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FINAL TRANSCRIPT

LXRandCo, Inc.

Fourth Quarter Year-End 2017 Financial Results Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to LXRandCompany's fourth quarter year-end 2017 financial results conference call.

Yesterday, after market close, LXR issued a news release reporting its financial results for the fourth quarter and year-end December 31, 2017. That news release, along with the Company's financial statements, are available on SEDAR; on the Company's website, www.lxrandco.com, in the Investors selection.

Please note that today's is being broadcast live over the internet and will be archived for replay both by telephone and via the internet beginning approximately one hour following completion of the call. Details of how to access the replays are available in yesterday's news release.

Before we begin, let me remind you that forward-looking statements may be made today during or after the formal part of this conference call. Certain material assumptions were applied in providing these statements, many of which are beyond the Company's control.

These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed or implied in forward-looking statements. A summary of these underlying assumptions, risks, and uncertainties is contained in the Company's various securities filings, including LXRandCompany's MD&A for the year-end December 31, 2017, which is available on SEDAR.

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These forward-looking statements are made as of today's date and expect (sic) as required by applicable security laws, the Company undertakes no obligation to publicly update or revise any such statements.

I would now like to turn the call over to Mr. Fred Mannella, President and Chief Executive Officer, LXRandCompany.

Please go ahead, Mr. Mannella.

Fred Mannella — President and Chief Executive Officer, LXRandCo, Inc.

Thank you, Kim, and thank you to everyone for joining us today. With me for today's call is LXRandCo's interim Chief Financial Officer, Jeremy Stepak, and Audrey Lara, who will assume the role of permanent CFO on April 1st, but who I will note has been on board and immersed on our business since January.

Audrey brings to us 15 years of finance and capital markets experience with an extensive background in financial planning and operations, management and strategy, and a deep knowledge of retail and especially retail technology.

I'd like to take this opportunity to publicly thank Jeremy for his contribution to our LXRandCo over the last 10 months as we took the critical step of becoming a public company. Jeremy has been instrumental in bringing us public during the summer of 2017, and he helped build a strong finance team internally and helped strengthen our investor relations program. To that, I am very grateful, and wish him all the best.

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In terms of the agenda for today's call, I'll begin with a review of the operational and financial highlights for the fourth quarter and the year. I'll then turn the call over to Jeremy to review the fourth quarter and year-end results in more detail, and I'll return with some concluding comments before opening the call to questions.

The fourth quarter was another highly productive period for LXRandCo, as we continued to successfully advance our international omni-channel strategy with a particular focus on expanding the physical shop-in-shop retail network with both existing and new retail partners.

During Q4, we opened an additional 47 locations, by far our biggest and busiest quarter for store openings to date, ending the year at 133, which was nearly triple the store count at the end of 2016 and surpassing our year-end target of 122 stores. We also added four new partners in the United States during the quarter.

The expansion of our network drove 55 percent year-over-year growth in the Q4 revenue to $15 million and 69 percent year-over-year growth for the full year to $37.1 million.

I want to take this opportunity to remind you that our new retail stores have a typical ramp-up period of 12 months or more to get to full productivity and sales. Given most of our new locations in 2017 were opened in the last four months of the year, the vast majority of our retail locations are ramping up in terms of sales.

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I am pleased to report that for those full licensed retail stores that have been open for more than 12 months at the end of 2017, the average sales productivity was $2,350 per square foot, right in line with our historical productivity level.

Despite our strong top-line performance, gross margin for the fourth quarter was impacted by a number of items specific to the quarter. One of these larger impacts was our decision to significantly increase our promotional activity during the quarter. With a large number of store openings just prior to the busy holiday season, we felt this was a unique opportunity to build brand awareness and attract new customers, so a worthwhile short-term investment for us.

Jeremy will go through the other factors in more detail in his financial review, but there are two factors that I want to highlight that we expect will continue to dampen gross margin going forward.

First, we experienced higher sourcing costs for certain brands in Japan, mainly Louis Vuitton, due to a more competitive environment there. While we may continue to experience some of these higher costs for foreseeable future, which may impact gross margins by around 150 basis points, we remain confident in the gross margin enhancement strategy we have in place, including our plan to source more inventory directly from consumers and alternative third-party non-Japanese suppliers.

