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J.Jill, Inc. NYSE:JILL

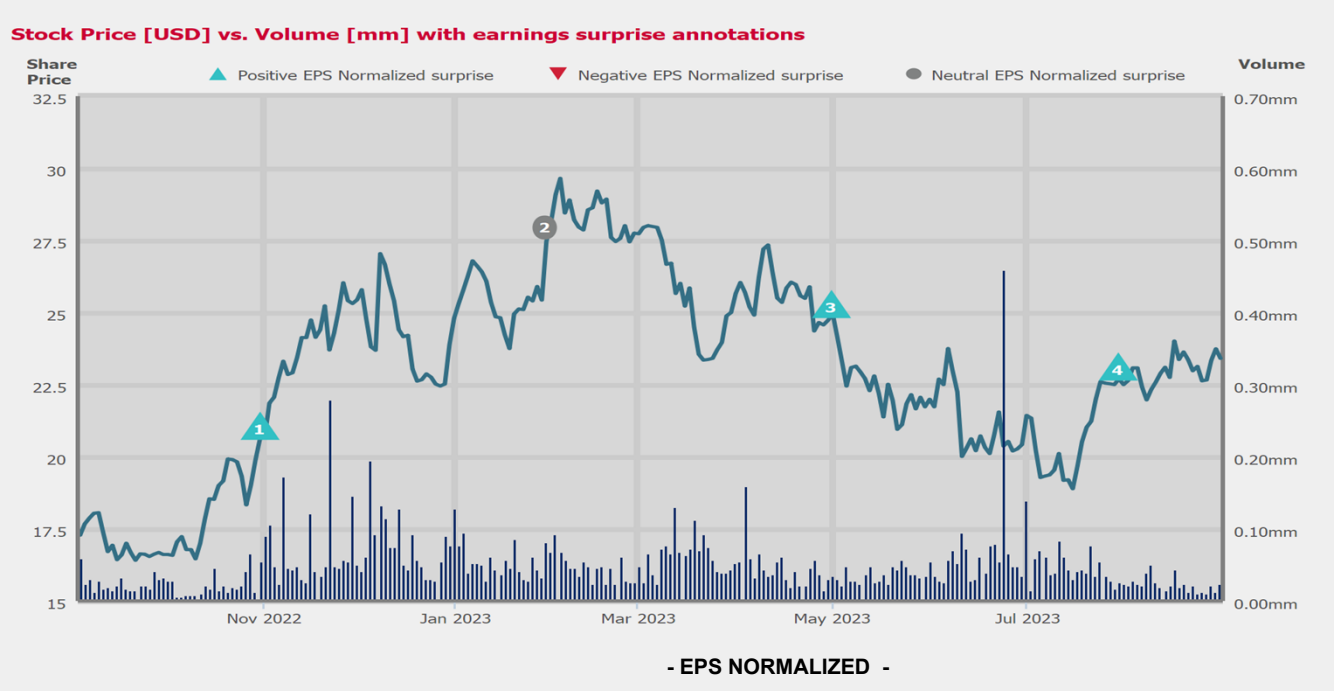
FQ2 2024 Earnings Call Transcripts

Thursday, August 31, 2023 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2024-			-FQ3 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.80	1.06	32.50	0.48	2.69	NA
Revenue (mm)	152.40	155.67	2.15	142.70	598.10	NA

Currency: USD
Consensus as of Aug-25-2023 10:02 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2023	0.54	0.77	1 42.59 %
FQ4 2023	(0.10)	0.11	NM
FQ1 2024	0.78	0.96	2 23.08 %
FQ2 2024	0.80	1.06	3 32.50 %

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Call Participants

EXECUTIVES

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President, CEO & Director

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

ANALYSTS

Dana Lauren Telsey
Telsey Advisory Group LLC

Jeffrey Francis Lick
B. Riley Securities, Inc., Research Division

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Presentation

Operator

Good morning. My name is Jay El, and I will be your conference operator today. At this time, I would like to welcome everyone to the J.Jill's Second 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 made on this recording are as of August 31, 2023, and J.Jill does not undertake any obligation to update these forward-looking statements.

