Kirkland's Home (KIRK)
Third Quarter 2023 Earnings Call
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Officers and Speakers
Cody Cree, External Director, Investor Relations
Ann Joyce, Interim Chief Executive Officer
Amy Sullivan, President, Chief Operating Officer
Mike Madden, Chief Financial Officer

Analysts
Jeremy Hamblin, Craig-Hallum
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 third quarter ended October 28, 2023. 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.

Cody, please go ahead.

Cody Cree: Thanks, Jamie. 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'd like to remind everyone that this call will be available for replay through December 7, 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'd like to turn the call over to Kirkland's Interim CEO, Ann Joyce. Ann, over to you.

Ann Joyce: Thank you, Cody, and good morning, everyone. Before diving into our results, I want to thank all of our associates at Kirkland's for their ongoing commitment to the success of this brand. This team has spent the last several months assessing and taking corrective action across every area of the business, all while preparing for the important holiday season. We knew these efforts weren't going to be easy, as we remained up against difficult macroeconomic headwinds. But I believe the actions we've taken, and the ones we are planning, can return this company to profitability.

Back in June, we discussed returning to the roots of the Kirkland brand, while continuing to modernize and update where appropriate and where we've seen success. The teams have worked tirelessly to make significant changes to the product, marketing, operational effectiveness, expense management, and culture, and I want to thank them for all their efforts. Our people are our greatest assets, and they are experts in their fields, they believe in this brand, and they love our customer.

While the third quarter still had its challenges, we began seeing early signs that our strategic repositioning was resonating with our consumer. In fact, we experienced sequential improvements in traffic and comparable sales each month of the quarter, along with expanded gross margins. On the macro level, inflation remains a challenge for our customers, particularly in high-ticket categories, such as furniture and wall decor.

However, we have been able to drive improvements in traffic and demand by focusing on lower-ticket items, like decorative accessories, seasonal decor, and gifting. As a result, our omnichannel traffic decline improved from down 14% in August to down 6% in September, and down 4% in October. Our Q3 comparable sales improved from down 13% in August to down 9% in September to down 6% in October.

In addition, our merchandise margin improved by 110 basis points, leading to an overall year-over-year improvement in Q3 gross profit margin of 130 basis points to 26.3%.

During the quarter, we continued to see other promising indicators from the pivot in our marketing strategy. It is mission-critical for us to re-engage our loyal customer, and we are very encouraged to see a 20% increase in lapsed customer reactivation during Q3. We are seeing sequential improvement in traffic and conversion with less discounting and improved profitability. We believe those trends are a result of the strategic shift in product mix and marketing.

As we discussed on our last call, we have renewed our emphasis on seasonally relevant value home decor. We are encouraged by the performance of our Decorative Accessories category during Q3, which had an 8% increase in sales and a 23% increase in margin dollars.

We also saw unprecedented early selling of our holiday product during Q3. Although we did have some margin impact from the lingering effects of the remaining higher-priced assortments in furniture and wall decor that required higher levels of discounting, we believe that these will have less of an impact on our business as we continue to optimize our merchandise assortment. Additionally, as you might expect, in our holiday selling season, those larger-ticket categories have less of an impact on our business.

Shifting the focus to operations, we have continued to improve our discipline and accuracy in our inventory flow. We ended Q3 with 17% less inventory than last year, along with being in stock and on time with products for the holiday season, putting us in a good position to meet the demands of our peak season.

Our supply chain efficiencies are continuing to increase through effective use of technology, contract negotiations, and process improvements. For example, we closed our two e-commerce hubs and have consolidated our e-commerce operations in our Jackson, Tennessee distribution center.

Cost containment remains critical for our operations, and in our third quarter, we were able to reduce operating expenses by over $2 million compared to the prior-year period. Overall, we've made significant strides shoring up the operations to support the strategic repositioning. There is still work to be done, but the changes we've made so far are working, and we are establishing a mindset across our teams, focused not just on cutting expenses, but on sustainable cost efficiencies through process change that we believe will benefit us for years to come.

As we continue to demonstrate our ability to execute our strategic repositioning, we expect to impact Q4 more significantly than originally anticipated. Our teams across the business have been re-energized by the progress we're making, and we're better engaging our consumer base as they decorate, entertain, and shop for gifts this holiday season. As a result, we are encouraged by a low-single-digit increase in comparable sales at a much-improved merchandise margin in November, which includes Black Friday. Amy will speak more about this in her commentary.

