Kirkland’s Inc. [KIRK]
Q2 2020 Earnings Conference Call
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Company Representatives:
Tripp Sullivan; SCR Partners, Investor Relations
Woody Woodward; President and Chief Executive Officer
Nicole Strain; Executive Vice President and Chief Financial Officer

Analysts
John Lawrence; Baraboo Growth
John Lewis; Osmium Partners

Presentation

Operator: Good morning, and welcome to Kirkland's Second Quarter 2020 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Tripp Sullivan with SCR Partners. Please go ahead.

Tripp Sullivan: Thank you. Good morning and welcome to Kirkland's conference call to review results for the second quarter of fiscal 2020. On the call this morning are Woody Woodward, Chief Executive Officer and Nicole Strain, Chief Financial Officer.

The results, as well as notice of the accessibility of this conference call on a listen-only basis over the internet, were announced earlier this morning in a press release that's been covered by the financial media. Except for historical information discussed during this conference call, the statements made by company management are forward-looking and made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements involve known and unknown risks and uncertainties which may cause Kirkland's actual results in future periods to differ materially from forecasted results. Those risks and uncertainties are more fully described in Kirkland's filings with the Securities and Exchange Commission, including the company's annual report on Form 10-K filed on April 10, 2020, and quarterly report on Form 10-Q filed on June 4, 2020.

I'll now turn it over to Woody.

Woody Woodward: Thanks, Tripp. Once again, I would like to begin my remarks by thanking all of our Kirkland's team members. The operating performance we will discuss this morning is a direct result of their commitment to taking care of our customers and each other in our stores, distribution center and home office.

Historically, the second quarter is a tough one for Kirkland's due to category mix and seasonality. That's why this quarter was such a significant achievement. We reported a 10.2%

comparable sales increase with a 77% increase in our e-com business. Calculating that comp increase solely based on the stores that were open for the entire period, comparable sales overall would have increased 16%. We had a flat comp in May and accelerating positive comp in the remainder of the quarter, and August was up low double digits.

For the first time since 2010, we were profitable on an adjusted basis in the second quarter. We also significantly narrowed our year-over-year GAAP net loss, increased our cash position and eliminated our outstanding debt ahead of schedule. None of this was a coincidence. We earned it with a lot of heavy lifting over the past year, focused on improving merchandise assortments, increasing brand awareness, driving our omnichannel strategy, improving our infrastructure and significantly reducing our operating costs.

Last quarter, I noted that our confidence was growing on the direction of the business for the balance of the year. This improving confidence was based on the steps we took to right-size the company and make it more nimble than it's ever been. It was also based on the fact that a number of our store-based competitors are in bankruptcy or liquidation, which is allowing us to gain market share. The return of the accelerating trends we were experiencing pre-COVID in the stores and online, as well as margin-friendly promotions and first-time shoppers that continue to fuel our online business, have likewise given us a lot of confidence.

So three months later, I don't believe it's a stretch to say that I'm the most optimistic about the near-term future in the next several years at Kirkland's than I've ever been. The tide is turning, and that's due to the long-term structural changes we've implemented in the business. In fact, the customers are emphasizing home over most other discretionary spending, and the nature of our competitive landscaping is changing in our favor. I want to briefly share with you some of what we're seeing in each of those areas that's driving this improved outlook.

It all starts with merchandising and branding. More and more customers are beginning to see us as a resource for furnishing a home of any size on a budget. We still have more work to do to be even more relevant than we've been -- than we've begun to be, but new customers are starting to come to us for their complete decorating projects rather than just the finishing touches. We're a lot cooler than we were, but there's true sustainability in all of our recent gains, and it comes from our merchandise, and it's fully in stock.

We're investing in better assortments, design and quality. With the significant savings we've achieved with the higher level of direct sourcing, we've been able to invest some of those savings into better assortments. Some of the other savings is showing up in our improved margins. As Nicole will discuss with you in a moment, our merchandise margin is up year-over-year by over 400 basis points and our higher AUR is driving our comparable sales. It's clear to us that these investments really are driving both our top and bottom line improvements.

Our marketing has also been more on point of late. Our digital spend has been more impactful and the delayering of promotions has helped us as well. While we have kept our spend flat from a year ago, we've also focused on improving the customer experience and to drive customer acquisition and brand awareness. In the second half of the year, we expect to relaunch our loyalty program, put in place extended credit options, as well as broader delivery options that we're all very excited about.

