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Earnings Call

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Call Participants

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Presentation

Operator

Ladies and gentlemen, thank you for standing by. My name is Krista, and I will be your conference operator today. At this time, I would like to welcome everyone to the J.Jill First Quarter 2025 Earnings Conference Call. [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 June 11, 2025, 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 June 11, 2025. 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.

And it is now my pleasure to turn today's conference over to Mary Ellen Coyne, Chief Executive Officer and President at J.Jill.

Mary Ellen, the floor is yours.

Mary Ellen Coyne
CEO, President & Director

Good morning, and thank you for joining us. I'm very excited to be speaking with you today as the newest member of the J.Jill executive team. Having spent the last 3 decades in retail and specifically women's apparel and accessories, I understand what a special brand J.Jill is and the important role we play in serving a very loyal customer base, one that has grown over time and is often underserved, but highly valuable. Throughout my career, I've learned that successful retail brands are built on authentic connections with customers, and J.Jill has that foundation in place.

While we are navigating challenges today, stemming from the current environment, increased uncertainty affecting consumer spending and certain underperforming areas of the assortment, I strongly believe in this brand and the opportunities ahead. It was this belief and my passion for serving this customer that brought me to this role.

I have a proven track record of building teams and growing businesses profitably. My background is rooted in products and merchandising, having spent 16 years at Ralph Lauren before moving on to my most recent role as the CEO of J.McLaughlin. I not only have a deep understanding for the industry, but strong admiration for the customer J.Jill serves. In my previous roles, I have scaled businesses through multichannel expansion, elevating product offerings and introducing new categories. I see opportunities across all those areas here while maintaining the brand's core identity, which has supported such loyalty over the years.

Over the past 5 weeks, I have immersed myself in the business, engaging with our teams, visiting stores and talking with associates and customers. I am working diligently to assess all areas of the business, where our strengths are, where there are opportunities and how we can evolve and improve performance. This initial review will inform my views on our path forward. What is clear, however, is the inspiring dedication that I have seen across our organization to delivering customers the experience they value from J.Jill.

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I am energized by the opportunities ahead and will be working with the team to leverage the investments that have been made in stores, marketing and systems. The fundamentals of this business are here. We have a loyal customer base, a lean operating model and strengthening omni-channel capabilities. I look forward to providing more insights into our plans and initiatives on our September earnings call.

Now I will hand the call over to Mark to review our first quarter performance. Mark?

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

Thank you, Mary Ellen, and good morning, everyone. I'd like to welcome Mary Ellen to her earnings call. We are excited to have you leading J.Jill and are energized by your passion for this customer and proven track record driving growth in this industry. We look forward to sharing more on Mary Ellen's assessment of the business and strategies on our second quarter earnings call in September. But for now, let me review our first quarter performance.

We entered first quarter with known challenges. We experienced adverse weather in February, and we cut over to our new OMS system in March. Overall, the OMS project went very well, and we are excited to now have a modern platform from which we can scale and grow, but the cutover did have a slightly larger impact on Q1 performance than anticipated. In addition to these known headwinds, we believe we had opportunities in the assortment and the macroeconomic environment continued to be volatile with uncertainty related to global trade policy impacting our customers' behavior, particularly in April and into May.

Despite these challenges, we delivered EBITDA above the high end of our previously guided range due primarily to disciplined expense management and continued to deploy cash to shareholders through our quarterly dividend and share repurchase program. While we remain confident in the long term resiliency of our loyal customer base and the opportunities to grow this business, we continue to navigate near term uncertainty with respect to tariffs and the impact the ongoing volatility will have on our customer. Because of this and also to provide Mary Ellen with the necessary time to complete her assessment of the business, we are withdrawing our prior full-year guidance and temporarily suspending our practice of providing forward guidance on most metrics. I will discuss more on this, but first let me review more details on our first quarter performance.

