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Officers and Speakers
Cody Cree; External Director, Investor Relations
Ann Joyce; Interim Chief Executive Officer
Michael Madden; Executive Vice President and Chief Financial Officer
Amy Sullivan; President and Chief Operating Officer

Analysts
Jeremy Hamblin; Craig Hallum Capital Group
John Lawrence; Benchmark

Presentation

Operator: Good morning, everyone, and welcome. Thank you for participating in today's conference call to discuss Kirkland's financial results for the first quarter ended April 29, 2023.

[Operator Instructions]

Joining us today are Kirkland's Home Interim CEO Ann Joyce; President and COO Amy Sullivan: 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 your 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.

Also, just a reminder: The call is being recorded.

Cody, please go ahead.

Cody Cree: Thanks, Andrew. 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 June 15, 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 Interim CEO Ann Joyce. Ann, over to you.

Ann Joyce: Thank you, Cody, and good morning, everyone. It's great to be joining you in my new role as Interim CEO. I've spent the last two years as a board member and have been in this role a little over two months, and while there's a great deal of work to be done, being involved at this level has reinforced my view that our best days are ahead.

Before we get into the quarter's results, I want to comment on my initial impressions and talk about what's next. As discussed on our last call, we disappointed some of our loyal customers in recent years by placing too much emphasis on promoting higher-ticket items. Our overall voice changed, and we struggled to keep our customers engaged. We missed some seasonally relevant times of the year that had historically brought strong customer response.

Kirkland's appeal has always been its ever-changing, seasonally relevant product assortment that provides fashionable, curated looks, which our customers rely on to update their home décor affordably. Our highly nimble team diligently monitors the dominant home décor trends and quickly develops our merchandise assortment accordingly. This skill allows us to provide our customers with fresh products that are relevant, stylish and within their budget. We are renewing this proven model while also expanding upon some of the recent successes that we've seen in the business.

One of these successes has been the transformation of our sourcing model, allowing us to upgrade our design, enhance product quality and improve margins. We've also learned a great deal about the furniture category and what works and what doesn't work for our customers. These lessons will allow us to appropriately refine our product assortment even more, ensuring it truly fits within our model and meets our customers' expectations.

At our core, we are a value specialty home décor retailer, and this means that we use promotions and deals as strategic drivers to engage and excite our customers. In recent years, we've been reactional with our promotional strategy; now, we are creating a strategic and intentional promotional calendar centered around seasonally relevant items at lower price points that we believe will drive more traffic. To maximize the promotions and sales events, we are ensuring that our messaging creates a call to action and showcases our renewed assortment. However, we're also leaving enough flexibility in our plans to be reactionary if the opportunity arises.

We are an omnichannel retailer, which allows our customers to choose the engagement that fits their preference. Our real estate portfolio is very competitive, with more than 340 stores across 35 states. A recent assessment tells us that the vast majority of our stores are in healthy retail centers with strong anchored tenants and located in areas where our core customers live.

While we are confident in the strength of our current physical store footprint, we know the customer that shops both channels spends twice as much as the single-channel customer. Looking at our sales mix by channel, e-commerce represents 27% of our business today, and this makes our online platform our largest store, so we are focused on driving conversion, ensuring inventory availability and driving profitability. As an omnichannel platform, we need both of our channels firing on all cylinders and we're spending a significant amount of time working toward that.

By the end of 2022, we made significant progress strengthening our balance sheet by reducing inventory to $84 million and paying down $45 million of our debt. We shored this up in the first quarter through an extension of our credit facility, which provides for additional borrowing capacity during the upcoming peak season and extends the maturity date to March 2028.

Out of everything we've discussed, I firmly believe that our greatest asset is our people, which includes our field leaders, our associates and the distribution and corporate teams that support them. Their passion, dedication and commitment to the customer is truly impressive, so we have a solid foundation to capitalize on.

So what's next? Well, recently, we realigned our organizational structure, placing an emphasis on a high-performance culture and ensuring we have the right people in the right positions. I am fortunate to have Amy Sullivan and Mike Madden as our key partners during this transition.