Reflecting on the initial phase of our turnaround strategy, we knew it would be a time of transition, as we perform extensive deep dive into identifying near-term strategies and return to profitability and growth. Many of our initial changes are already delivering value as we continue to see improved trends and positive customer response.

Overall, I remain confident in our team's ability to deliver on the expectations we have set for ourselves. We are committed and driven to return the company to profitability and ultimately, deliver the value to our shareholders.

Now, I'd like to turn the call over to our President and COO, Amy Sullivan, to provide a more detailed commentary on the results tied to our strategic initiatives.

Amy Sullivan: Thank you, Ann, and good morning, everyone. I would like to echo Ann's gratitude to our entire organization. I've been incredibly impressed and encouraged by the dedication and willingness to pivot and deliver results this year. On our last call, I introduced five near-term strategic initiatives that we are executing again to return to profitable growth. While we expect these to evolve, as we continue to re-imagine the possibilities for Kirkland, I'd like to update you on the current progress of each initiative.

First, we continue to strengthen our connection to our core customer and are optimistic by the progress we are making to drive engagement and acquisition. Prior to August, our digital marketing tactics were focused heavily on website conversion and generating traffic from prior online shoppers, and we saw an average 17% year-over-year decline in online traffic. So we made swift changes to our digital marketing strategy to focus on demographic and geographic

targeting of core omnichannel customers to drive more visits online and into our brick-and-mortar locations.

We were able to cut our e-commerce traffic decline from negative 17% in the first half of the fiscal year to only negative 3% in October.

On the brick-and-mortar front, we improved traffic from a decline of 11% during the first half of the fiscal year to down 4% in October. In November, traffic to our stores stayed positive for the first time in 2023.

Most recently, we piloted an exclusive video SMS campaign, allowing 1 million SMS subscribers access to an exclusive holiday look book and coupon offer. We achieved the largest volume of clicks and highest revenue of any SMS campaign to-date. We are thrilled with the promising early results of this innovation, and look forward to further utilizing this tool as we move into the new year.

I could not be more pleased with the rapid turnaround of our marketing strategy and how it is progressing, recognizing there is more to be done.

Second, we have rebalanced our category mix, and will be known for always something new as we deliver curated seasonally-relevant home decor at a great price. In the third quarter, we were still transitioning our category mix that began to see promising results from our strategy shifts as the quarter progressed. Most notably, Decorative Accessories delivered an 8% sales increase in the third quarter, and best represents our future growth potential and value decor. We are also pleased with the season-to-date results in our Christmas assortment, which has delivered a 3% sales increase.

We have re-introduced our Gifting category for this holiday season, which we anticipate will drive incremental sales for this year's fourth quarter, and we expect this to be a year-round business in 2024. We are encouraged by the customer response to these pivots, which position us to drive more profitable demand.

Third, with our customer at the center, we are focused on providing a seamless omnichannel experience that meets her whenever and wherever she wants to shop. We have a new operations leader in place who is igniting our entire field through engagement, contest, and incentives.

Our incredible field team delivered a 248-basis point increase in conversion during the third quarter, and I'm happy to share that the trend is continuing into Q4, as they drove a low-single-digit positive sales comp increase in November.

As we build our long-term strategy, we have begun evaluating our entire store portfolio to assess real estate, customer experience, and localization in our product and marketing strategies.

Shifting focus to our e-com business, we are pleased with our overall conversion improvement, which increased 17 basis points year-over-year. Since our last call, we completed an end-to-end assessment of our overall site experience. Through this process, we have outlined the limitations of our current site, along with the cost to maintain data technology. As a result, we are building a new e-commerce strategy, defining its role in driving sales and profitability through a

modernized customer experience. There will be more to come on this initiative as we further build out our plan.

Fourth, we are a valued specialty retailer, and must execute with efficiency and consistency in our end-to-end operations. It is imperative for us to remain disciplined in our operational effectiveness through supply chain efficiency, tech enablement, and cost containment. With more normalized levels of inventory this year, our supply chain has stabilized, allowing us, with the help of process improvements and labor management, to achieve approximately $500,000 in savings in Q3.

In addition, we have enhanced our e-commerce demand forecasting model, and our team has done an excellent job managing increased ordering unit demand without disrupting the customer experience.

As we look ahead to our future, we are committed to the discipline in our overall cost structure to improve liquidity, returning to historic adjusted EBITDA levels, and strategically investing capital for the long-term growth of the brand.