Total company sales for the quarter were about $154 million, down 4.9% compared to Q1 2024, inclusive of total company comparable sales decline of 5.7%, which was partially offset by sales from new stores opened last year. Total company sales also reflected a $2 million negative impact from the OMS cutover. Store sales for Q1 were down about 4.4% compared to Q1 2024, and direct sales, which represented about 47% of total sales in the quarter, were down 5.4% compared to first quarter of fiscal 2024.

As mentioned, weather impacted store traffic earlier in the quarter, while the OMS cutover had an outsized impact in our direct channel in March. In addition, our customer became more discerning with her spend in April, which was most pronounced in our direct channel, as she primarily shopped markdowns, which put pressure on average unit retails and gross margin.

Q1 total company gross profit was about $110 million, down about $7 million compared to Q1 2024. Q1 gross margin was 71.8%, down 110 basis points versus Q1 2024, driven by higher mix of markdown sales, primarily in the direct channel and higher full price promotional rates in both channels. SG&A expenses for the quarter were about $91 million compared to approximately $89 million last year. The increase was driven primarily by store expenses associated with 5 incremental new stores compared to prior year, OMS-related costs, which came in at $1.6 million versus $700,000 last year and merit increases, partially offset by lower management incentive accruals.

Adjusted EBITDA was $27.3 million in the quarter compared to $35.6 million in Q1 2024. Interest expense was $2.8 million in Q1 compared to $6.4 million last year. Adjusted net income per diluted share was $0.88 compared to $1.22 last year, which reflected a diluted share count of 15.4 million shares this year versus 14.4 million shares last year as well as a benefit of about $0.01 per share related to repurchase activity in the quarter.

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During the quarter, we repurchased 186,800 shares for approximately $3.5 million, and as of June 11, we have approximately $21 million remaining on the $25 million share repurchase authorization.

Please refer to today's press release for reconciliations of non-GAAP financial measures to their most comparable GAAP financial measures, adjusted EBITDA, adjusted net income and adjusted net income per diluted share to net income and free cash flow to cash from operations.

Turning to cash flow. For the quarter, we generated about $5.3 million of cash from operations, resulting in ending cash of about $31 million and zero borrowings against the ABL.

Looking at inventory, total reported inventories were up about 14% at the end of the first quarter compared to end of first quarter last year, primarily due to an extra week in the supply chain we initiated last year in Q2 in response to Red Sea disruption. Excluding this extra week of inventory, normalized inventory was up about 5%, consisting primarily of higher seasonal basic and basic full-price inventory, which while less liable than fashion will present margin pressure in Q2, as we take select markdowns and implement promotions.

Capital expenditures for the quarter were $2.7 million compared to $2.3 million last year. Investments were focused primarily on stores as well as the completion of the OMS project, including the initiation of work to enable ship-from-store capabilities in the back half of this year.

With respect to store count, we closed 3 stores during the first quarter, including the 2 we discussed on our last call that shifted in from the fourth quarter of 2024. We did not open any new stores in the quarter, resulting in end of quarter store count of 249 stores compared to 244 stores at end of Q1 last year.

Now for more on our outlook. As I mentioned, given the increased uncertainty with respect to the macroeconomic environment along with our recent CEO transition, we are withdrawing our prior full-year guidance and temporarily suspending our practice of providing forward guidance on most metrics. That said, our teams are diligently working to assess opportunities for improvement within the assortment, and we have taken swift actions to reduce inventory investments in floor sets beginning in the third quarter to better align with current demand trends.

Quarter to date through May, total company sales are down mid single digits compared to the prior year period. While comparisons get easier as we move forward, should sales continue to decline at this level, we would expect to see significant SG&A deleverage as well as further pressure on gross margin driven by actions taken to ensure the movement of inventory in the season.

With respect to tariffs, in developing our financial models for the rest of the year, we have assumed tariffs will remain at 10% on all countries and 30% on China. While we expect to begin to see incremental product costs beginning toward the end of the second quarter from tariffs currently in place, we expect to mitigate most of these costs through a combination of vendor negotiations, on order adjustments and strategic price increases on select items in the assortment. However, any increases to current rates will result in additional margin headwinds for the year.