Amy was recently promoted to President and COO, and she has varied and increasing merchandising and operational responsibilities during her 10 years at Kirkland's, and before that, she spent a decade in the fashion apparel industry, where she served in several merchandising leadership roles, and prior to that, in brand management roles at department stores. She is a talented and motivated leader. And Mike rejoined Kirkland's last year after spending four years as the CFO of a commercial real estate investment fund. Prior to that, Mike spent 17 years at Kirkland's serving various senior-level capacities. He has a deep understanding of our business and our customers. Both Amy and Mike have broad industry- and company-specific experience, which will be crucial as we execute our plans.

We are also instilling a culture that views things first through the lens of the customer and the associate. We have launched two initiatives: our voice of the customer and our voice of the associate programs, geared to enhancing the overall brand experience. My experience is that these programs, if they're supported by a robust use of data-driven decision making, can quickly galvanize an organization and drive change. We are still in the early stages, but I am encouraged by the organization's eagerness to embrace these changes.

Our attention now turns to recapturing sales and product margins to better leverage our fixed cost base. This effort starts with and depends on our merchandise assortment and our value proposition. We have adjusted our assortment for the back half of 2023 to balance decorating, entertaining and gifting with an emphasis on value décor under $20. Supporting these changes with a strong promotional plan and effective marketing should allow us to win back customers and generate top line momentum. As we adjust our brand voice to recapture that style and value proposition, we expect to strike a balance between the broad category messages and personalized customer offers, leveraging the investment in our customer data platform.

Supply chain costs have decreased substantially thanks to lower inbound freight rates, and we expect our internal costs to be lower due to reduced inventory levels and increased efficiency. You'll see some of these benefits already positively impacting our merchandise margin with a 160-basis-point year-over-year expansion in Q1. These factors help the overall margin equation, providing a path to improve on the prior year while giving us room to ensure our promotional

strategies are effective and profitable. Continued tight expense management should provide better flow-through of any incremental sales that we generate.

So looking forward to the coming months, we will be refining our long-term vision and strategic plans so that we can capitalize on our brand potential. We want to cement a strong brand identity, centered around the value-oriented and stylish home décor with seasonal relevancy as well as compelling entertaining and gift options. As we continue to make progress toward our refined long-term vision, the muscle that we build along the way should allow us to shape our future and uncover additional opportunities for growth and profitability. As we balance our short-term goal of returning to profitability with refining and executing our long-term vision, there remains much work to be done, and we're in the early stages of our journey. I do want to emphasize that during this transitional phase, we remain steadfast in our constant commitment to our customers and to a path to profitability.

On that note, I would like to express my sincerest gratitude to our dedicated employees, our partners and stakeholders for their unwavering support and commitment to the Kirkland's Home brand. I am confident that our collective efforts will pave the way for long-term success and create value for our shareholders.

With that, now I'd like to turn the call over to Mike, who will provide detailed commentary on our performance in the first quarter and our financial outlook. Mike, over to you.

Michael Madden: Thank you, Ann, and good morning to everyone. For the first quarter, net sales were $96.9 million, compared to $103.3 million in the prior year quarter, which includes a 4% decline in the average store count and a comparable store sales decline of 4.4%. The comparable store sales result was largely driven by traffic declines in both stores and online, partially offset by an increase in our customer conversion rate and an increase in our average transaction value. We saw a small channel shift during the quarter as stores performed slightly better than e-commerce on a year-over-year basis. E-commerce was 27% of total sales in the quarter, compared to 28% in the prior year quarter.

Breaking down sales within the quarter, comps were down 9% in February, followed by a decrease of 8% in March and an increase of 6% in April. During April, we ran a friends and family promotional event that did not occur in the prior year; the event was successful in driving to a positive comp for the month, but also helpful in providing insight into how we message promotional events for the rest of the year.

Store sales results were relatively consistent across geographic regions, with better performance in the Southeast and Florida and weaker results in the upper Midwest and Northeast. From a product perspective, we showed strong results in the seasonal, floral and outdoor categories; these increases were offset by decreases in furniture and wall décor.

As Ann mentioned earlier, as we move into the back half of the year, we have increased our investment in categories that better highlight our value proposition and seasonal relevance. We've also invested in depth in key items within these categories, as we felt that was a missed opportunity last year. Further, we plan to introduce more products that promote gifting and

entertaining during the timeframe between Thanksgiving and Christmas, another area of missed opportunity last year.

