

S&P Global
Market Intelligence

J.Jill, Inc. NYSE:JILL

Earnings Call

Wednesday, September 4, 2024 12:00 PM GMT

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Presentation

Operator

Thank you for standing by, and welcome to the J.Jill, Inc. Second Quarter 2024 Earnings Conference Call. [Operator Instructions]
Thank you.

I'd now like to turn the call over to Claire Spofford, Chief Executive Officer and President. You may begin.

Claire Spofford

President, CEO & Director

Thank you, operator, and hello, everyone. Thank you for joining us this morning. As detailed in our press release, we delivered a solid second quarter performance, reflecting total comparable sales growth of 1.7% and adjusted EBITDA of \$30.2 million, slightly above our expectations and yielding a 19.4% adjusted EBITDA margin for the period.

Underlying performance was a strong start to the period, which saw healthy full price selling as customers responded well to our early summer collection, particularly around the Mother's Day holiday. And we continue to see relative strength in our direct channel, which helped to offset ongoing dynamic trends in store traffic.

As the quarter progressed, we noticed a meaningful shift in consumer demand beginning in July. Adhering to our disciplined operating model, we promptly took strategic and precise actions during the quarter to promote slower moving items to optimize yields, manage inventory and prepare for our fall product launch debuting after Labor Day.

While we continue to see softness in August, it is a difficult time to assess and evaluate the drivers to the change in demand trends as we are in the midst of small-volume months, highlighted by seasonal sales and transitional assortments as well as a volatile macro environment that has clearly created noise and distraction for our customers.

That said, as Mark will review, we believe it is prudent to take these current trends into account as we assess our expectations for the balance of the year. While we are revising our guidance, our updated expectations remain in line with the hallmarks of our operating model, including healthy margins and significant cash generation.

As we have discussed before, in retail, the best defense amidst an ever-changing environment is the consistent delivery of strong product assortments that resonate with our customer and meet their needs for versatility and trend rate items that she is looking for to refresh her wardrobe.

At J.Jill, we design, develop, source and market the vast majority of our proprietary products based on the deep understanding of our customer and what she is looking for. This approach delivers consistency and yield strong margin performance.

The annuity-like categories in our assortment that she comes to us for year after year and season after season, like our core linen and cotton gauze franchises, were especially strong through the heart of the quarter.

In addition, we are pleased with our performance in our core bottoms programs and sweaters, particularly our cardigan assortment and our more fashion-forward crochet and open stitch detailed sweaters. Dresses, which has been on a strong trend for 2 years, did not see the same full price performance we've historically seen as she started to trade into more markdown and sale offerings during the period. But again, in accordance with our disciplined operating model, we took appropriate action to move products in season, and we ended the period with comparable inventory flat as we move into the fall season.

As we look to the fall, we're excited to launch our iconic J.Jill series. This product marketing effort will begin this month, highlighting our ponte pant and showing great outfitting options and underscoring the quality and versatility of the core J.Jill products that are essential to our value proposition.

We are also excited about the EcoVero fabric launch in our Wearever sub-brand collection in support of our initiative to leverage sustainable fabrications. And of course, we are looking forward to welcoming fall with our new collections of sweaters and corduroy offerings and trend rate pallets for the season.

Turning next to our strategic priorities. We remain on track with our plans for our OMS project as well as our new store openings for later this year. Despite the softness we are currently seeing in retail traffic, we know that stores are an important channel for us to drive sales and customer acquisition.

Many of our upcoming store openings are planned for markets that we know very well and that already have a strong customer base that we believe will not only drive retail sales, but omnichannel file growth as well. As we build our customer file and increase our brand awareness over time, we're continuing to evaluate our marketing plans and diversify our channels.

While our customer file declined slightly for the quarter, consistent with the overall performance by channel, we saw a nice growth in our direct-to-consumer customer file, particularly in the new to brand performance. Our retail channel customers were more challenging, reflective of the traffic patterns we saw in the quarter.

We launched our One Wardrobe. No Limits campaign in late spring and saw nice dynamics on our reach campaign elements, a step forward in driving brand awareness and introducing new customers to the J.Jill value proposition.

The introduction of the J.Jill Social Circle, a collection of brand-rate influencers, has been a great way to show styling tips on real women and yielded strong response in our paid and owned media efforts. Building brand awareness takes time, and we are still in the early stages of our efforts. As we look ahead, we will invest appropriately in marketing, continue to test and learn and lean into new ways to engage current customers as well as raise the profile of the brand to attract new customers.

