TYING IT ALL TOGETHER

A story of

Size Optimization

at

DSW
Agenda

- The Financial Evolution of DSW
- The DSW Story: Who We Are
- SAS Size Optimization
- Overview
The Financial Evolution of DSW
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Stores</td>
<td>39</td>
<td>172</td>
<td>298</td>
<td>393</td>
</tr>
<tr>
<td>Sales</td>
<td>$135M</td>
<td>$961M</td>
<td>$1.5B</td>
<td>$2.0B</td>
</tr>
<tr>
<td>Op Income %</td>
<td>N/A</td>
<td>1 – 6%</td>
<td>3 – 8%</td>
<td>11%</td>
</tr>
<tr>
<td>Key Events</td>
<td>First store July ’91</td>
<td>Build Merch Team</td>
<td>Build Mgmt Team</td>
<td>Full Time CEO (2009)</td>
</tr>
<tr>
<td></td>
<td>80% Close-out</td>
<td>➞ 20% Opportunistic</td>
<td>IPO (2005)</td>
<td>Strategic Focus</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>dsw.com (2008)</td>
<td>Merger with RVI</td>
</tr>
</tbody>
</table>
Consistent Track Record of Growth

NET INCOME ($M)

REVENUES ($M)

NUMBER OF DSW STORES

19% CAGR

10% CAGR

10% CAGR
POISED FOR GROWTH

394 DSW stores in 42 states as of Dec. 31, 2013
Plan to open 35 stores in 2014

Sales by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Northeast</td>
<td>31%</td>
</tr>
<tr>
<td>Southeast</td>
<td>19%</td>
</tr>
<tr>
<td>Midwest</td>
<td>23%</td>
</tr>
<tr>
<td>Southwest</td>
<td>15%</td>
</tr>
<tr>
<td>West</td>
<td>12%</td>
</tr>
</tbody>
</table>
THE DSW STORY
PASSION
ACCOUNTABILITY
COLLABORATION
HUMILITY

DSW Values
The DSW Formula

Breathtaking Assortment

Irresistible Value

Simple Convenience
THE DSW FORMULA

Breathtaking Assortment
Strong Vendor Relationships

THE DSW FORMULA

400 Brands
2000 Styles
Irresistible Value

THE DSW FORMULA

**WHAT'S THE BIG DEAL?**

An exceptionally great value.
Look for them throughout the store and at dsw.com.

Clearance
Take an additional percentage off the lowest sticker price.
How much? See the color guide below.

- 30% OFF
- 40% OFF
- 50% OFF
- 70% OFF

Additional reductions taken at register.

**TOMMY HILFIGER**

$89.95

COMPARE AT $120.00
Simple Convenience

Accessible Stores
Easy to Shop
Assisted Self Select Model
DSW’s Omnichannel Vision

**Excite** – Cultivate the *treasure hunt*, inject excitement, urgency & fun into the shopping experience

**Delight** – Provide the *best value*

**Inform** – Become THE *Shoe Authority* on shoes, providing robust product and trend information

**Inspire** – Build and fuel the *Shoe Lover Community*

**Relate** – Provide a *personalized experience* to each Shoe Lover at every point along the customer journey
OMNI: WE ACT AS ONE

Present
MORE PRODUCT

Explode our Assortment
• Expose Store Only Product
• Expand Drop Ship

Make it
EASIER TO SHOP

Empower our Customer
• Buy Online, Pickup in Store
• Endless Aisle
• Mobile Application
• Associate Tools

Make the experience
RELEVANT

Upgrade our Commerce Platform
• Personalization
• Site Search
• SEO
• Social Community

Build a FOUNDATION for the future

• Data/Analytics
• Change Management
• Blended Organization
TYING IT ALL TOGETHER

A story of
Size Optimization

at

DSW

®
MY NEXT JOB WAS GOING TO BE...
You don’t have my size!!!
You don’t have my size!
Systems Evolution

2014 & Beyond

Omni

High Speed Sortation

Size Optimization

Shoephoria!

