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Earnings Call

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Presentation

Operator

Hello, and welcome to the J.Jill, Inc. Q4 2023 Earnings Call. [Operator Instructions]

I will now turn the conference over to Claire Spofford, Chief Executive Officer and President. Please go ahead.

Claire Spofford
President, CEO & Director

Thank you, operator, and hello, everyone. Thank you for joining us this morning. We are pleased with our strong end to 2023, capping off another year of great progress for J.Jill as a result of disciplined execution of our operating model.

For the fourth quarter, we delivered adjusted EBITDA above the prior year, supported by strong gross margin performance. As we discussed on our third quarter call, we started to see our customer become somewhat more discerning with their spend, and we have prepared for a slightly higher promotional holiday period, which did play out.

However, through strong execution, solid customer reception for our winter assortment and spring preview in the latter half of the quarter as well as tightly managed expenses, we delivered Q4 results above our expectations. Our performance throughout the year, including during the fourth quarter, is a testament to our team effectively leveraging our loyal customer base and to their ongoing focus on consistently delivering against our objectives amidst a volatile consumer environment.

For the year, we delivered sales of $605 million and an adjusted EBITDA margin of 18.6% while generating $46 million in free cash flow, in line with our recent annual trends. During the year, we made great progress on strengthening our financial and operational foundation while planting the seeds for future growth.

We successfully refinanced our debt, enhanced our omnichannel capabilities with the rollout of our POS system and refinements to our website, delivered our first net new store opening year in over 3 years and continue to identify and test new concepts within our assortment with capsules, including Pure Jill Elements and Wearever Works.

We also effectively managed our customer acquisition strategies and costs to support our customer file. Our customer file remained healthy, and we saw nice growth from our best customer segment for the year, which partially offset the impact we had from our more cost-conscious cohort given the dynamic macro environment she was navigating.

Average customer spend increased versus the prior year, supported by growth in frequency and full price penetration, and we continue to benefit from our ongoing customer insight work. As a result, we've been able to not only strengthen our relationships with new and existing customers but also identify areas of opportunities for enhanced focus and growth as seen with our inclusive sizing offering and capsule launches, including the Wearever Works collection.

Through offering quality fabrications and an assortment that celebrates the totality of who she is, we are able to deliver the experience our customers expect from J.Jill. With this stronger foundation in place, we believe we are well positioned to continue to deliver on our financial objectives while supporting our growth initiatives.

While we are maintaining a cautious view on the macro backdrop as we move into 2024, we plan to continue to execute and leverage our proven disciplined operating model while further supporting our plans to drive mid- and long-term profitable growth. In 2024, we plan to continue to invest in our omnichannel foundation. Building off of the completion of the POS rollout in 2023, we have launched our OMS project. Through the new POS and OMS systems, we will have greater omni capabilities ramping in

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2025, which we believe will further enhance our customer shopping experience and enable us to benefit even further from our balanced operating model.

In addition, we expect to open up to 5 net new stores in 2024. As we've discussed previously, with only 244 stores, we have significant opportunity for further store growth but plan to take a very measured and fiscally responsible approach to our openings in the near and medium term.

Finally, we plan to continue to strengthen our customer file through new marketing strategies, including an upcoming summer campaign that we believe will help to increase brand awareness and drive new customer acquisitions. As I have said before, we have a great loyal customer with tremendous opportunity to increase our brand awareness and to welcome new customers to J.Jill through the strength of our brand equity, our assortment and overall customer experience.

Before I close, I also wanted to highlight our upcoming impact report that we will be publishing later this spring. We continue to build upon our history of empowering women, prioritizing responsible environmental stewardship and contributing to the communities in which we operate, and we look forward to sharing this progress in our report.

We are very proud of the work we have done to date with the Compassion Fund, which has donated over $24 million in grants and in-kind donations over the last 20 years and continues to focus on empowering and supporting underserved women and helping them establish a better life for themselves, their children and their families.

In summary, fiscal 2023 marked another year of great progress for J.Jill as we continue to strengthen our foundation and position the brand for long-term profitable growth. As we enter 2024, we plan to build on this progress by executing and leveraging our model while investing in enhanced omni capabilities, store growth and marketing to drive further brand awareness and customer acquisition.