We also have worked hard to improve our omnichannel presence. During the quarter, e-commerce accounted for almost 30% of our sales, with lots of room for growth and improvement. That's up from 17% of total sales just a year ago, and e-commerce was profitable in every month of the quarter. Our accelerating e-commerce business has maintained its strength and momentum all year.

Looking at the e-commerce business by channel, during the quarter we saw an 83% increase in buy online and pick up in store. For July, we were up 100%. We believe buy online, pick up in store can be an even better contributor to our profitability as it continues to mature. Our direct-ship-from-vendor channel was up 170% for the quarter, with a 270-basis-point margin gain. We've been very successfully creating our own endless aisle as customers are testing the waters on pricing and quality. They're leading us to better quality and design, and we'll look for other opportunities in the very near future to add some select brands in this channel as we grow with a focus on extending from where we've been strong in kitchen and tabletop.

We now have a dedicated group within Kirkland's that is solely focused on growing and building out this channel, and I expect it can be even more meaningful to our overall results in the future. We are working to get better in our ship-direct-to-consumer channel, and this, of course, is the tougher channel for most retailers, but we're improving here and it's becoming more profitable with the standup of two more efficient hubs, which should be fully completed in the third quarter, to replace our existing e-commerce distribution center.

The structural improvements we've made in our e-commerce business have enabled it to become a larger component of our overall business and created a true omnichannel presence. When we combine this work with what we've done to accelerate the transition in our store base, and the significant reductions in our operating expenses, we have tremendous margin leverage now in the business model.

Our net sales for the quarter, up 4%, with 44 fewer stores than a year ago, and that speaks volumes not only to how well e-commerce is performing but also how well we've been able to continue to cull the underperforming stores from the base. While we still need more foot traffic in the stores, the improvements in our assortments and the less promotional environment are driving the higher markup and increased basket in our stores.

We have pulled $45 million of annualized operating cost out of the business due to cost containment, efficiencies and changes in our labor costs and staffing model. We believe these cuts are sustainable and can drive meaningful improvements in the profitability for the balance of the year as we leverage continued growth in e-commerce and improving trends in the stores.

I'm also encouraged about the second half of the year as it relates to our inventory position. Recall that we cut back on our orders in a very meaningful way early on in the pandemic. That's kept us lean, but it's also given us the confidence to be less promotional and help our merchants become more nimble. More importantly, it's allowed new product to flow in. All of the new inventory for the second half of the year will be fresh.

This discipline with our inventory and the positive results in the quarter enabled us to improve our cash at quarter-end to $28 million with zero debt. Based on our results to date and our projections in hand, we anticipate remaining debt-free for the balance of the year and expect that our cash balance will continue to grow through the year-end. Being debt-free and having a positive cash position by year-end has been a top priority for us, and we're already well on our way.

While it's tough to gauge how much of our success so far this year is related to the rising tide that is lifting home furnishings and the changing landscape, I can say with utmost conviction that we've earned most of this success. We have significantly improved our merchandise and our brand, as well as our infrastructure, to generate tremendous leverage in our business. And with continued positive trends, that bodes very well for the immediate and long-term future at Kirkland's.

Now I'll turn it over to Nicole.

Nicole Strain: Thank you, Woody. As Woody mentioned, the second quarter has historically been our toughest for both top line sales and profitability. With the seasonality of our merchandise and limited outdoor selection, it has historically been a reset quarter for us between spring and harvest sets, with roughly 20% of our annual sales and the lower sales deleveraging our model. Making a profit on an adjusted basis in the second quarter, coming out of an extremely disrupted first quarter, is a significant achievement for our team. Our segment is experiencing a tailwind from increased demand in home décor and home furnishings, but we believe our merchandise quality and style improvements will continue to benefit us beyond the current segment trends.

I'll go through our quarter financials and our financial goals in more detail, but we used the disruption in the first quarter to accelerate planned infrastructure changes, which we expect to significantly benefit our profitability as we move forward. These improvements create a profitable model, which we expect to further leverage with continued growth in top line sales to reach our long-term financial targets.

