Kirkland's Home (KIRK)
Q4 & FY2023 Earnings Call
March 21, 2024, 9:00 AM ET.

Officers and Speakers
Cody Cree, External Director, Investor Relations
Amy Sullivan, CEO
Mike Madden, CFO

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 fourth quarter and fiscal year 2023 ended February 3, 2024. Joining us today are Kirkland's Home CEO, 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. Please note this call is being recorded.

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, Danielle. 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 a telco replay through March 28, 2024. 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 CEO, Amy Sullivan. Amy, over to you.

Amy Sullivan: Thank you, Cody, and good morning, everyone. It's great to be joining today's call as the new CEO of Kirkland's Home. I'm incredibly excited in the opportunity at hand to restore our business to historical levels of operating performance and ultimately reach new heights. Having spent more than a decade of my career at this great company in various leadership roles, I've had the opportunity to see what works and what doesn't work.

The strategic repositioning initiatives that we've implemented during the past year are centered around returning to our value heritage. These initiatives are a modernized version of a previous playbook that consistently delivered healthy results and we believe we can achieve those results again.

Although our financial performance has lagged for some time, I wanted to remind everyone of the brand power we have as the original Kirkland with a strong following built over 50 years. This has culminated into over 1 million followers on both Instagram and Facebook, over 7 million customer transactions per year, and more than 18 million customers in our loyalty program. We remain optimistic that with the right strategy in place, we can unlock significant value from our powerful Kirkland's brand.

With that broader framework in mind, let's jump into how we closed out the year and the progress we're making towards our five strategic priorities. Fiscal 2023 was a year of significant change across our entire organization, and we are proud to report that we saw some of our initial repositioning strategies take hold during the holiday season.

Going into this period compared to the same period last year, we had improved marketing, relevant merchandising, more appropriate levels of inventory and a more effective pricing and promotion strategy. As a result, we generated a 1.7% increase in our comparable sales, a strong gross profit margin of 32%, adjusted EBITDA of $14.2 million and healthy operating cash flow. If it weren't for the significant weather in January that impacted much of our retail footprint, we would have likely seen a positive sales comp closer to 3%.

Although we are in the early stages of our strategic repositioning, we are pleased with the momentum we generated the close out the year, which gives us confidence that we are on the right path. We believe we can now take these learnings and continue implementing them in 2024 and beyond to get our business back on track.

Let's dive into how our five strategic priorities played out in Q4, and what we have in store this year. First and foremost, it is imperative we keep the voice of the customer at the center of our brand and our strategy. As we all know, consumers continue to deal with uncertainties in the broader macro environment and remain price sensitive. While this environment does create challenges for us, it also presents a great opportunity to lean into our value-focused heritage which is resonating with customers.

We saw this during holiday, as our brand repositioning took hold driving a 39% reactivation of lapsed customers. We believe our revitalized merchandising and marketing strategy will keep her engaged throughout the year. With the customer as a center of our decision-making we are beginning to see success in many of the pivots within our marketing strategy. As we shared previously, we recalibrated our marketing tactics to re-engage our core customer and more specifically, to focus our efforts on previously-declining brick-and-mortar traffic.

We are pleased with the improvements in our store traffic trends, shifting from down 10% in the first half of the year, to up 2% in Q4, largely driven by geo-targeting in our paid media strategy and the reintroduction of direct mail.

Additionally, I'm excited to share that we have formalized an exclusive partnership with a digital marketing technology partner. We worked with this partner in Q4 to test video SMS, resulting in a 75% increase in click-through rate compared to our traditional text SMS program. We plan to utilize this new technology to drive increased customer engagement around new product launches and promotional events. As we look ahead to 2024, we expect continued benefit from our reactivation strategies. We will remain nimble in our marketing tactics to ensure we are efficiently managing traffic conversion and acquisition tools to solidify a balanced approach to our brand strategy.