And I am pleased to report that we are now sourcing directly from customers in more than 50 stores, and in 2017 we sourced more than twice the dollar value of inventory that we did in 2016.

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Secondly, we are evolving the structure of our partner models to expand our network expansion potential. In certain cases, we are trading a higher licence fee for lower staffing costs to better meet our partner needs while generating similar or better overall economics to LXR. This reduced margin by about 50 basis points compared to the Q4 in 2016.

As we move to capitalize on the tremendous opportunity we have to rapidly build out of our network and solidify LXRandCo's position as the premier omni-channel vintage luxury retailer, we continue to be in a period of investment. The full cost associated with operating new locations, primarily for staffing, are being incurred ahead of the ramp-up of these stores to full productivity, which as I mentioned earlier, can take up to 12 months or more.

During Q4, we also continued to invest and strengthen our head office team, especially in light of our aggressive expansion plans for the year. Again, these represent expenses that are being incurred ahead of the significant revenue growth that they will support.

With a stated target for 2018 to open at least another 72 stores to end the year at 205 and potentially as many as 165 or more to end the year at 300 stores, if all of our current pipeline opportunities are realized as well as years of future growth ahead, this is also clearly a worthwhile short-term investment.

As our new locations ramp up to full productivity, we expect SG&A to normalize to more historical levels.

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Turning to our e-Commerce business. Online sales in Q4 of 2017 increased to 6.2 percent of net revenue from 5.2 percent in Q4 of 2016 and 4.1 percent in Q3 of 2017. So we can see clearly here that our online business is actually growing faster than the fast and growing expansion of our physical retail business.

The continuing build-out of the retail network is having its intended effect of driving broad awareness of our brand and providing customers with the confidence to engage online. We believe this bodes very well for our future as we continue to expand our physical retail network.

I will remind you again that it’s still very early days for our e-Commerce business. It remains a massive untapped opportunity that we will look to capitalize on further through a variety of strategies, including increased investment in search engine optimization and the implementation of a customer retention and new marketing initiatives.

I’d now like to turn the call over to Jeremy, who will review the fourth quarter and year-end financial results in greater details.

Jeremy Stepak — Interim Chief Financial Officer, LXRandCo, Inc.

Great. Thanks, Fred. So as always in the interest of time, I’ll confine my remarks primarily to the key financial metrics for fourth quarter and for year-end. As everyone knows, our complete financial results are available in our financial statements and MD&A, which are posted on our website and filed on SEDAR.

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As Fred discussed, fourth quarter was highlighted by continuing strong top-line growth, as we continue to expand our retail network while growing the e-Commerce business. Net revenue for the fourth quarter increased 65 percent to $50 million from $9.1 million for the corresponding quarter of ‘16.

Growth was driven primarily by the addition of 87 locations, which expanded our retail footprint to 133 stores at the end of Q4 2017 from 46 at the end of Q4 ‘16. For the year, revenue grew 69 percent to $37.1 million from $21.9 million.

Gross profit for the fourth quarter increased by 22 percent to $3.6 million from $3 million for the same period the previous year, driven by the increase in sales. As Fred discussed, however, gross margin contracted to 24.2 percent of sales from 32.6 percent in Q4 of ‘16.

Q4 gross margin is also down sequentially from 32.5 percent in Q3, although as we noted in our last call, Q3 gross margin was somewhat higher than normal due to a number of onetime factors. And so the year-over-year decrease in gross margin was the result of a number of factors, some of which were specific to the fourth quarter that Fred mentioned.

As he said, we made the decision to increase promotional activity in Q4 to take advantage of a large number of new stores being opened during the busy holiday shopping season. This had the effect of reducing gross margin by approximately 150 basis points compared to Q4 of ‘16.

In addition, there were a number of other elements, some accounting-driven, some recurring, some non, that impacted gross margin for Q4, including a onetime catch-up charge from a

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retail partner for previously unbilled retroactive licensing fees; a year-end decision to increase the provision for potentially slow-moving inventory, which we felt was appropriate given the increase in the size of the omni-channel network by the end of the year; and a few other factors, including some impact from foreign exchange, product mix, landed cost, and a bit of minor shrinkage. So combined, these accounted for about 450 basis points, or more than half of the gross margin decline.