While we continue to focus on our customer and delivering her the experiences and products she wants, we are also operating in a very dynamic environment and are leaning into the disciplines of our operating model to continue to drive margin performance and generate strong cash flow.

In addition, our commitment to our long-term objective has not wavered. As evidenced by our voluntary debt paydown and initiation of the quarterly dividend program in Q2, we have strong confidence in our business and the opportunities for profitable growth that we know lie ahead.

Before I turn the call over to Mark, I want to take a moment to thank our team for their ongoing hard work and dedication as we continue to execute on our objectives. I am also very excited to welcome Courtnee Chun to our Board of Directors. Courtnee brings a wealth of experience in finance, strategy and investor relations to our Board. Most recently, Courtnee was with Liberty Media in the roles of Chief Portfolio Officer and SVP of Investor Relations.

She previously served on the Board of HSN Inc., Expedia Group, LendingTree and ACE Scholarships. She also cofounded the Women's eCommerce Network to unite female leaders in e-commerce and provide mentorship for promising female entrepreneurs. I couldn't be more thrilled to add such a talented female leader to our Board.

Let me now turn the call over to Mark to discuss our results and outlook in more detail. Mark?

Mark W. Webb

Executive VP and Chief Financial & Operating Officer

Thank you, Claire, and good morning, everyone. As Claire discussed, taken as a whole, our second quarter represents solid performance, with sales in line with our expectations and adjusted EBITDA slightly above the high end of our prior guidance range.

Though we experienced a slowdown in the month of July, we successfully navigated this dynamic period, sticking to our disciplined principles, deploying targeted promotions and taking markdowns as necessary, ending the quarter with like-for-like inventories in line with last year.

In addition, we continue to progress our strategic initiatives and took actions to further strengthen our balance sheet through the voluntary paydown of approximately \$85 million of debt, partially funded by the issuance of 1 million shares of equity and delivered value to shareholders through the initiation of a quarterly dividend program. While we are continuing to navigate an uncertain macro environment, we remain committed to executing our business model and managing the business with discipline.

Before I review our revised outlook, let me discuss our second quarter financial performance in more detail. Total company comparable sales for second quarter, which removes any impact from the calendar shift as well as other noncomp items, increased 1.7%, driven by a strong full price selling in the direct channel.

Total company sales for the quarter were about \$155 million, down 0.9% versus Q2 2023. This performance was the result of an approximate \$7 million drag due to the calendar shift compared to reported Q2 2023, which was mostly offset by higher comp sales and modestly improving return rates.

Store sales for Q2 were down about 5% compared to Q2 2023, driven primarily by the calendar shift as well as some impact from lower traffic, which was most pronounced in the month of July.

Direct sales as a percentage of total sales were about 47% in the quarter. Compared to the second quarter of fiscal 2023, direct sales were up about 4% as full price comparable selling and better return rates compared to last year more than offset the drag related to the calendar shift.

Q2 total company gross profit was about \$109 million, down about \$3 million compared to Q2 2023. Q2 gross margin was 70.5%, down 128 basis points versus Q2 2023, driven by higher mix of markdowns due to the calendar shift as a full price week at beginning of quarter was replaced by a sale week at end of quarter by pricing decisions taken during the quarter in response to the slowdown in July and by expected pressure related to the strategic decision to airfreight some summer goods in light of the initial delays and uncertainty associated with the disruption in the Red Sea.

SG&A expenses for the quarter were about \$86 million compared to approximately \$84 million last year. The increase was driven primarily by wage inflation in both stores and HQ functions and about \$500,000 in incremental expense associated with the OMS project.

Adjusted EBITDA was \$30.2 million in the quarter compared to \$34.6 million in Q2 2023. Please refer to today's press release for a reconciliation of adjusted EBITDA to net income, the most comparable GAAP financial measure.

Turning to cash flow. For the quarter, we generated about \$16 million of cash from operations, resulting in ending cash of about \$28 million with 0 borrowings against the ABL.

Looking at inventory, as mentioned last quarter, we expected reported inventories to be up meaningfully at the end of Q2 due to timing and the strategy to get in front of the Red Sea delays by shipping goods 1 week early beginning with our fall assortments. As expected, total reported inventories were up about 15% at the end of second quarter compared to end of second quarter last year, including these additional in-transit fall goods. Normalizing for these actions, inventories were about flat to end the quarter.