Our second strategic priority is our commitment to being product-obsessed by delivering curated, on-trend and seasonally-relevant home decor at a great price. We have brought back our Always Something New mindset, and our customer is responding well. Although larger ticket categories, such as furniture and wall décor, continue to struggle, we are turning lower-ticket categories, like decorative accessories, holiday and gifting, much faster.

Decorative accessories exceeded our expectations during the holiday season with a 60% sales comp, providing a perfect example of a value decor category that can drive business year round. Additionally, we reintroduced our gift and impulse category in Q4, which delivered incremental sales that we can now capitalize on in all 4 quarters.

Our holiday assortment was very well received this year, delivering a 2% sales comp and 13% margin comp, largely driven by strong demand in floral, decor and textiles, further solidifying our customers' passion for decorating. We expect growth from all three of these categories throughout the year.

Now I want to turn to our third strategic priority, delivering an omnichannel strategy that meets her whenever and wherever she wants to shop. As I shared earlier, we are seeing a positive trend in store traffic from our marketing and merchandising repositioning. While we have plenty of opportunity to maximize brick-and-mortar sales through continued execution, our e-commerce business has much more strategic and structural work to be done in order to capture its full potential. There has certainly been a channel shift among consumers back to in-store, but over the long term, we believe in the necessity of a strong e-commerce channel within our overall brand experience.

Traffic within e-commerce has continued to be challenging. Some of this is due to that macro shift, but some of it is certainly self-inflicted as we realigned our marketing dollars to better support the larger brick-and-mortar channel. Additionally, the price resistance to higher-ticket categories, such as furniture and wall décor, has a larger impact to our e-commerce business, as those categories have generally been a greater percentage of our online sales.

Over the years, the Kirkland's e-commerce strategy has largely been a subset of the brick-and-mortar strategy. But in our commitment to keeping our customer at the center of our brand, we recognize the need to uniquely refine the assortment, promotional marketing and technology experience for her online journey. Given our need to improve our online customer experience with modern technology, we are currently in a formal vendor selection process for a re-platform with a goal of a fiscal 2025 relaunch.

In the meantime, we are focused on maximizing conversion and profitability on our existing site. We have created an internal sales task force focused on optimizing inventory, marketing tactics and promotional strategies to drive e-commerce conversion, and a profitability team refining our shipping and returns process. Overall, we are working on ways to reignite our existing e-commerce business with the ultimate goal of a re-platform next year.

Turning to the in-store component of our omnichannel strategy, we are pleased with how our stores have performed. Throughout 2023, we closed several unprofitable stores that were in locations we felt were not worth salvaging. As we look at our 2024 brick-and-mortar priorities, we are working to increase our revenue per square foot within our current footprint. With a return to positive traffic, consistent improvement in conversion and faster-turning product mix, we believe our in-store opportunity could be an accelerant.

We are in the midst of evaluating operating hours across all our stores right now, and we are testing strategies that include opening earlier and staying open later based on current traffic and customer data trends. While it is too early to comment on specific hour changes, we are using this testing period to ensure that we aren't leaving any additional profitable sales on the table.

And finally, within our omnichannel strategy, there are a few key expansion initiatives that we are exploring. For example, we are looking at a few markets we previously exited that might be beneficial to us as we re-engage our core customer. We are in the early stages with our real estate partners, but we have narrowed in on markets that have incremental growth opportunities based on historic sales and current customer demographics. Overall, we are pleased with our brick-and-mortar results and see it as a leading indicator that the customer is engaged with our strategic repositioning.

Now let's discuss the fourth strategy, maintaining disciplined operational effectiveness. With every new initiative and expense that we introduce, we are maintaining a strict discipline to ensure we can see a measurable benefit to our overall profitability. For now, we remain highly focused on implementing the must-have versus the nice-to-have as fiscal responsibility and low risk are key in the short term.