Finally, J.Jill may refer to certain adjustments of 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 August 31, 2023.

If you do not have a copy of today's press release, you may obtain 1 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 joining us this morning. I'll begin our discussion by reviewing highlights from our second quarter performance, and we'll 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.

Our second quarter results exceeded our expectations and reflected a nice improvement in trend that progressed over the quarter. As a reminder, the second quarter is an important period for us as it has historically been our largest quarter from a sales and EBITDA perspective.

In this season, we lean into our key franchises like dresses, summer tees and linen that our customer seeks for her late spring and summer wardrobes. While our customer exhibited more hesitancy with her spend early on in the quarter, as we moved into the key summer months, she responded well to our seasonal summer favorites, accessories and novelty items, which were highlighted with trend forward details and a bright and joyful color pallet.

In addition, in line with our strategy to maintain a disciplined approach to inventory management, we leveraged category-specific promotions that not only drove sales of those items, but spurred an energizing effect across the assortment.

In July, while typically a sales-focused month for retail, we were pleased with the level of full price selling we drove in conjunction with a balanced, but clear value message appropriate for the season. We were pleased to see customer growth in both channels, and especially pleased to see strength in new-to-brand customers in our direct channel. We saw nice results from our size inclusivity initiative, which has also brought new customers to J.Jill that are at the lower end of our target age demographic, a trend we are also seeing with our sub-brand Wearever.

As we move into fall, we will be introducing a Wearever Works Capsule, highlighting pieces that are versatile and can follow our customer from a casual work environment to dinner with friends. This versatility is inherent to our design ethos as it reinforces J.Jill's differentiated message that our brand celebrates the totality of today's woman and the fullness and diversity of their lives.

Turning now to our focus on strengthening our omnichannel capabilities with the strategic investments in our infrastructure and systems. Within our stores, we are continuing to roll out the new POS system, which will be completed by the end of Q3, and as Mark will discuss, we're beginning the next phase of our omni enhancements with the upgrade of our order management system. We believe

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these tools will help to support our ability to provide a more seamless experience for our customers and create efficiencies across our operations.

Within our direct channel, we're making enhancements that we believe will improve the customer experience and support improvement in top line performance. One of our customers' top priorities is being able to confidently order and know the products will look great and fit as expected.

In Q2, we updated our fit guide, making it more intuitive for customers to utilize, ensuring customers see measurements most relevant to the product they are viewing as well as a new how-to-measure tab added to inform customers of how to take their own measurements to identify their perfect size. We've also made some updates to increase the engagement of the site, such as new hover states on our product listing pages so that she can get a better sense of the fit and features without clicking into them. We launched Shop The Model, which highlights the outfit shown in our page features. We also launched Featured Shops, which can be used to curate thematic landing pages dedicated to styling and outfitting inspiration. We believe these enhancements will help us address the elevated return rates we have been experiencing and are encouraged with the early results thus far.

In addition, we continue to build our outfitting experience with inspiring imagery, faster ability to respond to new styles and additional placements on the sites. As we look ahead, we believe the enhancements we are making in our stores and direct channels will support growth across our customer base and in particular, with our omnichannel customers who spend approximately 3x more than our single-channel customer.

In summary, we're pleased with the progress against our growth initiatives, including introducing new customers to the brand through our size inclusivity initiative and sub-brands and strengthening the omni experience with enhanced tools and capabilities. As we enter the third quarter, we are encouraged by the trends we are seeing in our business, both with respect to consumer sentiment and responsiveness that are consistent with the improved levels we felt late in the second quarter.

We have a number of big weeks ahead of us with our upcoming fall floor sets, and we continue to take a cautious approach with respect to our plans for the remainder of the year, but expect to continue to operate with discipline and focus on leveraging our balanced model and strong foundation.

As always, I'd like to thank our exemplary team for executing admirably in a very volatile customer environment.