Gross profit margin declined 70 basis points to 26.7% of sales, compared to 27.4% in the prior year quarter. The five components to this year-over-year change are as follows: First, merchandise margin increased 160 basis points to 56.8% versus 55.2% in the prior year quarter. Lower freight rates combined with lower product costs drove the increase in margin. As we've previously discussed, inbound freight rates spiked during early 2022 and have steadily declined since then. Spot rates in our key ports of origin in China, Vietnam and India have either reached or are near post-pandemic lows. We expect our merchandise margin to benefit from the decline in inbound freight costs throughout 2023.

Second, central distribution costs increased 100 basis points to 5.6% of sales from 4.6% in the prior year quarter. Deleverage from the decline in sales combined with high levels of cost capitalization in the prior year led to the increase. We saw sequential improvement from Q4 in the year-over-year comparison during the quarter. Excluding the capitalization effect, costs incurred in our distribution center operations were down during the quarter. Our operational efficiency is improving because of a decline in inventory levels and better product flow, and we expect this to continue for the balance of the year.

Third, store occupancy costs increased 100 basis points to 14.7% of sales from 13.7% 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 90 basis points to 7.7% of sales from 6.8% in the prior year quarter. Sales deleverage was the primary reason for the increase.

And lastly, depreciation included in cost of sales decreased 60 basis points to 2.1% of sales from 2.7% in the prior year quarter.

Total operating expenses were $36.2 million, or 37.4% of sales, compared to $39.4 million, or 38.1% of sales, in the prior year quarter; that's a decrease of 70 basis points. The decrease was primarily the result of lower marketing expenses, which was 3% of sales for the quarter, versus 4.5% of sales for the prior year quarter. This was offset somewhat by deleverage from the sales decline, severance charges of approximately $0.5 million related to our CEO's retirement -- our prior CEO's retirement, and impairment charges of $0.2 million recorded during the quarter.

Adjusted EBITDA, excluding impairment, stock compensation and other minor expenses, was negative $5.8 million for the current quarter and the prior year quarter. Our operating loss improved to $10.3 million versus $11.1 million in the prior year quarter.

Our income tax rate for the quarter was an expense of 12.7%, compared to a benefit of 29.7% in the prior year quarter.

As you may have noticed, we dropped the adjusted net income reconciliation, as we are no longer including this metric within our reporting. Given the seasonality of our business, our tax

rate will fluctuate greatly as the year progresses depending on actual results and forecast. For this reason, operating income and adjusted EBITDA are the profitability metrics that we will use internally to gauge profitability as we progress through the year.

From a balance sheet perspective, our inventory levels are under control and flowing according to plan. We ended the quarter with $83.3 million of inventory, versus $130.9 million in the prior year quarter. We had borrowings outstanding under our revolving line of credit of $33 million, which was in line with our expectations.

As we announced in April, we completed a five-year extension to our revolving credit facility that provides additional borrowing capacity during our peak season.

Moving to our outlook for '23. 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 the second quarter, we continue to see challenging trends in traffic counts both in stores and online. Second quarter comp sales trends remain negative. However, we expected Q2 to be a transition quarter, factoring in lead times in execution, the merchandise assortment and promotional changes that Ann mentioned earlier, but they won't be meaningfully represented until Q3. Merchandise margins are providing an offset, running higher than the prior year in the 150- to 200-basis-point range thus far in the quarter. We expect that to grow as the quarter progresses. In the latter part of the second quarter last year, we initiated a period of deep clearance in order to reduce excess inventory that we won't have to repeat this year.

The merchandise margin is also benefitting from lower inbound freight costs as container rates return to prepandemic levels and a decrease in product cost through vendor negotiations. Supply chain costs inside our distribution centers 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 eliminating our reliance on offsite storage. We expect to see a bigger effect from these changes as we progress into the peak season.

And we continue to be vigilant about operating expense control, reducing operating expenses by over $3 million in the first quarter. These reductions are in place and will positively impact the year-over-year comparisons for the balance of the year.

Looking at our balance sheet, we expect inventory levels to follow a historical cycle and peak at the end of Q3 in the range of $110 million to $120 million. We will fund this inventory investment with trade payables and borrowings under our credit facility. As of today, we have $37 million outstanding on the facility with $20.4 million in excess availability, $12.4 million of which is available for borrowing. As our inventories increase, our line capacity does as well, and we will use additional borrowing to fund our peak season inventory flow. Currently, we expect peak borrowings to be in the range of $60 million, which matches last year's level.