For the quarter, we had a comparable sales increase of 10.2%, which included an increase in e-commerce sales of 77.1%, or a demand e-com comp increase of 86%. If we adjust for the stores we didn't open until later in the quarter, our comp sales increase was just over 16%. We had a flat comp in May, driven by partial store openings and strong e-commerce sales growth of 95%, followed by double-digit comps in both June and July, July being the strongest month of the quarter for both stores and e-commerce. We continue to see a double-digit comp sales increase in August, but have a tougher comp later in the quarter due to increased promotions in the prior year. We do expect to see higher margin gains year-over-year as we comp those months with our new promotional cadence.

E-commerce accounted for almost 30% of our total sales for the quarter, and our third-party drop-ship revenue continues to be strong with a 170% increase for the quarter, which was offset by lower increases in the store-fulfilled channels. E-commerce sales fulfilled in-store were approximately 40% of total e-commerce sales, which is lower than the prior year. We expect this to increase as we move into our seasonal decorating quarters and as brick-and-mortar traffic moderates.

As Woody also mentioned, brick-and-mortar traffic was down within the quarter but was consistent with ShopperTrak for our segment. The traffic decline was offset by a higher average ticket and higher conversions from our more elevated merchandise assortments and more intentional visits from our customers.

During the quarter we closed 18 stores, resulting in a count of 387 stores. Year-to-date we have opened no new stores and closed 45 underperforming stores, or 10% of the store base since the start of the year. We will continue to close some underperforming stores throughout the remainder of the year.

Gross profit was 28.6% of sales, compared to 22.2% in the prior year quarter, or an increase of $9.1 million. Of the 640-basis-point increase, 410 basis points related to an improvement in merchandise margin, primarily from reduced discounting. We have had success with continued offers to incent customers to purchase and to drive traffic to our website and our stores while at the same limiting the depth of those discounts and simplifying the message.

Store occupancy costs declined by 310 basis points from the prior year due to the closure of underperforming stores, negotiated rent reductions and the leverage of increased sales. Breaking that down a bit further, 250 basis points was generated by rent restructuring and the remainder by the sales leverage. We have close to a third of our leases with a term renewal in the next six to 12 months and expect to negotiate further rent savings.

Outbound freight, which is the movement of our merchandise from the distribution center to the stores, decreased by 150 basis points from the 2019 quarter, driven by reduced routes, rate decreases and sales leverage. The reduced routes were driven by store closures and fewer routes to continuing stores, specifically early in the quarter. We also saw a rate reduction of roughly 30% year-over-year. These two costs declined by 10 basis points, with productivity improvements offset by the channel mix shift, with labor costs to pick-and-ship e-commerce orders exceeding labor costs to ship cases to our stores as a percent of sales.

We are on track to close our Jackson e-commerce distribution center, reallocate a portion of our retail distribution center to fulfill e-commerce and stand up our second e-commerce hub in the third quarter. This will reduce our distribution center total square footage by over 200,000 feet, or roughly 16%, and locate e-commerce distribution much closer to the end customer, which will decrease parcel cost but also improve speed to the customer. E-commerce shipping costs increased 240 basis points as a percent of total sales due to the higher mix of ship-to-home sales. However, the rate as a percent of ship-to-customer sales improved by 350 basis points due to the higher average ticket versus the prior year.

Operating expenses excluding impairment improved to 28.4% of sales, compared to 38% in the second quarter of 2019, or a reduction of $10.2 million on a higher sales base. We have removed approximately $45 million, or $2.40 per share, from our operating expenses, which is a 25% reduction from the 2019 base, and we expect these cost reductions to be largely sustainable beyond this fiscal year.

Store operating expenses made up 830 basis points of the reduction, driven by the store labor model implemented at the beginning of the fiscal year and aided by our reduced operating hours, leverage from closing underperforming stores and an overall review of operating costs.

E-com operating expenses increased 20 basis points as a percent of total sales but leveraged 270 basis points as a percent of e-com sales, as dollars increased by only $260,000 on the $16-million growth in revenue.

Advertising expense remained consistent with the prior year in dollars but with spend shifting significantly toward digital channels. The results of this improved spend are evident in the new customers we are gaining. During the quarter, we saw 11 million new visitors to our website, or 47% more than the same quarter last year, and of those new visitors we saw an 81% increase in sales year-over-year. So not only did we see a significant bump in first-time visits, but a larger percent made purchases.

