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J.Jill, Inc. (JILL)

Q4 2021 Earnings Call

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CORPORATE PARTICIPANTS

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Daniel Lupo
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Chris, and I'll be your conference operator today. At this time, I'd like to welcome everyone to the J.Jill Fourth Quarter and Full Year 2021 Earnings Conference Call. On today's call are Claire Spofford, President and Chief Executive Officer; and Mark Webb, Executive Vice President, Chief Financial Officer and Chief Operating Officer. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there'll be a question-and-answer session. [Operator Instructions]

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 provisions of the Private Securities Litigation Reform Act of 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 risks and uncertainties are described in the press release and J.Jill's SEC filings. The forward-looking statements made on this recording are as of March 22, 2021 – 2022, apologies – 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 is available in the press release issued March 22, 2022. If you do not have a copy of today's press release, you may obtain one by visiting the Investor Relations page of the website at jjill.com.

I'll now turn the call over to Claire.

Claire Spofford
President, Chief Executive Officer & Director, J.Jill, Inc.

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Thank you, operator, and hello, everyone, and thank you for your interest in J.Jill. I'm going to provide an overview of our results and an update on our business strategy and operations as we move into 2022, then Mark will cover our financial results in detail.

Fiscal 2021 marked a year of significant recovery for J.Jill. Some of the highlights for the year: our sales grew to $585 million, an increase of 37% versus 2020; gross margin improved 980 basis points compared to fiscal 2020 and increased 540 basis points compared to 2019, driven by strong consumer response to our product and disciplined inventory management.

SG&A expenses were tightly managed and significantly levered as a rate of sales. Adjusted EBITDA saw a strong recovery to $92 million, reflecting a significant year-over-year increase and as a rate of sales expanded 620 basis points compared to pre-COVID 2019 levels. These results reflect a lot of disciplined hard work on the part of our entire team in a period of great challenges and turbulence. I want to thank all of my teammates at J.Jill for their efforts in 2021 and their contributions to driving our strategic objective of cost and inventory management, flowing great new products regularly and a focus on full price selling.

In Q4, we were pleased to have delivered results above previously provided guidance with a strong increase in Adjusted EBITDA, driven by gross margin expansion and disciplined expense management. The holiday period reflected some changes in shopping behaviors as the consumer [ph] starts (00:03:45) are shopping a bit earlier than last year. We saw store traffic negatively impacted by the Omicron variant beginning Black Friday weekend and continuing into early January, but we were pleased to see traffic recover later in January as cases began to taper off.

Total company sales in the quarter increased 15% over Q4 2020, driven primarily by the store channel. As previously mentioned, in Q4 and throughout 2021, we were focused on disciplined inventory management and the regular flow of new product, yielding improved flow-through to EBITDA. We continued to see strong consumer response to our product offerings, and we were able to drive sales with a higher penetration of full price, yielding a more than 700 basis point improvement in gross margin versus Q4 2020, despite being impacted in the quarter by elevated freight and logistics expenses.

As we look forward to 2022 and beyond, we will remain focused on executing with discipline against our new business model with a continued diligence around inventory and expense management. The hallmarks of our business will continue to be strong, relevant product assortments, flowed regularly that our valuable loyal customer base response to at full price and an engaging experience across channels for our customer wherever and whenever she chooses to shop with us.

Our strategy for driving profitable growth going forward is built on five main areas of opportunity: modernize the J.Jill brand and value proposition to increase relevance for our current customers and position J.Jill for the next cohort of customers; attract and convert new customers through focused strategic brand and performance marketing programs; drive growth in high potential sub-brands and categories. For example, we've seen strong response for our Pure Jill and J.Jill Fit sub-brands, and we will continue to lean into the opportunity to build these further; enhance the customer experience across our business and channels to drive engagement and productivity; and finally, develop and execute a plan for new store growth in the highest potential locations. We look forward to updating you on progress against these initiatives on future calls.

