 35 percent even and again, the total was 38.9. Value City's gross profit decreased \$19.4 million from the comparable period last year. This is attributable to lower initial mark ups as a result of the planned shift and strategy towards more brand name merchandise, with a better assortment at better prices. Value City also incurred additional markdowns, within the quarter, related to the point of sales discounts on clearance merchandise compared to the prior year's quarter. Our DSW gross profit increased \$15.9 million to \$117.1 million in the quarter. This is from 101.2 million in the second quarter of last year. The decrease, as a percent of sales, is primarily attributable to increased markdowns caused by higher average unit retail prices on items in the clearance rotation and additional markdowns taken in the accessory category. Filene's

Basement gross profit increased by \$3.4 million, which is attributable to new stores offset by increased markdowns in the ready-to-wear categories, slow moving spring domestic goods and certain imported stock categories. During the quarter, the IMU remained comparable to the prior year's mark up.

SG&A, our total selling, general and administrative expenses for the comparative quarters increased \$15.9 million to \$265.5 million and as a percentage of sales increased from 39.5 percent to 39.8 percent and 26 new DSW stores, 10 new leased shoe departments added approximately \$11.4 million and \$4 million, respectively, to the SG&A expense while the three new Filene's Basement stores added approximately \$4.2 million. SG&A, as a percent of sales, by operating division are Value City Department Stores 43.7 percent, DSW 35.1 percent, Filene's Basement and again, for the quarter, it was 39.8 percent. Again, as discussed earlier, we recognized that \$95.8 million non-cash charge, the result of the application of FAS 133 and just so everybody's aware, we've classified this as a reduction of Value City's operating profits in our segment reporting.

Operating -- the operating results by segment were Value City had an operating loss of \$113.5 million, DSW had an operating profit of \$20.7 million, Filene's Basement had an operating loss of \$5.3 million and total it was an operating loss of \$98 million.

Our net interest expense for the quarter increased \$500,000 to \$10.4 million. The increase is due, primarily, to the write off of unamortized debt issue cost for the company's term loans and original revolving credit facility of about \$2 million and an increase in our weighted average borrowing rate of about six percent. This is virtually offset by a decrease of \$60.5 million in average outstanding borrowings.

Taking a look at our tax rate, the effective tax rate for the three months, in the quarter, was a negative 7.2 percent as compared to 51.3 percent for the prior year. This tax rate reflects the

negative impact of the non-deductible warrant amortization, the unrealized loss on warrants included for book income but not for tax and the write off of \$5.2 million on deferred tax assets no longer deductible as a result of changes in state tax regulations in Ohio where we a main taxpayer.

As we turn to our balance sheet, inventory totaled \$559.1 million at July 30th, 2005 versus \$517.5 million last year. This is an increase of about eight percent. The total increase includes approximately \$23.4 million for the 26 new DSW stores, approximately \$2.3 million for the leased departments and \$6.6 million for the new -- three new Filene's Basement stores.

Net working capital, at July 30th, was \$202 million compared to 293.2 million last year. Current ratio was 1.4 and 1.9 respectively for those periods. If we adjust for the \$113 million warrant liability included in current liabilities, working capital would've been \$315.3 million with a current ratio of 1.8. Net cash used for capital expenditures was approximately \$24 million year-to-date, while depreciation and amortization for the year totaled \$28.9 million.

During fiscal 2005, our cap ex includes \$6.6 million for new stores, \$9.5 million for improvements in existing stores and \$7.9 million for information technology equipment upgrades and new systems.

EBITDA, in the second quarter, was a negative \$82.6 million versus \$25.1 million last year. Again, adjusting for the FAS 133 charge, EBITDA for the quarter and 26 weeks would've been \$13.2 million and \$18.2 million respectively.

Our consolidated availability, under our secured revolving credit facilities at July 30th, was \$269 million. Direct borrowings at that time aggregated to \$49 million while \$41 million of letters of credit were outstanding. Our current availability is \$278 million.

That concludes our historical review of second quarter operations. As we look forward to the remainder of fiscal 2005, we do anticipate opening a grand total of about 30 DSW stores, in fiscal 2005 and we do not anticipate any additional openings for Filene's Basement beyond the one store that we've already opened.

Depreciation and amortization expense is again, as expected, to be between \$59 million to \$61 million.

Heywood will address some of the Value City merchandising and marketing plans we have instituted or are completing. The communication of the new Value City merchandising and our ability to attract and retain customers is going to be an integral part of our ability to execute the strategy. We believe it is too early in our program to evaluate the effectiveness of our marketing and the Value City customer response.

Importantly, at this time, we will not be providing guidance for the balance of fiscal 2005. We do plan, however, to provide in our third quarter conference call, guidance for fiscal 2006.

At this time, I'd like to turn the call over to Heywood.