While the issues in the Red Sea with respect to our shipping lanes have stabilized, we have yet to see any signs of improvement and, therefore, now expect to keep our mitigation plans in place and, as such, now expect reported inventory will remain elevated through at least the end of the fourth quarter of this fiscal year.

Capital expenditures for the quarter were \$2 million compared to \$4 million last year. Investments were focused on stores and the OMS technology project, which continues to make good progress.

With respect to store count, we opened 1 new store in the quarter and temporarily closed 1 store for relocation, which will reopen in Q3. Store count at the end of the quarter was, therefore, unchanged at 244 stores.

Turning now to our outlook. As Claire reviewed, following a very strong start to the quarter, we experienced a change in trend in July, which continued through August. And while it is difficult to assess how long these trends will persist, especially as we are just setting the fall floor sets, we believe it is prudent and necessary to take current trends into account as we assess our plans and adjust our expectations for the second half of the year.

For third quarter, we expect sales compared to Q3 2023 to be down 1% to up 2% compared to \$150.9 million in the prior year. We expect Q3 revenue to benefit by about \$2 million related to the timing shift associated with the prior year 53-week calendar, which we have reviewed in prior calls. We expect adjusted EBITDA to be in the range of \$23 million and \$27 million.

As mentioned, our guidance takes into account the current trends we are seeing in the business as well as easier year-over-year comparisons as we progress through the period. The high end of our guidance also assumes a greater level of improvement in full price trends, more consistent with what we saw earlier in the year prior to the change in customer behavior beginning in July.

In addition, third quarter guidance reflects expected gross margin pressure, though less than experienced in Q2 related to elevated ocean freight costs, which have increased since our last update and additional markdown in promo pressure as we remain committed to managing inventory in season and exiting the quarter with inventory levels in line with our expectations. In addition, this guidance reflects approximately \$400,000 in SG&A investments related to the OMS project.

While we continue to expect to invest in marketing to support the strategies that Claire reviewed, we are taking a more measured pace with these expenditures and other discretionary expenses as we enter the second half given the trends we are seeing.

For full year, we are now expecting total revenue to be about flat to plus 1%, gross margin to be down modestly and adjusted EBITDA to be down in the range of 4% to 9% compared to the 53-week fiscal year 2023.

This outlook is compared to prior year revenue of \$608 million and adjusted EBITDA of \$113 million and reflects the negative impact from the loss of the 53rd week compared to fiscal year 2023 of about \$8 million in sales and \$2 million in adjusted EBITDA as well as approximately \$2 million in operating expenses related to the OMS project.

Excluding the impact of the 53rd week and the operating expense investment in the OMS project, we expect fiscal 2024 revenue to be up in the range of 2% to 3% and adjusted EBITDA to be down 1% to 6% compared to the prior year.

Regarding store count, we still expect to grow net store count by up to 5 stores by the end of fiscal 2024, with up to 4 net openings during the third quarter, including the reopening of the store temporarily closed for relocation in Q2.

And with respect to total capital expenditures, we now expect to spend about \$22 million in reported CapEx during fiscal 2024 compared to our prior guidance of approximately \$26 million. The change in our expectations is primarily driven by the treatment of cloud-based software implementation costs as a prepaid expense in accordance with GAAP. We view the amortization of these investments similar to depreciation and adjust them out of our reported adjusted EBITDA.

In closing, while our updated guidance for the full year reflects a change in trend from our first half performance, it still reflects the resilience and strength of our operating model, delivering adjusted EBITDA margin in the high teens and solid free cash flow, which helps us towards our ultimate goal of achieving a net cash position, even after disciplined investments to drive long-term sustainable growth and total shareholder returns.

Thank you. I will now hand it back to the operator for questions.

Question and Answer

Operator

Before we begin the question-and-answer session, I need to remind you that certain comments made during these remarks on today's call may constitute forward-looking statements and are made pursuant to and within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 as amended.

Such forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from such statements. Those risks and uncertainties are described in the press release and J.Jill's SEC filings.

[Operator Instructions] Your first question comes from the line of Ryan Meyers from Lake Street Capital Markets.