We remain committed to operating the business with discipline, tightly managing inventory buys and clearing goods as needed in season, and our strong balance sheet and ongoing cash generation enable us to continue to support our strategic investments in marketing, new stores and in systems capabilities such as ship-from-store, which is in pilot now and will ramp through the back half of 2025.

We are maintaining our current run rate marketing spend in support of the customer file, but are reviewing the mix and creative to ensure maximum impact amidst the broader market backdrop. We are investing in new stores, but are evaluating nonessential capital spend. We now expect to spend between $20 million and $25 million during the fiscal year compared to prior guide of approximately $25 million.

We are now expecting to open between 1 and 5 net new stores this year versus prior guided range of net 5 to 10 new stores as some new deals have pushed into 2026.

And lastly, we remain committed to executing on our total shareholder return strategies. As announced on June 3, we are maintaining our quarterly dividend of $0.08 per share payable on July 9 to shareholders of

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record on June 25, and we will continue to opportunistically repurchase shares that we'll do so judiciously until trend visibility improves.

The considerable actions we have taken in the past few years to invest in our systems and strengthen our balance sheet will support us going forward. Our new OMS system is up and running, and teams are making progress on the next objective, which is to ramp the ship-from-store capability for benefit in the second half of this year.

With funded debt of $74 million and $31 million in cash, we have the necessary flexibility to navigate through this environment and enable us to be better positioned to capitalize on improvement when trends normalize for our customer.

Despite near term headwinds, we are fortunate to have a strong brand and a very attractive customer. Our teams have managed through challenges such as this before, and I look forward to working with Mary Ellen, as she continues to assess and develop plans to position us for long term success.
Thank you. I'll now hand it back to the operator for questions.

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Question and Answer

Operator

[Operator Instructions] Your first question comes from Dana Telsey with Telsey Group.

Dana Lauren Telsey
Telsey Advisory Group LLC

Welcome Mary Ellen to J.Jill. As you're coming from J.McLaughlin and Ralph Lauren, you've had experience with this customer. Given the current macro environment, what did you put in place at J.McLaughlin, for example, during tariffs? And what do you see the opportunity for J.Jill?

And then lastly, you mentioned certain underperforming parts of the assortment. What are those? And how do you see the merchandise mix evolving for the upcoming holiday season?

And lastly, Mark, on the OMS cutover that you had, are there any other costs that go into the second or third quarter that we should be mindful of? And what magnitude of price increases are you talking and how promotional is it compared to where it could be?

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

Dana, it's Mark. I'm going to jump in, if I can, just on the tariff conversation, so we're speaking directly about J.Jill and what we've done around the tariff exposure. We mentioned in my remarks that the overall tariff assumption we're going with right now, though, as everybody knows, the final trade negotiations are not yet landed, and it's unclear when they will be or what potential news flow will be until they are. But we've assumed 10% -- we've kind of assumed status quo here in the past, 10% everywhere except China and 30% on China.

As we've discussed previously, we've made as a company great strides getting our China sourcing down below 5%. That continues to be an opportunity for us, and we've been looking at one of our strategies around mitigating tariffs is on-border adjustments, which would include country migration and it includes adjustments in quantities.

You'd mentioned vendor negotiations. We have a very strong long-standing relationship with our vendor community and our agents. So we're working on those levers, and then, very select and strategic price increases that the team has gone through and believe there's opportunity to price up strategically within the assortment. All of those things combined for us, we believe, at the current status quo, while it does represent a headwind just given that it's an incremental cost, are manageable within our current environment with respect to tariffs.

You mentioned the assortment. I would say there's opportunity in the assortment around , I think, the teams -- I'll let Mary Ellen jump in on this, but around some newness, particularly in times like this where the consumer is a little bit more uncertain. And then we did have some successes in the assortment as well. I know this is an area that Mary Ellen is diving into with the teams.