Heywood Wilansky: Thank you, Jim and good morning everyone. The second quarter financial results for Retail Ventures were, in summary, not up to expectations.

Overall, when compared to the prior year, comp sales were down, gross margin percents and net profits were down. The Value City Department Store segment was the chief source of the disappointing results and the second quarter for Retail Ventures could best be described as a transition period and as such, we did not expect to have an immediate improvement and as said early on, in our transition, we needed to be further along in the process before benefits are realized.

For example, in the first quarter of 2005, over 85 percent of the merchandise that was sold in Value City was bought under the previous strategic initiatives, former regimes. In the second quarter, north of 55 percent of the product offered for sale was bought under the old thought process. For the third quarter of 2005, about 15 percent had been pre-committed and for the fourth quarter it's a negligible number and this was certainly the case for Value City.

In the first quarter of this year, the new leadership team at Value City developed a new vision for the division. Since that time, Value City has been working diligently to transform the division to achieve the vision. Because this vision requires such a comprehensive change in the way we do business at Value City, it takes time to get all the pieces in place.

The most important decision we had to make was identifying a strategic initiative for who or what Value City was going to be, which customers we were going to serve and then what decisions had to be made to support the change in strategic direction and to try to put it simply, the previous five years or so, the thought process at Value City was that cheaper was better. If you could buy one-year-old merchandise for \$5 or five-year-old merchandise for \$1, you push the five-year-old merchandise because the price was cheaper, even if it had bad colors, bad sizes, bad fashion. They believed that they could out Wal-Mart, Wal-Mart.

In looking at the business, when we arrived here in late in the fourth quarter of 2004, we really evaluated that that strategy really could not succeed in the long-term basis and that was a suicide mission trying to be better than Wal-Mart on everything. It didn't make any sense. We looked at the company and really identified a repositioning for Value City, which really moves it off what I call the bottom tier into the low to mid-tier along with players like JC Penney's or Kohl's or Burlington Coat Factory or T.J. Maxx or Marshall's stores, in that group and in order to accomplish that change we had to make numerous strategic decisions to kind of get us in that vein.

Some of the new initiatives but not in any particular order, you know, we had to kind of institute in order to address this mid-tier customer, was first of all, we had to hire some new buyers that understood that business position. We had to develop new vendor relationships with people that we hadn't done business with either ever or for a long period of time. The new target market needed to be identified and new merchandising strategies needed to be created and put in place to address the change in target markets. One of the things that the prior team, I guess, didn't believe in was private brand development. They felt that they could buy merchandise cheaper in the market.

Well, you could but it would be old and it might have bad colors, bad sizes and bad fashion and we have now identified and started a pretty significant private brand development issue inside the company, as well, to help not only with merchandise and sales but also, with margins. New fixturing and strategic signing needed to be ordered and placed in the stores and more in line with the Kohl's or a JC Penney's type presentation. Significant amounts of old merchandise needed to be cleared to make way for the new merchandise. New policies, procedures, disciplines and store standards needed to be put in place, at the store level. Logistics needed to be reconfigured. New technology was necessary. A new marketing program needed to be developed and actually it's being implemented as we speak, over the last couple of weeks. Customers needed time to recognize the change strategy and to change their shopping habits and we really needed to try to re-attract the mid-tier customer that was once the main customer at Value City without chasing away every customer that we had that they had developed over the years. The previous mid-tier customer had kind of been chased out of the store by the merchandise array that they had put in the stores over the previous five years.

As a result, although great progress was made in transforming Value City, not enough of this new vision was in place to positively impact the second quarter. For example, as we talked before, the new merchandising and marketing really didn't start until the third quarter and will be fully in

place for the fourth quarter. One thing we do know is that the pieces of the vision that are furthest along, in development, are starting to show improvement. For example, we've already seen the beginnings of a turnaround in ladies apparel, shoes and jewelry, which were the areas that we tackled first. Sales are showing positive increases in all these areas since the beginning of the fall season. Men's apparel is the next and over the last week or so, they started to show some improvement with the new receipts coming in and we expect similar positive results from the men's area by the beginning of October. The children's and home goods departments are the final merchandising areas to be tackled. Once their transition is complete we expect a turnaround there, as well. Children's probably won't happen until the spring of 2006 and home, probably, is similar based upon changing out of merchandise mix and getting new merchandise mix in that would better support this mid-tier thought process.

DSW also went through a major change, in the second quarter, from being a wholly-owned division of RVI and becoming an independent public company. The IPO has had a significant positive impact for both DSW and RVI. The IPO unlocked shareholder value for DSW, which the market did not really realize when DSW was hidden within the RVI portfolio. In addition, the IPO provided DSW with a balance sheet, which should allow them greater flexibility in obtaining their strategic goals.