In summary, we're pleased with the progress and the results we drove throughout the year despite a dynamic and challenging macro environment. We continue to be very focused on the disciplines we established in 2021, particularly with regard to inventory and expense management. We believe this disciplined approach to managing

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the business, coupled with continuous flow of great product that delights our loyal customers will continue to yield strong margin performance going forward.

As we move into 2022, we're pleased with our performance to date. While macro-related headwinds persist, our unique value proposition and reengineered operating model give us confidence in our ability to deliver continued traction and results as we turn our focus to driving profitable growth and introducing new customers to our relevant and compelling brand and products.

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

Mark Webb

Executive Vice President & Chief Financial and Operating Officer, J.Jill, Inc.

Thank you, Claire, and good morning, everyone. As Claire mentioned, fiscal 2021 was a year of significant financial recovery for J.Jill as we delivered total sales growth of 37% over full year 2020 and an Adjusted EBITDA improvement of over $129 million compared to full year 2020.

When compared to full year 2019 pre-COVID results, consistent with the expectations of our updated operating model, while sales were lower, gross margins expanded, expenses were well controlled and Adjusted EBITDA improved $26 million to $92 million for fiscal year 2021. We are very pleased with the results of the changes made to our operating model, including more focused product assortments, more frequent product newness despite fewer large floor sets and disciplined inventory and expense management.

In addition to the recovery in gross margin and Adjusted EBITDA dollars, these actions also resulted in significant cash generation with cash flow from operations of about $75 million, including tax refund proceeds, a voluntary pay down of our long-term debt of $25 million and ending cash of about $36 million. I would like to add my thanks to the J.Jill teams for their considerable effort and success amidst much uncertainty in 2021.

With respect to the fourth quarter, results for the quarter represent continued recovery over 2020. Total company comparable sales for the fourth quarter increased 20%, driven by the [ph] stores (00:08:32) channel. Total company sales for the quarter were $145 million, up 15% versus Q4 2020 and down 14% compared to Q4 2019. Sales compared to prior year were strongest in November, followed by December with Omicron COVID cases increasing and impacting sales in early January.

Store sales for Q4 were up over 62% versus Q4 2020 and down 21% compared to 2019 levels. Traffic levels fell off of year-to-date trends slightly in Q4, most likely due to the impact of Omicron though results did strengthen in the back half of January as cases subsided, which contributed to our above-guidance performance in the quarter.

Direct sales as a percentage of total sales were 52% in the quarter. Compared to the fourth quarter of fiscal 2020, direct sales were down 9%, driven by lower markdown sales, partially offset by higher full price sales. These results are consistent with our strategy to manage inventories with discipline and reduce the amount of markdown sold, which historically skewed more heavily to the direct channel. While this negatively impacts total sales in the direct channel, it is a benefit to gross profit.

Q4 total company gross profit was $93 million, up $21 million compared to Q4 2020. Q4 gross margin was 63.9%, up 710 basis points over Q4 2020, driven by better full price selling and reduced promotions. Q4 2021 gross margin included approximately 300 basis points of incremental freight charges, in line with our expectations.

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SG&A expenses were $85 million compared to $86 million last year, with increases in store selling costs, marketing and management incentive offset by savings in G&A overhead. Adjusted EBITDA was $15 million in the quarter compared to a loss of $4 million in Q4 2020 and Adjusted EBITDA of $12 million in 2019. Please refer to today's press release for a reconciliation of Adjusted EBITDA.

Turning to cash flow. For the quarter, we generated $22 million of cash from operations, including about $18 million of our expected $25 million-plus tax refund, resulting in end of quarter cash of $36 million with zero borrowings against our ABL.

We continue to focus on tight inventory management and work to offset supply chain disruption through the use of expedited freight options and early shipment of goods when possible. We ended the year with inventory levels down 3.5% compared to the end of year 2020 with a healthier balance of full price versus markdown units.