I want to thank our teams and stakeholders for their support and dedication to J.Jill. We believe we are just scratching the surface of the tremendous opportunity that lies ahead for our brand, and we look forward to driving even more value and delivering on our objectives in both the near and long term.

With that, I will now turn the call over to Mark to discuss our results and outlook in more detail.

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

Thank you, Claire, and good morning, everyone.

As Claire discussed, we were pleased to have delivered a strong end of the year, resulting in Q4 and full year adjusted EBITDA ahead of our expectations. Our disciplined approach to operating the business highlighted by tight inventory management supporting a strong gross margin profile and healthy free cash flow generation continued to deliver solid results.

Before I review our results in detail, as a reminder, fourth quarter and full year 2023 included a 14th and 53rd week, respectively, which represented approximately $8 million in sales and $2 million in adjusted EBITDA. All results reported today are inclusive of this 53rd-week impact with the exception of our comp sales metric, which is reported on a like-for-like 13- and 52-week calendar.

Now more detail on results for the quarter. Total company comparable sales for the fourth quarter decreased 3.6%, driven by the retail channel. While we saw a positive reception to our holiday promotions, the slow start to the quarter impacted both channels, and adverse weather in January disproportionately impacted traffic in stores at the end of the quarter, contributing to the negative comp.

Total company sales for the quarter were $149 million, up 1% compared to Q4 2022. This performance was driven by full price mix, improved markdown AUR in January and the 53rd week actualizing as expected. Store sales for Q4 were down 1.5% versus Q4 2022 as traffic was challenging, especially in January. Direct sales as a percentage of total sales were 51% in the quarter. Compared to the fourth quarter of fiscal 2022, direct sales were up 4%, driven by the 53rd week. Return levels improved in the fourth quarter, returning to more normalized levels on a year-over-year basis.

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Q4 total company gross profit was $101 million, up $6 million compared to Q4 2022. Q4 gross margin was 67.3%, up 290 basis points over Q4 2022, driven by a stronger mix of full price sales, benefit from freight, a better markdown gross margin and first cost AUC benefit, partially offset by a higher promotional environment in the quarter.

SG&A expenses for the quarter were $90 million compared to $87 million last year. The increase was driven primarily by variable expenses on sales in the 53rd week as well as incremental expense associated with the OMS project. Adjusted EBITDA was $18 million in the quarter compared to $15 million in Q4 2022.

For the full year, we delivered total net sales of $605 million, down 1.7% versus fiscal 2022. Adjusted EBITDA was $112.2 million compared to $109.4 million in fiscal full year 2022.

Excluding the impact of the 53rd week, we were pleased to have delivered adjusted EBITDA above prior year for both Q4 and the full year despite the challenging consumer environment that persisted throughout the year. Please refer to today's press release for a reconciliation of adjusted EBITDA to net income, the most comparable GAAP financial measure.

Turning to cash flow. For the quarter, we generated $7 million of cash from operations, resulting in ending cash of $62 million with 0 borrowings against the ABL. For fiscal 2023, we generated approximately $63 million of cash from operations and $46 million of free cash flow, defined as cash from operations less capital expenditures.

As a reminder, we used cash on hand to reduce total outstanding debt by approximately $50 million in the first quarter of 2023. As required in the term loan agreement and based on our fiscal 2023 performance, we anticipate making a mandatory excess cash flow payment in the second quarter of 2024 of $26.6 million, which is now included in short-term debt on the year-end balance sheet.

Looking at inventory. Total inventories were up 5% at the end of the fourth quarter compared to the end of fourth quarter last year. As messaged on our Q3 2023 earnings call, the 53rd week this year impacted reported inventory levels due to 1 additional week of goods shipping from vendors, which resulted in higher in-transit levels compared to prior year. Excluding this impact from the 53rd week, total inventories were about flat to last year.

Capital expenditures for the quarter were about $6 million. Total capital expenditures for full year were about $17 million compared to about $15 million last year. Full year 2023 capital spend was below prior guidance, primarily due to the timing of smaller store refresh capital projects that moved into early 2024. Throughout the year, we made significant progress on our strategic technology road map, completing the first step, which was upgrading to a new modern POS platform in the stores and kicking off the next step with the project to upgrade and replace our order management system.