Corporate operating expenses decreased by $900,000, or 110 basis points, driven by reduced headcount, a reduction of one third of our corporate office space and an overall expense review. We reported a noncash impairment charge within the quarter of $5.7 million, of which $5.2 million relates to right-of-use asset impairment from the closure of underperforming stores.

EBITDA, excluding impairment in other minor nonoperating expenses for the quarter, was $6.8 million, or 5.4% of sales, and that's compared to a loss of $10.7 million in the prior year quarter, for an improvement of $17.4 million.

Our tax rate for the quarter was impacted by the NOL carryback allowed by the CARES Act and a valuation allowance. Excluding these items, the normalized rate of 23.1% was used in the non-GAAP adjusted calculation.

Our earnings per share, excluding the noncash impairment, normalized tax rate and other minor nonoperating adjustments, was $0.02, compared to a loss of $0.99 in the prior year. The GAAP loss including these items was a loss of $0.66, compared to a loss of $1.21 in the prior year.

We ended the quarter with $27.6 million in cash and no outstanding debt. Combined with availability on our revolving credit facility, we had total liquidity of $78.9 million. We expect similar levels of cash to end the third quarter, and assuming we see our typical cash build in the fourth quarter, we expect to end the year with approximately $50 million to $60 million of cash. We do not anticipate any borrowings for the remainder of the year.

Inventory at the end of the quarter was $77.1 million, compared to $108.2 million in the prior year, or almost 29% lower. The prior year levels were elevated by the rollout of new categories, and we currently have 10% fewer stores, but we are lighter than planned. As Woody mentioned, we expect to return to planned inventory levels with third quarter receipts as we bring in fresh product sets for the back half of the year.

Year-to-date cash provided by operations was $2.8 million, compared to cash used of $31.5 million in the prior year, for a change of $34.4 million. The improvement is due to operating performance in the second quarter and changes in working capital. As we mentioned on the prior call, we canceled a significant amount of Q2 merchandise receipts, which will benefit cash in both the second and third quarters. Additionally, we received a $12.3-million income tax refund from the CARES Act NOL carryback within the quarter.

Relative to the first quarter, our net cash position improved by $37.4 million in a quarter where we historically use cash. Capital expenditures were $5.6 million, compared to $8.5 million in the prior year, and were primarily driven by investments in supply chain and e-commerce. Based on our activity to date, we expect capital spend to remain below the low end of the initial range we communicated of $10 million for the year.

We have provided our financial goals in recent earnings releases and in our earnings calls, but with the significant changes in our operating model, I believe it will be helpful to share more detail around our expectations for the next two- to three-year time frame. These targets are targets, and as such, subject to change and can vary from year to year. Hopefully this will provide some context to help investors understand how far along we are in our strategic plan and the leverage that is inherent in our business model.

Beginning with top line, we intend to continue to focus on merchandise improvements and to push e-commerce sales growth by investing in our website and the supporting supply chain and focusing the majority of our marketing spend on digital channels. As our e-commerce sales base grows over the next two to three years, we expect annual e-commerce growth to be in the range of 25% to 35%, resulting in approximately half of our sales generated by e-commerce. We will continue to monitor underperforming stores and believe the right store count for our model to be in the 300- to 350-store range, which would represent roughly a 10% to 20% further reduction in the store base from where we are today. We will continue to focus on initiatives to mitigate store traffic decline, support a true omnichannel experience for the customer and look to average ticket increases from a higher furniture mix and elevated merchandise to offset traffic shift.

Next, for product margin, we will continue to adapt our messaging to support the value of our merchandise, which will enable us to limit the depth and frequency of discounts while still balancing offers that drive traffic. We stood up direct sourcing in 2019 and will have just shy of 20% of our purchases direct-sourced in 2020. We expect the first phase of sourcing to increase this to 40% to 50% of purchases over the next two to three years.

Moving to profitability, we will continue to address profitability improvements across store occupancy costs, supply chain efficiencies and operating expenses. Starting with occupancy costs, as I mentioned earlier, we have almost a third of our leases coming up for renewal in the next six to 12 months. We believe we can work with our landlords to further negotiate favorable rent terms. If we are unsuccessful negotiating terms that make sense, we will close any additional underperforming stores.

