J.Jill, Inc. NYSE:JILL

Earnings Call

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Call Participants

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Presentation

Operator

Good morning. My name is Rob, and I will be your conference operator today. [Operator Instructions] to welcome everyone to the J.Jill Fourth Quarter 2022 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. [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 14, 2023, 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 14, 2023. 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 will now turn the call over to Claire.

Claire Spofford
President, CEO & Director

Thank you, operator, and hello, everyone. Thank you for your interest in J.Jill. For today's call, I will review highlights of our fourth quarter and full year performance and provide an update on our strategy before turning the call over to Mark to review our financial performance and outlook in more detail.

We are pleased to have delivered stronger-than-expected top and bottom line results for the fourth quarter. Sales increased 1.7% versus the prior year, and adjusted EBITDA came in at $15 million. We believe the actions we took entering the quarter, specifically related to our decision to pull holiday and winter deliveries forward positively impacted our results and supported strong full price selling early in the quarter. Throughout the period, we continue to see little price resistance to unique and novelty styles to gravitate toward dresses and sweaters and cozy seasonal styles like Chanel sweaters and versatile occasion options. These results include a slightly higher promotional cadence over the holiday period in order to exit the quarter in a clean inventory position.

Our fourth quarter performance capped off a strong year for J.Jill, in which we delivered sales growth of over 5% as well as an increase in adjusted EBITDA of over 19%, driven by gross margin expansion and disciplined expense management. These results are a testament to the hard work of our teams and the improvements and increased disciplines we've instilled in our operating model over the past 2 years as we focused on full price selling, inventory management and flowing newness.

Through the strong execution of these principles, we have reinforced our foundation, allowing us to better capitalize on our brand strength and the opportunities that lay ahead. As we look forward to driving profitable growth, we remain encouraged by several important elements of the J.Jill business.

We have a terrific customer [be is] loyal, engaged and relatively affluent compared to the average consumer. Our brand proposition as a premium casual retailer is more relevant than ever. She's shopping for quality fabrications and clothing that moves through her life and day with her. The team here does a really great job of translating trends and developing products that our customer has demonstrated she is willing to pay full price for.

We also benefit from a balanced business model that is relatively evenly split across stores and e-commerce, allowing our customers to shop and enjoy a delightful experience wherever and whenever she chooses to shop with us. That said, I often say our brand is still somewhat of a well-kept secret, and that creates an opportunity for us to further expand awareness and in turn, gain share in our market.

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As we move into 2023, we will maintain the focus on our operational discipline to ensure strong execution given the uncertain macro environment. We will also move forward with the profitable opportunities for growth we discussed in prior calls. In 2022, we invested in strategies focused on driving awareness and customer acquisitions. We modernized the J.Jill brand, focusing on communicating our brand value proposition more effectively to customers while amplifying our position as a size-inclusive shopping destination through the launch of our Welcome Everybody campaign in the second half of the year. We are pleased to see growth in this space, both in new-to-brand and reactivated customers. While still fairly early, we are pleased with the initial success of this initiative and an opportunity to build on it in 2023 and beyond.

As part of this focus, we are testing and optimizing new marketing channels and working with influencers in the size inclusivity category to further penetrate our targeted customer segment with our compelling products and brand proposition. Underlying much of this work is our commitment to staying close to our customer and listening to her through our ongoing customer insights work, an initiative we stood up in earnest in 2022, which we now leverage to explore opportunities to understand and further meet our customers' wants and needs.

In addition to modernizing our brand and value proposition, we continue to see opportunity to engage and acquire customers through growing on both our retail and direct channels. Approximately 60% of new customers make their first purchase through our stores and we are focused on investing in tools and systems that will allow us to leverage this important channel to enhance our omni capabilities even further.