With respect to store count, we closed one store in the fourth quarter. For full year 2023, we opened 2 new stores and closed 1, resulting in end-of-year store count of 244 stores.

Turning to our outlook for fiscal 2024. As we have demonstrated over the past 2 years, with our disciplined operating model, we are able to deliver a healthy margin profile and strong cash flow generation while navigating a dynamic macro environment. While there is some improvement in economic indicators, the macro outlook for 2024 remains somewhat uncertain, and we are planning the business accordingly. We expect to continue to build on the progress we made in 2023 and maintaining a disciplined approach to inventory management while navigating ongoing inflationary pressures and beginning to invest both capital and SG&A to support profitable sales growth including approximately $3 million in expenses related to our OMS project.

For the 52-week fiscal 2024 year, we expect total revenue to be flat to up in the low single digits and adjusted EBITDA to be down in the mid-single digits compared to the 53-week fiscal 2023. This guidance reflects the negative impact from the loss of the 53rd week of about $8 million in sales and $2 million in adjusted EBITDA.

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With respect to gross margin, we are currently experiencing some impact from the disruption in the Red Sea in the form of delayed deliveries, higher ocean container costs and select use of air freight. We expect this impact to be concentrated in the second quarter but expect lower cotton prices to help minimize any impact to gross margin on a full year basis. For full year 2024, we expect gross margin to be relatively flat to fiscal full year 2023.

Finally, we anticipate timing shifts associated with the 53rd week to impact reported quarterly results. Specifically, we expect the calendar shift to benefit results in Q1 and Q3 and negatively impact results in Q2 and Q4 when compared to reported 2023 actuals. The first and third quarters are expected to benefit as smaller weeks at the beginning of each quarter are replaced by relatively larger weeks pulled into the end of the quarter. This impact will be largest in Q1.

Conversely, Q2 and Q4 are expected to be negatively impacted as larger weeks at beginning of quarter are replaced with relatively smaller weeks at quarter end. In addition to this impact, the fourth quarter comparisons to prior year will also be negatively impacted by the loss of the 53rd week.

For the first quarter of fiscal 2024, we expect sales to be up in the low to mid-single digits and adjusted EBITDA to be in the range of $29 million to $33 million.

Regarding store count, we expect to grow net store count by up to 5 stores by the end of fiscal 2024. We expect openings will be weighted to the back half of the year, and we believe it is likely that we will close up to 5 stores in the first half of the year, leading to a decline in midyear store count. We continue to believe in the opportunity to grow our retail channel by about 20 to 25 net new stores over the near to medium term.

With respect to total capital expenditures, we expect to spend about $26 million in fiscal 2024, with investments focused on new stores and the OMS project plus the projects that carried over from the end of fiscal year 2023.

Our expectations for fiscal 2024 are in line with the financial model that we've delivered the past 2 years and we believe will enable another year of strong free cash flow generation, which continues to create optionality as we aim to drive further shareholder value.
Thank you. 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 Ryan Meyers with Lake Street Capital Markets.

Ryan Robert Meyers
Lake Street Capital Markets, LLC, Research Division

First one for me. So obviously, you've guided sales of flat to up low single digits but EBITDA down mid-single digits. Just wondering if you can walk us through where that difference is there. It sounds like you're going to be investing a little bit more in SG&A. So I think that makes sense. But is there anything else to call out where there's that kind of delta between the revenue and EBITDA guide?

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

Ryan, I'll take that. Thanks for the question. Yes, we've tried -- just given there's so much noise with the calendar shifts and everything else, we try to be a bit more, I hope, helpful in the guidance that we provided. The sales guide, the margins about flat do indicate that we are investing, as we said in the remarks, in SG&A and CapEx in support of both sort of the rolling-forward inflationary impacts that began this year, to some extent, rolling into next and then more proactively investing in strategic initiatives, particularly marketing to support our profitable sales growth as we go forward.