Item Planning

Intelligent Models

Allocation

2013

Assortment Planning

Charge Send

Size Replenishment

2012

Store Planning

2011

Size Enablement

2009

2004

Big Data

Big Data

Big Data
Back in the day....
Close-Out Concept

Breadth of Assortment
- Close-Out
- Take “All” Deals
- No Size Capacity
- Smaller Buys
- Push Entire Stock to Stores
- Vendor Decides

Store Individualization
Breadth of Assortment
Fashion Retailer

Breadth of Assortment
- Demand Planning
- Specific Sizes
- Identified Assortment
- Vendor Partnership
- Current Season Product
- Calculated Quantity
- Initial Delivery & Flow

Precision Assortments
You don’t have my size!!!
Size Detail

Carton Content By Size

Z99

<table>
<thead>
<tr>
<th>Qty</th>
<th>Size</th>
<th>Break</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Size 7</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Size 7.5</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Size 8</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Size 8.5</td>
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<tr>
<td>2</td>
<td>Size 9</td>
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Z99

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<td>Size 9</td>
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<tr>
<td>1</td>
<td>Size 10</td>
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</tbody>
</table>

Z99

Size in our system

24
Precise Size Detail
Each Size Registered Individually

<table>
<thead>
<tr>
<th>Qty</th>
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Size in our system

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<td>1</td>
<td>Size 10</td>
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You don’t have my size!!!
Store Inventory

Low Volume Store

High Volume Store
Store Inventory

Store Capacity: 25,000 Pairs of Shoes

- Men's Boots
- Athletic Sandals
- Boots
- Sandals
- Women's

Time

Capacity
Store Inventory

Store Capacity: 25,000 Pairs of Shoes

Time

Capacity

May | June | July | August
---|------|------|------
5000 | 5000 | 10000 | 20000
10000 | 15000 | 20000 | 25000
15000 | 20000 | 25000 | 30000

Legend:
- Men's
- Athletic
- Boots
- Sandals
- Women's
Need generated in Allocation

- **Projected Sales**
  - WOS by store grades & merch type/strategy
  - Intelligent projection of future demand

- **Conformance Modifiers**
  - Plan conformance for class/subclass
  - Footwear capacity conformance for store

- **Event lift**
  - Additional event lift, if applicable
 Improved Store Inventory

Low Volume Store

High Volume Store
You don’t have my size!!!
Systemic Item Plan

- Store Inventory
- Size Break Minimum Presentation
- Rate of Sale Forward Weeks of Cover
- Seasonal Sales Curve
- Inventory Receipt Flow
Shoe View
High-Speed Sortation in the Distribution Center
You don’t have my size!!!
SAS – The right fit for DSW

- Easy to install
- Speed to benefit
- Improves data through imputation
- Integrates with existing solutions

- Increased sales
- Better inventory utilization
- Increased gross margins
- Satisfied customers

Branik
SAS Size Optimization Timeline

<table>
<thead>
<tr>
<th>2012</th>
<th>March</th>
<th>April</th>
<th>May</th>
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</thead>
<tbody>
<tr>
<td>Allocation – Prepack Pilot</td>
<td>MAP Development</td>
<td>MAP Training/Bus Process Development</td>
<td>User Acceptance Testing</td>
</tr>
<tr>
<td></td>
<td>Allocation – URI Pilot</td>
<td></td>
<td>Training</td>
</tr>
</tbody>
</table>

SAS Implementation
Benefits of Size Optimization

SAS imputes sales when inventory position by size is not optimal...generating better size curves.

SAS profiles are used to purchase merchandise and to allocate to stores...creating consistency between buying and allocation.
Benefits of Size Optimization

Buying to size curves for intended stores...not a total chain sales curve.

In-stock positions by size by store will improve resulting in higher sell-through at regular price...driving incremental margin and increased customer satisfaction.
Size Profiles

- Size profiles result in % contribution values by size for a specific size set (size range)
- Size profiles are created at the user defined product level
- Size profiles are created for store clusters based on statistically similar size selling patterns