More recently, we have invested in improving our planning, allocation and pricing and promotion strategy to better forecast what drives traffic and profitable sales. This is the latest health check, and we believe this is an investment that will provide a return this year. This promotional effectiveness tool, coupled with a more disciplined approach to a brand calendar, should aid us in overall control of margin, including our clearance markdown strategy resulting in potential meaningful upside this year. The long-term impact of this implementation will leave the merchants and marketers with a tool to drive in the future promotional strategy well advance at the buying process, driving better management of our in-season sales and profitability.

We're also evaluating our overall inventory effectiveness to ensure we have the right inventory in the best location at the optimal time to maximize sales and margin. Through deep analysis of our product lifecycle and current store allocation clusters, we believe there is an opportunity to improve overall inventory turn and profitability. By not doing this, effectively, we've left margin on the table, so this could be a significant margin driver for our business going forward. The initial impact of this work will begin to flow through our results in the back half of 2024, but the long-term impact will deliver better inventory optimization starting with the buying process through the full product lifecycle.

Last, but certainly not least, our fifth priority is focused on driving a high-performance organization built for success and continuity with the voice of our associates at the forefront of our culture. As we close out 2023, and embark on a new year, I want to recognize and thank all of our associates for their unwavering dedication to our turnaround. The passion and energy they bring to every store, distribution center and home office have made a tangible difference in our results. I'm so proud of the progress we have made in such a condensed timeframe with a limited amount of resources, and we believe we are just getting started.

With a merchandise and marketing strategy that is generating positive momentum with our customers and a nimble operations team in place to continue driving efficiencies and profitability, we believe we are well positioned for this year and beyond. We remain committed to unlocking the true potential of Kirkland's Home and delivering long-term value to our stakeholders. We appreciate your continued support and commitment as we navigate our repositioning, and we look forward to exceeding your expectations.

With that, now I'd like to turn the call over to Mike, who will provide detailed commentary on our financial performance and outlook. I'll be back at the end of the call to answer any questions you may have. Mike, over to you.

Mike Madden: Thank you, Amy, and good morning, everyone. For the fourth quarter, net sales were $165.9 million compared to $162.5 million in the prior-year quarter.

The fourth quarter of fiscal 2023 included 14 weeks as compared to 13 weeks in the fourth quarter of last year. The extra week of sales this year amounted to approximately $6.6 million. Comparable sales using a 13-week comparison increased 1.7% for the quarter.

The average store count was down 5% compared to the prior-year quarter.

The increase in comparable sales was driven by an increase in store traffic and omnichannel conversion, partially offset by a decline in the average ticket in both channels.

Breaking down sales within the quarter, comps were up 1% in November, up 5% in December and down 4% in January. January business was hampered by winter weather, which disproportionately affected our store footprint.

Store sales drove the overall comparable sales increase for the quarter, posting an increase of 5%, while e-commerce was down 8%. E-commerce accounted for 23% of total sales in the quarter, down from 26% in the prior-year quarter.

From a merchandise perspective, decorative accessories, seasonal, gift and lamps all had strong increases versus the prior year as we repurposed our assortment to emphasize faster-turning lower price point options. Declines in the wall categories, furniture and housewares partially offset the gains. Sales performance was relatively consistent across geographic regions, with particularly strong results in Florida.

Gross profit margin increased 720 basis points to 32% of sales compared to 24.8% in the prior-year quarter. The five components of this year-over-year change were as follows. First, merchandise margin increased 410 basis points to 54% versus 49.9% in the prior-year quarter; improved sell-through of our seasonal inventory assortment, combined with lower freight rates and a reduction in clearance activity, drove the increase in merchandise margin.

Second, central distribution costs decreased by 160 basis points to 4.7% of sales compared to 6.3% of sales in the prior-year quarter. Increased efficiency and a smoother inventory flow led to lower labor and operational costs within our distribution centers. Third, outbound freight costs, including both store and e-commerce shipping expenses, decreased 130 basis points to 7% as a percentage of sales compared to the prior-year quarter. The comparison reflects a reduction in shipments to the stores in the current year, resulting from lower inventory levels and a reduction in rates on parcel deliveries.