Our omnichannel customers spend approximately 3x more per year than our single-channel customers. And through a new POS system, which we are rolling out in 2023, we expect to improve the ease of transactions across channels over time. Today, we are in an enviable position of not being overstored, and we will continue to evaluate store opening opportunities as the economics make sense. We are excited to follow our Granger, Indiana store opening in Q4, which marked our first store opening in 3 years with 2 additional openings planned for Q1 2023.

As Mark will discuss, our first quarter outlook reflects a challenging year-over-year comparison, but we remain focused on our principles and look forward to continuing to delight our customers with our new spring assortments.

Looking to the balance of the year. Visibility to the consumer environment for 2023 is difficult, and we will consequently remain focused on managing the business with discipline while simultaneously building our platform for profitable growth as we move forward. Now I will turn the call over to Mark to discuss our financial performance in more detail.

Mark W. Webb
Executive VP and Chief Financial & Operating Officer

Thank you, Claire, and good morning, everyone. We are very pleased with performance in 2022 as our disciplined profit-focused operating model continued to deliver strong results, including healthy cash generation. The fourth quarter ended the year on a strong note with results above our expectations.

Total company comparable sales for the fourth quarter increased 5.3%, driven by strength in the stores channel. Total company sales for the quarter were $148 million, up 1.7% compared to Q4 2021. This performance was better than prior guidance due largely to a better-than-expected January, which was the strongest month in the quarter when compared to prior year.

Store sales for Q4 were up over 6% versus Q4 2021 on 4% fewer stores. Traffic and full-price average unit retail drove the increase over last year with the traffic comparison likely benefiting in part due to the impact to traffic last year from the COVID Omicron surge.

Direct sales as a percentage of total sales were 50% in the quarter. Compared to the fourth quarter of fiscal 2021, direct sales were down 2.5% as sales mixed more to markdown and online returns ticked up slightly. Q4 total company gross profit was $95 million, up $2 million compared to Q4 2021. Q4 gross margin was 64.4% and up 50 basis points over Q4 2021, driven by about 270 basis points of freight

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favorability which more than offset margin pressure from increased raw material costs and additional markdowns taken in the quarter to ensure clean inventory as we start 2023.

SG&A expenses were $87 million compared to $85 million last year, driven by increases in marketing, store selling costs on higher sales and slightly higher operating hours and G&A overhead. Adjusted EBITDA was $15 million in the quarter compared to $15.2 million in Q4 2021.

For the full year, we delivered total net sales growth of 5.1% and to $615.3 million. Adjusted EBITDA was $109.4 million, up $17.7 million or 19.2% over fiscal full year 2021. Please refer to today's press release for a reconciliation of adjusted EBITDA.

Turning to cash flow. For the quarter, we generated $8 million of cash from operations, resulting in ending cash of $87 million with 0 borrowings against the ABL. For fiscal 2022, we generated $74.4 million of cash from operations. We continue to focus on tight inventory management and have now largely worked through the supply chain disruption that began in the back half of 2021. In line with our expectations, we ended the year with inventory levels down 10% compared to the end of year 2021 and are comfortable with the balance of full price and markdown units.

Capital expenditures in the quarter were about $10 million, bringing total spend for the year to $15 million compared to $5 million last year. We made important investments this year. We replatformed our e-commerce site, performed necessary capital maintenance, opened our first new store in over 3 years and launched and made good progress on our new POS initiative.

Actual capital spend was above prior guidance due to more timely procurement of POS hardware than previously estimated. With respect to store count, we closed 5 stores in the fourth quarter and opened 1 resulting in net 10 closures for fiscal year 2022. We ended the year with 243 stores.

Turning to our outlook for fiscal 2023. Given uncertainty related to the 2023 macroeconomic forecast and our overarching objective to maintain profitability over time, we are guiding full year adjusted EBITDA and about flat to fiscal 2022. This outlook includes the benefit of the 53rd week in fiscal 2023, which is expected to deliver about $8 million in sales and $2 million in adjusted EBITDA.