RVI benefited by having the improved shareholder value of its controlling ownership of DSW reflected in its own stock. In addition, the proceeds of the IPO allowed RVI to substantially reduce its debt and the high interest charges associated with that debt. It also provided the means to fund some of the transition activity at Value City.

Filene's Basement continues along its path of transformation from a turnaround story to a growth story and it is anticipated this segment will reach EBIT profitability in 2006. Filene's Basement's repairing its infrastructure for return to growth by revamping its logistics capabilities and by

moving to new divisional headquarters that will make operations more efficient and provide room for future growth.

The RVI corporate group is also undergoing a transformation. From a centralized retail support center to a more decentralized structure. It is anticipated that this will cut out significant redundancies between corporate and the divisions and allow the retail operating companies greater flexibility in reacting to the marketplace. The benefits of this change should be realized over the next six months.

As you can see, there are many changes taking place at RVI and at its retail brands and we anticipate that these changes will positively impact performance in the near future. We believe that the foundation has been in place and now we need strong execution and we need some time to get the consumer to understand what we've done and react to it and then we can begin to build upon these changes.

And now, I'd like to open the call to any questions for Jim or myself.

Operator: Today's question-and-answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star key followed by the digit one on your touch-tone telephone. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, please press star one to ask question and we'll pause for just a moment.

And we'll take our first question from David Mann with Johnson Rice.

Jim McGrady: Morning David.

Operator: And Mr. Mann, your line is open.

David Mann: Hello.

Jim McGrady: Hi Dave.

David Mann: I'm sorry about that good morning. In terms of Heywood, your last comments about the cost structure at RVI corporate, can you give some sense, in terms of you know, what kind of range of dollar savings we might be looking towards?

Jim McGrady: Dave, I think actually I could probably give a little bit better idea there. We're taking a look at some of our back room operations and obviously, as we get our inventory management system in place that's going to be fully operational in the first quarter of next year, we'll start to see benefits from that and we'll start to see some of the, you know, kind of go into more of a maintenance mode rather than a growth mode on some of these IT projects that we've had on -- in place for quite a period of time. I would think, actually, our goal right now, is to take, you know, approximately \$6.5 million to \$7 million out of the RVI function. Now, not all of this cost savings is going to fall directly to the bottom line because some of it will shift to the various operating segments but I would say that you know, with the efficiencies that we should recognize from the other, you know, systems implementations and warehouse-type systems that we're putting in place and hope to have in place by the end of the first quarter next year, if not before that we should certainly be able to see that amount of savings on an annual basis.

David Mann: A second question, in terms of real estate, as you've transformed or are in the midst of transforming the mix, are you identifying some stores that you think will not fit that demographic and may need to be closed or are, you know, on track to lose money on a four-wall basis and if so, how many and how big of a drag might we be talking about?

Heywood Wilansky: David, we have 114 stores today. This change in merchandising strategy to upgrade into more of a mid-tier placement is clearly not going to be effective in all 114 stores. We're going to try and evaluate, over the course of the season, which of those stores either cannot or will not react based upon customer profile or geographic location or things of that -- or site location and I think that we're taking a pretty hard look at whether its one store or 30 stores that don't react, to look at taking action on those stores and perhaps, jettison those stores and reinvest in the existing stores that do react to the change in strategy.

David Mann: And the timeline to sort of decide on some kind of decision on that is that the end of this year or it would be later than that?

Heywood Wilansky: I think we're going to have a pretty good sense by the end of 2005, when we go through the fourth quarter, when all the merchandise is really put in place we'll get a pretty good sense, over the course of the fourth quarter of who is not going to react at all and we'll take action on those stores.

David Mann: OK and you mentioned the number 30, should we assume it could be as many as 30 or were you ...

Heywood Wilansky: No that's just -- I don't know David. I mean I'm trying not to get ahead of myself in the guesswork. We know it's more than one. We don't know what the high number is and we're going to find out that out over the course of the next four or five months.

David Mann: And then, one last question, you gave a few categories where you're, you know, in terms of ladies and men's and those categories, as you're seeing the response for the transformation merchandise, Jim maybe, can you give us a sense on to what percentage of sales those are so we can gauge, you know, how far into the business you've had some affect already?

Jim McGrady: Yes, actually, as we take a look at it, on a year-to-date basis, the men's category is approximately, you know, 18 percent to 19 percent, women's in total is probably about 25 to 30 percent of the total sales and this is just year-to-date. Obviously that's sku gets a little bit higher as we go through the balance of the year and get into the holiday season but right now that's about where we're looking at.

David Mann: OK, great. Good luck guys.

Jim McGrady: OK, thanks David.

Operator: Once again, that is star one for questions. We'll go to Lee Backus with Buckingham Research.