Last, but certainly not least, our associates are revitalizing our company culture day-by-day. We are committed to our customers, our shareholders, and our team members as we drive our results, remain nimble in our strategy, and celebrate our wins together. I am encouraged by the continuous improvement now visible in our month-to-month trend in sales and profitability.

As we look ahead to 2024, I'm excited by the potential, as we realize the full year impact of these strategic initiatives. We remain committed to delivering long-term value to our customers and shareholders, as we re-imagine the future of Kirkland.

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

Mike, over to you.

Mike Madden: Thank you, Amy, and good morning, everybody. For the third quarter, net sales were $116.4 million compared to $131 million in the prior-year quarter, which included a 5% decline in the average store count and a comparable sales decline of 9.2%. The decrease in sales was driven by a decline in the average ticket, as well as traffic declines in both stores and online, particularly -- or partially offset by an increase in conversion rates in both channels.

Breaking down sales within the quarter, comps were down 13% in August, down 9% in September, and down 6% in October. E-commerce was 27% of total sales in the current and the prior-year quarter. E-commerce comp sales were down 8.5% and store comps were down 9.5%.

From a merchandise perspective, the largest sales declines were in furniture, wall decor, and harvest. These declines were partially offset by gains in Decorative Accessories and strong early selling of Christmas. Sales performance was relatively consistent across geographic regions, with notably better results in Florida and weaker results in Texas and the West.

Gross profit margin increased 130 basis points to 26.3% of sales compared to 25% in the prior-year quarter. The five components of this year-over-year change were as follows. First, merchandise margin increased 110 basis points to 54% versus 52.9% in the prior-year quarter. Lower freight rates and inventory levels, along with improved product flow, drove the increase in merchandise margin.

Second, central distribution costs decreased by 110 basis points to 6.1%. The decrease, as a percentage of sales, is largely due to the reversal of capitalized costs in the prior year, as inventory levels declined from Q2 to Q3. With a normalized inventory flow this year, capitalized costs increased slightly along with the seasonal inventory buildup.

On a cash basis, distribution center costs were $500,000 lower than the prior-year quarter, reflecting improved labor efficiency and lower inventory storage costs.

Third, occupancy costs increased 130 basis points to 12.1%. This increase, as a percentage of sales, is primarily due to deleverage from the sales decline. The actual cash rent is down slightly versus the prior-year quarter.

Fourth, outbound freight costs, including both store and e-commerce shipping expenses, were 8% of sales, flat compared to the prior-year quarter. This comparison reflects a reduction in shipments to the stores in the current year, resulting from lower inventory levels, offset by deleverage from the overall sales decline.

And lastly, depreciation included in cost of sales decreased by 40 basis points to 1.5%.

Total operating expenses, excluding impairment charges, declined by $2.1 million to $37 million or 31.7% of sales compared to $39.1 million or 29.9% of sales in the prior-year quarter. The decrease in dollars was primarily the result of reductions in corporate salaries and overhead, along with a lower store count. These decreases were partially offset by planned increases in store payroll hours to support the buildup to our holiday selling season.

Impairment charges related to underperforming stores and technology assets were $0.3 million for the quarter compared to $0.2 million for the prior-year quarter.

Adjusted EBITDA, excluding impairment, stock compensation, and other minor expenses, was negative $3.2 million versus negative $1.7 million in the prior-year quarter. This was primarily the result of weaker operating performance during August and September. During October, our adjusted EBITDA loss was lower than the prior year, as margins improved. Quarter-over-quarter, our operating loss was flat at $6.7 million.

Net interest expense was $1.2 million for the quarter compared to $0.7 million in the prior-year quarter due to higher interest rates.

Our income tax rate for the quarter was a benefit of 16.8% compared to an expense of 0.8% in the prior-year period.

From a balance sheet perspective, our inventory levels continue to be under control and in line with our planned inventory flow. We ended the quarter with $105.2 million in inventory; that was a 17% decrease from $126.3 million at the end of the prior-year period.

We had borrowings outstanding of $62 million compared to $60 million in the prior-year quarter.

Moving to our outlook for the remainder of the year. Early in the fourth quarter, the environment remains challenging, but our top line and margin trends have improved. For November, we recorded a low-single-digit positive sales comp, along with a strong increase in merchandise margin.

As a reminder, November was the toughest monthly sales comparison to last year when comps were flat. Last year, December comps were down 11% and January comps were down 8%.

Traffic also turned positive in November, but we remain cautious about assuming the same trend for the rest of the quarter, given continued macro uncertainty. Customers continue to scale back on higher-ticket purchases, but our seasonal offering has been well received thus far, as shown in our customer conversion rate and our merchandise margin improvement.