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 were pleased with second quarter results, which, once again, reflected the strength of our operating model as we delivered solid adjusted EBITDA and generated strong cash from operations. Total company comparable sales for the second quarter decreased 1.3% compared to last year's positive 0.8% comp. Total company sales for the quarter were $156 million, down 2.9% compared to Q2 2022. Store sales for Q2 were down about 1% versus Q2 2022 on about 1% fewer stores. We were pleased with the trends we saw in the period, with store sales improving sequentially each month compared to last year.

Customers continued to respond to full price, which drove a higher average retail, but was offset by lower units sold per transaction, primarily driven by fewer markdown units sold. Direct sales as a percentage of total sales were 45% in the quarter. Compared to the second quarter of fiscal 2022, direct sales were down 5%. Unit sales mixed more to markdown versus last year, and while higher online returns continued to negatively impact net sales, we did see some encouraging signs of return rates stabilizing in the quarter and were sequentially better on a year-over-year basis than they were in Q1.

Q2 total company gross profit was $111 million, down $1.1 million compared to Q2 2022. Q2 gross margin was 71.6%, up 140 basis points versus Q2 2022, driven by the full abatement of incremental freight costs incurred last year, while the impact of increased promotional activity in the quarter was offset by better underlying first-cost AUCs.

SG&A expenses were $83 million compared to $84 million last year. Increases in selling costs and general overhead, primarily due to wage inflation, were offset by lower depreciation and amortization and lower management incentive accruals.

Adjusted EBITDA was $34.5 million in the quarter compared to $35.6 million in Q2 2022. Please refer to today's press release for a reconciliation of adjusted EBITDA.

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Turning to cash flow. A hallmark of our operating model is the significant cash flow it generates. In the second quarter, we generated $28 million of cash from operations, ending with $49 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, which resulted in overall higher inventory levels last year in the first half.

Inventories at end of Q2 were down 16% compared to the end of Q2 2022, due largely to the impact of those issues on last year actuals. Conditions improved in Q3 last year, and as a result, we expect reported year-over-year inventory levels at the end of Q3 this year to be more in line with last year.

Capital expenditures in the quarter were about $4 million compared to about $1.4 million last year. During Q2, we relocated 1 store in Sacramento, California, and ended the quarter with 245 stores.

We also continue to make great progress with our POS initiative, which is now live in over 80% of the fleet. Customers and employees are very excited by the new technology and the improvement in checkout, service and selling. We look forward to completing the rollout during the third quarter.

The POS project is the first phase of a broader strategy to upgrade the technology foundation and omnichannel capabilities of the company. As we complete the POS project, we are now kicking off the next phase, which includes replacing and upgrading our order management system, or OMS. These new systems will significantly enhance the operational capabilities of the business as we focus on delivering profitable growth and driving total shareholder returns in the near future.

Turning to our outlook. As Claire mentioned, we are encouraged that the improvement in trend experienced in the second quarter has continued through August. While we are seeing green shoots with respect to customer sentiment and responsiveness, we continue to take a prudent approach with respect to our outlook for the remainder of the year. For the third quarter, we expect sales to be down versus Q3 2022 in the low single digits, and adjusted EBITDA to be in the range of $23 million and $25 million. And as a reminder, as we said last quarter, we expect profitability compared to the prior year to be more pressured in third quarter than in the fourth quarter given fourth quarter's easier comparisons to last year and the benefit of the 53rd week.

For the full year, we are updating our guidance to reflect the better-than-expected Q2 performance and current expectations for the second half of the year. We now expect adjusted EBITDA to be down in the low single digits as a percent compared to last year, including an approximate $2 million benefit from the 53rd week.

Regarding store count, we still expect flat store count to end 2023. And with respect to full year capital, we expect to spend about $18 million with investments focused on technology, stores' capital, the completion of the POS project and the kickoff of the OMS project. 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

Congratulations on the very nice results. It certainly sounds like as you move through the quarter, business improved. Did you see that both in digital and in stores? And capturing that younger customer that you mentioned, Claire, certainly is encouraging. What are you seeing there in terms of more data on that customer and what appeals to them?

