VIAVID
communications simplified.

J.Jill Inc.

Third Quarter Fiscal 2021 Earnings Conference Call

December 13, 2021

CORPORATE PARTICIPANTS

Claire Spofford, *Chief Executive Officer and President*

Mark Webb, *Executive Vice President, Chief Financial and Operating Officer*

CONFERENCE CALL PARTICIPANTS

Dana Telsey, *Telsey Advisory Group*

Janet Kloppenburg, *JJK Research Associates*

Daniel Lupo, *Jefferies & Co.*

PRESENTATION

Operator

Good morning. At this time, I would like to welcome everyone to the J.Jill Third Quarter Fiscal 2021 Earnings Conference Call.

On today's call are Claire Spofford, President and Chief Executive Officer, and Mark Webb, Executive President, Chief Financial and Operating Officer.

Before we begin, I need to remind you that certain comments made during these remarks may constitute forward-looking statements and are made pursuant to and within the meaning of the Safe Harbor provision of the Private Securities Litigation Reform Act 1995 as amended. Such forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from such statements. Those risk and certainties are described in the press release and J.Jill SEC filings. The forward-looking statements made on this recording are as of December 13, 2021, and J.Jill does not undertake any obligation to update these forward-looking statements.

Finally, J.Jill may refer to certain adjusted or non-GAAP financial measures during these remarks. A reconciliation schedule showing the GAAP versus non-GAAP financial measures are available in the press release issued December 13, 2021. If you do not have a copy of today's press release, you may obtain one by visiting the Investor Relations page at website jjill.com.

I will now turn the call over to Claire.

Claire Spofford

Thank you, and thanks to everyone joining us on the call for your continued interest and support of J.Jill.

I'm going to start with an update on our business strategy and operations, and Mark will cover our financial results.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Overall, we're pleased with our results in the third quarter. Revenues were up more than 29% and margins improved 1,000 basis points versus Q3 2020, driven by strong full price selling and reduced promotions. All of this is driving significant improvement in the bottom line even as we deal with the supply chain challenges that everyone is faced with this quarter.

We are emerging from the turbulence of the past couple of years, a much better, more focused and stronger Company that is well-positioned for profitable growth moving forward. Our strength comes from our knowledge of our brand and our customer, women who are confident and purposeful in their choices. They value quality fabrications and versatile clothing that allows them to move freely through their busy lives. We have a deep understanding of our customer and her wants and needs. We know how she likes to shop, where she likes to shop, and the kind of products that she likes to buy. We know the kind of experience that she's looking for and expects from J.Jill, whether in a store or online.

We're still in the early stages of our journey to realize the full potential of this brand and business. But we're making really significant progress and I'm proud of our J.Jill team, and their focus and commitment to deliver on our promise to our customer. Their efforts have been especially productive in the navigation of the current turbulence in supply chain. Supply chain disruption has influenced our business this quarter as it has for virtually everyone in the retail space. But we're successfully managing all of the controllable factors as well as possible.

We have strong relationships with suppliers, helping us optimize the flow of goods despite production and logistics challenges, and allowing us to present a well-curated assortment both online and in stores. Our team is effectively managing the flow of product, resulting in a robust and engaging presentation in both channels. We are comfortable with our inventory levels and our ability to have the right assortment coming into Q4.

I'd like to talk now about four specific topics that reflect how we're running the business to deliver on our objectives and drive strong financial performance. First, our strategy of managing inventory more tightly to focus on full price selling is working. In Q3, she loved her embroideries and patterns and textured fabrications, including our corduroy, cables, velvet and Ottoman. Denim and knits did well all season and sweaters really began to ramp up in October. We're committed to our approach of flowing newness regularly and managing inventory levels diligently. This allows us to keep our customers focused on full priced product.

Second, and related to the first topic, our lower promotional cadence and decrease in markdown selling, both continue to support our overall strategy. This transition has a significant impact on the mix in our sales. For example, if you look at our direct-to-consumer revenue this quarter, you'll see a decrease in overall volume. Our direct-to-consumer channel has traditionally been where we've moved markdown inventory. Given our lower level of markdowns this quarter, we had fewer units we needed to move through. Therefore the mix in our direct channel had a much higher penetration of full price sales and yielded significantly stronger mid-teen (phon) margins.