With less inventory to clear compared to last year, we expect the merchandise margin improvement to continue for the remainder of the quarter, supply chain costs continue to normalize, and we are managing operating expenses very tightly.

For the year-to-date, operating expenses are down approximately $10 million versus the same 9 months for 2022. We expect operating expenses to be down again in Q4 versus the prior year when adjusted for the additional week in this year's retail calendar. As a result, we expect a solid year-over-year improvement in adjusted EBITDA for the fourth quarter. In the fourth quarter of 2022, adjusted EBITDA was $2.6 million.

Looking beyond this year, our goal is to get back to mid-to-high single-digit adjusted EBITDA margins, which has been our historical average. As Amy outlined, we are beginning to see improvements in sales and merchandise margin through our pricing and promotional strategies. We have already taken steps to enhance our sourcing capabilities, improve supply chain efficiencies, and remove fixed costs from our distribution facilities. We are addressing additional ways to streamline our operating cost structure. Significant reductions have been achieved over the last several years, but we believe there are additional areas to address and redeploy.

The combination of these factors provide the pathway to returning to historical adjusted EBITDA levels. In the coming quarters, we will provide updates on our progress in each of these areas.

Lastly, I'd like to reiterate our priorities for capital allocation. We continue to focus first on reducing borrowings and re-establishing a level of liquidity that allows us to operate the business with more flexibility. As of today, we have reduced our borrowings from $62 million at the end of Q3 to $35 million.

Given the current uncertain economic conditions, we are evaluating ways to expand our borrowing capacity to ensure that we have the liquidity cushion to support and accelerate our

turnaround efforts. Once that milestone is achieved, we plan to focus our efforts on re-investing in the business, and from there, we can start looking at share repurchases and dividends as additional ways to return value to our shareholders.

That concludes my prepared remarks. I'll hand it back over to Ann for her closing remarks, and then we'll move to Q&A. Ann?

Ann Joyce: Thank you, Mike. Before taking your questions, I wanted to reiterate my thanks to our dedicated associates for what they have accomplished in such a short period of time. To have achieved the improvements that we've talked about today took a tremendous amount of effort and determination. Although there is still much more to achieve, it is important to acknowledge the work that has improved our business trend in such a condensed timeframe. Our improved results are energizing our organization, and we have no plans of slowing down.

We're heading into 2024 with a renewed sense of optimism, and a plan that we believe will translate into improved financial results. I greatly appreciate all our stakeholders and the support we continue to receive as we strategically reposition the business amidst the challenging consumer environment. I firmly believe that your patience will pay off in the long run.

Operator, we're now ready for Q&A.

Questions and Answers

Operator: Thank you, ma'am. Ladies and gentlemen, at this time, we'll begin the question-and-answer session. (Operator Instructions). Jeremy Hamblin from Craig-Hallum.

Jeremy Hamblin: Congratulations on the improved results and progress against your strategic initiatives. I wanted to start with getting a better understanding of what you're seeing, or what you're expecting on the margin front. Particularly, you noted that you expect merch margin to continue to improve here in Q4, and I wanted to just get a sense of the potential magnitude around that. Last year, Q4 was pretty tough, there were a lot of markdowns. You made really nice progress here in Q3 to see gross margin up 140 bps.

And as we look at Q4, I'm wondering in context of if you saw like a peak in Q4 gross margin of just over 33%, and if we go back to 2019, it was like 29.8%. I wanted to just see if you could have a little context for what we think Q4 of this year could look like, whether that's the range or whatnot?

Mike Madden: Thanks, Jeremy, it's Mike. I'll start and others may want to chime in. I think the one big point I would make going into this is if you compare this year to last year, the way we're coming into this quarter, we came in with a much higher IMU, so our going-in margin is better. And that's in part due to some of our efforts with our vendor base, but it's also due to the freight rates being lower. So we're coming in in a stronger position. The increase we saw in November

was significant; it was a nice improvement from where we had been running. And that had actually started to build through the third quarter.

So we really started early in the third quarter with some pretty heavy markdowns, still moving through a lot in some of these other categories, not fully equipped with some of the changes that we've made in the assortment. And we're in a better position on that front going into Q4. So those factors, I think, give us that feeling that we have a better chance to improve on that as we move through Q4. And, yes, we were still clearing a lot of inventory into December last year that we just don't have to do this year.