Ryan Robert Meyers

Lake Street Capital Markets, LLC, Research Division

First one for me, Mark, just wanted to get clarification on this, which I understand it correctly. Sounds like there will be some softness in gross margins during Q3, but you -- did you say that it's going to be higher than what it was here in Q2?

Mark W. Webb

Executive VP and Chief Financial & Operating Officer

Ryan, thanks for the question. We said that the pressure in Q3, we would feel pressure, but it would be less than experienced in Q2, with the contributing factors being some elevated freight costs as ocean freight rates have increased.

But the Q2 pressure was related to air freight, which is measured in dollars versus ocean freight, which is measured in dimes, and then some pressure related to our commitment to our operating model and discipline, which is to action inventories in season to manage yield to the best to our abilities and to end the quarter with inventories where we need them.

Ryan Robert Meyers

Lake Street Capital Markets, LLC, Research Division

Okay. Makes sense. And then it sounds like you're seeing a little bit of traffic softness. I was just curious, what kind of the big levers can you guys pull there to help improve traffic levels?

Claire Spofford

President, CEO & Director

Yes. Great question, Ryan. Thank you. We continue to monitor our return on performance marketing. Performance marketing is a big element of traffic driving. We have our first fall floor set hitting tomorrow with substantial marketing support behind that. So we are hopeful that, that will help support traffic going into the fall season.

And then we also, as part of our sort of retail -- high-touch retail experience and model, we do a lot of outreach, particularly around new collections hitting. So the store teams will reach out to their known and best customers and get them excited to come in and explore the new offerings and set up styling appointments. So that's sort of just another way to help us drive traffic, particularly into the retail stores.

Operator

Our next question comes from the line of Corey Tarlowe from Jefferies.

Corey Tarlowe

Jefferies LLC, Research Division

Could you just walk us through the cadence that you saw in the quarter? And maybe any quarter-to-date trends that you're seeing just so we can get a better picture for sort of the cadence of comps and the trends that you saw?

Claire Spofford

President, CEO & Director

Sure. Corey, thanks. We saw a really strong start -- actually a really strong performance through the first 2 months of Q2, May and June, which, as you know, are kind of the heart of our season and a very big time of year for us. As we moved into July, we saw the trajectory change. We saw a drop-off in traffic in both channels, and that persisted into August.

So the guidance that we're providing today is reflective of some of that trend. We also have the 2 by far biggest months of Q3 ahead of us in September and October. And as I said, our new floor set hits tomorrow, where we really kick into the fall season as opposed to July, which is kind of a sale month and August, which is very much of a small transitional month. So we are hopeful, but we are being prudent as we look forward.

Corey Tarlowe
Jefferies LLC, Research Division

Understood. That's very helpful. And then just on inventory, I know optically it appears that it's up 15%, but I think excluding in-transit fall goods, you mentioned inventory is flat.

But you also mentioned that you're seeing higher markdowns. So just how do we think about inventory positioning versus promo posture going forward into the back half?

Mark W. Webb
Executive VP and Chief Financial & Operating Officer

Yes. Corey, I'll start with that. The 15% is in-transit driven and it is the fall assortments and the fact that we, in our strategic effort to get in front of the delays that we see, which are basically a week of delay on the water related to the shipping lanes going now down around the Cape of Good Hope to get to the East Coast that we made the decision with our vendor partners, which we have great relationships with, to ship about a week early to get in front of that and not have to incur more expensive air freight, et cetera. So that was the strategic decision.

We take a look at our over the rails, and it's clear that it is -- our on-hand inventories are flat and the in-transit is up to the -- about the amount you'll see on the balance sheet all entirely due to fall going over the rail about a week earlier than last year and it cusped into our ownership this year.

The fact of the matter is the slowdown that Claire mentioned in July was widespread and it was across generally all metrics. Traffic was the leading indicator, and stores were the leading indicator there. The -- there were a lot of noise generating elements in July. So it's hard for us to pinpoint.

We mentioned in some of our remarks exactly what the drivers are, but it's easy to hypothesize about all the noise that existed out in the environment and particularly for a customer demographics such as ours who is more educated, more affluent, perhaps more interested, I'm not sure. But that definitely is what we saw a slowdown in July.

And that inventory is purchased for our strategic intent did not contemplate that slowdown. So that's where the kind of the switching of gears into our operating model discipline to manage to the best yield we can in season and end the quarters with inventories as clean as we can get them to enter the new quarter is what you're seeing a little bit of in the Q2 margin results.