Example profile for a Women’s category with a size set of 6.0 thru 11.0

<table>
<thead>
<tr>
<th>Store Groups</th>
<th>Contribution Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size A</td>
<td>Overall store group (100%)</td>
</tr>
<tr>
<td>06 0’M</td>
<td>5.82</td>
</tr>
<tr>
<td>06 5’M</td>
<td>7.16</td>
</tr>
<tr>
<td>08 0’M</td>
<td>15.18</td>
</tr>
<tr>
<td>09 0’M</td>
<td>12.96</td>
</tr>
<tr>
<td>09 5’M</td>
<td>8.24</td>
</tr>
<tr>
<td>10 0’M</td>
<td>8.66</td>
</tr>
<tr>
<td>11 0’M</td>
<td>3.53</td>
</tr>
</tbody>
</table>
DSW updates profiles on a rolling quarterly basis using 6 months of data

### Profiling Timeline

#### Run profiling generation steps

#### Delete size sets based on:
- Imputed sales thresholds
- Number of products included in size set

#### Review size sets:
- Utilize graphing by store group feature
- Ensure there are no data anomalies

#### Create any necessary independent profiles:
- i.e. new product introduction and no supporting historical data to create size sets

#### Publish profiles

---

<table>
<thead>
<tr>
<th>Target Publish Period</th>
<th>Historical Data Used</th>
<th>Corresponding Future Qtrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>End of Q1</td>
<td>Last Two Completed Qtrs (i.e. Q1/Q4)</td>
<td>Corresponding Future Qtrs</td>
</tr>
<tr>
<td>End of Q2</td>
<td>Last Two Completed Qtrs (i.e. Q2/Q1)</td>
<td>Corresponding Future Qtrs</td>
</tr>
<tr>
<td>End of Q3</td>
<td>Last Two Completed Qtrs (i.e. Q3/Q2)</td>
<td>Corresponding Future Qtrs</td>
</tr>
<tr>
<td>End of Q4</td>
<td>Last Two Completed Qtrs (i.e. Q4/Q3)</td>
<td>Corresponding Future Qtrs</td>
</tr>
</tbody>
</table>
1. Store list from MAP is used to generate respective store profiles (new model).

2. Store’s receive a minimum presentation of 1 unit per size for sizes defined in the buy with special consideration for fringe sizes.

3. Forward cover is calculated using each store’s actual rate of sale multiplied against the item’s planned weeks of cover.

Old Process:
- Fixed store inventory levels based on volume group designation.
- Size distribution based on a chain selling curve applied to all stores.

New Process:
- Store inventories built dynamically based on actual store performance.
- Store inventories aggregate in alignment with the item plan.
- Size distribution based on store profiles generated from the size optimization solution (SAS).

Benefits:
- Increased productivity based on aligning inventory with actual store performance.
- Improved in-stock%’s from allocating by size in alignment with size optimization store profiles.
SAS Allocation Process

Perfect Store Inventory

- Size Break Minimum Presentation
- Rate of Sale Forward Weeks of Cover
- Seasonal Sales Curve
- Inventory Receipt Flow
You have my size!!!
### Overview

#### The Beginning
- Stand alone Allocation
- An Excel spreadsheet (or two)
- The acknowledgement “We Can Do Better”

#### The Transition
- Develop a plan
- Develop the process
- Foundation first
- Change management

#### Today
- Fully integrated process
- Supported by systems
- Improved efficiencies
- Impact on financial metrics
<table>
<thead>
<tr>
<th>The Beginning/The Transition</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Excel based programs</td>
<td>▪ Inventory projections that support the sales plan</td>
</tr>
<tr>
<td>▪ Lacking system integration</td>
<td>▪ The ability to plan inventory bottoms up which provides more accurate receipt projections</td>
</tr>
<tr>
<td>▪ Limited functionality</td>
<td>▪ The ability to plan the entire regular price life cycle of an item</td>
</tr>
<tr>
<td>▪ Non-standardized approach</td>
<td>▪ Integrated process defined</td>
</tr>
<tr>
<td>▪ Minimally defined end to end process</td>
<td>▪ System support based on business process</td>
</tr>
<tr>
<td>▪ Lacking consistency across positions</td>
<td>▪ Consistent definition of roles and responsibilities</td>
</tr>
<tr>
<td>▪ No Size capability</td>
<td>▪ Standardized training on the process and application for Planning &amp; Allocation</td>
</tr>
<tr>
<td>▪ No forecasting capability</td>
<td>▪ Fully integrated systems</td>
</tr>
<tr>
<td></td>
<td>▪ Improved financial performance</td>
</tr>
</tbody>
</table>