We have made significant progress in transitioning to a more efficient supply chain, most of which we have yet to see the full benefit, but with the reduction of distribution center space and placement of hubs more strategically, we will improve our fixed costs as well as parcel costs. We also expect to improve overall DC labor efficiencies from our new warehouse management system implemented earlier this fiscal year. And lastly, the increased average unit retail allows leverage throughout the supply chain.

As mentioned earlier, we have removed $45 million of operating expense compared to fiscal 2019. While we may choose to invest in some areas over the next two to three years to support top line growth and other initiatives, we are committed to maintaining this lean operating structure to maximize profitability. These initiatives will improve the flow-through of both our brick-and-mortar and e-commerce channels. Our e-commerce business, which is currently profitable, consists of direct-to-consumer and store-fulfilled channels. Many of the supply chain initiatives completed to date, as well as future initiatives such as ship-from-store, are focused on the direct-to-consumer channel, which we expect to have a significant positive impact on overall profitability. Over time, we expect to fulfill a minimum of 40% to 50% of our e-com sales in-store.

If we sum up these initiatives, the math is very compelling. Based on the assumptions we outlined earlier for e-commerce sales growth, reduction of our store base, margin improvement and cost reductions, our financial goals over the next two to three years, expressed as a percent of sales, would be: to improve our growth profit rate to the low- to mid-30% range; to improve EBITDA to the high-single-digit range and operating income to the mid-single-digit range.

From a liquidity perspective, our main goal will continue to be maintaining a healthy balance sheet. Within this model, we will generate excess cash annually and will allocate first to projects to drive growth and/or reduce costs, but will consider all options to maximize shareholder returns.

And now with that, I'll turn it back to Woody for closing comments.

Woody Woodward: Thanks, Nicole. I'm proud of how our team came together and handled the initial store-closing crisis and took the opportunity to accelerate the execution of our goals. We are collectively enjoying the momentum within our sector, as well as the success of our own initiatives. I want to thank our team and our customers as they support Kirkland's. They're acknowledging how much of a cooler and more relevant brand we are becoming.

Questions & Answers

Operator: Operator, now we're ready to take questions. (Operator Instructions) And the first question will come from John Lawrence with Baraboo.

John Lawrence: Yes, could you -- Woody, could you speak to a little bit about -- let's just start with merchandising first. I mean, when you came to Kirkland's, and the vision you had to -- those pillars of the merchandising assortment, the furniture, the desktop, the tabletop -- can you sort of walk through that? Just give us a sense, sort of since year-end or maybe even a little further back, of where that process is now? And obviously, just remind us of the process that you've been through and a little bit of the success factors that -- within this report that are yielding that.

Woody Woodward: Great, thanks, John. Of course, this is my favorite topic to talk about, because I believe that as a retailer we are what we sell. And one of the facts that I discovered early on when I came to Kirkland's just under two years ago was that we were really good at servicing the customer at the end of their decorating journey. They would come to us for a wreath or a candle or some accent, and we were very appreciative of that. But to become a real home furnishings retailer we had to dig deep into our souls and say, what are the categories that we're missing that could help us improve on that future?

And so we added some new categories. We extremely beefed up our furniture assortment. We added tabletop, knowing that there was a competitor out there that was very vulnerable, and that has been wildly successful. In bedding, a little bit less successful, but we're still in the game. And rugs, which is coming on pretty strong at this particular point. So all of our new categories seem to be working, but with a couple of them being runway successes with both the tabletop and the furniture.

But I always want to point out that this is definitely -- and it's kind of a cliché word to use, the word journey, but we are on a journey of our merchandise, and we're only partway there. We have so much more improvement. But the part that excites me is that the customers are already getting the parts of the improvement that we're already putting out there, and they're seeing our improved quality. They're seeing our improved design. They're seeing our more mature way of handling promotions and not being so frenetic. And so I'm really excited about the next two or three years as we really push on the additional new categories that I'm not able to talk about today, but also the direct to consumer from vendor and all the opportunities that we have. So like I said, if I had to evaluate, we're probably 25% to 30% in on this journey with a lot of room for improvement for the future.