Fred also discussed that during Q4 we experienced a general increase in the sourcing of certain brands in Japan—he mentioned Louis Vuitton—due to greater competition. This accounted for about 150 basis points, as he said, in the decline in gross margin. And while this higher-cost environment may persist into future quarters, it will be increasingly offset by execution on the strategy to source more inventory directly from customers and third-party suppliers.

Finally on gross margin, we experienced higher licensing costs with two new retail partners as a result of this evolving structure of our partner models to expand our network expansion potential. In certain situations, as he said, we’re paying higher licensing fee rates, which are then partially offset by LXR paying a lower share of staffing costs. This impacted gross margin by about 50 basis points.

Gross profit for the year increased by 49 percent to $10.3 million from $6.9 million in 2016, and gross margin for the year was almost 28 percent—27.9—compared with 31.6 percent last year.

Turning over to SG&A. SG&A expenses in Q4 were $6.4 million, or 42 percent of net revenue, an increase from $2.1 million, or 23 percent of net revenue in Q4 ’16 and up $4 million or 45 percent

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of net revenue in Q3 '17. The increase generally reflects our continued investment in the growth of the business, much of which is in advance of anticipated revenue generation, as we've been saying.

More specifically, though, the increase is attributable to about three areas. First, higher in-store staffing expenses to support a nearly threefold increase in the size of the retail network to 133.

Secondly, continued investment in the corporate team, or rather the head office team to support the current and the planned growth of the overall business. And again, as I know we keep reiterating this, investment does occur for the most part ahead of revenue it drives and supports for quarters to come. During '17, we added 319 staff company-wide to end the year at about 500 employees compared with 183 at the end of last year.

So it's a huge move, a huge growth in employees. We don't expect to see the level of head office HR investment in '18, though, that we did in '17. We added approximately 15 people to head office in the year.

And then third constituent, we incurred an increased layer of costs in the quarter as a result of being a fairly new public company that were not present in Q4 of '16.

To wrap on full year SG&A, SG&A for the full year was $16.2 million, about 44 percent of revenue compared with $6.1 million, or 28 percent of revenue last year. Of that 10.1 million increase, approximately 1.5 million was related to store opening, closing, and sort of nonrecurring branding costs.

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A quick turn to adjusted EBITDA. Adjusted EBITDA for Q4 2017 was negative $2.3 million compared with a positive adjusted EBITDA of $900,000 for the same period in ‘16. And the decrease was largely due to the gross margin factors we discussed and the higher SG&A costs, again, much of which is being incurred ahead of revenue.

For the year, adjusted EBITDA was a loss of $4.1 million against positive adjusted EBITDA of $800,000 for ‘16.

And then with net loss, net loss for the fourth quarter of ‘17 was $3.2 million compared to a net loss of $27.9 million for the same quarter last year, while net loss for the full year was 17.9 million compared with a net loss of 28.3 million for ‘16. Eliminating onetime and extraordinary items, though, our adjusted net loss was $3.2 million for the fourth quarter and $5.7 million for the year.

That’s my wrap-up. That concludes my review for the quarter. And I will now turn it back to Fred for closing remarks.

Fred Mannella

Thanks, Jeremy. LXRandCo has a very unique opportunity to lead the vintage luxury industry as a true omni-channel retailer, and we are aggressively seizing on this opportunity.

We are in the right place at the right time at the confluence of the rapidly developing reuse or circular economy and the large and growing demand for personal luxury goods. At the same time, our proven shop-in-shop model provides a truly unique shopping experience that generates increased

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foot traffic with both new and repeat customers, while our compact, highly efficient store layout delivers partner sales productivity of as much as 10 to 15 times higher than their existing business.

We have always viewed this opportunity as significant, and now having worked with our existing and new partners to nearly triple our store count in 2017, we are even more enthusiastic about this opportunity. Our retail partners are seeing LXR's compelling value proposition proving itself out in the real world, which is driving increased demand for new stores from both existing and potential new retail partners.

