Kirkland's Home
Fourth Quarter and Fiscal Year 2022 Earnings Call
Tuesday, April 4, 2023, 9:00 a.m. ET

Officers and Speakers
Cody Cree; External Director, Investor Relations
Steve Woodward; President and Chief Executive Officer
Michael Madden; Executive Vice President and Chief Financial Officer

Analysts
Jeremy Hamblin; Craig Hallum Capital Group
Anthony Lebiedzinski; Sidoti & Company
John Lawrence; Benchmark

Presentation

Operator: Good morning, everyone, and thank you for participating in today's conference call to discuss Kirkland's financial results for the fourth quarter and fiscal year ended January 28, 2023. Joining us today are Kirkland's Home CEO Steve "Woody" Woodward; EVP and CFO Mike Madden; and the company's External Director of Investor Relations, Cody Cree. Following their remarks, we'll open the call for questions.

Before we go further, I would like to turn the call over to Mr. Cree as he reads the company's safe harbor statement within the meaning of the Private Securities Litigation Reform Act of 1995 that provides important cautions regarding forward-looking statements. Cody, please go ahead.

Cody Cree: Thanks, Jaime. 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 provision 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.

I would like to remind everyone that this call will be available for replay through April 11, 2023. A webcast replay will also be available via the link provided in today's press release, as well as on the company's website at kirklands.com.

Now I would like to turn the call over to Kirkland's Home CEO, Woody Woodward. Woody, over to you.

Steve Woodward: Thank you, Cody, and good morning, everyone. It's a pleasure to be speaking with you all today, and as I announced this morning, I've provided the board of directors with notice that I will be retiring from my position at the end of May, and as a result, the board has commenced a CEO transition plan.

It's been an honor leading this great organization since 2018. I have respect for our board and all the great colleagues I've served over these past five years. While I couldn't have predicted all the highs and lows we would face on this journey, I knew our transformation plan would take time and patience. The largest and most successful home furnishings retailers in our industry all took decades to reshape their business, build their reputation and capture market share [indiscernible], so we knew this was not going to be an overnight success. In fact, the last several years have truly been some of the most challenging periods I've ever experienced throughout my career. However, I'm proud of our organization's ability to navigate this highly volatile macro environment and the resilience of our team makes me proud to serve alongside them. I firmly believe that this organization has made significant improvements across every facet of the business and is in a better position to capitalize on the opportunities that lie ahead.

As our board considers its options for my successor, I will be staying as CEO through the end of May to ensure a smooth transition. Ann Joyce, a member of our board, will be stepping in as the interim CEO. By way of background, she has served as a senior executive in many senior executive roles throughout the retail industry over the past three decades, including notable brands such as Ralph Lauren, Aeropostale and Chico's. In more recent years, Ann has spent most of her time on boards for various public and private companies, in addition to running her own consulting practice in which she advises senior business executives and board members. Ann joined Kirkland's board as an independent director in June 2021 and has an extensive view into the challenges we currently face and, more importantly, the opportunities ahead.

In addition, we announced the promotion of Amy Sullivan, who currently serves as Senior Vice President and Chief Merchandising and Stores Officer, to the role of President and Chief Operating Officer. Amy has been an invaluable member of our leadership team over the past decade and has been instrumental in evaluating the brand -- in elevating the brand to the much-improved design and quality that we have today. Amy has more than 20 years of experience in senior merchandising roles across the retail landscape, having worked for Express, Lands' End, Kohl's and JCPenney's.

With Ann and Amy in these roles, along with the rest of our skilled leadership team, I firmly believe that I will be leaving the company in great hands, and I look forward to rooting for their success from the sidelines.