Mary Ellen Coyne
CEO, President & Director

Thanks, Mark. Dana, it's nice to meet you. I'll start with your first question, which was around customer. And yes, in my experience, both my time at Ralph Lauren and at J.McLaughlin, what I have learned is that the most important thing you can do is to create meaningful relationships with your customer. And J.Jill has done that in spades. This is a very valued segment. It is traditionally an underserved segment. And so we're very excited that we have her here, and it's a customer that I'm very familiar with. So thrilled about that.

What we know about this customer, in addition, is when there are times of uncertainty, she pulls back. She is a smart, engaged consumer, one who is more discerning with her spend, and that is what we saw. And

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to Mark's comments, we did not have enough newness in the assortment, and that will be a focus as we move forward. In my experience, this customer always returns and returns to the brand that she knows and that she trusts, and we are confident that, that will happen here.

With regard to your question about the holiday season, our product line is thought through the end of the year. But that being said, there is always more that we can do to win share of wallet, and that is my immediate focus with the team right now. We can impact presentations in store and online. We can impact marketing efforts. We can impact the way that we show up for her, as we work through the balance of the year.

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

Great. And I'll just lastly, Dana, you mentioned OMS, thanks for that question. First of all, I would say we're extremely excited to have our new OMS system in and stable. And we mentioned that there was slightly more negative impact in the cutover than we had anticipated. We had provided guidance that we expected, $1.5 million. We came in at $2 million. I'll tell you the extra $502 million in total for a project as far reaching and important as OMS in the grand scheme of things is a pretty good cutover for us from our perspective.

The teams have worked really hard in what we call hyper care, which are the weeks following the cutover to address some unforeseen issues that weren't caught in testing. The $1.5 million we've guided to, we expected, and the $500 million that we didn't, really came out of some customer-facing issues, some glitches with checkout on the website, some glitches with stored credit cards on the website that were quickly diagnosed, addressed and fixed, so are now behind us.

We'll continue to learn the new systems and as we continue to get every day behind us with the new system. We are excited about it. It was a very large project. The cutover went very well. A very large team was dedicated to it, and they did a fantastic job of getting it to where we are today.

And at the same time, we're excited that we're bringing up ship-from-store, which we talked before was the primary first omni capability that we were going to deploy. We're in pilot. We're in about 10% of the fleet. We're learning. We're fine-tuning, and we'll be ramping that through the back half of the year, which should, as we previously discussed, provide value as we ramp it.

Operator

Your next question comes from Jonna Kim with TD Cowen.

Jungwon Kim
TD Cowen, Research Division

Just curious on the newness comment. How are you thinking about rolling out newness in the second half? And juggling that with also the scale of how the tariffs dynamics are? And how do you feel about the inventory position in the fall and also the holiday season? And then we would love any color around ticket and traffic during the quarter if you can provide any details.

Mary Ellen Coyne
CEO, President & Director

Great. Thank you for the question. I'll start with the question around newness again. As I had just said, the line is thought through the end of the year. That being said, we're able to make small adjustments, but really the impact of that will really come as we head into 2026.

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

And, Jonna, I would add in. And I apologize if we missed some of your questions. It was a little hard to hear. Please, follow up with us if you can, and operator, if you could allow that. I heard the question on inventory positioning going into fall and holiday. One of the immediate things or the nearer term things

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that we can impact are orders that are coming. So we did take our Q3, which is really that fall and forward buys down, more in line with current demand trends that we've seen, which is sort of the part of that.

We exited Q1 with normalized inventories. Remember, our balance sheet inventories reflect about an extra week of in-transits and on-hands now related to the extra week we put into the supply chain last year when the Red Sea issues began. We'll lap those at the end of Q2, but we're still showing that in our balance sheet. So when we normalize that out, we're up about 5%, which is mostly, and we have made some investments in some key basic items, some bottoms that actually did well during the quarter.