Third, one of the things that we've learned about our customer is that she really seeks newness and specialness. She's willing to pay full price for our products when we offer her new and inspired assortments on a frequent basis, so we continue to focus on the optimal flow of new products in both channels. As an example, we moved away from 12 big collections after a year spreading out newness and flowing designs and color palettes frequently, creating more engagement and optionality for our customer.

We're also focused on expanding our customer portfolio through products that attract and welcome the next cohort of customers who connect with the J.Jill's design esthetic. While there continue to be opportunities across our assortment to build on our relationships and increase sales with our existing

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

customers, we're also introducing new customers to our value proposition that is grounded in providing for premium casual clothing that's easy and versatile and made of the finest fabric.

Fourth, we're sharpening our focus on our customer experience. Our brand promises always included a very personal high touch experience, whether in-store or online. Stores continue to be a critical part of our business model. Our customer loves the personal attention she received and the unique connections she has to our in-store team. This bond speaks to why there's a fun celebratory environment when she visits us in store, whether she makes her in-person appointment to get first access to a new assortment or just stop by to have their high touch personalized shopping experience. Our teams often pull items based on their knowledge or preferences to create a truly individualized experience.

We continue to evaluate our retail footprint to ensure we have the right locations at the right economics. We also believe there are future opportunities for new store locations as we charter past for profitable growth. Similarly, our online presence continues to be a focus. J.Jill started as a direct-to-consumer retail brand and we built upon this heritage with advanced digital capabilities to provide a seamless experience that's tailored to our customers based on their behaviors and preferences. We are investing to ensure that our online experience meets their expectations in terms of product, presentation and ease of use.

Finally, I'd like to provide a little color on Q4 to-date. We continue to see the strategies outlined above working. We're pleased with customer response to our fall and holiday assortments and we continue to operate with a lower promotional cadence than previous holiday seasons.

With that, I'm going to hand it over to Mark to discuss our financial results in more detail.

Mark Webb

Thank you, Claire, and good afternoon, everyone.

We are pleased with performance in the third quarter as sales continued to recover versus 2020 and gross margin strength, driven by strong full price acceptance and reduced overall promotional cadence, continued in both channels. Total Company comparable sales increased 42% year-over-year driven by the store channel. Total Company sales were $152 million, up 29% versus Q3 2020 and down 9% compared to Q3 2019.

Store sales were up over 94% versus Q3 2020 and down 12% compared to 2019 levels. While overall traffic levels remain below 2019, we are very encouraged by the continued recovery we saw in Q3 as customers returned and responded well to product assortments. Direct sales as a percentage of total sales were 45% in the quarter. Compared to the third quarter of Fiscal 2020, direct sales were down 8% and compared to the third quarter of Fiscal 2019, were down 5%. As Claire reviewed, direct sales were impacted by fewer markdown sales. While this negatively impacts sales in the direct channel, it is a benefit to gross profit.

Q3 total Company gross profit was $104.5 million, up $36 million compared to Q3 2020 and down $2 million compared to Q3 2019. Q3 gross margin was 68.9%, up 1,000 basis points over Q3 2020 and up 450 basis points compared to Q3 2019, driven by better full price selling and reduced promotions. Q3 2021 gross margin included approximately 200 basis points of incremental freight charges.

SG&A expenses were $86 million in the third quarter, compared to $92 million in the third quarter last year. Excluding one-time costs of $13 million incurred last year related to our debt restructuring, SG&A was up $7 million versus prior year driven by marketing investments, increased selling costs due to higher store operating hours and shipping costs and Management incentives. Compared to 2019, SG&A expenses in Q3 were down $10 million, driven by selling costs on fewer stores and lower marketing investment, partially offset by higher Management incentives.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Adjusted EBITDA was $27 million in the quarter compared to a loss of $2 million in Q3 2020 and Adjusted EBITDA of $20 million in Q3 2019. Please refer to today's press release for a reconciliation of Adjusted EBITDA.

Turning to cash flow, for the quarter we generated $26 million in cash from operations. We ended the quarter with total cash of $17 million with zero borrowings against our ABL. Total liquidity as defined in the Priming term loan agreement, measured as ending cash balance plus check flow plus ABL availability was $61 million at the end of the third quarter. Also, as previously disclosed, early in the third quarter, we exercised the PIK pay down option on the Priming term loan, paying down $25 million or over 10% of the outstanding loan from cash on hand.