And then you're seeing in the guide for Q3 reflective of the sort of assumptions that, that trend continues and that we continue to take some level of pricing action to manage our inventories to end Q3 in line. So that's kind of how we're thinking about inventories overall.

Operator

Your next question comes from the line of Dylan Carden from William Blair.

Dylan Douglas Carden
William Blair & Company L.L.C., Research Division

So just taking that thought a little bit further, how would you characterize kind of the midpoint of your guide? It sounds like things, and maybe I'm reading too much into this, maybe got a little better in August. And you are seeing good demand around sort of bigger selling periods.

I'm just kind of curious how you're extrapolating what happened in July through the balance of the year. And then also to that same sort of point about sort of who your customer is, curious how you factored in maybe the election when you're kind of thinking about what happens next.

Mark W. Webb

Executive VP and Chief Financial & Operating Officer

Why don't I start with the guide and then Claire will jump in on the customer. The guidance, we mentioned it in my remarks, the high side of the guidance assumes some level of return to the full price general customer demand and response we've seen prior to July. And that's the -- some level still of pressure because August, the trend actually did not improve in August.

July was challenging. August was challenging. August on a 1-year compare for us, we don't tend to speak month by month, but it was a more difficult compare. And we mentioned that the rest of this period is slightly easier compares, but we've really given the sustained nature of it from July into August.

And the general nature of it, which, again, Claire will probably hit on in the customer side, that it was the right posture for us, the right approach to the back half of the year at this point given such a marked change from the full price period to this transition sale period, to manage the operating model, to be disciplined, to be ready to action inventory in season.

It's one of the hardest decisions facing retailers when you believe in your product, but the demand is not there. And we are committed to doing so and managing ourselves to that discipline within our operating model.

The midrange assumes that the trend doesn't continue, that we continue to action as necessary on strategic promotions and markdowns, and that the customer responds as the customer has been responding to those. And the downside scenario would assume some deterioration in that trend or some lack of response from the customer on the actions that we're taking. So that's the best we can frame it up, and I'll let Claire jump in on the customer.

Claire Spofford

President, CEO & Director

Yes. Thanks, Dylan. So we do this customer survey. You asked about distraction, and we definitely saw it come through loud and clear in our most recent customer survey that we fielded early August. We saw things pop up in terms of why she's -- what she's paying attention to.

The election was certainly part of that. The Olympics were part of it, which -- that's obviously short-lived. But we did see that level of distraction kind of pop in terms of her self-reported, what she's thinking about and paying attention to.

We also saw a very consistent -- while we saw some more interested in markdown or sales promotions during the period, which is August, it's coming off of July, that's kind of to be expected. But we also saw strong purchase intent for the fall season again.

So we're hopeful that she's true to her word with that. And as we move into the fall season, she comes back to refresh her wardrobe as she usually does. But again, we're balancing all of this as we contemplate the guide going into Q3 and the balance of the year.

Dylan Douglas Carden

William Blair & Company L.L.C., Research Division

Understood. And then on the new dividend, debt paydowns, any kind of visibility you can give on how you're thinking about the uses of free cash from here kind of at least just priority buckets, growing the dividend, paying down further debt, et cetera?

Mark W. Webb

Executive VP and Chief Financial & Operating Officer

Yes. Dylan, at this point, there's no update to the priorities we've stated before. We remain committed to them, which is the first priority is to invest in the business and the systems upgrades that we're making great progress on, but continuing with the OMS project, which will go in place next year, the new stores, which will start to show net growth in Q3.

And then it's the distribution opportunities, the pay down of debt. I think we've made significant progress in paying down debt. We initiated the dividend. So those 2 are maybe becoming a bit more balanced, but no further update on priority to grow the dividend, other than to say we view it as a dividend -- the initiation of a dividend program.

We declared -- the Board of Directors declared the second dividend in that stream recently, and we view that as a commitment going forward and, for sure, understand the dynamics of a dividend over time and how to add value through that channel.

But still, the cash flow hallmark of the business model and even the guided update for the year is a very strong margin performance, very strong cash generation and really good investable opportunities for that cash across the business and total shareholder return driving strategies.

Operator

Your next question comes from the line of Dana Telsey from Telsey Group.