But as you get into Q2 having inventories up 5%, we will do what's necessary to clear our inventories given that we're going to be entering summer sale periods in July and want to exit Q2 clean with those new buys bought more appropriately with demand.

Jungwon Kim
TD Cowen, Research Division

Understood. Yes. The second question just was additional color around ticket versus traffic during the quarter and opportunities to drive more traffic through store as well.

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

Yes. So through the quarter, and Q1 for us was choppy, we've had weather, which we had spoken about on our last call in February, which impacted traffic in stores. We had the OMS cutover, which impacted direct in March, and that primarily is a conversion type impact, just a little bit of traffic as we brought the site down to cut over.

And then really when April and some of the global trade policy announcements kicked off, we saw overall a pullback in demand, and that was traffic. It was also a migration, which we tend to see a migration to markdown selling and promo selling, which impacted AURs maybe even a little more than traffic.

The opportunities, we mentioned that we remain committed to and are fortunate to have the financial model of the business and a strong balance sheet to be able to maintain our strategic investments, one of those in a primary area is marketing and also stores and systems. And the marketing effort will look at mix and creative just in light of the current state of the consumer. And that's as much about near term as it is really about supporting the file for the long term, which we're still very excited about when the customer does come back, and we fully expect her to, that we can get back to driving profitable growth.

Operator

Your next question comes from Corey Tarlowe with Jefferies.

Corey Tarlowe
Jefferies LLC, Research Division

Great. Mary Ellen, could you maybe talk a little bit about what drew you to J.Jill, some of the characteristics that you see of strength that you think are likely to continue going forward for the business? Any categories where maybe you see some opportunities or green shoots?

And then, Mark, just on the quarter-to-date momentum, is there any way to put into context kind of some of the drivers or maybe how that compared relative to what you saw in the first quarter?

Mary Ellen Coyne
CEO, President & Director

Sure. Thanks for the question. For me, as I looked at J.Jill, the opportunity to build upon this brand's strong history while driving future growth was irresistible for me, right? This is what I love to do is scale profitable businesses.

In my past experiences, I've done that through multichannel expansion. You know, I'm a big believer in stores, but the balance here of the e-commerce business to the brick-and-mortar business is really healthy

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and both able to scale. But I've also elevated product assortments, introduced new categories, and I see tremendous potential for -- to do all of those things here, continuing to serve the very loyal customer that we have and to acquire new ones.

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

And Corey, I would put context around the Q1 performance into the May trend in this manner. The quarter I mentioned before, was choppy. So we had weather in February and the OMS cutover in March. It really was that slowdown. Once we were through those issues in April, that seemed to very much coincide with the uncertainty that started to swirl out in the global trade arena. And so that trend, we honestly didn't anticipate. And the May comment with down mid-single digits is indicating that some of that trend in April continued, as I mentioned in my remarks.

The uncertainty that is out there is, and as Mary Ellen mentioned, with respect to our customer, just creates, in our world, uncertainty in the planning and is a primary reason why we are temporarily suspending our practice of providing guidance. But that also, coupled with having Mary Ellen as new CEO and making sure she has the time to assess and develop plans on the business, which we would plan to come back and share more on in the Q2 call in September.

Operator

Your next question comes from Marni Shapiro from The Retail Tracker.

Marni Shapiro
The Retail Tracker

Welcome, Mary, Ellen. I feel terrible that you have to start and then tariffs happen. Not a fun way to start, but welcome aboard. We're excited to have you.

I'm just curious just to follow-up on the conversation about trends and what's happening out there. May was not a great weather month in the Midwest and the Northeast as well. The stock market was all over the place. I know your customer pays attention to those kinds of things. Have you seen any improvements in areas where the weather was more seasonal, whether it trends different in those areas? Or any improvement as we got towards a little bit away from that noise or was May down across the board?

And then just one other quick question. I know you keep talking about ramping up ship-from-stores, very exciting. But will you be careful, I guess, about split shipments, which other retailers have called out as being very costly and prohibitive. Is that something that's already on your mind?