As mentioned earlier, our stated target is to end 2018 with a minimum of 205 locations. That's more than 50 percent growth from the end of 2017. And based on current opportunities, we estimate that our store expansion pipeline could grow the retail network to as many as 300 stores by the end of 2018 if all such expansion opportunities were to be realized.

To be clear, any decisions around accelerated expansion will be made prudently and selectively within the context of our internal resources and the broader retail sector.

As expected, the first few months of 2018 have been a quiet period for store openings. Store openings will pick up in the second quarter and continue throughout the balance of a year.

To fully capitalize on this demand from both existing and new partners, we're evolving our retail model to add flexibility and expand our market penetration while maintaining in-store profitability margins. We now offer our partners a range of options from the fully licensed model for stores averaging around 375 square feet under which LXR is responsible for the 100 percent of the

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CapEx and 100 percent of the staffing costs, to a spectrum of hybrid models for stores of 100 to 175 square feet under which our partner assumes up to 100 percent of the CapEx and staffing costs. Inventory risk may be shared with the partner as well.

This will allow us take advantage of opportunities in which sales volumes don't support the cost structure of a fully licensed model, but where there is still an attractive business opportunity.

This refined strategy will optimize profitability, allowing for a greater number of locations while achieving our target of 10 to 15 percent for each one. Through the end of 2017, approximately 75 percent of our locations were of the full licensed variety. By the end of 2018, we expect that that number can be anywhere between 20 to 40 percent as we open new stores. And with the learnings of the large number of openings last year, transition a substantial proportion of these stores from the full licensed to the hybrid model.

Naturally, as we increase the proportion of smaller hybrid stores, again including those existing stores in transition to the most profitable model, average productivity across the entire retail network will be impacted. We still expect, however, full licensed stores to continue to post productivity metrics of approximately $2,350 a square foot, while that of hybrid stores is expected to be in the range of 1,100 to 2,100, depending on size of store and partner arrangements. While we expect this will dampen near-term sales, it will drive longer-term sales growth through greater opportunity for profitable expansion of the network.

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2018 will also be a year of strengthening the head office infrastructure to support the expanded network going forward and maximize long-term profitability. Most importantly, we are investing in a new ERP system, one that is commensurate with the scale and complexity of the business that we have now become.

2018 promises to be another year of significant growth for LXRandCo. We have another aggressive plan for store openings that has considerable potential upside. We will increasingly see the contribution of last year's new locations as they ramp up to full sales productivity.

We are optimizing our partner model to fully capitalize on partner demand. Our physical retail expansion is continuing to drive growth in our e-Commerce business as well.

All of this continues to position our company very well to create shareholder value for both the short term and long term.

We'd now be happy to take you questions. Operator?

Q&A

Operator

At this time, if you would like to ask a question, please press *, then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Derek Dley from Canaccord Genuity. Your line is open.

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Derek Dley — Canaccord Genuity

Yeah. Hi, guys. Just a couple questions on new stores. So geographically, where should we expect the bulk of these new store openings to occur? Should we think about it mostly in the US?

Fred Mannella

Hi, Derek. It's Fred here. Thanks for the question. So yes, absolutely the bulk of the openings will be in the US. We're just going to continue opening stores with current partners and we're going to be adding selectively a few new partners. But for the most part, it will be with existing partners. Where we see and where we've seen the greatest results of the store openings in Q4, we're going to see much more expansion with those partners.

Derek Dley

Okay. And then in terms of the timing of the rollout, I appreciate your comment that Q1's typically a bit quieter, but over the balance of the year should we expect these to be relatively evenly spread? Or is it going to be similar to '17, where you guys had a really big push in Q4?

Fred Mannella

Yes. It's Fred again here. I think that's a great question. Thank you. I don't think it's going to be like 2017. The reason why it was so crunched in 2017 was for the nature of, obviously, the transactions that we did in the summertime and what we had left in terms of time to open the stores. So since we have a bit more time, we've really sort of taken Q1 to look strategically at this question so that we don't put too much pressure on the organization. And that we can do this in a way that we

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both keep an eye on the expansion, and so rolling out new stores, but at the same time not forget about the legacy stores, which is now at 130-plus stores it's important that we keep that in mind.