We remain very disciplined with respect to inventory buys as we enter the year and will retain some flexibility should the economic outlook materially improve. As it relates to the cadence of our outlook, we expect to anniversary our strongest quarters from a sales perspective in the first half of the year and expect to benefit from gross margin tailwinds associated with freight favorability which will help to mitigate potential promotional activity should the environment warranted.

More specifically, for the first quarter of fiscal 2023, we expect sales to be down in the mid-single digits compared to Q1 2022, and first quarter adjusted EBITDA to be between $25 million and $30 million. Regarding store count, we expect flat store count to end 2023 with any openings offset by closures.

As Claire mentioned in her remarks, we believe there is opportunity to grow this channel and are actively pursuing select new store openings, but we are steadfast in the metrics we need to do so as well as the economics required to retain existing stores that come up for lease review in 2023.
To the extent we need to close stores, we will do so and are confident based on recent experience that if we do, it will not materially impact EBITDA. It is our intent to strike fair deals and in time, begin to grow this important channel. With respect to full year capital, we expect to spend between $18 million and $20 million with investments focused on technology, stores capital and the completion of the POS project late in 2023. Thank you, and I will now hand it back to the operator for questions.

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Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Dana Telsey from Telsey Group.

Dana Lauren Telsey
Telsey Advisory Group LLC

Congratulations on the continued progress and nice results. A couple of questions. As you think about the Welcome Everybody campaign, how do you think of that continuing to evolve Claire, as you had mentioned, is it marketing? Is it influencers? Is it product what should we see in terms of product as we go through the year? And given the raw material costs, how are you thinking about pricing in '23 versus '22? And then just on the gross margin side, given the level of promotions in the macro, how are you thinking about promotions given your clean inventories and on that margin side, how much is freight favorability this year? And is there differences as we go through the year, along with the impact of raw material costs?

Claire Spofford
President, CEO & Director

Thanks, Dana. I'll take the first part, and then I'll let Mark speak specifically to the freight impact. The Welcome Everybody campaign is as we said, we're pleased with the success to date. It's really a reflection of the whole brand and the inclusive sizing initiative is part of that. So we are continuing to lean into that. We are seeing some real terrific results in terms of paid social, video channels, new channels for us and then some very focused marketing efforts against acquiring customers in the inclusive sizing space. And some nice kind of return on investment in terms of some of those acquisition channels. So we're continuing to lean into that. We're very focused on it. From a product standpoint, you will see more of the things that we're doing very well in '22.

We continue to focus on the strength in dresses and unique pieces that she's been voting with her dollars on and saying she's willing to pay for uniqueness and specialness, one of those with our pure gel elements capsule. We're continuing with that, which really stretches kind of the upper boundaries of the brand from a price point standpoint. And yes, I think continuing to do a good job, the team is of translating what's going on in the marketplace for our customer, and she seems to be responding to that. With regard to pricing, we are always evaluating our pricing across the assortment. We step back and as we've talked about, we try to take a surgical approach to it and make sure that we are pricing appropriately for the consumer and what she's willing to pay for. So we'll continue to do that as a matter of course and just the way we manage the business.

And then from a promotional environment standpoint, we feel like the best defense against potentially increasing promo environment is to have great product and to be disciplined with our inventory so that we don't have to promote more than absolutely necessary, but we continue to stay very vigilant. We watch what's happening competitively, and we respond accordingly. But we feel like -- we have some potential hedges against that promotional environment and that has a lot to do with the freight impact on the P&L coming down. So I'll let Mark speak more specifically to that.