Fourth, store occupancy costs increased 20 basis points to 9.2%. The increase as a percentage of sales is primarily due to increases in the average store rent being slightly more than the comparable sales increase. And lastly, depreciation included in cost of sales decreased by 40 basis points to 1.1%.

Total operating expenses decreased by $1.1 million to $42.4 million or 25.5% of sales compared to $43.5 million or 26.8% of sales in the prior-year quarter. The decrease in dollars was primarily the result of lower impairment charges of $1.3 million and year-over-year reductions in advertising e-commerce and corporate salaries. These declines were largely offset by the effect of an extra week in the calendar, which accounted for approximately $2.4 million in extra operating expenses in the current year.

Adjusted EBITDA, excluding impairment, stock compensation and other minor expenses, was $14.2 million versus $2.6 million in the prior-year quarter. This is primarily the result of positive comparable store sales and significant gross margin improvement along with continued tight expense control.

Operating income was $10.7 million or 6.4% of sales as compared to an operating loss of $3.2 million or 2% of sales. Net other expense, which is largely comprised of interest expense offset by other income, was $749,000 for the quarter, compared to $409,000 in the prior-year quarter. Included in these amounts, net interest expense was $902,000 for the quarter, compared to $509,000 in the prior-year quarter due to higher borrowing levels and higher interest rates.

Our income tax rate for the quarter was a benefit of 2% of pretax income compared to an expense of 5.2% of pretax loss 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 $74.1 million in inventory, a 12% decrease from $84.1 million at the end of the prior year.

We had borrowings outstanding at $34 million at year-end compared to $15 million prior year. The increase in borrowings reflects the negative operating performance for fiscal 2023, capital expenditures of $4.8 million, and $1.2 million in refinancing costs associated with our credit facility amendment in March of 2023 and the closing of our additional credit facility in January of 2024.

As we enter the new fiscal year, we are continuing our policy of not providing specific guidance, given the difficulty in forecasting visibility around the macroeconomic environment and its impact on our traffic and conversion. However, we do want to provide some color around our expectations in key areas. Early in the first quarter, we have seen continued strength from our brick-and-mortar stores through positive foot traffic and an improved conversion rate, partially offset by a decline in our average ticket.

Demand on the e-commerce side has been down owing to weaker traffic and conversion trends, along with a lower average order value. February comp sales results were slightly positive with a strong gross profit improvement and continued expense control. March is off to a softer start from a sales perspective, but we expect some recovery to occur as we close the month with an early Easter this year.

For the balance of the year, we expect improvement in sales as we build toward the holiday season, coupled with continued merchandise margin improvement, driven by our assortment shift to faster-turning categories and our aggressive focus on promotional effectiveness and inventory clearance to ensure freshness throughout the year.

Supply chain costs are declining, as we improve labor and transportation efficiency, and we are managing operating expenses very tightly and reducing costs across the business.

With a favorable macroeconomic backdrop, the combinations of these factors provide us with a path to positive adjusted EBITDA in 2024 after 2 years of losses.

Looking beyond this year, our goal is to get back to a mid-to-high-single-digit adjusted EBITDA margin. As Amy outlined, we are beginning to see improvements in sales and merchandise margin through our pricing and promotional strategies. Our long-term sales goals are to return store profitability or productivity to historical levels of $1.4 million through merchandising and marketing initiatives and enhance our e-commerce technology to unlock the full potential of that channel.

On the cost side, we have already taken steps to 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. In the coming quarters, we will provide updates on our progress in each one of these areas.

And lastly, I'd like to reiterate our priorities for capital allocation. Our number one priority for the business right now is returning to positive cash flow. As we make progress toward that end, we continue to focus on reducing borrowings and re-establishing a level of liquidity that allows us to operate the business with more flexibility. The expanded credit facility we closed in January was crucial in providing additional capacity as we execute our strategy.

As we do so, we are also focused on reinvesting in the business. E-commerce technology enhancements and targeted store openings and relocations are the priorities for the near term as we continue to execute our repositioning.