And then we have the OMS project, which we are in the middle of, and this is going to be a year of another significant step on our technology road map with the OMS project. That does carry with it project-related expense, and we called out that that's $3 million worth of SG&A as well.

Ryan Robert Meyers
Lake Street Capital Markets, LLC, Research Division

Got it. That's helpful. And then you guys had commented that it sounded like traffic in January was a little soft. Can you maybe talk a little bit about what you've seen as far as traffic levels go as we've progressed here through Q1?

Claire Spofford
President, CEO & Director

Sure. Thanks, Ryan. I'll take that one. We did see traffic impacted, particularly in the retail channel in January. And we continue to see some bumpiness coming into February but are hopeful that things sort of calm down as we go further into the quarter and head into kind of the heart of our season in March and April.

Operator

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

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

Congrats on a great Q4. So just elaborating on the POS, OMS as we enter 2024. I was curious if you could just maybe talk about what capabilities and how it manifests itself into the financial results. Do you have going into this year that you didn't have last year?

And then one on the debt, Mark. I was just curious, could you pay off more than the $26 million as we go through the year? And if -- you don't really typically guide interest expense, but I'm guessing that interest will be down this year from 2023.

Mark W. Webb

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Executive VP and Chief Financial & Operating Officer

Jeff, it's Mark. I'll take both of those. I'll start with the second one. We outlined earlier this year our sort of priorities for cash investing, right? And the primary was paying down the debt. So we have this mandatory excess cash flow payment in the agreement with the term loan. We then continue to have amortization to pay down the debt. And as we've said previously, the cash flow generation of the company still provides additional cash to consider along those priority lists.

So nothing to announce at this point. But the answer is there could be, and there are other options as well that we continue to evaluate as a management team for deploying cash and driving shareholder value.

The first question around POS and OMS. These really are strategic foundational systems to really shore up the operational capabilities of the company first, and they do provide the platform to take advantage of current and future because the technology becomes more less stuck in the past and you can adjust it and take new technologies with it in the future.

But the benefits that we look at, first of all, with POS as the first step, it's really about a better customer experience within the store, less friction in some of the existing omni capabilities that we have with respect to the concierge, which is the ability for a customer to order from the website from within the store, the facilitation of a transaction that includes an online return in the store. So a lot less friction within the store.

We would look at the benefits to that to come in the form of conversion first and transactions, which would be a support of unit growth within the stores. And then OMS is a complementary system. It's really the order management, order orchestration system for the e-commerce platform but then really enterprise-wide omni capabilities that then creates the opportunity for additional inventory optimization, additional sales fulfillment opportunities that really would come once that system is in and hardened within the system, within the business, within the processes. That's likely a 2025 launch.

And so in 2024, our guidance that we provided has both the expense associated with the projects. And we've implied some of the benefits coming from the POS system.

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

Okay. Just a clarification question, and this might have -- might fall into that bucket of your details you were elaborating for the calendar shifts. But given the low single-digit sales guidance for Q1, that has the implication that things actually might have picked up a little bit in the first quarter because it is a little bit of an acceleration from Q4. I was just curious if you could elaborate on the -- kind of the innards there.

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

What I would say, Jeff, in addition to what Claire just mentioned, the first thing is we have a big second quarter and a large Mother's Day business, which we've talked about previously. So the calendar shift for us pulling in essentially what would have been May week 1 week into this quarter and losing February week 1 week, which is typically end-of-season clearance and small versus mothers -- lead up to Mother's Day big at the end of the quarter does have an impact for us, which is why we were as explicit as we were.

And then I would say in addition to what Claire said, she mentioned it was still a bit bumpy coming into February, a little bit of improving trends at the end of February, but a lot of the big weeks are in front of us. It's a small month, and they're small weeks. And so the bulk of the quarter is in front of us.

Operator

Your next question comes from the line of Dylan Carden with William Blair.

Dylan Douglas Carden
William Blair & Company L.L.C., Research Division

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Just curious, this might be a tough question. But broad strokes, kind of backing out the extra week, did the retail channel, excluding weather, performed more in line with the direct channel, kind of down low single?