Dana Lauren Telsey
Telsey Advisory Group LLC

In terms of the performance, any difference in regional trends that you saw? And then on the category performance, Claire, I think last time, lightweight fabrics, novelty tops, embroidery did well. What do you think drove the shift in dresses this quarter? And any category thoughts of performance for this second half of the year?

And with 5 fewer days between Thanksgiving and Christmas this year, how you're planning? And just lastly, marketing, I know last year, there was a big marketing campaign. How you're thinking about marketing spend for the back half?

Claire Spofford
President, CEO & Director

Thanks, Dana. Mark and I are looking at each other. Do you want to go first, then I'll jump in?

Mark W. Webb
Executive VP and Chief Financial & Operating Officer

I'll hit the regional question, Claire. It's a quick answer. There really wasn't any smoking gun regionally that we saw. Nominally speaking, in the store side of things, the retail side of things, the South was a bit more challenged, Texas, et cetera. And there were some weather events that happened, but not enough to make us feel like that was the main driver, but of interest.

And then what was interesting and something we're watching is that for the first time, lifestyle center traffic in the quarter actually lagged mall traffic with respect to year-over-year declines. And that's something we haven't seen.

Again, there was weather, extreme heat, et cetera, across the country. Not very hard to pinpoint that as a driver, but we just thought it was an interesting note, and we'll keep watch on that.

Still, though, very excited about the opportunity as we embark on opening new stores in markets -- many markets that we already know and still are committed to that strategy. But something that we're watching with interest through the summer was related to those 2 different traffic patterns. But I'll hand it to Claire for...

Claire Spofford
President, CEO & Director

Thanks, Mark. So category performance, we actually saw -- 2 things that we saw, slowdown in Q2 on a year-over-year basis and maybe versus expectations in Q2 were dresses, as we talked about. That's been a strong trend. We've seen a trade into more separate dressing, and that's something we're building into our planning going forward, reducing our dependence on dresses.

And the other thing that has come down a bit is sort of some of those more novelty tops, some of the woven tops. That said, woven tops in our categories of linen and cotton gauze were very, very big contributors to the performance in Q2, particularly through the first 2 months, May and June, which are the bigger months of the quarter.

We saw great volume done there, and those are annuity businesses. As we talk about all the time, nice long margin core programs of the business. So those continue to be strong.

As we look forward into fall, we are encouraged by the fact that our bottoms business has been going well, and we see a nice trend there. We also, even though it's been summer, have seen a nice trend in sweaters, particularly some of our more fashion-forward sweaters like our open crochets, I mentioned that in my script.

Those 2 categories are big categories in the fall season, and you will see as our fall floor set hits tomorrow, the importance of those. So that's an encouraging sign.

And as we think about Christmas, Dana, the good news and the bad news is that Q4 is not the strength in our business because it's more promotional and it's a smaller quarter for us.

So we are being very obviously mindful in the shift in calendar. We are making some adjustments in terms of the dates of our floor sets, moving something up. And we hope to sort of address the shorter gap in selling season between Thanksgiving and Christmas with some of those actions.

And then with regard to marketing, marketing is a lever that I believe very strongly. And we've really started to make some investments and commitments to building brand awareness. That takes time. That said, a lot of the performance marketing efforts, the digital marketing efforts are very sort of flexible.

It's not like the old days where you were doing -- now I'm dating myself, but big brand campaigns where you're committing to magazines and/or the print component of our marketing mix, which is still really important to our mix. But a lot of our marketing is digital, social, which we can flex up or down.

Should we see energy come back in, we will invest behind it and invest in the marketing. But we are prudent with that. And as you know, we tend to not get out ahead of ourselves with investments. We try to stay balanced. So we will continue to monitor that and pull those levers, lean in when we can and drive the business that way.

Operator

Your next question comes from the line of Janine Stichter from BTIG.

Janine Marie Hoffman Stichter
BTIG, LLC, Research Division

Maybe along those lines, you managed SG&A really well in the quarter. And it sounds like you found some additional opportunities to tighten around that. So maybe just speak to where you're finding those opportunities on SG&A. And then overall, what the SG&A flexibility looks like as you look to preserve margin?

Mark W. Webb
Executive VP and Chief Financial & Operating Officer

Thanks, Janine. I'll take a pass at that question. The sort of general theory for us, and it's somewhat behind the decision, which we never take lightly around our guidance to shift into a cautious mode given the trends that we're seeing, is very much in part to put ourselves in the right mindset, the cautious mindset. And that also puts us on the balls of our feet to make sure we're managing the discretionary expenditures in the business to the extent that we can.