And that concludes our prepared remarks. Danielle, we're now ready for some Q&A.

Questions and Answers

Operator: Thank you, sir. We will now begin the question-and-answer session. (Operator Instructions). Jeremy Hamblin of Craig-Hallum Company -- Capital Group, I'm sorry.

Jeremy Hamblin: Congrats on the strong results and momentum in the business. I wanted to come back to the commentary around near-term results. So it sounds like slightly positive comps in February. You noted that March was a bit softer, which I'm assuming means maybe flat or slightly down year-over-year. Can you just remind us, when we look at the comparisons that you have year-over-year, how April shapes up?

And then as a follow-on, you noted that you expect some nice improvement on gross margin in Q1. I wanted to see if you could give us a sense of the magnitude that you might be expecting there?

Amy Sullivan: Jeremy, let me give a little context on sort of March, April, and then Mike can give you some specifics. Just as a reminder, for this period that we're in right now, we're lapping pretty high furniture sales. And specifically in March, we had a really robust all-furniture event last year in 2023, so I think some of our softness year-over-year is really in still that consistent sort of pressure to the decline in that furniture category.

We're still seeing positive momentum in the go-forward categories of growth for us, but lapping some of that higher AUR pressure that we're up against last year I think is really a big part of March, as well as the calendar shift that we're in this year. And we really, as Mike said, expect that to come back around as we get closer to Easter, which is a key period for us. And then I'll let Mike comment on it.

Mike Madden: Yes, and just to add to that, I think if you look at the comps, like you're asking, Jeremy, I think it's a little difficult because of the calendar shifts. You have not only a calendar shift with Easter, you've got a retail calendar shift that we're dealing with and have been talking about. On paper, actually, April was the stronger month last year in the first quarter, but just looking at our promotional calendar and what we have planned, I wouldn't weigh too much into that in terms of evaluating as we progress what we're up against just because the calendar is quite different, so I'll just make that point.

And then on your question about the margin, we continue to see positive trends in each component of the margin, which is encouraging. We're doing a lot of work on the merchandise margin; Amy went through a lot of that in her remarks. That's a key component to driving continued merchandise margin improvement for the rest of the year. But if you kind of dig in to that, that's our merchandise margin improvement and we expect that to continue this year, but also on the supply chain side, which is included in our gross profit margin, we've eliminated a lot of fixed costs, closing two hubs last year, closing a lot of off-sites.

We've revised our parcel contract, so that's helping us on the e-commerce side. We're doing a really good job of managing routes to our stores and kind of cutting them back where needed to reduce the cost there. And our labor efficiency is getting better along with lower inventory levels. We expect all of that to really be in play for the year.

So I think last year, we had a gross profit margin of 26.7%. We've got ample improvement or ability to improve on that for Q1. I don't think it'll be to the level of Q4 just because of the amount of sales that flow through during that timeframe, but I do expect that we'll see significant improvement.

Jeremy Hamblin: That's great. And let me just transition here to the comments around your e-commerce platform which it sounds like great improvement on store traffic, e-commerce is struggling a bit more. And I wanted to get into a little bit more detail about the relaunch plan for 2025. So is the relaunch around e-com more just about fitting the assortment to better meet the needs of what the online shopper is?

And is that -- when you talk about a relaunch of that platform, would it be -- what portion of the assortment might be different for your e-commerce channel as opposed to what customers are going to see in stores?

And then secondly, do you have from like a technology investment needed to do that relaunch? Can you talk about anything that you think you might need to help support that as you move forward?

Amy Sullivan: Sure. So at sort of the highest level, we need to go through and really define the channel strategy for e-commerce. I made a comment in my remarks that e-commerce historically at Kirkland has been more of just an extension of the brick-and-mortar strategy. And we recognize that the customer shopping behavior is different online. And as I shared, those higher-ticket categories, like furniture and wall décor, have historically been a much more significant part of that business. And that predates even our prior strategy; it's always been a little heavier in those categories. And so I think we've got to do a better job at ensuring that we're adequately supporting the assortment mix needs.