Capital expenditures in the quarter were about $3 million, bringing total spend for the year to just over $5 million compared to $3.5 million last year. We made targeted investments this year in technology, our e-commerce site and performed necessary capital maintenance and repair projects.

Actual capital spend was below prior guidance due to lower capital repairs costs than expected and some timing of projects that pushed into 2022. With respect to store count, we closed 7 stores in the fourth quarter and 14 stores for the full year, bringing end of year count to 253 stores.

Turning now to our outlook for fiscal 2022. For the first quarter of fiscal 2022, we expect sales to grow between 11% and 14% compared to Q1 2021 and Adjusted EBITDA to be between $20 million and $22 million.

As it relates to the full year, we will continue to operate with discipline and build on the operating model enhancements enacted this year. We expect to grow sales modestly, although below the growth rate expected in Q1, which is the last quarter aided by recovery related tailwinds, given the timing of vaccination rollout in the spring of 2021.

With respect to gross margin, we aim to maintain the gross margin achieved in 2021 as strategic price increases, further improvements in promo rates and reductions in markdown selling will help offset product cost inflation from raw materials and freight pressure, which we expect to continue at least through the first half of the year.

Important to note, with respect to quarterly cadence, while our goal is to maintain the gross margin achieved in 2021 throughout the year, we expect year-over-year comparisons to be most challenging in Q2 and Q3 as we anniversary the significant recovery experienced in those quarters last year.

With respect to EBITDA, we expect annual Adjusted EBITDA dollars to be relatively flat to up slightly compared to 2021, including the expected pressure from expense inflation and investments we will be making in talent, store operations and marketing.

Regarding store count, we plan to close approximately 10 stores in fiscal 2022 with 6 coming in the first half of the year. We are selectively reviewing store opening opportunities and are planning for up to four new stores weighted to the fourth quarter.

And with respect to full year capital, we expect to spend between $15 million and $18 million as we increase investments in business process enhancing technology, complete e-commerce projects begun in 2021 and make

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strategic investments into stores, including new locations and the scoping and development of a new omni enhancing point-of-sale solution.

Thank you. And I will now hand it back to the operator for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from Janet Kloppenburg with JJK Research Associates. . Your line is open.

Janet J. Kloppenburg
Analyst, JJK Research

Q

Good morning, everyone, and congratulations on a nice quarter.

Mark Webb
Executive Vice President & Chief Financial and Operating Officer, J.Jill, Inc.

A

Thanks, Janet.

Janet J. Kloppenburg
Analyst, JJK Research

Q

I wanted to talk a little bit about the inventory levels. Mark and Claire, understand if you feel like that constrained the top line in the fourth quarter and if it's going to constrain – if it could constrain the opportunity here in the first quarter? And I also wanted to understand when the clearance levels would be apples-to-apples in both the stores and the digital channel, which may support top line acceleration because you won't be up against that comparison [ph] of clearance now that you don't (00:15:28) have this year?

Mark Webb
Executive Vice President & Chief Financial and Operating Officer, J.Jill, Inc.

A

Sure. So Janet, we'll – do you want me to start, Claire and then...?

Claire Spofford
President, Chief Executive Officer & Director, J.Jill, Inc.

A

Sure.

Mark Webb
Executive Vice President & Chief Financial and Operating Officer, J.Jill, Inc.

A

Okay. Great. So first, with respect to inventory levels overall, and we reported that at the end of the year, we were down 3.5% with a much healthier mix, full price versus markdown, which, as we've been discussing, was – has really been part of the operating model strategy all along to sort of work our way out of the markdowns, level of inventory as well as the full price promotions that historically we had been conducting.

So did we constrain sales? I think we talked about the fact that having the direct channel historically be the channel that cleared markdown goods is a negative drag on sales in that channel, and it showed again in Q4. So I think that's probably – we view that as necessary to enacting the changes within the operating model.

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As we end the year and we start to anniversary the significant actions in 2021 to that end – to the operating model end, we will start to lap really in Q2, later in Q2 the reduction and sort of the right carrying level in our view of markdown inventory.