So I think we're going to do this very diligently, and I think that what you're going to see is a push in Q2, which is the time that we took in Q1 to plan. And then that's going to be evenly spread out Q2, Q3, and Q4. So there will not be a big push in Q4. This should be evenly spread across the three quarters for the remainder of the year.

Derek Dley

Okay. And then just in terms of CapEx for the year, now I appreciate you guys have given a little bit of a wider guidance here in terms of store openings what you have planned and where they could go given the pipeline, but what should we … how should we think about CapEx for the year? How much do the hybrid stores cost from a CapEx perspective versus the fully licensed stores?

Fred Mannella

So maybe Jeremy can give a bit of colour on that one, but I guess I'll start. So the way that I see it is that the hybrid model is a flexible model whereby the retail partner can support in contribution for CapEx and staffing costs. And so what we're going to see is that the CapEx that was incurred in 2017, because most of the store openings were full licence, it will not be the case again in 2018 because most of the store openings will be hybrid. And the hybrids will have a contribution from the retail partner.

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And so we don't expect CapEx to be a very large portion of cash contribution from LXR. It will be mainly a contribution from the retailer. So this is something that's already embedded in the contract with the retailers, the partnership that we have today, that they are responsible for a lot of the CapEx contribution.

And so when we think of DSW, for example, when we think of Stein Mart, when we think of Lord & Taylor or Hudson's Bay, a lot of the CapEx that needs to be built will be paid by the retailer. And again, that kind of depends on where they fall in the contribution chart of the hybrid model. But the way that we're looking at it today and the way that we're forecasting these stores is that the majority of the CapEx will be paid by the retailer.

Derek Dley

Okay. That's great. That's helpful. Just one or two more, if I can. In terms of the SG&A—and maybe Jeremy mentioned this a little bit in his comments—but looking into 2018 it seems like you guys did build up your team quite a bit in the back half of 2017 from a head office and management personnel perspective. Do you feel now that you do have the infrastructure in place to support your growth plans for '18?

Jeremy Stepak

Hey, Derek. Good morning. It's a good question. We were talking … we've been talking about it all week in prep for the call, but yeah, I think we do. I think we're in good shape. I mean, there's a couple key positions we still want to fill. But as you'll remember even like around the time that I first

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met you, even my first time coming out to Montreal, I've watched the body count in terms of the number of the people in this office just grow. I mean, we've really staffed up the head office, and I think that'll prepare us well—or the Company well, rather, for the years ahead. So there will be some investment again.

There's a couple key positions, probably three to four that we really would like to put in the chair. But I think the investment we made in '17 will start to pay off from a percentage of … cost as a percentage of revenue perspective in '18.

Derek Dley

Okay. Got it. Perfect.

Fred Mannella

Thanks, Jeremy. If I may add just one quick point to that answer, I think that there is probably one or two senior positions—

Jeremy Stepak

Yeah.

Fred Mannella

—that I think really matter at the head office here. I believe that now the business has become more complex and we have added layers to help with managing, especially at the retail level, the stores and the e-Commerce. But I still think that probably we need one or two more senior people in the field of merchandising when we think of perhaps even to some extent like a chief merchandising

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officer or positions that are of more senior nature to really help manage the team so that at the field level we really have an eye on everything. So I believe that there will be some investment still only one or two senior partners in the business.

Derek Dley

Okay. And then the last one just, I guess, as it kind of relates to the merchandising you're talking about. Just the margin pressure that we've seen in Japan, can you just give us a little bit more colour around that? I appreciate it's Louis Vuitton, but what's happening? Is there just more competition for products? Is there less product being available? Are the auction houses trying to gain more margin themselves? I'm just trying to think about what exactly is going on in Japan.

Fred Mannella

Yeah. You know what? I was in Japan just two weeks ago. It was a very interesting trip. It was a great trip. The Japanese market is so incredible. Every time that I go I just find it unbelievable the amount of product that's available in Japan.

So to kind of answer the first part of your question, there is no shortage of product in Japan. And frankly, there is even less shortage of products here in North America where we're putting a very big focus in terms of mitigating the risk of that crunch in gross margin that we're seeing in Japan by buying more in North America through the different channels as we talked about in the presentation. So it's really not an issue with product or availability of product. It's an issue related to competition.