And Mark, the gross margin was very impressive. How much is the improvement due to the lower AUC, and what's the magnitude of that going forward?

And lastly, the technology investments that are being made to enhance the business, how do you see that playing out in the margin profile?

Claire Spofford
President, CEO & Director

Thank you, Dana. I'll take the first part and then hand it over to Mark for the latter. So yes, we did see a nice improvement over the course of the quarter, particularly in full price sales. Interestingly, July was our strongest full-price month of the quarter, and that's in a time period where, typically, as you know, it's very often a big sale period. So we are really pleased to see that progression.

With regard to the new-to-brand customers that we saw over the quarter and your comment about the younger end of the spectrum, a lot of what we did from a digital acquisition strategy standpoint played out well in the quarter. In addition, creatively and from a product standpoint, we really curated elements of the assortment and pointed them creatively to that younger target and saw a nice response, both on the inclusive sizing messaging as well as the wear-to-work messaging led by our -- parts of our core assortment, but also our Wearever sub-brand.

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

And Dana, just regarding the gross margin, a very healthy gross margin in the quarter. As we mentioned on the call, we did -- the increase was really driven by the better freight on a year-over-year basis. That benefit really is weighted to the first quarter, which we saw, and then the second quarter. That benefit of freight does start to minimize into the back half of the year.

And then underneath that, we mentioned that better AUCs, underlying first-cost AUCs, which really is the result of starting to see some benefit from raw materials, primarily cotton, and then just negotiations, really great work on behalf of the teams to negotiate in the current environment underlying that and allowing us to offset what was a more promotional quarter for us.

And we've said that the margin profile of the company at the rates we've been achieving of late is a very healthy place for us to be with respect to the operating model. And our objective, I think, as we move forward, and it relates to your question on technology, there should be on the margin opportunities for better yield as we implement more omni capabilities. There are inherent operational benefits to doing so.

In reality, we view it as another opportunity for us to now lean more heavily into driving profitable growth. And with the current margin profile using whatever levers we have available to us managing that margin profile to drive profitable growth. So very excited to see the POS project going as well as it is, in over 80% of the fleet now, completing in Q3. Moving on to OMS, which is another big, very important part of the puzzle. And feeling great about the ability to make these investments now and really lean into driving some of that growth.

Dana Lauren Telsey
Telsey Advisory Group LLC

Got it. And just 1 follow-up. The cash flow also is certainly moving in a nice direction, doing nicely. Any further update on cash flow and how you're thinking about it for the year? And then you mentioned that the third and fourth quarter, obviously, the pickup in the fourth quarter as compared to the third, anything we should be mindful of there?

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

Yes. I mean cash, really, it's a big part of our story. The operating model generates significant cash flow. It's a pretty straightforward operating model when thinking about the free cash flow generation. We have, earlier this year, successfully refinanced our debt. So that was a big initial call on our cash. Now as we think about investing in the business, you're seeing us step into our technology investments and really start to execute that strategic road map. And even with that have generate sufficient cash that we can start to really think about how to drive any other opportunities to drive total shareholder returns. So that's something that's on our radar, and nothing to talk about specifically today, but we definitely are thinking about options to continue to utilize our cash to drive total value over time.

And with respect to Q4, we had mentioned in the guidance that just on a year-over-year comparative basis, the third quarter is a more challenging profit comparison to last year than Q4, in part because Q4 had just some easier comparisons in our view, and then the 53rd week is obviously a benefit as well.

Operator

Your next question comes from the line of Jeff Lick of B. Riley.

Jeffrey Francis Lick
B. Riley Securities, Inc., Research Division

Congrats on a great quarter. I was wondering if you took your business and thought about it in terms of a matrix, basics and fashionable and then stores and direct, it looks like stores probably were a little stronger in Q2. I'm just wondering, as the quarter progressed and then obviously into Q3, is there anything you can glean from your strategies or the external environment from the kind of how the setup is?