So we would say pleased with the quarter. It has been the strategy to drive the recovery through gross profit, resulting in EBITDA. And now as we go forward, we feel like the inventory levels from a unit perspective are in good shape. They're mixed well to full price. If anything, we'll start to invest a bit in full price receipts, but we'll still be lapping for the next quarter, 1.5 quarter or so last year's markdown, the tail end of that markdown cleanup.

Janet J. Kloppenburg
Analyst, JJK Research

Q

Okay.

Mark Webb
Executive Vice President & Chief Financial and Operating Officer, J.Jill, Inc.

A

One thing, Janet, I would say is that inventory levels this year, given a lot of the supply chain sort of mitigating strategies that us and many others in the industry are taking, inventory levels reported at quarter end are going to start to maybe look atypical as we start to take earlier shipment of goods in some cases and have elongated shipping windows. The in-transit numbers at the end of quarters that precede some of our larger sales quarters will potentially start to look a little bit atypical, right? So the end of Q1, the end of Q3 would probably be most impacted by these higher levels of carrying in-transit inventories than they would have perhaps historically.

Janet J. Kloppenburg
Analyst, JJK Research

Q

Okay. And a couple more questions. [ph] Were you (00:18:23) still productivity levels versus peak? And is there a goal to get back to that? Were you in the price increase spectrum? Is there more to come? And I know you're going to close 10 stores and you're looking at some new stores. Is there opportunity to open stores this year? Or is that something you're just researching right now?

Claire Spofford
President, Chief Executive Officer & Director, J.Jill, Inc.

A

There's a lot in there.

Janet J. Kloppenburg
Analyst, JJK Research

Q

[ph] Okay (00:18:56).

Claire Spofford
President, Chief Executive Officer & Director, J.Jill, Inc.

A

So why don't I start – I'll start with the price increases and a general view on the store opportunity and then maybe Mark can speak a little bit more specifically to your question about store productivity, Janet.

But with regard to price increases, I think we talked about this last quarter as well. We have, as a result of the increases that we're seeing [indiscernible] (00:19:21) and some of the freight, we have taken a strategic approach to looking at all of our retail tickets and adjusted some prices for this year as we manage through that. I think the approach that we took was to really step back, look at the whole assortment, understand the relative value and

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where the customer will be willing to pay a little bit more for something that's truly special and that she can't find somewhere else.

And so we have taken those price increases, and you'll – those are beginning to be in place in this quarter and will be in place throughout the rest of the year. But again, not a peanut butter approach to just increasing prices, taking a really hard look strategically at where we can increase them, and it will make sense to the consumer.

With regard to the store opportunity, the stores are a really important part of our business with the way we engage with our consumer, and we think that there is a significant opportunity for store openings going forward. We have targeted looking at three or four stores in the back half of this year, probably Q4. We can update you more and the details of that when we get on our next quarterly call, but that's sort of the order of magnitude for this year.

We think that there are opportunities, new markets where we may have closed stores due to our desire to get a better economic model for those markets and those stores. But those closures were purely a sort of economic exercise, and we still feel like there's a lot of potential there. So we're looking at those markets. We're looking at new markets. There have been some shifts certainly in where people have migrated to over the last couple of years, and so we'll be looking at all of that as we develop our targeted store opening plan.

Mark Webb
Executive Vice President & Chief Financial and Operating Officer, J.Jill, Inc.
A

And then, Janet, just with respect to store productivity, I would say store productivity is still below peak, but that really is mostly driven by the markdown sales reduction in the stores on a like-for-like basis. Full prices may be slightly below. And we feel like as the sort of store assortment continues to migrate to more full price selling, there is opportunity there to continue driving a very, very healthy store sales and store gross profit back to those levels.

Janet J. Kloppenburg
Analyst, JJK Research
Q

Thank you.