Our operating strategy is to reduce reliance on promotions initially through right-sized inventory buys. As such, we are comfortable with inventory levels down 16% year-over-year as we exit Q3 and enter the holiday season. We continue to manage the supply chain, securing on-time ocean deliveries whenever possible, and utilizing air freight when needed. Through Q3 product floor sets were largely launched on time and we expect this trend to continue in Q4, but the gross margin impact from expedited shipping costs will increase to 250 to 300 basis points as air freighted goods received in Q3 are sold over the holiday period.

Our teams are actively managing this situation, doing a great job remaining flexible and adjusting plans as needed. Given the strength in our performance, we are continuing to invest back into the business. Capital expenditures in the quarter were about $1.1 million versus $300,000 last year. We continue to make investments in technology, our e-commerce site and perform capital maintenance projects as necessary. Year-to-date, capital maintenance needs have been trending below initial expectations, and we now expect to spend about $6 million in capital for full Fiscal Year 2021 compared to $3.5 million in 2020.

During the third quarter, we closed one store, ending with 260 stores. The majority of 2021 lease action dates occur at the end of the fiscal year, and we continue to negotiate our store leases aggressively with the aim to achieve fair rents and term for this important channel. We are making good progress and continue to expect to close approximately 20 stores this year. While store closures will have a near-term impact on revenue, any impact to EBITDA is negligible after factoring transferred sales to stores and e-commerce. Importantly, we believe that physical stores are a very important channel for our customer, and at the right economics will lead to store openings in the future as a source of growth.

Looking ahead to Q4, we expect revenues to continue to grow versus 2020 and gross margin driven by the fundamentals of inventory management, full price selling and reduced promotions to improve compared to 2020, but at slightly lower levels than year-to-date improvements given elevated freight costs as previously stated. We also expect SG&A cost to continue to build from Q3 2021 levels, primarily due to increased store operating hours and shipping costs.

Despite the increased costs, we expect to drive strong year-over-year improvement in Adjusted EBITDA for the period. In summary, third quarter and year-to-date results demonstrate the potential of our operating model executed by disciplined teams to drive Adjusted EBITDA and generate strong cash flow.

Thank you. I'll now hand it back over to Claire.

Claire Spofford

Thank you, Mark.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

I'm excited and confident in our progress against our strategy. The steps we're taking to evolve the business model and delight our customers are positioning us well for profitable growth as we move forward. I will now turn it back to the Operator for Q&A.

Operator

For our first question, we have Dana Telsey from Telsey Advisory Group. Dana, your line is open.

Dana Telsey

Thank you. Congratulations, Claire and Mark on the terrific results. What a nice improvement to margins everywhere and a nice progress.

Couple of things. Can you talk a little bit about with the full price sales, any pricing adjustments that you're taking, given inflation and rising cotton costs? Secondly, on the freight headwinds, do you see them lingering into 2022? Thank you.

Claire Spofford

Thanks, Dana. I'll take the first one and I'll let Mark address the second one. We are always evaluating our tickets and our retail to customers. We try to do it very strategically and surgically. Certainly, as we move into 2022, we are anticipating some retail ticket increases.

But what we've done is taken a really—stepped back and taken a clear eyed look at the whole assortment and tried to think about where we think we can get more credit for the design and the make and the novelty in the product, then also just rebranding ourselves again on a category by category basis, doing style out and just making sure that everything on a relative basis makes sense from a retail pricing standpoint. Yes, you will see some of those increases coming through next year. But we didn't just take an across the board approach to it. We tried to take a very strategic approach based on where we think the consumer sees the value.

Mark Webb

Dana, with respect to the freight headwinds, I would characterize right now the situation does not appear to be getting worse, which is good. As we look forward, our views as well as some of the industry views we're seeing out there is that as the cost increases, some of the issues with capacity constraints, et cetera, are likely to continue through maybe Q1, even potentially through Q2. Our approach is to maintain the elevated level of focus on freight and managing receipts until we're certain that they've worked their way through the system.

Likely to linger. Current forecasts are likely lingering through at least the first half of the year, and we're prepared to continue to manage it as we are.

Dana Telsey

Got it. Then Claire, as you think about the categories, whether it's the Pure Jill collection, the Wherever, the Fit, what are you seeing in terms of those collections? How do you think about e-commerce and the progress there going forward? How do you get that to show increases, as hopefully it transitions from being more of a markdown channel? Thank you.

