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J.Jill, Inc. NYSE:JILL

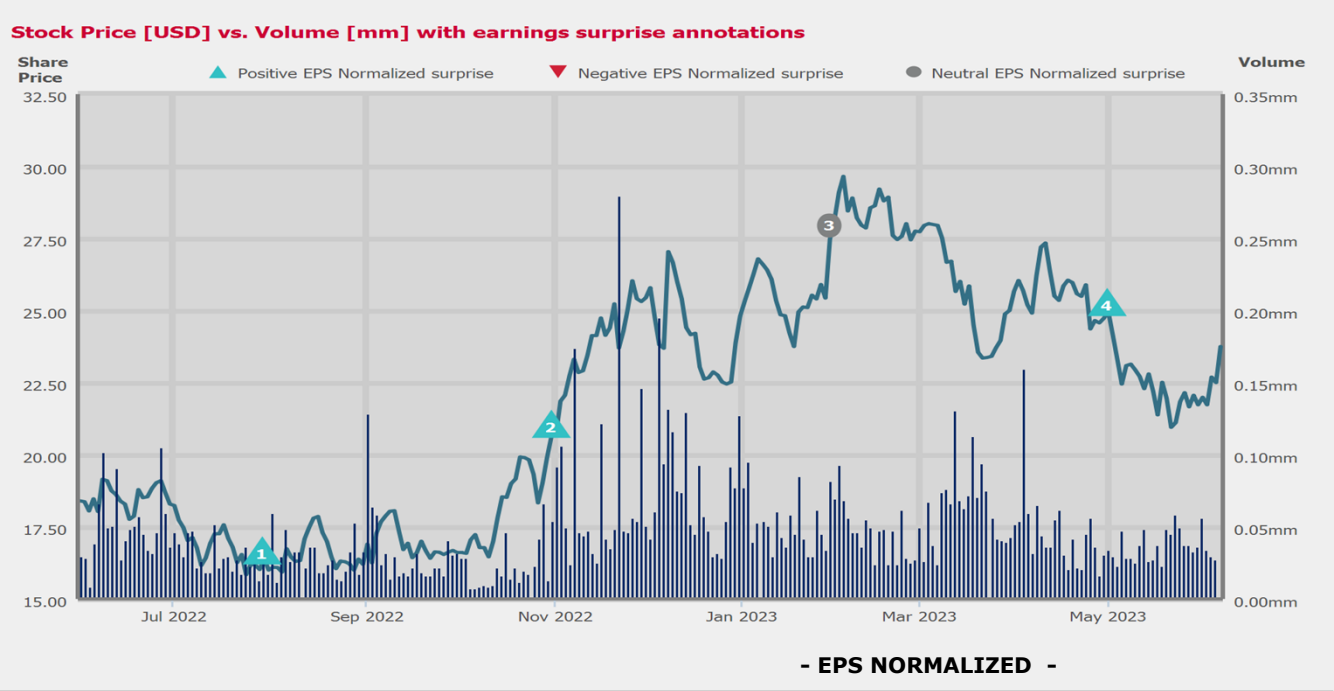
FQ1 2024 Earnings Call Transcripts

Wednesday, June 07, 2023 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2024-			-FQ2 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.78	0.96	▲23.08	1.18	3.01	3.28
Revenue (mm)	149.50	149.42	▼(0.05 %)	159.70	615.40	635.40

Currency: USD
Consensus as of Jun-02-2023 11:42 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2023	1.05	1.24	▲1 18.10 %
FQ3 2023	0.54	0.77	▲2 42.59 %
FQ4 2023	(0.10)	0.11	NM
FQ1 2024	0.78	0.96	▲3 23.08 %

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Call Participants

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

ANALYSTS

Dana Lauren Telsey
Telsey Advisory Group LLC

Janet Joseph Kloppenburg
JJK Research Associates, Inc.

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Presentation

Operator

Good morning. My name is Jale, and I will be your conference operator today. At this time, I would like to welcome everyone to the J.Jill First Quarter 2023 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 on this recording are as of June 7, 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 on June 7, 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. Please go ahead.

Claire Spofford
President, CEO & Director

Thank you, operator, and hello, everyone. Thank you for joining us this morning. I will begin our discussion by reviewing highlights from our first quarter performance, and we will then provide an update on a few of our strategic initiatives before turning the call over to Mark to review our financial performance and outlook in more detail.