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

So Dylan, generally speaking, what I would say is -- and it's in the sort of results that you'll see. The direct business continues to improve. And in fact, when we think about Q4 and the performance against our guidance that we reaffirmed earlier in the month of January, the traffic in the stores was -- we mentioned it. Surprisingly, the weather was widespread across the U.S. It impacted that channel. The benefit -- we were pleased to see direct offset. And then just the benefits of the operating model carrying less inventory overall, less markdown inventory skews the sales into full price.

So even in a quarter where we mentioned it was a more promotional quarter, we expected it to be back at the Q3 report, and it was. That's still a better trade-off at full price than a markdown. And then the markdown margin benefits, AUR benefits with so many fewer markdown units. So that both benefits -- those both benefit gross margin, and that was the lion's share of our beat in Q4 but driven on the back of a fairly strong direct.

Dylan Douglas Carden
William Blair & Company L.L.C., Research Division

Okay. And that kind of dovetails into my next question, which is -- and apologies if I missed this, but for the guide this year to kind of get to the margin, would you expect to be -- it sounds like it's mostly positive in SG&A investments in the new systems and what have you, right? So gross margin is relatively flat, maybe some modest improvement is -- how should we think about that?

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

We guided to relatively flat, Dylan. The macro [indiscernible] again out there, you've got a little bit of freight noise popping back up, and we have some benefits that we've talked about for a while but with raw materials, particularly cotton, that we've said those should be neutral across the year.

And then it's -- really behind the guide is -- on the revenue side is units supported by some of these initiatives that we talked about, POS conversion in the stores, continuing enhancements in direct, et cetera.

Dylan Douglas Carden
William Blair & Company L.L.C., Research Division

Got it. And on the new stores, I just want to be clear about that. So it's 5 net new stores for the year but 5 closures in the front half. So 10 openings in the back half. Did I catch that right?

Claire Spofford
President, CEO & Director

Yes, up to 5 net openings in '24.

Dylan Douglas Carden
William Blair & Company L.L.C., Research Division

Okay. And kind of where are the new stores? How should we think about kind of the ramp in productivity versus the fleet? I know it's going to be a drop in the bucket just from a scale standpoint, but anything to comment on there?

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

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Yes. I would say, Dylan, in the full year in the guide, the stores are at the back end of the year, right? So there's very little assumed in our guidance aside from the store base aside from how we're planning on the closure activity against the opening.

A lot of the stores -- and we've mentioned this before, but on that 20 to 25 list, a lot of those markets are reentry markets for us. And a lot of the first opportunity stores to reopen are unlikely to be in reopen markets. And the good thing about our store fleet is we open and hit ramp pretty quickly once we're open within the first year and have a pretty stable performance across new stores there forward, unlike some others who open to low awareness and ramp up over several years.

We tend to, again, reentry markets, have a customer, we open back up. We've done it now with better, more fair, I would call them, economics in sites that are right for our brand. And that tends to be -- that first year is a pretty good indicator of the store's revenue.

Dylan Douglas Carden
William Blair & Company L.L.C., Research Division

Got it. And how are you feeling about your customer here? I know kind of coming into holiday, there was some incremental softness there in your client core, higher-income consumer order. How is she feeling? How are you feeling about them kind of coming into this year?

Claire Spofford
President, CEO & Director

Yes. Coming into this year, again, we always field this customer tracker primary research. We are pleased to see the outlook showing some signs of a positive shift coming into Q1. And we also saw a high level of satisfaction with our early spring assortments right at the core of who we are as a brand coming into spring, loving our fabrics, our colors.

So some positive energy there, but -- and I think we talked about in the scripts that the file remains healthy, particularly with our best customer segments, with some pressure due somewhat to the macro environment at the lower-spend cohort. But all in all, I think, a good balance and some nice positive energy in her mind coming in, but it's relative to where she's been. Still a lot of uncertainty out there in the macro environment for sure.

Operator

Your next question comes from the line of Oliver Chen with TD Cowen.

Jungwon Kim
TD Cowen, Research Division

This is Jonna on for Oliver. You mentioned higher full price selling. Just curious how you're managing that as consumers are a little bit more conscious about spending as well. And also just on marketing, what's your strategy around marketing this year and sort of your thoughts around driving higher ROI on [spend]?