Mark W. Webb
Executive VP and Chief Financial & Operating Officer

Claire And Dana, thanks for the questions. So the freight, as you mentioned, for the year, freight was headwinds in the first half of the year 2022 and then tailwinds in the back half. And on a year-over-year basis, it was about neutral from 2021 into 2022, but 2021 was carrying incremental freight. So 2022 is as well. And that is in the range of around 100 basis points or so of incremental freight, which has now largely abated. And those tailwinds experienced in the back half of the year will continue through the first half and then a little bit continuing through the back half. And that really is, as Claire mentioned, a hedge for us against the overarching objective to maintain the profitable profile we've achieved to date coming

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out of the COVID world and then the rebased operating model, which we're very proud of. So view that as opportunity against the cautious outlook that we expressed in our remarks.

Dana Lauren Telsey
Telsey Advisory Group LLC

And any further update on the refinancing of the loan timing or thoughts there?

Mark W. Webb
Executive VP and Chief Financial & Operating Officer

We put in the press release today, Dana, that we continue to explore options. We've been working on this for some time and continue to do so. I have said before the business and its evidence in the results for '22 generates substantial cash flow and a priority for that is to address the balance sheet, refinance our funded debt and even so still have the opportunity to invest in the business, which our capital guide for 2023 indicated as we're going to continue to invest in technology, the POS project, which is making great progress and some of the store investments that we've talked about.

Operator

Your next question comes from the line of Janet Kloppenburg from JJK Research.

Janet Joseph Kloppenburg
JJK Research Associates, Inc.

Congratulations on a great year. I was just wondering about the mix of business. I know you said the dresses were performing well, but we're also hearing that casual is coming back a little bit. And I wonder what was happening there and active in denim and bottoms. And also, if you could talk a little bit about sort of initial response to [spring] and if your guidance on comps reflects -- or your guidance on top line for the first quarter reflects the current trend. And I understand and appreciate last year's tough comparison. .

Claire Spofford
President, CEO & Director

Thanks, Janet. Yes, from a mix standpoint, dresses were strong all year last year, and we anticipate that they'll continue to be strong. But we're -- we have a great portfolio, our core brand and our sub-brands. So we saw strengths in dresses across those, the core brand and the sub-brands. We saw some nice strength last year in wherever, which is our more slightly more refined dressing, which she buys for work, travel and slightly dressier occasions. And we also saw strength in, as I mentioned, Pure Jill, we tested and had a small capsule throughout the back half of the year, rotating in on something called Pure Jill Elements, which is a little bit more artisanal, beautiful fabrication, special techniques at higher price points and she responded to that. But we're still a casual brand overall. So the core products in our assortment did well as well.

And we -- as we've often talked about, we flex those depending on seasonality and trends that we see in the consumer. But what we did see a little bit of softness in Q4 and in the back half of the year in our Fit collection, which is that active piece. It's a very small part of our business. And so we just sort of manage that down a little bit going forward, but we continue to see nice response on some of the trends that we saw coming out of '22.

Mark W. Webb
Executive VP and Chief Financial & Operating Officer

Sorry, I would talk about the guidance and what's embedded. Every quarter has its important weeks and it's less important weeks and no disrespect to February, but I would say in Q1, February is not typically one of the more important months and weeks. It's weather impacted a lot of the time and you're coming out of the January efforts that everybody is putting into ending their fiscal year. I would say it's not disregarded, but it's not the driver, and they are big important weeks left in the quarter. The primary backdrop to the guidance we provided is sort of the caution we have on the macro consumer just given

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the macroeconomic uncertainty. And then that comparison, which you mentioned last year coming out of the end of 2021, Q1 of '22 was a very strong quarter. So those 2 things lead us to what we believe to be the prudent guide that we provided for Q1.

Janet Joseph Kloppenburg
JJK Research Associates, Inc.

And when you think about the promotional environment, Claire, both for the fourth quarter and now, can you just talk about any incremental pressure you've been -- you experienced in the fourth quarter or that you're seeing now?