With that, let's transition over to our performance. As we disclosed in our holiday sales release earlier this year, we stated the fourth quarter -- we started the fourth quarter with promising sales trends as the month of November and our Black Friday event was relatively successful. However, soon thereafter, we began to see traffic decline rapidly both in-store and online, along with experiencing the effects of significant inventory reductions on our merchandise mix, both of which ultimately drove our overall quarterly sales lower on a year-over-year basis. Although disappointing, importantly, we were able to generate over $40 million in operating cash flow, which allowed us to repay $45 million in debt. Even in a volatile customer market with declining customer traffic and a less-than-ideal merchandise mix, we were able to generate meaningful cash flows and strengthen our balance sheet.

But stepping back for a moment, I'd like to provide some perspective on the power of our brand and the potential value that our omnichannel platform can provide shareholders. If we look at our performance from fiscal 2014 to fiscal 2018, our average annual revenue during that five-year period was almost $600 million and our EBITDA margin was almost 8%. We were able to accomplish that with an operating structure that was not as well positioned to support omnichannel growth as it is today. There was no direct sourcing program, and we had declining merchandise relevancy with outdated design and quality issues.

Since then, we've made significant changes to our organization, including digital transformation efforts to create a true omnichannel platform, removed significant costs from our operating structure, revitalized our brand image with updated logos and refreshed stores, and refined our distribution footprint to provide better coverage across our store and customer footprint. It wasn't that long ago, during a heightened customer spend environment, that we were able to capitalize on these transformative changes and report impressive financial results, although unprecedented macro challenges soon followed and significantly affected customer sentiment. I firmly believe we have the ability to continue positioning our organization for long-term success. With better liquidity and an improved merchandise strategy in place, we believe this sets us on a path to stabilize our business in fiscal 2023 and reinvigorate sustainable growth from there.

So how did we get to this point? While the transformative changes that we made over the past few years have been beneficial in elevating the quality, design and sourcing of our merchandise, we also recognize that many of our loyal customers, who are dedicated shoppers to our value décor and holiday assortments, have felt somewhat neglected through this transition period. This customer has been incredibly important for Kirkland's Home throughout our history, and we believe there is an opportunity to reinvigorate this portion of our customer base.

While we're still planning to provide larger-ticket items in categories such as furniture and outdoor, we're going to be working on rebalancing our merchandise assortment with a focus on opening price points starting in the $20 range and ensuring that our inventory availability appropriately supports customer demand. In fact, we've already begun shifting store layouts to more effectively highlight these opening-price-point items while still showing how they can be a wonderful accent to larger-ticket items.

As part of these efforts, we're continuing to push a strong selling culture among our store-level employees to drive improved conversion with this updated merchandise mix. We're also going to be much more calculated with our promotional strategy to ensure we're supporting these value-seeking customers, which includes leveraging improvements in our initial markup to drive more demand with a higher discount rate.

Through this process, we're evaluating the effectiveness of our marketing and going to be a laser focus on improving the ROI on advertising and marketing spend to ensure that our efforts are ultimately resulting in sales dollars. We've developed a very powerful tool with our customer data platform, and it provides us with ample insight into the customer behavior and pattern, which we will look forward to leveraging in the coming fiscal year to drive these merchandising promotional strategies in the right direction.

In addition to our revised merchandise strategy, we are expecting to see some relief from the supply chain to show up in our margin structure in fiscal 2023. We are seeing pricing on shipping containers and rates come back to more normalized levels, and expecting to see material margin improvement starting in the first quarter of this fiscal year. While this is welcome news, we remain vigilant on our efforts to tightly manage our operating costs across the organization.

We've also amended our existing credit agreement to further extend our credit availability during peak season and strengthen our liquidity position. I'll let Mike dive into the details of the new agreement, but it was important for us to secure the added availability and flexibility at what is the lowest cost of capital available to us. The facility was set to mature in 2024, and this amendment extends the term out to 2028.

Overall, I'm very proud of what this organization has been able to accomplish in such a difficult macro environment as this past year, including improving the quality and design of our merchandise, updating the customer -- the company's branding, enhancing the omnichannel experience and optimizing our operating structure with a focus on delivering long-term profitability. We're well positioned to provide our customers with affordable, stylish alternatives in refreshing their homes. I do believe that we are laying a strong foundation to fully unlock the potential of our platform over time.