As Ann mentioned in her remarks, our priority for the balance of 2023 is to generate renewed sales momentum through changes to our merchandise assortment and promotional activities that highlight our value proposition. Financially speaking, this would mean a return to positive adjusted EBITDA generation while creating sales momentum that can carry forward in 2024.

Our intermediate goal is to return to historical average adjusted EBITDA margins in the mid- to high-single-digit range.

We've made significant improvements in our operation over the last several years, including our direct importing growth and improvements in our omnichannel capabilities and supply chain infrastructure. We've also tightened up our store base and improved leasing terms in many of our locations. Recent work we've done to analyze our store portfolio supports the fact that we remain in competitive, vibrant real estate locations. We've done an effective job in reducing our operating expenses and continue to manage each line item prudently.

Getting back to historical adjusted EBITDA generation depends on our ability to rekindle demand with our customer base and macro factors surrounding the home furnishings sector getting back to normal after a period of sales pull-forward during the pandemic. We believe that with some shifts in emphasis in our merchandise assortment, we can attract additional demand 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 the while, we will continue to feature the improvements in style and quality that we've gained over the last few years.

Finally, as to capital allocation, our 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 strategy historically, and we expect to use them again in the future once our near-term goals have been achieved.

That concludes our prepared remarks, and Andrew, we're now ready to take some Q&A.

Questions & Answers

Operator: [Operator Instructions]

The first question comes from Jeremy Hamblin with Craig Hallum Capital Group.

Jeremy Hamblin: Ann, it's nice to have you on the team full time. I wanted to just start by getting a little bit of an understanding of -- you noted traffic trends remain challenged and that your May comps or quarter-to-date comps were negative; wanted to get a sense of magnitude, and then as a comparison versus April, where you saw pretty solidly positive comp, your expectation in terms of compares for the remainder of the year, and whether or not you feel good

about getting back to kind of a positive comp by the end of Q2 or waiting until the back of the year.

Michael Madden: Okay, Jeremy, I'll start with that. It's Mike. So yes, I mean, April was a strong month for us given the event we ran. We also had a little bit easier comparison that month, and as we walked into May, we are negative. Traffic trends continue to be kind of tough, both in store and online, but we expected that, really, in the second quarter given what we had to do last year to really start clearing inventory.

So we've used Q2 as a transition, and we think, as we get into the back half, more of what we talked about in the call in terms of the assortment, in terms of the promotional planning and the impact of those events, will take place more in Q3 and into Q4. The depth in the seasonal buys, the allocation of inventory investment into some of these other categories that really can drive more basket, are going to be really important and we think we'll be better positioned.

So Q2 is definitely a transition quarter. We've got a lot to play out. We've got some events coming up in June and July that will have a big effect on how we finish that quarter, but really our focus has been on the back half, and that's where we see the opportunity, both on the sales side and the margin side. Although I will say, in Q2, margin is a big opportunity in Q2 just because of what we were doing last year to clear the inventory and we hit such a low. I think our gross profit margin in Q2 last year was 18% or so.

Ann Joyce: Yes, I was encouraged by what we believe was the customer voting on some of the voice changes and some of the product assortment changes that were in April. Also, I think that we had -- did a better job of conversion in April, and as we build the conversion muscle through the back half of the year, with what Mike just described in terms of our positioning, I'm encouraged by us being able to control what we can and get better at certain things as the year goes on.

Jeremy Hamblin: That's helpful, yes. It sounds like a good test case there in April. But Mike, you did get -- or kind of alluded to a point that I wanted to hone in on a little bit more, which was, your gross margin, obviously, was really tough last year as you were clearing goods. Clearly, inventory levels are pretty tight and in much better shape. Sequentially, typically, Q2 is down from Q1, and just wanted to get sense, maybe nearer-term, on where you expect gross margin to play out. I know that you had provided some color on merch margin, but my assumption is that you would see pretty significant improvement on overall gross margin in Q2, but maybe sequentially down from Q1. Any additional context or color you can share there?