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So what we've seen is in the past there were very few North American or, call it, international businesses that were buying locally in Japan. I would say that in the past year—and we talked about this a couple times—there are increasingly new players now in the market in Japan that are based either in Europe, in North America, in Southeast Asia that are going to the Japanese market to buy. And I think what we've seen, especially during Q4, is an increase of those buyers going to Japan at a level which I had never seen before. And talking to people over there and some of the Japanese supplier, you can definitely see that a lot of this increase is coming from North America.

So we're seeing that some of the competitors of LXR today that are mainly online—however, just a good sort of side note is that these are typically not businesses that are buying products to sell them in stores—are going to Japan to buy them through sort of different online marketplaces, eBay, whether it be their own website and so on and so forth.

So I think this is an increase in competition. The reason for the crunch is because they are going to Japan and they are targeting very specific models within I've mentioned Louis Vuitton—that's just an example—but it would be sort of the biggest hit is really coming from that brand. And so what's happening is that they're going to the market and not really sort of having a very large business to speak of, they're just being very surgical in what they're buying. And so those models where we also like to buy those models because they do very good in our stores, we're having a, call it, a harder time to buy at a decent price because these competitors are going in and very surgically buying these exact models. And not understanding completely how the market works in Japan and how the buying

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works are kind of creating a bit of a crunch in the market, not only for us, but also for Japanese suppliers.

So culturally speaking, this is something that the Japanese market has never seen before. So I think that the markets are organizing themselves in Japan to try to see what is it that also not just us, but competitors in Japan locally can do to sort of fix the problem because it is also hurting their business.

And so what we're seeing is we're seeing other auctions, smaller auctions that are being created to mitigate the risk of those North American buyers going to the Japanese market into the larger auctions and buying very surgically specific models, so that at least the market price for those models can remain the same as it's sort of always been.

And again, what we're doing about this is, of course, partnering up with some of these Japanese suppliers that have other ways of accessing the products so that we don't go and we compete head-to-head with those competitors because that's just—at the end of the day, that's not really, I believe, the right strategy. And that's one thing that we're doing is to partner up with those, with those different auction houses.

And then the second thing, of course, as mentioned in the call, is to increase quickly our access to product in North America. I believe that that's probably the best way to do at this point is in the foreseeable future 150 basis points on our gross margins is substantial, and it's something that

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we are not taking lightly. And I believe that the way to mitigate and to get back to normal levels of gross margin is to buy more from the consumer here in North America through our store network.

So as I've mentioned in the call, there's only 50 stores that are buying today; let's go ahead and let's increase that number to, call it, 100 stores that could potentially be buying from the consumer. And also increase access to third-party non-Japanese suppliers.

So there's kind of two solutions to that problem, and we're facing it as we speak. We're taking it very seriously. And again, we don't see that in the foreseeable future because it will take some time that that 150 basis points will disappear. It will stay.

Derek Dley

Okay. Just last one—this is more of a housekeeping—just what percentage of your supply in the quarter came from Japanese auction houses versus non-Japanese auction houses?

Fred Mannella

So in the quarter it was about 88 percent came from Japanese supply, and 12 percent came from non-Japanese third party, mainly direct from consumers. And again, I think that the percentage is important, Derek, but I think what's really important, I think for me what's really incredible is the number of purchases and total dollar value, that increase (phon). We've pretty much tripled the buys from North American supply compared to the previous quarter.

So I think that's a really important point because yes, in percentage when you look at it relatively speaking, when you go 2.3 times more inventory at the end of 2017 compared to 2016, of

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course the majority of that supply will be coming from Japan. But going and tripling the access to product in North America in the same amount of time without a big investment because we haven't fully developed the buying program. We're only buying in 50 stores and that was only in Q4. Throughout the majority of 2017 it was only 20, 25 stores that we're buying.

So we're seeing really great results. And just to talk and give you a bit more colour on that, on average in Q3 of 2017, on average each store was appraising about 23 items out of the buying stores, right? So in Q4, that number grew to 30, and now today in Q1 that number is over 50.