With that, now I'll turn the call over to Mike, who will provide detailed commentary on our performance in the fourth quarter and fiscal year, along with our outlook. Once again, I'd like to thank our stakeholders for their support over the last several years as we embarked on this journey. Mike, the floor is yours.

Michael Madden: Thank you, Woody, and good morning, everybody. For the fourth quarter, net sales were $162.5 million, compared to $176.2 million in the year ago quarter, which includes a 4% decline in store count and a comparable store sales decline of 6.1%. The comparable store sales result was largely driven by a year-over-year traffic decline, partially offset by an increase in the average ticket. E-commerce was 25% of total sales in the quarter, which was similar to the prior year.

Breaking down sales within the quarter, comps were flat in November, followed by a decrease of 11% in December and a decrease of 8% in January. Gross profit margin declined 850 basis points to 24.8% of sales, compared to 33.3% in the prior year quarter.

There are five components to this year-over-year change as follows: First, merchandise margin declined 420 basis points to 49.9% versus 54.1% in the prior year quarter. Increased discounting associated with our efforts to reduce inventory levels and sell through the holiday assortment, along with higher inbound freight rates, led to this decrease. As we've previously discussed, inbound freight rates spiked in late '21 and early '22, and much of the product that sold through in Q4 carried the impact of higher freight rates and cost of goods.

Second, central distribution costs increased 170 basis points to 6.3% of sales from 4.6% in the prior year quarter. Operational inefficiencies in our distribution centers resulting from elevated inventory levels and uneven product flows led to the increase. These costs spiked in the first and second quarters and were capitalized as the underlying inventory was held prior to sale. Most of the inventory that sold through during the fourth quarter was burdened by these costs.

Third, store occupancy costs increased 140 basis points to 9% of sales from 7.6% in the prior year quarter, largely due to deleverage from a lower sales base.

Fourth, outbound freight costs, including both store and e-commerce shipping expenses, increased 150 basis points to 8.3% of sales from 6.8% in the prior year quarter. Sales deleverage, coupled with additional routes deployed to move more product to stores due to elevated inventory levels, led to the increase as a percentage of sales. E-commerce shipping costs were up slightly versus the prior year, reflecting the launch of our in-home delivery service.

And lastly, the depreciation included in cost of sales decreased 30 basis points to 1.5% of sales from 1.8% in the prior year quarter.

Total operating expenses were $43.5 million, or 26.8% of sales, compared to $44.6 million, or 25.3% of sales, in the prior year quarter, an increase of 150 basis points. We recorded an impairment charge of $1.6 million during the current-year quarter, primarily related to underperforming stores. Excluding this charge, operating expenses deleveraged by only 40 basis points due to tight management of expenses at the store and corporate levels.

Adjusted EBITDA, including impairment -- excluding impairment, stock compensation and other minor expenses, was $2.6 million, compared to $20.3 million in the prior year quarter.

Our normalized tax rate for the fourth quarter was 18.9%, compared to 25.9% in the prior year quarter.

Adjusted loss per share, which excludes noncash impairment and other minor adjustments and includes a normalized tax rate, was $0.09, compared to adjusted earnings per share of $0.84 in the prior year quarter. GAAP loss per share including these items was $0.30, compared to earnings per share of $0.91 in the prior year quarter.

Today we also announced an extension of our existing credit agreement with Bank of America. The amended asset-based facility increases the size of the line of credit to $90 million from $75 million, which provides us with incremental line availability and flexibility during our peak-season months. The credit agreement was originally scheduled to mature in late 2024. We are pleased to already have this extension behind us and signed up through March 2028.

Moving to our outlook for 2023. We are not providing specific guidance for the year given the lack of visibility around the macroeconomic environment and its impact on customer traffic and conversion trends. However, we do want to provide some color around our expectations for certain key areas of the business.