Mark Webb
Executive Vice President & Chief Financial and Operating Officer, J.Jill, Inc.
A

Sure.

Operator: The next question is from Dana Telsey with Telsey Group. Your line is open.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC
Q

Good morning, everyone, and nice to see the progress. Couple of things. As you think about freight expense, I think it was 300 basis points of an impact this quarter, 200 basis points last quarter. How are you planning freight expense going forward?

Second thing is, are you seeing the pickup in occasion wear? What are you seeing on the product side as you continue to balance core and newness with your four different kind of categories? And then just a few follow-ups from there. Thank you.

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Mark Webb
Executive Vice President & Chief Financial and Operating Officer, J.Jill, Inc.
A

Why don't I go freight first so – then let Claire talk about the exciting stuff around product. Yeah. So Dana, we are – in our sort of guidance that we provided, we are expecting the run rate from the back half of last year. So the numbers that you quoted and really that Q4 number is probably a more holistic quarter view, given that we started our efforts in Q3 and freight attaches to the cost of units sold, right? So you – even though you start your efforts, you don't sell all your units that you received in the quarter, in that quarter.

So Q4 is probably the reference point, which we would say we expect to continue – essentially continue through at least the first half of the year. And then we are starting to see some level of pricing on a per unit basis, some small breaks there, which we're encouraged by, though who knows there's a lot of moving parts in the world right now. But we would assume some level of improvement on those – that run rate in the back half of the year, still assuming some amount of elevated freight, which is included in the guidance, the sort of general guidance we provided on the full year.

Claire Spofford
President, Chief Executive Officer & Director, J.Jill, Inc.
A

Yeah.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC
Q

Thank you.

Claire Spofford
President, Chief Executive Officer & Director, J.Jill, Inc.
A

And then, Dana, with regard to your question on product, and I can – yeah, I think the question was framed around sort of what we're currently seeing. So...

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC
Q

Yes.

Claire Spofford
President, Chief Executive Officer & Director, J.Jill, Inc.
A

Okay. So yes, we're seeing real strength in categories like dresses. We're hearing from the store teams that people are coming in and re-wardrobing to some extent, getting ready for – certainly, we're starting to hear back to work. We're also hearing that people are excited to get out and travel again, and we're seeing people buying outfits and products for that.

And then occasions, as you mentioned, I think Easter and Mother's Day always are a big impact for us. We look forward to seeing how business does with regard to both of those. But in general, people are getting out and about attending gatherings, seeing their friends for dinner and buying clothes for all of those things.

So certainly, the categories, you would expect to see strengthen with regard to all of those things. Some of our knits for travel, easy, packable things we're seeing, as I said, strength in dresses. And again, the novelties continue to do very, very well. Our prints, our embroideries are special things that you can't find anywhere else.

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And then from a sub-brand standpoint, I think we talked all last year about the strength of Pure Jill. We continue to see opportunity there. She continues to respond. We feel great about the potential of that sub-brand, and you'll hear more about that as we work through the year. And then Pure Jill fit – I mean, sorry, J.Jill Fit has also been very strong, and we continue to see strength and see potential there.

But honestly, and I love being able to say this, we continue to see strength across the assortment. Our latest [ph] drop of wherever (00:26:00) has been turning really nicely. And our core programs – denim is very strong. And as I said, our knit – basics are strong, but we expect to see increased strength as we move forward into the season. So...

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Got it. Thank you. And then on CapEx, I think it steps up from the $6 million in 2021 to $15 million to $18 million in 2022. Just any unpacking of that? And then on the raw material side, how big is cotton? And just following up on Janet's question, have you taken price increases? Do they scale throughout the year and then what range? Are you a mid-single-digit range or something like that? And then any update on the digital journey and what you're seeing in terms of capturing new customers, anything on repeat customers in terms of what you're seeing? Thank you.

Mark Webb
Executive Vice President & Chief Financial and Operating Officer, J.Jill, Inc.