Lee Backus: Yes, Heywood, you know, Jim you talked a little bit about inventory levels, Heywood, could you talk more about the inventory that currently exists at Value City Department Stores? How much of that has been transformed into merchandise that you think is appropriate, what kind of markdown levels still exist in that inventory.

Heywood Wilansky: Well, you know, I would say that about 70 percent of what we sold or received in the first and second quarter, was merchandise that we probably wouldn't want to have on a go-forward basis and add that to the receipts that you've gotten into August and the beginning of September and take out the markdowns that we've been taking along the way, I would say we probably have in the ladies area, about 65 percent of the inventory, now, in place with where we want it and 35 percent that still needs to be run through. Now, you're always going to have a certain level of clearance regardless of the time period, so its not as excessive as 35 percent against zero but its probably 35 percent against -- maybe 15 percent would be a better number of conversion out merchandise that you'd like to get rid of, so we've still got some -- to deal with some of that over the course of September. In the men's area, it would be a little less than the ladies, so if the ladies is 65 percent men's might be at 45 or 50 percent, accessories is probably

in the same category as men's and they're doing pretty well. Jewelry is less of an issue from a product mix, although, it was an issue but its probably 75 percent there and 25 percent not and home is the big issue with a pretty significant amount of product that we have to reconfigure and reconvert, so they're probably the weakest of the group, at this point in time.

Lee Backus: Also, could you talk a little bit about the current warrants that exist out there, the plan for them? I know there's a fairly large short position in stock, could you discuss that and the warrants that currently exist under -- with (Cerberus)?

Heywood Wilansky: Jim.

Jim McGrady: (Cerberus), you know, what action that they're going to take at this point in time I don't have a firm direction on right now, Lee, to be honest with you. You know if you take a look at what happened in the transition with the payment of the term debt and the payment of the convertible debt, the \$25 million payment was we modified those loans. You know we, obviously, switched over to -- from a convertible feature to warrants. At the end of the day, the company is probably in the same position as it was before, so you know, right now, I can't really tell you 100 percent what (Cerberus') intention is to do with the warrants. I don't know.

Lee Backus: OK. Also, you had discussed some of your systems, inventory systems; maybe you discuss the balance of your systems and your distribution center to how efficient it is now and how pleased you are with the service you're getting from the distribution center.

Jim McGrady: Well, right now and I'll just focus my answer on Value City because I can say that the Filene's Basement and DSW operations, we are, you know, very satisfied with how they are operating. We, obviously, always try to make it better than what it is. We have improved the days to floor, in the Value City operations. We're getting down pretty close to a 14-day turn if the product's brought in and it's what we call clean. It'll pass right through the system. It's actually,

you know, less days than that. I'm giving myself a little bit of room for items that are probably almost clean, where we don't have to handle them, so we've got a lot more efficient. We have been working a long time, as everybody is aware, on our JDA merchandising system and we are getting very close, again, to having that implemented. We're starting to bring up pieces of it as we go through the third quarter here. Its doubtful whether we're going to do anything that would be too dramatic in the fourth quarter, just because the fourth quarter being so significant to us on the system side of the business but we do anticipate to have our JDA merchandising system fully in place by the end of the first quarter of '06 and hopefully, it'll be, you know, not the end it'll be earlier than that.

We have made some commitments on the warehousing side, as far as, capital expenditures to put in, you know, some high speed (sortation) and do some studies to help even make our systems more efficient and maybe combine a couple of warehouses that we have, something that's under review right now. I'll let you know where that goes as we get a little bit further down the road with it, so I would say that we have made significant improvements in our warehousing and systems work, over the past year, without a doubt, very significant improvements. Is it exactly where we would want it to be today? No but I think that we're rapidly getting to a point where we're going to be where we want it to be.

Heywood Wilansky: You know one thing, Lee, I guess it was once upon a time, six to eight weeks to get soft lines products through the system and now we've got a bunch of departments operating at a 14-day or less turnaround.

Lee Backus: Great, thank you.

Heywood Wilansky: Well Lee, one other thing, if you wanted to know about what (Cerberus) is intent is, why don't you just phone them and let us know?

Lee Backus: Yes, OK. I'll try that.

Operator: And we have no other questions, at this time. I'll turn the call back over to our presenters for any additional or closing remarks.

Jim McGrady: All right, thank you everybody. I appreciate it. I will be available all day if anybody wants to give me a call. I do appreciate your support. I know Heywood says the same with me here.

Heywood Wilansky: Absolutely.

Jim McGrady: And again, thank you everybody. Have a good day.

Heywood Wilansky: Thank you.

Operator: This does conclude today's conference. We thank you for your participation.

Jim McGrady: All right, thank you Lori.

Heywood Wilansky: Jim, you in your office?

Jim McGrady: Yes, I am.

Heywood Wilansky: Give me a call. Bye.

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