In the early part of fiscal 2023, sales trends have remained challenging, but we are encouraged by the merchandise margin recovery we have seen thus far. Quarter-to-date comp sales trends are down in the high-single-digit range as traffic trends both in-store and online continue to be difficult. Merchandise margins are providing an offset, running higher than the prior year in the 150-basis-point range. Merchandise margin is benefitting from lower inbound freight costs as container rates return to prepandemic levels and a decrease in product costs through vendor negotiations. Supply chain costs inside our distribution facilities are reflecting lower inventory levels and increased labor efficiency. We've made moves to simplify our supply chain infrastructure by recently closing our Las Vegas e-commerce distribution hub and reducing our reliance on offsite storage. Inventories are under control and flowing according to plan, and we continue to be vigilant about operating expense control.

With these positive factors in place, our efforts are focused on establishing sales momentum as the year progresses through merchandise assortment adjustments and value-added promotional activities.

As we think ahead for the full year and beyond, our priority is returning the business to profitability. Historically speaking, while volatility has always played a part in our results, we've been able to maintain EBITDA margins in the mid- to high-single-digit range over time. Earlier, Woody cited the period 2014 to 2018, where we achieved EBITDA margins in the 7% to 8% range.

We've made significant improvements in our operations since then, including within our omnichannel capabilities and our supply chain infrastructure. We've also tightened up our store base and improved our leasing terms in many of our locations. We remain in competitive, sought-after real estate locations with steady customer traffic. We've done an effective job in reducing our operating expenses and continue to manage each expense line item prudently.

As in the past, top line momentum can generate a sizeable flow-through effect and yield substantial earnings growth. We believe that with some of the shifts in emphasis in our merchandise assortment, we can garner more enthusiasm from our core customer segment while maintaining interest from those we've attracted over the last few years. We are prioritizing more depth in seasonal buys, key items across our home décor categories and an emphasis on more accessible price points in an environment where home consumers are stretched, all while we continue to feature the improvements in style and quality that we gained over the last few years.

Many of the macro issues affecting the supply chain and input costs have abated, and with firmer control of our inventory levels and our expenses, any improvement in top line trajectory will have an outsized effect on our earnings power.

Finally, as to capital allocation, our first priority is to reduce borrowings and reestablish a level of liquidity that allows us to operate the business with more flexibility. Once that has been achieved, we'll focus on growth and ROI opportunities to push the business forward. Share repurchases and dividends have been valuable components of our capital allocation historically, and we expect to use them again in the future once our near-term goals have been achieved.

With that, I'll turn the call back over to the operator for Q&A.

Questions & Answers:

Operator: [Operator Instructions]

Our first question today comes from Jeremy Hamblin from Craig Hallum Capital Group.

Jeremy Hamblin: So I wanted to start with the commentary around adjusting the merchandise assortment, and it sounds like what you suggested is maybe you were a little too aggressive in some of the changes in merchandise assortment over the last couple of years, that maybe your value customer felt somewhat neglected. In terms of that rebalancing of the assortment that you mentioned, how long do you expect that to take? What do you think that that will do in terms of impacting your overall average ticket? How do we think about that in terms of comps getting back from down high single digits to flat or positive? How is that going to play out in terms of the mix of ticket versus transaction growth?

Steve Woodward: Good question, Jeremy. That's good, and you know, we had a good insight into -- this year was coming, it might be a challenging year, and we also realized that maybe we pushed our furniture assortment too aggressively, and so while we're not backing off of the idea of being a complete home furnishings retailer and having the total package, we have let the customer guide us a little bit more fluently.

So one, we started making these decisions that we wanted to have more opportunity at the opening price point -- here's -- for two reasons. One, because that's our customer was asking for, and number two was settling into the fact that there might be recessionary pressures or whatever the macro environment was. So starting in the fourth quarter of last year, we have purchased products in the $20 range and under to be about 40% of our assortment. Now, that's SKU numbers, because remember that some of these are huge power SKUs, and where we might have ordered at 5,000 before, we've ordered 10,000. These are proven best-sellers, and not only did we buy it that way, but we've also adjusted our visual presentation in the stores to show that -- and make it easy for the customers that are just coming to spend $20 to $50, that these are the choices that they have.