In the first quarter, we delivered sales in line with our expectations as we anniversaried a strong comparison to last year, and we exceeded our outlook for profitability, reflecting our ongoing execution of our disciplined operating model which generates healthy cash flow from operations.

In addition, we successfully completed the refinancing of our term loan and ABL facility this spring. We believe through the disciplines we now have in place, along with our enhanced financial flexibility with the completion of our debt refinancing, we are well positioned to navigate the current environment and remain focused on positioning J.Jill for long-term success.

During the quarter, we continued to stay close to our customer and remain agile to react and respond to her evolving spending behavior amidst the current environment, including adjusting our marketing and promotional plans to deliver the sales and inventory results. Our latest customer insight study reveals that concerns around inflationary pressures remained high. We saw that play out in Q1 in her spending behavior in terms of both units per transaction and frequency. We continue to see strength in the newness we delivered and in categories like dresses and within our Pure Jill and Wearever sub-brands, but we did see some softening within certain categories, particularly in our basics business.

With respect to our channel performance, we continue to see relative strength in stores, while both channels or our customer become more discerning with their purchases, the impact was felt more broadly within direct where we also experienced a higher level of returns. While our return rate is higher than our historical average, it is relatively in line with the industry and to be expected, given the strength we have seen in categories such as dresses, where return rates are typically higher.

As part of our commitment to responding in season to manage our inventory balances, we took select actions where appropriate and maintain the controlled approach to the breadth and depth of promotions.

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We were pleased to end the period with a well-positioned inventory balance in line with our strategy as the freight tailwinds we expected offset the surgical markdown actions taken.

Turning now to the progress we're making against our strategic initiatives. First, with respect to our focus on customer growth and the modernization of our brand and value proposition. While our top line performance was impacted by the factors I just reviewed, we were encouraged to see continued results in Q1 from our size inclusivity initiatives with productive growth in this segment across both channels. In addition, while our size inclusivity initiative continues to be a pathway to growth with that customer, we were also pleased to see that our Wearever sub-brand is resonating with younger new-to-brand customers who are looking for clothing to wear to work. As we look ahead, we will continue to leverage our portfolio of sub-brands to lean into areas that are resonating with both new and existing customers.

Moving next to our focus on expanding our store base. During Q1, following the success of our Granger, Indiana opening in Q4, we opened 2 new stores in South Windsor, Connecticut and Mashpee, Massachusetts. We've been thrilled with the initial response to these openings, especially as we welcome back many prior customers to J.Jill. Approximately half of the customers we've seen in the initial weeks at our South Windsor and Mashpee store are reactivated customers. As we look forward, we're excited to continue to explore opportunities to expand our footprint over time as the economics make sense.

Finally, with respect to strengthening our omnichannel capabilities. With our store openings underway, it is even more important that we continue to enhance our systems and leverage our capabilities across our channels. We have just begun the rollout of our new POS system, which we plan to complete by the end of fiscal 2023. We will be implementing the system into our stores through a phased approach throughout the year, helping to ensure a smooth transition for both our associates and customers.

As a reminder, one of the benefits we expect to see from our new POS system is the improvement in more seamless transactions across channels and positions us to further enhance our omnichannel capabilities over time.

In summary, we're pleased with how we've continued to execute against our model and our strategic initiatives, particularly in light of the evolving consumer backdrop. We remain focused on operating the business with the same discipline around inventory and expense management that have supported our progress to date. Our updated guidance for fiscal 2023, which Mark will discuss in more detail in a moment, reflects a more cautious view on the consumer as well as a wider range of scenarios with respect to our promotional activity should the environment warranted. We're committed to taking actions in season to maintain clean inventory bounces, but we remain focused on optimizing our profitability and will be as narrow and shallow with promotions as appropriate. 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. Overall, we delivered a better-than-expected first quarter despite what proved to be a more challenging price-sensitive customer as the strength of our operating model delivered solid adjusted EBITDA and generated strong cash from operations. In addition, as disclosed in April, we successfully refinanced our funded debt during the quarter reducing principal outstanding by approximately $50 million and extending maturity out to May of 2028. Both Moody's and S&P ratings agencies recognize this accomplishment and issued upgrades on both the corporate rating of J.Jill and the term loan itself. And lastly, as announced last month, we successfully extended our asset-backed lending facility, aligning its maturity with the term loan in 2028.