So what we're seeing is we're seeing customers getting comfortable and much more receptive in understanding how this works because there's a bit of a education to be done here. You got to kind of tell the customer how this works; you got to get her or him comfortable with the process of coming in the store and selling the product. So what we're seeing is we're seeing that that number is increasing very, very fast.

And so we're just going to capitalize on that. We're going to increase the number of stores that are buying hopefully to 100 stores very soon. That number in Q3 of 2017, 23 appraisals, now it's over 50. And also the percentage of appraisal approval rates went up to 35 percent in Q1 now compared to about 20 percent last year. So that means that we're appraising products, and we're also buying more products from these appraisals. Customers are accepting the price better.

That was a bit of a long explanation, but certainly that's what we're doing.

Derek Dley

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No, great. Appreciate that colour. Thank you very much.

Fred Mannella

Thank you.

Jeremy Stepak

Thanks, Derek.

Operator

Again, if you'd like to ask question, please press *, 1 on your telephone keypad.

Your next question comes from Maggie MacDougall from Cormark. Your line is open.

Maggie MacDougall — Cormark

Morning.

Jeremy Stepak

Maggie, how are you?

Fred Mannella

Morning.

Maggie MacDougall

Great. Great. Thank you. So just wanted to touch back on the gross margin stuff again, following up on Derek's questions. So I mean, this year you've got a lot of stores opening and I'm just curious, the promotional activity that you did in Q4 '17, is that something that we can expect to see

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sort of selectively or perhaps in a similar fashion through 2018 as you sort of pursue that large amount of store growth?

Fred Mannella

Good morning, Maggie. It's Fred here. Great question. Thank you very much. The short answer is no. The promotional activity that we did in Q4 was, to be very honest, there was a lot of A/B testing, if you will. We were testing a couple different things. We've seen great successes in some of the marketing campaigns, and we've seen lesser success in other marketing campaigns. So I think it was a bit of a learning period for us.

I don't think that some of—well, some of the activities that were less successful we're definitely not going to be doing those again. I think that the reality is we opened more than 45 stores during the quarter, and so the focus, the entire focus of really shifted to opening these stores. And so one of the strategies at that time was, hey, guys, we just—internally we decided we just don't have that much time to come up with an amazing marketing campaign, a great strategy that will—that was really sort of calculated and that was really detailed. And so we kind of took a broad stroke at it and we said, let's just go a little bit more promotional and give discounts.

Maggie MacDougall

Yes.

Fred Mannella

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And perhaps that was just not the right way to do it. And I don’t think that we’re going to be repeating that that much.

Maggie MacDougall

Okay. Okay.

Fred Mannella

Of course, we’re going to do promotional activities—

Jeremy Stepak

Yeah.

Fred Mannella

—but it’s going to be much more focused on content, and it’s going to be more around themes. As a very good example, we’re going to be launching … as you know, last year we announced that we’re going to start carrying watches and jewelry and now it was so successful that we’re going to be launching the category officially in April. And so these types of events where we’re just going to be wrapping up the launch of an event like that with parties and invitations to see collections and more sort of a launch of collections as opposed to come to our stores because there’s a deal, I think that will be more the approach in 2018.

Maggie MacDougall

Okay. And I don’t know if you’re able to, but can you quantify the impact of the sort of testing promotional activity that you did in Q4—

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Jeremy Stepak

Yeah. So, Maggie, it's Jeremy here. It's about 150 basis points on that. So yeah, because I think we mentioned two references to 150 basis points on—

Maggie MacDougall

Ah.

Jeremy Stepak

—so it's 150 sort of an impact from Japan and then about another 150 from the promo.

Maggie MacDougall

Okay. Okay. That's all for me. Thanks very much.

Jeremy Stepak

Thanks a lot.

Fred Mannella

Thank you.

Operator

There are no further questions at this time. I now turn the call back over to the presenters.

Jeremy Stepak

Okay. Fred, that's back over to you just, I think, to close off.

Fred Mannella

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So thank you very much. Thank you, Kim. And thanks again, everyone, for joining us today.

We look forward to speaking with you again at the time of our next call.

Operator

This concludes today's conference call. You may now disconnect.

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