And so I think it's very clear. It does build up. We've gotten some traction in the first quarter and we're enjoying that benefit, and it really comes out throughout the entire year, and we'll be fully set and have that equation with the 40% of our purchases in the $20 and under set for the third and fourth quarter.

So we're really excited about it, and like I said, we're not reducing our emphasis; we're just letting the customer guide us, now that we've got a fully laid out assortment in strategy. And we've done a really good job of bringing in these power items and key items for the balance of the year.

Michael Madden: Hey, Jeremy, just to add on to that, because you were asking about ticket, and one thing I would say, our team's been working on this. Our buys, as they start flowing in toward the back half, are going to really reflect what we talked about here today. But as it affects ticket, I think the way we're looking at this is, first of all, we're still going to have a healthy assortment of higher-ticket furniture in the store, but with these other items surrounding it, it's going to help us drive items per transaction better and couple that with what we've seen in the ticket so far with the higher-ticket items driving that historically. Well, now, I think we have a better chance to drive IPT and conversion in the stores with this, and that's kind of how we're looking at the ticket mix here, knowing that traffic may still be difficult in the near term.

Jeremy Hamblin: Got it. That's helpful. And then in terms of the inventory overall, so you had some nice recapture from a working capital perspective on your inventories this year; I think about plus-$30-million. As you go through this kind of swinging back on the product assortment, how should we be thinking about, like, from a cash flow perspective, you did end the year with inventories that were at least $5 million higher than what you had expected in January when you updated; how do we think about the level of inventories, and from a working capital usage perspective, is that something that -- obviously if you see a real acceleration of sales, then that won't have as much of an impact, but should we be thinking about inventories as something that's going to be a cash usage this year, or something that could also contribute to your cash flow?

Michael Madden: Yes. The way -- first of all, to touch on the ending inventory number in '22, it was a little higher, I think largely due to sales being a little underperforming in December and January, and the other thing I'll mention is transit times have gotten tighter, so our receipts were showing up a little bit earlier than they had been in previous quarters, so that timing effect had a little bit of an impact there as well.

But as I look into '23, I think you should probably think about it as neutral. I think -- and maybe a slight cash generator, just given where we are from a store count basis as we end the year. I think the way to think about it is we'll probably end the year right around the way we started it with a little bit of a -- obviously a peak into third quarter as we prep for the high selling season, and then that coming back down to at or a little bit below where we started, is the way to think about it. But it's a traditional type of ramp up and ramp down that we didn't see in '22. We expect to see that in '23.

Jeremy Hamblin: Got it. And the last one from me before I hop out of the queue, in terms of the store portfolio, so you closed 10 locations in Q4; I think 16 or so for the year. As you take a look at where the store portfolio is today, is there any thought that maybe -- I'm sure that some of those stores are losing money on a four-wall basis. Is there thought that maybe you might need to trim more stores on a go-forward basis, or how should we be thinking about that as we look at '23?

Michael Madden: Yes. Right now we're looking at that as kind of a maintain strategy. I mean, I think you may see a few stores drop off, kind of similar to what you saw in '22, but we've done a lot of work over the last few years to get our rents in line, and I think largely that's accomplished. We can still track down a few of those and get rent reductions. But I think it's a maintain thought process, and we've done some recent analysis on our store base and looking at how welltrafficked those centers are using some of the mobile phone data that's out there, and what it tells us is we're -- by and large, we're in really good centers across the board. So I think with these changes that we're expecting to see with our merchandise and hopefully some sales momentum as the year progresses, I think we want to hold onto our store base.

Now, to your point, we're constantly analyzing areas of the country, areas of the store base that we think we can improve and maybe reduce our exposure, but largely, I think we want to see the store base benefit from what's coming.