Claire Spofford
President, CEO & Director

Yes. Thanks, Jeff. So the comparison of the quarters, we frequently talk about the balance in our business model and how we really appreciate how balanced our business model is with split of direct being about 45% of sales. We've seen really nice strong full price performance in stores throughout the quarter. And as we said, we saw a nice progression in direct as well. And the direct channel plays a very different role for us today than it did a few years ago in the sense that it's much more of a full-price channel than it was. And we are now very excited to see some of the growth coming in terms of the full price sales and the customer file there in the direct channel.

Jeffrey Francis Lick
B. Riley Securities, Inc., Research Division

And just to clarify -- well, I'm just kind of curious, as the quarter progressed and then obviously, you're seeing some strength in -- or just follow through in Q3, I mean aspects of your results are a little bit of an outlier compared to some of the others, I mean, to the good side. I'm just curious, there are things that you control. Obviously, your product strategy seems to be paying benefits in gross margin. And then maybe it just seems like your consumer -- your core customer might be a little stronger. I was just wondering if you had any thoughts on that?

Claire Spofford
President, CEO & Director

Sure. So yes, I think you touched on 2 things that we frequently cite as real strength in our business. One is the profile of our customer and her relative resistance and her loyalty to the brand. And we're seeing all of that -- the benefit of all of that, I think, coming out of Q2, and as Mark commented, at the start of Q3 as well. So those are definitely hallmarks -- she is definitely a hallmark of why our brand is so strong. And then I think the product assortments are very balanced. I think we have a really strong understanding of what our consumer is looking for, both from a core franchise basic standpoint, but also the novelty and the newness and the fashion that she's been looking for. And that has been strong throughout the first half of the year, and we certainly intend for that to continue into the third quarter and beyond. So there's a balance in the business model. There's a great customer driving the business and then great balance in the assortment as well.

Jeffrey Francis Lick
B. Riley Securities, Inc., Research Division

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Fascinating. And just as a follow-up, your inventory is -- as it relates to as a ratio of sales or cost of goods sold is lower than -- it's more efficient than prepandemic. I'm wondering, could you ever see a scenario where you might go back to having a little more inventory just to chase gross margin dollars versus gross margin percent? Or do you think that now you're seeing the full price selling here is better than the chasing gross margin dollars?

Claire Spofford
President, CEO & Director

Yes. We absolutely intend to continue with this business model that has really strong maintained margins, and, as Mark pointed out, very strong generation of cash. But we do believe that now that we have this strong foundation in place, we can begin to invest in inventory to drive that profitable growth, but not at the expense of the gross margin. We feel like we will be investing cautiously and prudently and earning our way into that investment as we go forward, but not at the expense of the margin profile that we've worked so hard to create.

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

Jeff, just -- at the risk of oversimplifying it, right? Inventory management and discipline, there are 2 main components. The first is the preseason planning and the buy, and the second is the in-season management of the yield. And the teams in place really, learning through COVID and post-COVID, are really much more focused and disciplined in both of those sides of the equation.

The inventory that we're reporting, and it's why I put a little bit more color into my remarks, the inventory is down 16% at the end of Q2. The buy side of that, we're buying more in the flattish range. It's the in-season yield management and then a little bit of that -- well, a lot of that supply chain disruption impact on in-transits, et cetera, last year. But as we -- as Claire just mentioned, as we come through -- return rates stabilizing should benefit direct. But as we come through and start to think about the go-forward profile of the business, we're excited about some of these areas that Claire is mentioning that we will continue to lean into with a lot of discipline and the prudence we put to the business, but to start stepping in to drive some profitable growth.

Jeffrey Francis Lick
B. Riley Securities, Inc., Research Division

Congrats on a very impressive operational quarter.

Operator
There are no further questions at this time. And with that, we thank you for joining today's conference call. This concludes today's conference call. You may now disconnect.

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