Now for an overview of results for the first quarter. Total company comparable sales for the first quarter decreased 3% compared to last year's very strong recovery driven plus 24% comp. Total company sales for the quarter were $149 million, down 5% compared to Q1 2022. As Claire mentioned in her remarks, we did see some evidence during the quarter of macroeconomic impacts on the consumer across our channels.

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Store sales for Q1 were down 2% versus Q1 2022 on 2% fewer stores. In stores, customers responded to full price, which drove a higher average unit retail, but was offset by lower units sold per transaction primarily driven by markdown units. Direct sales as a percentage of total sales were 45% in the quarter. Compared to the first quarter of fiscal 2022, direct sales were down 8%, primarily due to an increase in markdown sales penetration and higher online returns driven in part by strong sales and higher returning categories, such as dresses.

Q1 total company gross profit was $108 million, down $1.9 million compared to Q1 2022. Q1 gross margin was 72%, up 230 basis points over Q1 2022. Elevated freight costs have now abated, resulting in a gross margin rate benefit of approximately 250 basis points compared to last year. SG&A expenses were $82 million compared to $86 million last year. Investments in selling costs and marketing were more than offset by lower depreciation and amortization and management incentive accruals. Adjusted EBITDA was $32 million in the quarter, up 2% compared to $31 million in Q1 2022. Please refer to today's press release for a reconciliation of adjusted EBITDA.

As I mentioned, during the quarter, we successfully refinanced our funded debt as a result of the extinguishment of both the priming term loan and subordinated tick (sic) [term] loan in place in September of 2020, we incurred a $12.7 million loss on refinancing, which impacted our reported net income for the period.

Turning to cash flow. We generated $8 million of cash from operations in Q1 and following the successful refinancing of the term loan, ended the quarter with $28 million in cash and 0 borrowings against the ABL. We continue to focus on tight inventory management. And as mentioned last quarter, the supply chain disruption that began in the back half of 2021 is now behind us. And shipments this year are largely on time versus being late or delayed last year. Inventories at end of Q1 are down 15% compared to the end of Q1 2022 with higher on-hand units being offset by lower units in transit due to those delayed and longer shipping times last year.

Capital expenditures in the quarter were about $3 million compared to about $700,000 last year. We continue to make good progress with our POS initiative, which has just begun rollout and will be completed later in the year, and we opened 2 stores in the first quarter, resulting in 245 stores to end the quarter.

Turning to our outlook. As Claire discussed, we are updating our full year outlook to reflect a more cautious view of the consumer based on current trends as well as a wider range of scenarios with respect to our promotional cadence given the ongoing uncertainty around the macroeconomic environment moving forward and our commitment to managing in-season inventory, balancing our goals to drive profit and end fiscal periods clean with minimal excess carryforward.

Given this, we now expect adjusted EBITDA to be down in the mid-single digits as a percent compared to last year, including an approximate $2 million benefit from the 53rd week. Our updated outlook for the year reflects first quarter results as well as an updated expectation for the remainder of the year. For the second quarter, we expect sales to be down versus Q2 2022 in the mid-single digits and adjusted EBITDA to be in the range of $26 million and $31 million.

With respect to the second half of the year, we are maintaining a prudent outlook and expect similar top line year-over-year trends to continue in the third quarter. Given this, along with our expectation that the tailwinds from freight favorability will decline considerably as well as our ongoing commitment to managing in-season inventories we expect profitability to be most pressured in the third quarter with expected improvement in fourth quarter given easier comparisons to last year from both a sales and profitability perspective as well as the benefit of the 53rd week.

Regarding store count, we still expect flat store count to end 2023 with any openings offset by closures. And with respect to full year capital, we expect to spend about $18 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] Your first question comes from the line of Dana Telsey of Telsey Advisory Group.

Dana Lauren Telsey
Telsey Advisory Group LLC

Can you expand a little bit on the more discerning consumer. Did the cadence of the quarter, did you become more discerning, was it both in stores and online? And then can you talk a little bit about the new systems that are being put in place, when do we begin to see the full effect of that. And then with the new refinancing that you have, how are you thinking about interest expense and the go forward on the balance sheet.