On the other components, we continue to improve our supply chain efficiency. I think that's going to be in our favor in the fourth quarter. And if we can get some top line momentum to continue through the rest of the quarter, I think we would get back not to those historical levels, but certainly into that 30% range in the fourth quarter on gross profit. And it will depend on the leverage and the sales results as to how well we do, plus or minus. But I just think the overall positioning is better coming into this year, as you look at that to last year.

Jeremy Hamblin: That's great. And then you also noted in your remarks that you did have some larger-ticket items that you may still have in your inventory and looking to move on from. Although they're not key items here during the holiday period, it did sound like there was still some items maybe to move through as we get into 2024. And I wanted to just see if you could add a little context around what our expectation should be on that? And how long do you think some of that maybe aged inventory might linger?

Amy Sullivan: Hi, Jeremy, it's Amy, I'll take that, and Mike can layer on if he wants to add anything else. The two areas in particular where we have higher-ticket AUR inventory sort of carrying from the earlier part of the year would be in furniture and sort of all things wall decor and art. And those categories have always been part of the Kirkland's business, and will always be a part of the Kirkland's business. But as you know, earlier in the year, they were a significant penetration to the total, and that has continued to dwindle as we get into the back part of the year.

I'm really comfortable with where we are in furniture as we move through the end of this year and into next year, and I think we'll be at the right balance. There's a little bit of residual, particularly in the wall areas, and that's a bit of our higher-ticket items from earlier in the year, as well as just an overall macro decline in that category, but not significant enough that I'm terribly worried about it having a 2024 impact.

As we move into this post-Christmas period, not only will we have new spring products coming in to help bring up our IMU, but we'll also use that time as sort of the post-holiday clearance period to really strategically get focused on some of that clearance hangover from earlier in the year, and try to get out of that and be clean going into 2024.

Jeremy Hamblin: Got it. That's great. And then I wanted to move on to your marketing. So you've made some really nice pivots here on your strategy and how that messaging is being delivered to your customer base. I wanted to understand in terms of your marketing budget for 2023, I think that was down pretty meaningfully on a year-over-year basis as you guys reduced cost. I wanted to get an understanding of what that budget looks like here in Q4. And then as we

look ahead into planning for 2024, what should we be expecting in terms of how that marketing budget might compare in 2024 versus 2023?

Amy Sullivan: So Jeremy, it's Amy again. Right now, we are running around 2.5% to 3% of sales for our marketing budget, and we intend to hold that flat as we move into 2024. The difference is we're deploying it in more successful places, and so we've re-calibrated how we're spending the marketing budget that we have, and testing and learning our way into funding additional things.

I mentioned during my script, the new SMS program that we're doing. We've had a lot of success there. So that's opportunity for next year where we might put some additional funding there and really trying to think of our marketing budget similarly to an open-to-buy that a merchant would have and as we test and learn things that are working, funding it a little more. I'd love to grow that budget ever so slightly as sales grow to make sure that we're continuing to capitalize on the positive traffic that we're seeing right now, but we'll stay really close to it and really play it month-by-month.

Mike Madden: And Jeremy, on the numbers side of that, we are down about $5 million, give or take, year-over-year 2023 to 2022, and in the fourth quarter, it's pretty flat. We spend a little bit more in the back half, as you would imagine, and a little bit more in the fourth quarter, to support the sales, but it's not going to be much different than what you've seen each quarter this year.

Jeremy Hamblin: Great. And then I wanted to also just understand, so through -- it looks like you've seen some stability here in the store fleet. Wanted to just confirm, as we make this progress back into positive comp trends and some of the changes that you've made overall. First, wanted to understand whether or not you felt like there was any additional like acceleration of store closures you had to do, as we head into 2024, or if we kind of have just kind of some of the typical closures -- one.

And then part two would be just in terms of the balance sheet and how you would expect to utilize your credit line here in 2024, there's kind of a natural ebb and flow related to balance sheet and inventory needs as we progress through the year. So you've already made some really nice paydowns on that debt line here in Q4, but I wanted to just understand what you thought you might need for your kind of peak use of that credit line into 2024, and presumably, similar timing where that maxes out in Q3.

Mike Madden: Yes, Jeremy, I'll start with the store question. I think the way to think about store fleet right now is we are maintaining. There are going to be a few closings in January; I would expect to see eight or nine closings in January. But I would consider that typical housekeeping and dealing with rent or lease expirations and renewals, so you'll see that. But largely, we are looking at this as let's improve our position as well as we can in each location, and let's consider each location a showplace for us that that really drives business to those stores, but also in an omnichannel way. So those stores are really important for the e-commerce side of the business as well. So, we are maintaining.