Claire Spofford
President, CEO & Director

Sure. Thanks for the question. Thanks for being with us. I think from a full price selling standpoint, our inventory strategy has been supportive of keeping the focus on full price selling, telling our brand story, telling our product assortment story without competing with ourselves from a markdown standpoint. And that has yielded nice full price penetration, which we saw play out in fiscal year '23.

And again, our customer -- we've said this repeatedly, but if we offer her the product that she's looking for, and it's unique and special, she is willing to pay full price for it. And so that focus on what makes us special and different and highlighting our key products has helped support that.

As we go into '24, we are making investment in marketing behind a brand campaign, which you'll see rolling out in the next few months, which we're very excited about. We think that there's a real

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opportunity to drive brand awareness. We know we have relatively low awareness compared to some of our competitors, and some of that comes from having a smaller store fleet. But we're putting some investment behind that brand awareness and are excited about telling that story. And so we'll have more to say about that on the next quarterly call.

Operator

Your next question comes from the line of Marni Shapiro with The Retail Tracker.

Marni Shapiro
The Retail Tracker

Congratulations. The stores look great, and I love this new set that just went in. It's beautiful. Can you talk a little bit -- I think you said you grew your customer file very nicely. Could you talk a little bit about what actions you're doing on top of funnel? And with all your technology updates, could you talk a little bit, forward thinking, about loyalty programs and things like that?

Claire Spofford
President, CEO & Director

Yes. Thanks, Marni. We agree. We think the assortment looks great right now, great color that she's responding to.

From a top-of-funnel standpoint, the brand campaign that I just talked about is definitely aimed at broadening awareness, introducing new customers to the brand. And that, as I said, is going to be forthcoming in the next few months.

In addition, we're very focused on new-to-brand acquisition through our performance marketing and other efforts, and those did yield some nice benefits through much of '23, focused on usage occasions like the workwear edit and our inclusive sizing initiative, both focused on introducing new customers to the brand and customers that are at the younger end of our target demographic and very valuable.

So lots of efforts in terms of feeding the health of that file and also in making sure that we're communicating effectively with and nurturing our relationship with our best customers and our core customers, which we did see nice growth from our best customer segment, as I mentioned, in 2023.

Marni Shapiro
The Retail Tracker

No, that's fantastic. And can I just ask you a quick question. Online, I've been buying the fit assortment. It looks nice. It's highly edited. I'm curious, are you thinking about bringing that into stores a little more, expanding it? Is it a nice to have? Or do you feel like it's a need to have? And these are your first steps into it. If you could just expand on that?

Claire Spofford
President, CEO & Director

Yes. It's -- thanks, Marni. It's a small part of the business, and we have it in select stores, and we have it online. It's -- we think it's an important part of her life and the usage occasion that she cares about, but it's not a major initiative -- growth initiative for us as we look forward.

Operator

Your next question comes from the line of Dana Telsey with Telsey Group.

Dana Lauren Telsey
Telsey Advisory Group LLC

Congratulations on the nice results. Claire, as you think about the assortment going forward and the changes and the enhancements that we should see, what are you looking for this year? Is there any

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markers? Obviously, you mentioned the marketing campaign that we should be mindful as we go through the year.

And then, Mark, as you talked about the Red Sea issue impacting more of Q2, is there any bleed-through to any other quarters that you foresee? And with the lower cotton costs, how is that being projected throughout the year in the space of also the full price sales that you're generating, how you're thinking about pricing the goods this year as compared to last year?

Claire Spofford
President, CEO & Director

Sure. I'll take the first part, Dana and then hand it over to Mark.

I think markers, we're heading into what is our big season. And obviously, we love the Mother's Day time frame, and moving through spring into summer, you'll see our core franchises really hit hard. Our linen programs, our knit basics programs. We also have some really exciting things happening with cotton gauze and other very summer-breezy fabrications that she really looks to us for.

So I think you'll see a lot of that again as well as just wonderful color that she really responds to at this time of year. So we had real strength in '23 with growth in dresses, woven tops and novelties, a strong sweater business in the back half of the year. But we also had some opportunities, and we think that those opportunities hopefully will be addressed in terms of better performance in things like bottoms and knit basics that -- where we saw some challenges last year.