Claire Spofford

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Thanks, Dana. Great question. We continue to see strength in newness as we talked about last time on the call. That continues to be a driver of business both in retail and on—in the direct channel. We've seen strong response to knits; woven dresses were the biggest over performing department this quarter. Novelty continues to be really strong and was a big part of driving the performance in those categories. Footwear and sleeper, they're small for us, but they were also very strong. We did see a little bit of weakness in jackets and outerwear and accessories.

Pure Jill, which has been strong for us all year, we had—that was the one area we did see a little bit of degradation due to some factory issues and we didn't have the products that we had hoped for. Very focused piece there. But basically we still continue to see a lot of strength across the assortment. We see the opportunity, as we talked about last quarter, for real growth to come from Pure Jill and Fit, in particular, but yes, really pleased with the continued engagement with our newness across a lot of the assortment.

Dana Telsey

Got it. Anything on e-commerce that we should be watching for going forward?

Claire Spofford

No, we always are focusing on trying to improve our customer experience online. We're making some investments on—in that front this year. We are seeing this full price customer response in both channels, which I mentioned in my remarks. We feel like we're very focused on driving growth on both channels and e-commerce will certainly be a piece of that. It's just the direct channel has been where we've always moved through all our liquidation inventory. That's why you saw that 8% decline on the top line in direct this quarter, but much better yield on the margin side.

Dana Telsey

Got it. Thank you.

Operator

For our next question, we have Janet Kloppenburg from JJK Research Associates. Janet, your line is open.

Janet Kloppenburg

Hi, everyone, and good evening. Congratulations on a nice quarter. I wanted to just touch base a little bit go—talk a little bit about what Dana brought up about the freight headwinds. I'm just wondering, I think you said in the fourth quarter would be 250 to 300, if I'm right, Mark. That is a step up from the third quarter. How should we be thinking about next year? Then as you think about the price increases, Claire, do you think that between that and other programs, perhaps more full price selling, that you'll be able to compensate for the freight headwinds going forward? What I'm asking is the cadence of gross margin improvement outlook as we go forward incorporating the incremental freight.

Mark Webb

Let me help first with the headwinds and the guidance indicated…

Janet Kloppenburg

Okay.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Mark Webb

Janet, we started really in earnest making the decisions to expedite and reroute certain shipments to air freight and started to execute on that during Q3. The product that we were entering into the season may not have had the level of expediting needed or necessary to land them. As we were landing product through Q3, not all of that sold in Q3 or was expected to sell in Q3. That product will sell in Q4. There's the sheer amount of expedited product that is sold and that's when you recognize the freight charge is (inaudible).

Janet Kloppenburg

Right.

Mark Webb

You're probably getting—and I'll be as helpful as I can be on the forward look, because Q4, as long as we're operating under the current situation, is probably a more holistic quarters' worth of impact from expedited goods. I think until they abate, that's probably a good starting point for any air freight impacts as we move forward.

Janet Kloppenburg

What does that mean about gross margin comparisons versus 2019? I think your third quarter was about 450 basis points higher on a two-year basis. How should we be modeling as we move forward? Will those comparisons start to narrow?

Mark Webb

Well, I think that the way—so if we think about 2021, and then we'll be as helpful as we can be as we get out of the Q4 call and we wrap up 2021 fiscally. But in 2021, we've seen the real power of the operating model to generate significant gross margin rates driven by full price and reduced promos and the industry and everything else that's supporting it along the way. Air freight, which we've guided to into Q4, is an incremental pressure into Q4. The promotional cadence and our strategies will remain intact in Q4. Our plans will be to maintain promotional levels below historical years' promotional levels, but Q4 promotional levels, it traditionally does and will likely tick up versus year-to-date promotional levels.

When thinking about that cadence across the year, and then as we get into next year, you have the freight associated issues, which we've talked about through potentially the first half of the year, again, just given industry prognostications on that at this point as well as our best estimates. Then we'll try to help with that as we get further through the fourth quarter and talk about next year.

Janet Kloppenburg

But as you're starting to place orders now for delivery in the first quarter and even for the second quarter, could you say that your air freight is staying at the same level as it was for the third and the fourth quarter? Or do you see more ocean coming in?

Mark Webb

I wouldn't guide to any major difference than where we are now. Now the upgrade is—ocean itself, Janet, as you know, is elevated cost as well.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Janet Kloppenburg

Yes.