And some of the planning and allocation health checks that we're doing right now is going to help give our merchant team better visibility to demand forecasting online and how that differs in-store. So it certainly starts with having some adjustments to the assortment strategy to ensure that we're giving that online customer what she needs.

In terms of how it would compare to a brick-and-mortar assortment, we definitely want the overall brand experience, aesthetic design, to still be very much one brand, but we believe there's opportunity online obviously to have some white space opportunities, test into some new businesses in the future. Our drop-ship business is a good place to do that. So that's really sort of assortment mix part of it.

And then on the technology side, our current platform is 12 years old, and so most folks go and upgrade technology every 4 or 5 years. And so we are really at that point where we're behind the game, in my opinion, on really the baseline expectations of what our current customer experience should be online. We had a little more significant dips in conversion; we have some issues on our cart abandonment that continue to hinder us. And so it's time, and it's probably past-due time, for us to make an investment in a more modernized technology to support our future business.

The good news on that -- and I won't get into too many specifics unless Mike wants to add some color on it -- is the cost of maintaining a 12-year-old platform is very expensive. So as we move forward, we haven't fully identified which partner we're going to go with, but we're getting near that decision. It will actually be beyond the implementation year, we would see flat to slightly-slight savings on a new platform because of how much it's requiring us to sort of band-aid our existing one together. So implementation obviously would be a little bit of a capital outlay.

And Mike shared that we're protecting that in our capital budget for whenever that kicks off, whether it's the end of this year, early next year. But it's definitely something that I think will not only improve conversion and ultimately sales, but also will give us probably an expense savings for several years to come, just based on being able to walk away from some of these older expenses and these contracts that we have of people helping us manage a really dated website.

Jeremy Hamblin: Got it, helpful color. And then just last two for me and I'll hop out of the queue. What is your CapEx expectation for 2024? And then on the balance sheet side, what, Mike, do you think would be kind of the peak need based on your current outlook in terms of what you might draw-down on your credit facility?

Mike Madden: Yes, so looking at the CapEx, last year, I think we were at 4.7% or 4.8%; I think it'll be a little bit less than that this year. We've got some projects that we are doing, but it's very much a maintenance CapEx budget year. So I expect that will be -- could be $3 million, $4 million range.

I mentioned we're trying to be play a little offense. We talked about the e-commerce platform, we also talked about some real estate. We're trying -- it won't be a big program, but we're at least going through an evaluation to really target where we might be able to fill out some markets, or enter some tried-and-true areas that we know will really work for us. So we're trying to hold back some capability to do that.

On the balance sheet side, obviously, our seasonality dictates how borrowings occur in our inventory flow and we expect a normal buildup in inventory. I think we will peak out higher than last year on the borrowings, simply because we're starting higher. We do have more capacity and that capacity expands as we get deeper into the season. But how much and the timing will really have a lot to do with that, but it's going to be more than last year, but we do have additional capacity to cover that this year.

Jeremy Hamblin: Got it. Thanks so much. And good luck this year.

Operator: John Lawrence from The Benchmark Company.

John Lawrence: Congrats, guys, on a great fourth quarter. Amy, can you talk a little about when you went into holiday and just looking at the white board across the categories, what would you say you give the grades to? What you expected to be really good and how that turned out from sort of the planning and allocation standpoint and presentation, and maybe what surprised you or what disappointed you in the assortment?

Amy Sullivan: Sure. I would say, obviously, just from a volume perspective and another win for this category is that holiday continues, as we all know, to be really a hero category for this brand. And so we had really strong results. I think the merchants of that team did a really great job of right-sizing the value and buying into depth of key items. We had a handful of items in our floral category that really had a viral reaction out in the consumer marketplace, so that was a huge win for us.

Strategically, we re-implemented the gift category, which you've been with us long enough to know, that has historically been a really strong part of the business, faster-turning, really high margins, and we were very pleased. I'm not shocked because I think we all had really high expectations of the category, but it did exceptionally well to the point of there were weeks in the peak holiday season where one individual gift item was the top item in the company. And so we really feel good about the fact that we have gotten back into that business, and we're going to maximize that all 4 quarters of the year.