Claire Spofford
President, CEO & Director

Sure. Thanks, Dana. I'll take the first one, and let Mark address the second 2. More discerning consumer, as you know we stay in close contact with our consumer speaking to her regularly about her consumer confidence and her purchase intent. And we have seen continued weariness, honestly, in -- as a reflection of the news that's out there and the general sentiment around the macro environment. So we are being what we feel is appropriately cautious given that. And as Mark said in his remarks, have sort of contemplated continued pressure on that front as we developed our guidance for Q2 and for the remainder of the year. So it's not that we're seeing a big change, but we are seeing continued sentiment around caution in spend.

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

Thanks, Claire. Dana, I will handle the POS as well as the debt question, the interest question. The POS system, as Claire mentioned in her remarks, is phasing now into the store fleet. We're starting it in a very prudent fashion, and we'll ramp it through really the summer into early Q3 time period. We're currently in about 7 or 8 stores as of this week and that will continue to ramp. And we're excited about the opportunities, both from the operational aspects, as Claire mentioned in her remarks, but the stores environment, the store employees are very excited to get new technology as well. So it's going well. We're in the process of beginning to ramp that up.

For benefits, I would say, late in '23, really 2024 as we really start to operate with the new system in place. The new finance, very excited to have been able to refinance the debt in what has been a pretty challenging market out there. We think it's a testament to the strength of the company that we were able to do so. We had a good process. We were very diligent. We had a good group of lenders that came together, and we're very pleased to put that new piece of paper in place. With respect to the interest on a P&L basis, the fact that we reduced the quantum of funded debt by about $50 million but did see the rate go up, call it, 300 bps the kind of trade out of where the current interest rate environment is, is basically flat on the new debt versus the existing notes that we replaced. So hopefully, that helps answer that question.

Operator

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

Janet Joseph Kloppenburg
JJK Research Associates, Inc.

Forgive me, I was on mute. I apologize. Did you say, Claire, what the cadence of the business looked like in the first quarter? And did you start to see it slow in March through April, the way most in the industry

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did. And if you could talk just about the categories of spend where there was strength and where there was weakness. And I may have missed that. I got on about 5 minutes late, so I apologize.

Claire Spofford
President, CEO & Director

Thanks, Janet. Sure, of course. So we saw relatively flat sort of consumer sentiment over the course of the quarter, we didn't see a lot of up and down. It was more of a general conservatism that we started to see impacting the business overall. And we did see that in the sense that the consumer indirect was opting more into the markdown inventory a little bit. And Mark spoke to the returns that we've been seeing. We think that, that's a reflection of that consumer sentiment as well.

That said, to your question about the categories, AURs were up in both channels and the dollars per customer continued to be very strong. She pulled back on frequency and she pulled back on UPTs a little bit. And so we don't think that -- it's an [indiscernible] nothing kind of thing. She was being discerning, and she was also choosing to spend in categories where there was more uniqueness, more fashion, more differentiation. So dresses continue to be very strong. Jackets were strong. As I mentioned in my remarks, our Wearever sub-brand was very strong. We're seeing nice traction there with a younger new-to-brand customer who's buying Wearever for work. We think that's a really interesting dynamic that we continue to lean into.

Where we saw softness was in the less differentiated category. So net basics some of our bottoms programs where she just decided she didn't need to refresh there to the extent that we would like to see her. So it was mixed, but she continued to vote with her dollars on the things that were unique and special. And the absolute price point wasn't necessarily the indicator, it was more of the mix.

Janet Joseph Kloppenburg
JJK Research Associates, Inc.

Okay. Okay. And when you think about the categories that are doing well, the ones you just articulated, how does your inventory comp look. Is it balanced and aligned to those categories? Or are there some adjustments to make? And do you think that AUR can continue to improve?

Claire Spofford
President, CEO & Director

Sure. Thanks, Janet. I think we feel like we're well balanced in the inventory. We started to see the softness in basic trends in the back half of last year. And so coming into this year, we had made adjustments to rebalance. We have leaned into those more fashion categories like dresses that continue to have strength. So we feel good coming into Q2 about the balance in the inventory and I think, with regard to AUR, it's at a pretty high level and dollars per customer at a very high level. So we're expecting more of a plateau there, but very healthy on that front.

Operator
There are no further questions at this time. This concludes today's conference call. You may now disconnect.

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