John Lawrence: Great, thanks. And just to go along with that, is there any way to measure, Woody -- I mean, it's probably an unfair question because of the mix, but is there any way to look at what percentage of sales today would you say is the new merchandising plan versus the traditional Kirkland's customer product mix?

Woody Woodward: Probably hard -- I mean, we could take the entire tabletop business and say that that's all new, so that's an easy one because it's 100%. We didn't really carry that before. But hard to say, because we're getting both a channel shift mix right now, we've got a little -- some tailwinds from that; we've had some competitors go out that were very dominant in some of these areas; and then I think that just bringing in all these new customers into our e-commerce site and them looking at us and saying, this is a cool store. This has got -- you've got a relevant assortment at great value. I'm going to check it out online first and then I'm going to pop into one of the stores.

Our stores look better than ever, and we've taken an initiative to really stabilize how much movement we have on the floors, because what I find is that our customers come to us for consistent and stable assortments. They want to know where to go to find their candle update. They want to know where to go to find their seasonal products. And so we've really cleaned up the store and it's a much better shopping experience for our consumer.

Nicole Strain: I think I would just add to that, since there's so much noise in Q1 and Q2, and breaking apart the pieces is definitely difficult, but I do think the merchandise we've been -- Woody's team's been able to touch definitely creates an overall halo effect on the rest of the store and the rest of the merchandise. But we'll continue to monitor that as we have more stable quarters.

John Lawrence: Yes. And just last question, and I'll jump back in, but when you look at the store base, Nicole, and you look at those 10% to 20% more reductions, I assume with this tailwind, there's a handful of stores, 5% to 10%, that you're waiting to see if this tailwind helps them enough to stay. Is it that clear-cut or is it -- what other measuring -- I mean, the leases, obviously, are important, but what other factors go into that store-reduction model?

Nicole Strain: Yes, I think it's a multi-phased approach. The first is profitability, and I think it's top line tailwind. It's also the new labor model and it's the margin rate that we're running with. So I think that combined with what sort of rent terms we think we can renegotiate will play into what that number is. And obviously we gave a range, because it is to some degree dependent on how those stores perform from here on out.

Operator: (Operator Instructions) The next question comes from John Lewis with Osmium Partners.

John Lewis: I guess my first question is, is you guys -- I think if I heard you right, Nicole, you generated around $40 million in cash for the quarter. Is that right?

Nicole Strain: Correct. $37.8 million.

John Lewis: And I was trying to take -- $37.8 million, okay. And then for the year-end cash, net cash, did you say $50 million to $60 million?

Nicole Strain: Correct.

John Lewis: Okay, and that is half the market cap. And I guess with that, have you guys thought about repurchasing stock at all? Has that come up on the potential hit list?

Nicole Strain: Yes, I think where we are now is, obviously, came out of Q1 as this has been a great quarter for us; there are some unknowns in the back half on what happens with COVID from here, so I think the way we're looking at it is, our model does generate a significant amount of cash, especially with earnings that -- the earnings that we're trending toward now, but holding off for a period of time, but definitely open to evaluating what are the things that make the most sense and have the best return for our cash. So I would stay open to all pieces, but definitely have a window of time where we want to make sure that we are conservative enough to weather whatever should happen over the next six months.

John Lewis: Got it. That makes sense. And then I guess my last question is, is -- your call has been very helpful and you answered most of my questions, so thanks for all the details. I guess my last question is, over the next two to three years with your current plus-10% comps on same-store sales, I think you said 25% to 35% growth in e-commerce, so -- and I guess then the offset would be that you close maybe 40 to 50 stores, so should I expect a growing top line in addition to your margin targets?

Nicole Strain: I think ultimately in the two- to three-year time frame, yes. I think we're in this period now where the store closure is accelerating faster than the e-commerce is growing, but that will level out within that time frame, so we are taking advantage this year because we have some opportunities to be much more aggressive with landlords, but I do think that over the time frame there will be top line growth overall.

Operator: Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to Woody Woodward for any closing remarks.

Woody Woodward: Well, thank you for both Johns asking questions. I guess you have to have a first name of John to be able to ask a question, and we certainly appreciate that. And we appreciate all the supporters that we've got out in the world, and we look forward to future good quarters. Thank you.

Nicole Strain: Thank you.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.