So overall, some opportunities that we see in front of us and then some growth leading into where we have strength and momentum.

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

And Dana, I'll quickly hit the second part of your question. The great thing for us is that when the disruption started happening back in the COVID time frame, we created a task force inside the company that really came together and managed that uncertainty quite well. And we've kept that process going even as things started to calm down post COVID and through the last year or so. The team is led by an incredible senior manager within the group and a great cross-functional team who reacts very quickly and meets weekly.

And so when the Red Sea issue started popping up, they were poised and ready to react. Doesn't mean it doesn't have an impact, which is why we called it out. But internally, we were more prepared than ever just given the effort that we put against it. The delays that we're seeing are -- have calmed down to some extent. The initial -- it's always an initial uncertainty that creates longer delays. The delays have settled down. The teams are working on every opportunity to offset them.

Those include, if we need to, airfreighting goods from the ports of origin to landed in the U.S. That's a team of merchants and merch planners who pour over those decisions and make them based on the relative importance of the late style to the floor set or the marketing or some combination. And then the other options are to work with our great vendor base, which we've talked at length about, the great relationships we have and see where we can move shipment dates early to compensate for any delays. And then the last sort of element is if we do get a delayed shipment here, we will make the decision whether to expedite via airfreight to our West Coast stores as needed.

The Q2 time frame and why we called it out is that's our important quarter with Mother's Day, and those assortments are more likely warranting of the expedited airfreight option than others. And we land those products in Q1, but we sell them through Q2, which is why we called out that, that is the quarter that would feel the impact most.

We are assuming that the issues sort of stabilize and don't worsen through the rest of the year. So that's an assumption that we've made. And the cotton costs that really started to come in late last year, we

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mentioned it in some of our earnings calls. We expect that to help defray the cost and uncertainty from the Red Sea through that second quarter time frame.

And really, with respect to the guidance that we provided for the year, the assumptions are we'll always -- and the merchant teams and planning teams do, always look at strategic opportunities for price opportunities, raising or decreasing based on market, our product, et cetera. That continues. But really, for the most part, the guide that we provided implies that pricing is pretty stable, and that units would be the driver of the sales range that we provided on the back of the initiatives that we're investing in, the marketing efforts that we're taking and the benefits that will accrue from the technology as we've implemented it.

Dana Lauren Telsey
Telsey Advisory Group LLC

Got it. And one question on the store openings. Are you closing stores in malls and opening an open air, anything in terms of regions, locations in terms of what you're doing? And is the store size at all changing cost to open versus what had been done in the past, given you hadn't been a new store opener in a long time until now?

Claire Spofford
President, CEO & Director

Yes, I'll take the first part and then hand it over to Mark.

We prefer lifestyle centers. It's what our customer prefers, but there are obviously malls that are very important. And to the extent that we have exited locations that are high potential, we'll look at malls as well as lifestyle centers but certainly have a bias there.

And as Mark said, the store openings will be weighted towards the back half of the year. And the store closures will be weighted toward the front half of the year.

So -- and then on the cost, Mark, I don't know if you want to address.

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

Yes. Generally speaking, Dana, the good news about our store model, it's a great aspect of it, I guess, I would state it differently, is that it's sort of a known very rightsized model and has been for some time. And so there aren't any major changes that we're deploying aside from new POS and what opportunities that creates with respect to space requirements.

But generally speaking, we're rightsized. We know the model. And as we kick back off the work, which we started in -- a little bit in 2022 and then we were a net store opener in -- by 1 store in 2023, we're refining that model again and nothing major to call out with respect to the cost side of it. We are managing capital to a very -- we think managing it well and generating significant returns both at the project level and at the enterprise level. We'll let you guys do the calculations, but that should show up in the results that we're producing.

Operator

This concludes the question-and-answer session. I'll turn the call to Claire Spofford for closing remarks.

Claire Spofford
President, CEO & Director

Thank you, everyone, for your time and attention this morning. We look forward to chatting again on our Q1 call in a few months.

Operator
This concludes today's conference call. We thank you for joining. You may now disconnect your lines.

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