Claire Spofford
President, CEO & Director

Sure. So fourth quarter, I think I mentioned in my remarks, we made the decision to move our holiday assortment and that gave more full price selling for the big promotional weekends. We went into the promotional weekends trying to hold our promo cadence on a year-over-year basis, and that was sort of our posture over Black Friday, Cyber Monday. And then we did indicate that we needed to promote a little bit more surgically during December to move through a couple of categories that we're turning a little more slowly. We did that. And with the intention of coming out of the quarter, in the right inventory position and as clean as we could. January was strong for us. We had real strength. January tends to be a more markdown driven month in the quarter, and we saw real strength in markdowns in January and ended sort of on a strong note from that perspective. And again, in the inventory position we wanted to end in.

Janet Joseph Kloppenburg
JJK Research Associates, Inc.

Okay. But you're not feeling like the department stores or any of your specialty store competitors or e-com platforms like have heated up their promotional activity and that's for sure hand.

Claire Spofford
President, CEO & Director

Obviously, we watch all of that, but it's not forcing our hand. We had a very strong Q1 last year with the low promo level, and we're hoping to be able to anniversary that, but we are not naive to the fact that there are a lot of macroeconomic dynamics out there, and we always keep an eye on the competitive environment as well.

Janet Joseph Kloppenburg
JJK Research Associates, Inc.

Congratulations again.

Operator

Our next question comes from the line of Daniel Lupo from Jefferies.

Daniel James Lupo
Jefferies LLC, Fixed Income Research

Just looking at the CapEx guidance, a pretty meaningful step up in kind of normalizing back to pre-COVID levels. So you mentioned like 3 or 4 buckets with the POS systems, the maintenance CapEx, technology and some growth CapEx. Can you maybe quantify these buckets a little bit further? And as we try to reconcile store count remaining flat with CapEx stepping up, how do we think about maybe the cadence of leases coming due and maybe the potential sizes of closures?

Mark W. Webb
Executive VP and Chief Financial & Operating Officer

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Thanks, Daniel. Yes. So the capital guide of $18 million to $20 million, you're right. We spent $15 million this year. We're quite honestly excited to return to investing in the business and primarily investing in some of these very important foundational systems, the POS being sort of the first element of that and very excited to invest there. And it will really upgrade and bring current our store and omni opportunities around the point of sale. So that is a very large project. We've been executing it, as I mentioned, through 2022, and we'll begin to pilot it and roll it out with being true to our cautious approach to things. We'll be rolling it out and piloting it through '23 in the coming months. and very excited about that.

The store investments are both refreshes as well as some new stores Claire mentioned, 2 that we're excited about in the coming weeks and no further guidance on that other than to say that we stand ready to invest in stores as the economics come together in the way that we need them to, to support this very important channel for us. And then the technology bucket that we mentioned is really about business process support and more business intelligence type investments than we've had previously. So from our perspective, it's a manageable level of investment. The business generates significant cash flow, and these are really investments that strengthen foundations and help us pivot as we do to the profitable growth profile we want to obtain in the coming years.

Daniel James Lupo
Jefferies LLC, Fixed Income Research

Got it. That's very helpful. And then lastly, as we kind of head into 2023, you mentioned inventory is in a good starting position. Can you maybe comment a little bit further on the working capital picture and maybe how nimble you can be in adjusting working capital to further protect to the downside if there is any sort of rapid change in the economic environment?

Mark W. Webb
Executive VP and Chief Financial & Operating Officer

Yes. The purchases that we've sort of entered the year, the purchasing mindset, I guess, I would call it is one of caution given the macroeconomic conditions. Claire mentioned, best offenses, defense or best defense [as offense]. I always get those 2 messed up, but that includes a very cautious absolute level of inventory investment and that's reflected in the way that we enter the year and the go-forward profile is going to continue to be 1 of a conservative investment in inventory. The flexibility at this point in the year is marginal to the middle of the year and a bit more room to flex both down but as well as up should conditions improve into the back half of the year, really in the late Q3, Q4 timeframe.

Operator
And this ends our Q&A session and does conclude today's conference call. Thank you for your participation. You may now disconnect.

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