Operator: Our next question comes from Anthony Lebiedzinski from Sidoti & Company.

Anthony Lebiedzinski: Woody, best of luck in your pending retirement; certainly a pleasure to work with you the last few years.

Steve Woodward: Thank you, Anthony.

Anthony Lebiedzinski: Sure. So first, as far as just going back to the fourth quarter, just curious as far as same-store sales; were there any regional differences that you can speak of, and as far as product categories, can you maybe just highlight what, perhaps, worked and where were the biggest laggards in terms of product categories?

Michael Madden: Yes, Anthony. In the fourth quarter, I would say, from a region standpoint, things were pretty even across the board. There were really no geographic areas that were all that different than others. From a merchandise standpoint, I think the big call-out about the fourth quarter, I think, was we looked good in November; we did really well with our seasonal assortment. It performed very well in December -- or in November and then through Black Friday. And I think what we saw in December was the effect of a lot of cutbacks that we had to make earlier in the year in our assortment, so we kind of found ourselves in a position where the mix was a little off just given all the cancellations and effects of really having to run that inventory down last year, so we felt like our mix got a little off, and we saw that in December.

So what we're doing this year to recover to that is really focusing on the seasonal buy, making sure it's deep enough in the key items that we know sell; instituting a lot of these lower-price-point items that Woody mentioned across the assortment; and taking advantage of that time frame between Black Friday and Christmas where we felt like we just didn't have the ammunition that we normally have. So that's kind of the take-forward, and I think we'll be in a better inventory position, better merchandise mix position this year relative to last year.

Anthony Lebiedzinski: Got you. Yes, thanks for that. And then in terms of the inventory, are you pretty much now flushed out of the higher-cost inventory? How should we think about that?

Michael Madden: We pretty much are, Anthony. The freight costs had been declining all -- really, all last year after it spiked early, and now we're in the period where most of the buys that we have on the floor and in our DCs reflect that. So right now the freight looks like it'll be a benefit this year, as well as the distribution center cost effect of this. Those two spiked at about the same time and affected the seasonal selling in Q4, and then bled over a little bit into Q1, and as we work our way through the rest of the year, absent any change in the supply chain environment, that seems to be through.

Anthony Lebiedzinski: Got you, okay. And then in terms of the merchandise margins, I think Mike, you mentioned that so far, Q1 to date, they're running about 150 basis points higher than a year ago. If you're -- if you could just kind of help us understand as far as the -- if everything goes kind of according to your plan as far as being able to hit on your goals as far as this rebalance merchandise strategy, what's kind of the potential improvement for merch margins?

Michael Madden: Yes. So we're talking about 150 basis points so far this quarter, and just keep in mind, last year first quarter was our highest-margin quarter. It -- we hadn't really gotten to the point where we started discounting aggressively. So we're up against kind of the toughest comparison, if you will, on the merchandise margin, and we're eclipsing it right now so far, which is good news. And as we get into the third -- the second, third and fourth quarters, we were doing a lot of discounting. We were trying to clear a lot of inventory. And we don't have that overhang this year that we did last year. So I think the possibilities there in terms of running at a higher merchandise margin for the balance of the year is there for us.

Anthony Lebiedzinski: Got you, okay. And then -- and lastly, as far as this rebalance merchandise strategy, so obviously I think it makes a lot of sense given the current slowdown, macro slowdown; are you looking to do more advertising? I mean, what is going to be the main way that you're looking to get people in the stores so they know that you're -- you do have more affordable price points?

Michael Madden: That's a good question. I mean, we've given it a lot of thought in terms of heading into what is kind of a recessionary-like environment. And our belief here is that our promotional strategy can really be effective in driving that traffic. I mean, we've got some margin room to do discounting, both at the category level, using some coupons, and then backing that up with a strong marketing message. We've already seen some things in Q1 that are working, and so we're trying to -- we're kind of looking at this week to week and seeing what worked, and we're going to apply that going forward, and with a little bit more margin to work with, I think that will help us. And then as we get into the back half, I think we'll have more of an assortment to back it up. So I think it's a lot about our promotional strategy. That's where we're really spending our time and trying to understand what's driving it, and when it does, how to deploy that going forward. So that's what I would say there.