Michael Madden: Yes, I think you're pretty much on it. I think our second quarter margin, just given seasonality in the business, second quarter is a little bit lower in terms of total sales dollars than Q1, so there's a deleveraging effect there, and it's also kind of a -- it's been more of a discount-heavy quarter historically. So that is true, sequentially down from Q1 is the right way to think about it, but on a year-over-year basis I think we have more opportunity to grow the margin, both the merchandise margin and the gross margin, in the second quarter, and then for the rest of the year. I think what we'd like to see is our ability to get back toward that 30%

number for the year, and the sales and the margin mix will determine where that ultimately shakes out, but that's how we're positioning ourselves going into the back half here.

Jeremy Hamblin: Got it. That's helpful. And then as you've had a chance to assess the store portfolio, any changes in terms -- it sounds like you're pretty happy with the centers that you're operating in. Also sounds like you've had some opportunity maybe to renegotiate some of your lease deals. But wanted to get a sense for, is there any thought on relocations, additional closures? It looks like maybe you've closed a couple of locations quarter-to-date, but any color you can share on your store portfolio?

Michael Madden: Sure. We're definitely in what I would call maintenance mode in the store portfolio. We want to hold our store count up. There's a lot of changes here we talked about today that we think will have an enormous benefit on our store performance, and we don't -- where we see a store that's in a good retail center that's around a lot of our customers, we want to make a good deal and stay. And that's how we're looking at this.

We are relocating a couple of stores this year; I think it's two, and it'll be later in the year as we accomplish those, but that would be better positioning successful markets that we're in, and we will do some house-cleaning, I would call it, in terms of stores that are not as profitable or not profitable. And that will really come toward the end of the year, and I think it'll look a lot like last year. We could close 10 to 15 stores, but they will largely be underperforming stores that we've concluded that's the right move for us to go ahead and exit. So that will come at the end of the year when most of our leases -- our lease actions actually have to be dealt with. A lot of our leases really coincide with the end of our fiscal year, and we'll be working on that diligently for the rest of the year.

Jeremy Hamblin: Got it, thanks. Last one from me is: You noted the advertising expense was down. Your overall SG&A was down year-over-year by a few million dollars. I wanted to get a sense, in terms of the plan that you're going to execute here, how should we be thinking about that on a go-forward basis, particularly in the back half of the year? Are you still planning advertising expense down? Should that normalize? And how does that impact your SG&A overall on a year-over-year basis here as we get into the second half?

Michael Madden: Yes, I'll provide some high level, and then I think we can talk also about how we're thinking about the spend itself and the effectiveness of it, but we did plan it down. In the first quarter, that difference is a little bit more striking than what you'll see for the rest of the year just because we were up against some dollars we spent on a branding test that ran in two markets, and we spent quite a bit of money on that. That was a roll-out that we were testing, and we were up against that spend. So there's a chunk of that comparison I called out today that was related just to that.

As we look forward, we're looking at roughly $13-million marketing spend this year; that compares to a little over $18 million last year. And we're constantly working on ways to make that spend more effective. And maybe I'll let Amy finish that.

Amy Sullivan: Yes. Hi, Jeremy. It's Amy. So as we think about the back half of the year, particularly as it pertains to advertising budget, we very intentionally preserved dollars for Q3 and Q4 when we will be in a better position in terms of our category mix and our overall value proposition that we want to speak to the customer. Right now, in Q2, we're testing a few different tactics, things -- some from our past, some sort of future thinking, ideas in marketing as we think about how to demand -- to drive demand. Direct mail is one that we've got out in a test right now that I feel pretty good about, and then that's something that has worked for us in the past. So I feel good that we have the dollars that we need for the back half of the year as we think about that's the time for our sales peak to come into play, so I think we're well positioned there.

Operator: The next question comes from John Lawrence with Benchmark.

John Lawrence: Would you talk a little bit about, just starting off, maybe about the culture and some of the changes and just a deeper dive into this? I know you explained it, but these merchandise changes, and known the company for a long time, but just a sense of what that customer is going to see in the store this year at holiday, maybe, than what they saw last year, and just a little deeper dive into those segments a little bit, please?

Ann Joyce: Sure, John. This is Ann. I'll start and then I'll hand it over to Amy. So what I was hoping to make sure I got across is that the essence of what made Kirkland's successful in its inception is still true today, maybe even more so given the macroeconomic conditions. And that's really about the ever-changing, seasonally relevant assortment the customer has relied on to be able to update their home décor affordably. No truer words -- I mean, I think they're more relevant today than they even were in the inception. We had some missteps, and the good news is, we learned a lot in those missteps, right? So we want to take those learnings and move them forward, specifically into furniture.