A

Dana, I'll take the capital question, and then Claire and I will handle – going to cotton and then I'll fully turn it over to Claire for the digital journey that we're on. So capital, the step-up in capital expense is really related, first and foremost, to technology investments.

We're completing – have completed in the quarter, the migration of our website to the latest version of a new platform. We are investing in some sort of business process support technology to help, primarily in the merge planning areas and marketing areas. A lot of the work that we've done around the operating model has been a bit roll up your sleeves [indiscernible] (00:27:46). So we're going to provide some technological and system support for many of those efforts.

And then really, we're excited to begin the journey of evaluating a new POS for the stores. Our existing POS has been in store for quite a while. And as we've mentioned many times, the store is a very important part of our customers' habits and our very important channel. And so looking at a new POS system, omni enhancing, bringing that really current in the store fleet is part of the big step-up.

And then, of course, we're opening new stores, some maintenance, some visual projects as well and then some catch-up maintenance around the DC and HQ completes that sort of step-up in capital spend for the year. Still feel like the business, as we've seen with the cash generation in 2021, very strong cash generation. And even with a step-up in capital still will produce significant free cash flow when managed with discipline.

Claire Spofford
President, Chief Executive Officer & Director, J.Jill, Inc.

A

Great. And with regard to the digital journey, absolutely, we're starting – we constantly look at and test into new digital channels for customer acquisition and for marketing. Our customer is relatively sophisticated, and she's enjoying all of the social media channels, certainly very active on Instagram and Facebook. Still, we're doing a lot

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there. And we think that we're going to be able to introduce a lot of new potential customers to the brand as we lean into creating a larger voice for our brand out there, introducing new people through those social and digital channels increasingly.

One of the good things or the sort of ancillary benefits of shifting some of our customer acquisition efforts even more heavily towards digital is that does tend to bring on a slightly younger customer, four, five years younger [ph] she's acquired digitally than (00:29:47) through print. And so we're actively developing those programs and partnering the brand – the bigger brand presence with a very disciplined approach to performance marketing.

So that will help drive not only customer acquisition, but retention of those core customers that are so valuable to us. We continue to enjoy a very high retention rate of those customers year-over-year and season after season. So those are some of the efforts that we'll be talking a lot more about on the quarters to come. But that answers your question?

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Yes.

Mark Webb
Executive Vice President & Chief Financial and Operating Officer, J.Jill, Inc.

A

And then cotton – I think it was the...

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Oh, yeah.

Mark Webb
Executive Vice President & Chief Financial and Operating Officer, J.Jill, Inc.

A

[indiscernible] (00:30:32) I'll frame it up, Dana. As cotton – for us, cotton is a very important fabrication within the assortment and one that we're committed to and not only cotton, but the better end of cotton. So [indiscernible] (00:30:50) cotton is very important.

So as Claire had mentioned, the pricing increases are strategic and targeted and not peanut butter approach. I'll – Claire, you can go to more detail on that if Dana would like. But I would say that the sort of guidance that we provided, we're not expecting the pricing increases to fully offset the inflation related to cotton. We feel like it's an opportunity to help offset a big part of that, but then we have the opportunity around the markdown business as we continue to cycle out of that as well as some continued opportunity around full price promos to help us deliver the guidance that we had provided for the margin for the full year.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Got it. Thank you.

Mark Webb
Executive Vice President & Chief Financial and Operating Officer, J.Jill, Inc.

A

You bet.

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Operator: The next question is from Daniel Lupo with Jefferies. Your line is open.

Daniel Lupo
Analyst, Jefferies

Q

Hey. Thank you very much for hosting the call. I just wanted to kind of ask you guys what you're seeing in terms of employee turnover, maybe excess open positions, whether it's a corporate DC or kind of store level? And how you've managed through the tight labor market?

Claire Spofford
President, Chief Executive Officer & Director, J.Jill, Inc.