We would like to get to a point -- and that kind of leads into your second question about the liquidity and the balance sheet. We certainly want to build our liquidity position such that we can

play a little more offense than we're playing right now, and that's why I cited that in the prepared remarks. We feel comfortable with our credit line and the way that works and flexes up with our build to peak. But in order for us to be really more offensive in terms of what we're trying to do to speed the turnaround and invest wisely in things that we know will work for us, we need that flexibility. And that's why we're just kind of taking a look at everything. We don't have anything to talk about yet, but we're considering how we might bolster that position throughout 2024.

Ann Joyce: And this is Ann. In addition to that, I would say, as Amy mentioned earlier about the strategy around igniting the field, it includes physically visiting every single store and understanding what are the triggers to the performance, which is not just location and demographic, but allocation and localization of product, etc. And anything that can affect the performance in a positive way, we're taking action on, in parallel to their real estate strategy, conversation, points that Mike just made.

Jeremy Hamblin: Got it. Thanks for the color. Congratulations and wishing you the best on a great holiday season.

Operator: John Lawrence from Benchmark.

John Lawrence: Congratulations on the numbers. Certainly, we've seen tremendous change in the stores that we visited, and certainly, have seen that traffic resonate across the board. So congratulations from that standpoint.

Can you -- either Ann or Amy, either one -- just sort of describe a little bit when you laid out the assortment, you mentioned a little bit about it in the prepared remarks, but if you look at that balance of Harvest -- and in the second quarter, you talked about a little bit of sort of that improvement; and as you moved into the third quarter, what would maybe be a couple of categories that maybe surprised you or disappointed with you as you just looked? Obviously, it all looks very positive. Just trying to dial into some of those categories that may have either worked better or worse than you expected?

Amy Sullivan: Sure. So specific to Q3, as we mentioned, the Decorative Accessories category really is a standout. And for us, that is [bases] basket, sort of all of the decor accent pieces throughout the customer's home. And over the years of growing furniture, that is one of the categories that historically, had been kind of our best value category. And I think the pricing, along with furniture got too high for our customers. So we really turned that one completely upside-down, got back into sort of basics and high-value high-unit velocity items and saw a ton of success there.

You've heard me mention a couple of times the impact and the importance of the seasonal business for us here, and I would say one kind of is a tale of two stories. If you think about Q3, Halloween had just a runaway success, probably the fastest and earliest season demand that we have seen for that business in my time here. And then Harvest, I would say, was a little bit disappointing. Some of that, we pulled some of those sales forward into Q2, so there was a little bit of a pull-forward there. But because of the stakes that we were in, in Q3 of still dialing in our marketing strategy, still being in the mix of sort of old product strategy and new product strategy,

we had to leverage Harvest as a little bit of a loss leader to drive traffic and demand. And so we eroded that AUR more than I would have liked to.

And then the last thing I would say is just again, on those higher-ticket categories, as I mentioned on Jeremy's question as well, furniture, I feel really good about the direction that's heading and getting back into true value furniture for our customer. The wall areas are still the ones that industry-wide, we're seeing a dip, but I think we've still got a little bit more work to do in the balance of this year to get the pricing right there. But I feel like we can get that back on track as we go into 2024.

John Lawrence: Great, thanks for that. And the last thing for me, as you look at that assortment, where do you think you are as you look into 2024 and changes, deletions, from the assortment, what will we see as we move through the first half of 2024?

Amy Sullivan: You'll see a continuation of more [important] from the seasonally-relevant categories. So as you think about spring florals, making sure that we're well in stock in the smaller holidays like Valentine's and Easter. And then I would say the biggest sort of shift year-over-year -- and I've alluded to this on the past couple of calls -- is this notion of always something new. And so just ensuring that we have some faster-turning, lower-ticket, little trend moments that come in throughout the quarter, so Mother's Day, different holidays that resonate with our customer.

And then the other thing I would say is I mentioned the gift and sort of impulse category. And you've been with us long enough to know that used to be a really important part of our business, and we re-introduced that this Q4 and it's doing amazing. So having that year-round next year, I think, is going to be some upside for us as well, both in top line sales and certainly in conversion in stores.

John Lawrence: Great, thanks for your time. Congratulations.

Operator: And ladies and gentlemen, at this time, this completes our question-and-answer session, and concludes today's teleconference. We thank you for your participation. You may now disconnect your lines.