Mark Webb

Not quite the driver of an ocean versus air decision, but likely the mix will stay as it is as we continue to—every day we get better at it. We would hope to try to—as we learn about the different routes and how—what we can rely on and what we can't, maybe it gets nominally better, but I wouldn't guide any different mix at this point where we are.

Janet Kloppenburg

Okay. As you look forward, with a combination of full price sell-through, maybe for Claire, and the higher ASPs that you get as a result of your targeted price increases, could we expect that the momentum you're seeing in full price business can be sustained? Or how do you think we should think about that? Obviously, that has something to do with your inventory levels as well.

Claire Spofford

Yes, yes. Certainly the inventory levels, we continue—we have—we continue to manage inventories more tightly. That's something, we—it's part of our core strategy, and we're, yes—obviously, that's part of the way we're operating the business and expect to continue to operate the business. I think the other piece, Janet, is that it all depends on the strength of the product. Our ability to ask our customer to or get our customer to pay full price for the product means the product has to be great. I have a lot of confidence in our team's ability to continue to deliver great assortments and so that gives me confidence.

I think there is a tipping point. As you well know, we can't raise prices indiscriminately to try to cover all ills in terms of what's going on in the world right now. But I think we're being as strategic as possible in the way we're looking at those ASPs and fully intend to support the full price business model as much as we possibly can going forward.

Janet Kloppenburg

You might have talked about this, but given the lower clearance in the direct channel, should we expect that pressure to continue on the top line though?

Claire Spofford

I think we've been getting cleaner and cleaner throughout the year. We, at some point, will lap that and then it will be less of an impact. But certainly there will continue to be some pressure from that just from a top line standpoint. But as I said, the yield is proving to be much better.

Janet Kloppenburg

Okay. Good luck. Thank you.

Mark Webb

Thank you, Janet.

Operator

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

For our next question, we have Daniel Lupo from Jefferies. Daniel, your line is open.

Daniel Lupo

Hey, thank you very much for hosting the call. Nice quarter.

Can you maybe talk a little bit more about your labor situation, what you're seeing across the footprint within your store base? Then also maybe a little bit more on the supply chain. Can you give some maybe details around some of the sourcing strategies that you have in place? Are you seeing any disruption from a labor standpoint within your supply chain? Thank you.

Claire Spofford

Sure. With regard to stores and the labor pressures, we have a pretty tenured store associate population. As a result, they are more loyal, I guess, and less likely to take a job elsewhere for a couple dollars more an hour. I think, also, because they're tenured, they tend to be paid a little bit more than the average, probably store associates in some stores. We haven't seen undue pressure in terms of wage increases in the stores.

We obviously, as everybody has, have seen some in our distribution centers. That's been something that we've certainly been dealing with. But overall, I think from a store associate standpoint, we've been in a really good position. Mark, I don't know if you want to take the other one?

Mark Webb

I would add that in terms of finding and staffing, that has gotten marginally better in terms of the candidates for some of the areas that were more challenging, particularly around the distribution center in those areas. Then you had mentioned the supply chain, nothing really to call out with respect to supply chain, anything related to labor. I think as, back in Q2, there were some closures in countries of origin, which have since reopened. That has been primarily the impacts to a labor base in those countries in terms of staffing, the requirements that they would have to staff during some of those issues that they were having, but majority of them are reopened. Most of them are operating back close to capacity. Having nothing really more to provide in terms of anything we're seeing underneath the labor side of that equation at this time.

Daniel Lupo

Okay. That's helpful. I appreciate that. Then just last one for me. On the capital structure, maybe how do you think about the small term loan stub coming due and the multiple tranches of debt you have in the capital structure right now?

Mark Webb

Yes, the stub is due in May. Fully intend and ready to pay that down when we need to. Then the overall stack right now with the priming term loan, we have a subordinated note and then our ABL, is something I think, as we continue to strengthen our foundation out of 2020 and really this year with the EBITDA performance, it's opportunity. Right now we're happy to have the debt in place that we do at this point, and looking forward to continue to optimize as we go forward.

Daniel Lupo

Okay. Thanks for your time today. Nice quarter.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Mark Webb

Right. Thanks.

Claire Spofford

Thank you.

Operator

We don't have any questions at this time. I'll turn the call over back to Claire Spofford for closing remarks.

Claire Spofford

Thank you, everyone, for your time and attention this afternoon and appreciate the questions and the engagement. Have a great holiday season, everyone.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you, all, for participating. You may now disconnect.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com