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

Marni, it's Mark. Thanks for the questions. I'll start with the second one, ship-from-store shipping complete is a big objective. So we're well aware of the shipping cost per unit, et cetera, and that is, as we're rolling out and piloting and ramping, one of those knobs you can turn and rules you can engage to make sure you're managing it appropriately. So very much aware of that. Very excited about the opportunity to fulfill what was previously unfulfillable demand within our business, so -- but applying learnings as we do so.

And then you mentioned the weather. Honestly, weather is -- it's becoming the new norm, I guess. I would say that across country, there hasn't really been any major impacts that we would say February was widespread, which is why we called it out. And I think at the time, we mentioned it was everywhere except for the Southwest and Colorado, which seems to be the only bubbles of protected from the weather areas.

The weather in May, no big callouts. We've also been tracking from the political landscape, red states, blue states. We don't see any real major callouts across any of those differences as we look at them.

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We see general pullback in our customer segment when things like the stock market volatility increases, and uncertainty and worry tend to enter the mindset. So that's kind of how we're looking at things right now, and a little bit of that rationale again behind the decision to suspend our guidance for right now. But comfortable that we got the strength to manage through it.

Operator

Your next question comes from Janine Stichter with BTIG.

Janine Marie Hoffman Stichter
BTIG, LLC, Research Division

I want to get your thoughts on new store openings. I saw you lowered the number this year. It seems mostly due to timing, but is there any change in the view for plans to add stores over the next few years? And then just curious how the newer stores are performing?

Mary Ellen Coyne
CEO, President & Director

Thanks, Janine.

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

Janine, I'll take that. So the question on new stores, we ended up -- as we mentioned last quarter, we had a couple of store closures that pushed from last year into this year, which was part of the closure activity in Q1. Overall, the store -- the portfolio of stores that we've opened, we've opened 9 in the last -- a little over a year, are performing in line with where we would expect. They are subject to the macro as well. So we're watching that.

A couple of learnings in smaller markets, where it's a single store market that the ramp may be a little longer than we had expected, but working on that part of the marketing investments will be to support those markets. But overall, very -- remain very excited about the store growth opportunity. The store growth guidance for this year really represents available spaces, and we will not compromise on the quality of the space. We talked a lot about the economics required.

We're getting visibility to a void list and a potential opening list that we're very comfortable with. The guide this year was more about some slippage that has already occurred with the available spaces we're looking at that are likely to push into 2026. And then we're also in a couple of areas working with some uncertainties around planning commissions and FEMA, and whether or not, the centers that we're in clear those hurdles, and then, we can work through them. So that's primarily why we guided the stores down a little bit. We still feel comfortable in the 50-store opportunity by the end of 2029, and we'll likely speak more about shorter term objectives at a later point.

Mary Ellen Coyne
CEO, President & Director

And I'll just add to that, that, as I said earlier, J.Jill is in an enviable position having a balanced mix with room to scale both channels, in-store and online. But I feel very strongly about brick-and-mortar retail. I think stores are the best way you can tell your brand story and build authentic customer connections and really grow brand awareness. So we're excited about the growth that's planned into the model as we move forward.

Janine Marie Hoffman Stichter
BTIG, LLC, Research Division

Great. And then just one more. I think, Mary Ellen, you alluded to some white space or potential new categories. Anything more you can share there? Or is that something we'll hear more about in September?

Mary Ellen Coyne
CEO, President & Director

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We are working on that right now, and we will be sharing all of that in September.

Operator

So that concludes our question-and-answer session. And I will now turn the conference back over to Mary Ellen Coyne for closing comments.

Mary Ellen Coyne
CEO, President & Director

Thank you, and thank you all for joining us. As I said earlier, I am energized by the opportunities ahead. While we are navigating a challenging backdrop, we know there is always more that we can do to win our share of wallet, and that is where we are focused. I look forward to sharing more on our plans and my overall assessment of the business on our next earnings call. Thank you.

Operator
Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation, and you may now disconnect.

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