A

Sure. Great question. So certainly, it is a tight labor market, and I think everybody is experiencing the challenges that that presents in terms of team and talent. I will tell you that we have been actually pleased with our ability to attract the talent that we wanted to attract in the past few months. And so there's definitely a headwind, but we're working hard against that and really pleased with the caliber of folks that we've been able to bring on board as a result.

In the stores, we have spoken in the past about the connection that our store associates have with our customers and with the brand and, again, very challenging environment, not just from a scarcity of talent of potential talent standpoint, but also just people making decisions about how they want to live their lives and where they want to work. But we continue to see a strong level of engagement, a lower level of turnover than I think is general out there. And so we're relatively pleased with our ability to manage in the stores and at corporate. And then, Mark, I don't know if you want to talk about the DC at all?

Mark Webb
Executive Vice President & Chief Financial and Operating Officer, J.Jill, Inc.

A

I'd say a similar statement around the DC. We have a very loyal engaged workforce in the DC and a lot of the operating model changes that we've been making actually helped efficiency, et cetera, in that part of the world and have helped us focus that employee workforce on fulfilling orders and shipping goods that are sale goods versus – or sales-related goods versus processing markdowns and things of that nature.

So similar across the board, I think, something we're watching. And we indicated in our soft guidance for the year that we are expecting pressures and investments in talent that we're making to help us drive – continue to drive the business forward, but also inflation around – wage inflation and merit, et cetera, that comes into the system in Q1 and through the rest of the year.

Daniel Lupo
Analyst, Jefferies

Q

That's helpful. I appreciate that. And then I'm just – I know this is probably kind of a tough question to answer, but how do you kind of view the health of your consumer, given that heavy inflationary environment, whether it's in food, gas, et cetera? Like are you seeing any hesitancy kind of amongst your consumer base? Just kind of your general thoughts would be helpful. Thank you.

Claire Spofford
President, Chief Executive Officer & Director, J.Jill, Inc.

A

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Sure. Again, we're very lucky in terms of our consumer, she is relatively affluent. She is pretty established and she is therefore less susceptible to some of those marginal increases in things that people always talk or – also talk about the impact of the stimulus on our business last year and how are we thinking about lapping that. That honestly, we don't believe had much of an impact last year. So therefore, not an issue for us in terms of lapping it this year. And so far, we have not seen an impact to the business due to the inflationary environment. We tend to see our customer. If she really want something, like something, then she is willing to pay for it. So haven't seen an impact.

Daniel Lupo
Analyst, Jefferies

Q

Okay. And then just last one for me. You kind of mentioned cash flow this year and a pretty healthy cash position. How do you think about kind of excess cash in the balance sheet? Have you kind of maybe thought of prepaying debt? Or what are your kind of plans for that excess cash?

Mark Webb
Executive Vice President & Chief Financial and Operating Officer, J.Jill, Inc.

A

[ph] Daniel (00:35:57), good question. Look, I think – and we mentioned it, I think along the way, but we were very pleased to get the deal in 2020 that we were able to strike with our lenders. The result of it is that we have a term loan with a pretty good rate on it and a pretty good term on it. That said, with the cash generation of the business, I think we are certainly interested in continuing to improve the capital structure of the business. In our minds, that ultimately means less debt. We can get there.

So as we're looking at the business and where the markets are, et cetera, we are opportunistically thinking about options and nothing to report on at that point, but definitely on the radar and part of our objectives is to continue to improve the health of the balance sheet.

Daniel Lupo
Analyst, Jefferies

Q

Okay. That's great. I appreciate your time today. Thank you. Thank you very much.

Mark Webb
Executive Vice President & Chief Financial and Operating Officer, J.Jill, Inc.

A

Thank you.

Operator: We have no further questions at this time. I will turn the call over to Claire for any closing remarks.

Claire Spofford
President, Chief Executive Officer & Director, J.Jill, Inc.

Thank you, operator, and thank you for everyone who participated in this call and listened in. We're happy to tell our story, and we look forward to sharing our results with you next quarter.

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

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