Even if you think about the first half of the year, we had a Mother's Day period that we think we really walked away from over recent years, and that could give us some real upside in the first half of the year, largely driven by that gift assortment.

And then I would say my biggest surprise probably is just the ongoing turnaround of that decorative accessories category. If you look back at sort of historical years at Kirkland, that has been a category that's really been a driver in the front half of the year, and tends to fall off a little bit in holiday because of holiday decorating. But as I shared in my commentary, it had just immense growth and continues to be a really strong driver for us.

And then I guess I would say in terms of sort of disappointment, obviously, the furniture and wall categories continue to turn a little slower than we would like them to. It's categories that we are down-trending as well, so nothing that I don't think we can't manage through. But we were very pleased that between the in-store traffic, the improvements in conversion, that we were able to overcome those deficits in Q4 was the categories that really drove fast-turning sales.

John Lawrence: Great, thanks. And just to go through January a little bit, obviously, it cost you a point, point and a half. I assume that any stores here in the mid-South were, I assume, closed for several days, real impact. I assume not only customers couldn't get to the store, but neither could employees, correct?

Mike Madden: Yes, John, that was true. I think we just -- the way our store footprint is laid out, we took the brunt of that. So it was about $2 million. We mentioned that in Amy's remarks about it would have been a little bit closer to 3% on the comp had it been kind of a normal month. We know weather gives and it takes, so we'll be up against this next year. Hopefully, that will help January at the end of this fiscal year, but yes.

John Lawrence: So last question for me is when you look at the store fleet, the 9 or 10 stores you closed during the quarter, as you look at that -- and Amy, when you took the top spot and you looked across the fleet of stores, are there some of those, I assume, with these changes over the last 6 months and improvement, that some of those stores that are staying open, that would have been closed, is that fair?

Amy Sullivan: Certainly. We've seen improvements definitely in some of our former top-volume stores that sort of returned to their top spot. And that's really also kind of the driving force behind this wish list of stores that we're targeting for potential new openings too. If you go back and look at the store closures over the past 3 to 4 years at Kirkland's on an old strategy, it made sense at the time perhaps to close some of those stores because of the market they were in.

But as we reposition, we were able to use some customer data to sort of overlay on our old real estate map, and our new real estate map and some very obvious opportunities where there's a dense population of our current core customer where we could go back into those and really stimulate sales. So on both ends, seeing some positivity and our sort of historic real estate strategy really resonating with the changes that we've made.

John Lawrence: Great. And just the idea that -- can you give us a sense of how many of stores or close to that 1.2, 1.4, and gaining on those numbers as we speak? And I know there's work to be done there, but a sense of some of those who've got to be approaching those numbers?

Mike Madden: Yes, that's an average, so we're currently at like a 1.1 -- between $1 million and $1.1 million, let's say. I'm really talking about stores; we're not allocating any e-comm necessarily to that other than focus. But I think to Amy's point, what we've seen, I think the takeaway for now on what the merchandise strategy and how that is feeding into our stores, what we're seeing is some of the historical strong market areas that we've been in are picking up faster than maybe some of the more recent ones that we did in, say, the last 5 years or so. So I think that speaks to a customer base that knows us, that has been with us over these years, and is seeing the changes that we've implemented over the last 12 months starting to show up. And that's drawing her in, and I think that's part of the traffic increase we're seeing in the stores right now, so more to come on that.

But I think that's why we think, if we look at -- like we have built a wish list, and we don't know how many opportunities will really present themselves so quickly. But we want to be there and ready to go because we feel strongly that if we fill back into some of these areas, we'll be successful.

John Lawrence: Great. Congrats again, and good luck.

Operator: At this time, this completes our question-and-answer session and concludes today's teleconference. Thank you for your participation. You may now disconnect your lines.