As it relates to the specifics around the back half of the assortment, I want Amy to talk about that, but I do feel very encouraged by the fact that the team has been able to pivot to the back half, and even if you look at 40% of the products being under $20, and speaking that value message, we believe those messages will drive traffic in both channels, and we also believe that we will surprise and delight her -- our customer when they come into the store and see that they can buy gifting and decorating accessories, et cetera, at a price they can afford to enjoy their holidays. And the pivot of that and the movement of the team and the speed by which they've been able to move is pretty impressive, and I think that we're well positioned for the back half.

Amy, do you want to give a little more extra color on that?

Amy Sullivan: John, I know you're -- you've followed us for a long time, so you're really familiar with sort of our historic mixes in the back half, specifically in the holiday period, and so I think it'll feel very familiar to you in terms of category mix and really focused on sort of those three key timeframes of the holiday season, if you think about decorating, entertaining and gifting. And we have a long history in that that has proven to be very successful for us in the past.

Over the past few years, I think the penetration that we've had in the furniture category has overshadowed some of that. We haven't walked away from that, but we need to get back to those historic levels of what the holiday business means to us in the back half of the year.

So as we move into this year specifically, you'll feel a broader assortment in holiday, better depth in holiday items, and then a heavier focus, as Ann and Mike both mentioned, in the items under $20 representing 40% of our assortment, which is also comparable to some of our best Q4s in the past. Furniture, as Ann mentioned, we've learned a ton about; it's not going away for us, but I think the breadth of the assortment got too wide, and so we are laser-focused on staying in stock in the proven items within furniture that work, because we do believe it's a foundation. If you think about our store format, our customer comes to us for inspiration and how she puts the looks together and decorates her rooms, so it's important to us, but we want to flip back to ensuring that we're heavily focused on how she decorates and celebrates sort of every moment throughout the year, specifically focused on Q4 right now.

John Lawrence: Great, thanks for that. And then secondly, you've learned a lot over the last few years about this direct sourcing; has the furniture direct sourcing spilled over to some other -- where are the learnings that you've picked up from that, and how does that go forward?

Amy Sullivan: Sure, I'll take that one. It's Amy again. So our overall direct sourcing penetration, as you've heard us mention before, is close to half of our business. And it's really pretty evenly spread across most of our categories, and so it definitely started heavily in more of our everyday home furnishings, if you think about textiles and furniture, but even this year's holiday assortment has a pretty heavy penetration in direct importing, and so I would say our biggest learning and take-away from that over the past few years has been obviously some improved IMU and margin out of the gate, better control of quality, better control of design and more unique products to Kirkland's.

And so we will continue to leverage that. I want it to be a really natural process for the team to ensure that we're buying the best product at the best cost from the correct vendor, whether that's a direct import or an indirect import, so we're really taking the opportunity now to make sure we're managing it holistically, but it's definitely given us, across all of our categories, a pretty solid footing to ensure that we have unique, high-quality items at a great cost.

John Lawrence: Great, thanks for that. Last one from me: Mike, when you look at the positive comp in April, obviously it was the promotion that hit gross margin to drive that. If you ex that out with a 4% comp in April, if you just split that months out, did you see some of those costs leverage a little bit with a 4% comp, or is it not the right way to look at that?

Michael Madden: Yes. We certainly gave some margin in that event, but it was productive. I mean, we drove margin dollars, and with a 6% comp in April, we are able to leverage a lot of -- most, if not all of the expense line items that have been deleveraging quite a bit with the negative comps. So you can see it. You can see that in play with you have a month like that. The flow-through is very strong. So if we can create some momentum here in the back half, that model is there for us. I mean, if we can have a positive comp in that range, that's going to be a good year

for us, just given how much we've taken the fixed cost structure down. We're still able to operate, and we've still got all that we need so the flow-through can be strong.

John Lawrence: Great, thanks. And Amy, thanks a lot for your help, and good luck.

Amy Sullivan: Thank you.

Ann Joyce: Thank you.

Operator: At this time, this concludes our question-and-answer session. I would like to turn the call back over to Ann for closing remarks.

Ann Joyce: Thank you, Andrew. We'd like to thank everyone for listening on today's call and we look forward to speaking with you when we report our second quarter 2023 results. Thanks again for joining us.

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