Operator: And our next question comes from John Lawrence from Benchmark.

John Lawrence: Congrats, Woody, for hopefully a wonderful retirement. We've enjoyed it over the last few years. Thanks.

Steve Woodward: Thank you so much, John.

John Lawrence: Would you talk about -- I mean, when you talk about 40% on the mix by we get to the second half, how much of that -- what percentage would that be now as far as the value merchandise opening price point? How much of the mix would we have today?

Steve Woodward: You know, that's a good question, because we are working toward getting it up to that 40%, and I want to talk about the components that make that up, but right now we're running about 30%. Traditionally, when you look at it on an annual basis, we've been around 35%. So to move that category by 5% or 6% in the overall scheme of things is pretty good.

And what we did to fund that was that we went back and we picked all of our items in furniture that have been very successful and have caused us to have gains in the past years, and we really narrowed that down, and we took some of those dollars out of furniture to fund this increase of new items that are more in line with our taste level, more in line with our design, but certainly below the price points that we've had, and we've rebalanced our marketing that was very heavily focused last year on room settings and higher ticket, and kind of said, let's do both. Let's have some of that, but let's also really emphasize to our core customers that we have this new, quick come in, surprise and delight, pick up something around $20 to $30, and really make happiness happen in our stores, and the stores have embraced it, our customers are loving it, and so as those products flow in -- and we actually -- not just the flow of the product, but we emphasized how we show those products in the store, because remember, we had that up to, maybe, 30% in the past but we made it almost like a hunt that the customer had to find. Now we're pulling them out on tables, really focusing on them and saying, here's a whole table of items under $20 if you're interested in that, and that the taste level in the items, they really look great.

So a lot of work has gone into that. Amy Sullivan and her team have done a fantastic job about recalibrating toward what we think the customer wants right now and being able to make those adjustments so that we can reap the benefits this year.

John Lawrence: Yes. And just quickly, Woody, would you give us just a little insight into maybe a couple of those categories that you're really aiming for and are showing some promise first half of the year that that stretched consumer is going to find the real value?

Steve Woodward: Yes, really, there's a couple that have been ongoing successful, both in the back half of last year and certainly into this year. Our customer loves newness.

So our floral category has done wonderful. It kind of just feeds into that lower price point and coming in and getting something, whether it's a wreath or an arrangement for your table. So that's been doing really well. Our textile business continues to do really well. Now, and our furniture business at the end of last year was very good, and this year it's stabilized, and our inventory levels are kind of where we want them to be.

So we have multiple categories that are doing well, and right now it's just the balancing and making sure -- we think we have some payback that we need to do in some decorative accessories where our price points got a little too high, and we lowered those, so that somebody can come in and buy something for their home that's fun and exciting. We've had some pluses and minuses in our wall décor business, but generally our art business has been pretty well done for this past, and so there are definitely pluses and minuses, and I think that our stores probably look better than they've looked for a long time. If you walk in, it doesn't look like we cut our inventory; it looks like we just really leaned into the items that we feel like the customer is desiring right now.

Operator: And, ladies and gentlemen, with that, we'll be concluding today's question-and-answer session. I would like to turn the floor back over to the management team for any closing remarks.

Steve Woodward: Yes, I'd like to just say thank you for the past four and a half years and your support. I think that we have done so much to stabilize this ship and get us ready for the next 10 to 15 years as a value player in the home furnishings pyramid for specialty, and I just want to say thank you to everyone, thank you to every associate that's been working so hard on this transition, and thanks to all of our supporters out there, and look forward to better results. Thanks.

Operator: And, ladies and gentlemen, this does conclude today's teleconference. You may now disconnect your lines at this time. Thank you for your participation.

Michael Madden: Thank you.