We have -- as mentioned in my remarks, we have wage inflation that is within the P&L, and that will continue. That's -- the main drivers that we called out this quarter were wage inflation. And then we also have the investments that we're making in these strategic foundational IT systems, OMS this year, and those will continue.

And the strategic investments will also continue, as we mentioned. But as Claire was just going over with respect to the marketing spend, that's an area where we will -- we always do, but we will put extra effort into reviewing the effectiveness, the expectations of it in light of the general sort of macro environment that we're seeing and make decisions where we can and need to curb that expense or to refine the expense to the best-performing opportunity within the mix. So that will continue.

Then -- and then it's the usual cast of characters of variable or discretionary expenses, where we just pivot into a very specific mindset around knowing where the trend of the business is and what constitutes discretionary and what's business-critical. And those are levers that we pull and get ready to pull, stand ready to pull as the trends continue. And it's embedded in the guidance ranges that we provided.

Janine Marie Hoffman Stichter
BTIG, LLC, Research Division

Perfect. And then one more on customer count. I know you said it was down slightly in the quarter. But underlying that, I'm just wondering what you're seeing on new customer acquisition, what the trends have been just in terms of customer demographic and if you're continuing to see that younger customer come in.

Claire Spofford
President, CEO & Director

Yes. Thanks, Janine. Over the course of the quarter, we did see, again, real strength in the first 2 months of the quarter and then a little bit of a drop-off in the latter part. We saw nice growth in the direct-to-consumer file, particularly in our best customer segment.

In the quarter, we were a little more challenged in the retail-only customers. So that was a little bit reflective of the overall channel performance. But we continue to invest against that slightly younger customer or customer at the younger end of our target demographic. And I think those efforts are ongoing and continue to be a valuable source of growth for us as we move forward.

Operator

Your next question comes from the line of Jonna Kim from TD Cowen.

Jungwon Kim
TD Cowen, Research Division

Just a quick question on marketing front. As you continue to evaluate and diversify your channels, how are you measuring success of your marketing investments? And what are you most excited about in the second half in terms of marketing?

And then would love any color you provide a little bit on promotions. But how you -- what are you seeing in the environment? And how are you thinking about for the holiday season, in particular?

Claire Spofford
President, CEO & Director

Sure. Thanks, Jonna. With marketing, it's the full gamut in terms of marketing mix, right, everything from print and the catalogs that are still very important to driving our business, to all forms of digital marketing and some social marketing.

I spoke to some of the social stuff in Q2 with our J.Jill Social Circle, which is brand-rate influencers, and we saw some nice engagement there and excitement. I'm excited about all of it. We are very disciplined in terms of the performance marketing. And we constantly look at the CPMs and the return on investment in all of those marketing efforts and adjust accordingly.

One of the dynamics that we are contemplating as we think about Q3 is the CPMs and the expense of certain channels, given all of the noise surrounding the elections that tends to drive those expenses up. That is fully contemplated in the way we're thinking about our planning between now and the middle of November.

So lots of great things. We're also leaning in, I mentioned in my script, to some things that are really just central to J.Jill and our value proposition. So you'll see the J.Jill iconic campaign kickoff with our ponte pant in actually this month, we are in September. We're excited about that because it is reflective of kind of the core of our value prop in terms of versatility, fabric first, great ways to outfit. We are styling it in a variety of ways, focused at bringing in that target customer that we've been talking about.

So that's just another example of the ways that we're kind of innovating the marketing message and really speaking not only to our core customer, but to our potential customer that we're trying to acquire.

And then from a promotional standpoint, as Mark said, given the trends in the business, given the way we're thinking about Q3 and the guide, we have contemplated the need to promote marginally in season to move through our inventories. As always, we will do that in a very disciplined way and make sure that we are balancing, moving through the inventory, driving the top line with promoting as little as we can in order to achieve those objectives.

So again, as narrow, as shallow and as short-lived if possible, but those things are things that we flex over the quarter.

And then, sorry, you asked about Q4. Again, we will take that same stance with Q4. Q4 tends to be more promotional. We expect that it will be, again, but we will try to stay committed to our approach to full price selling and manage our promotional cadence accordingly.

Operator

Your final question comes from the line of Marni Shapiro from Retail Tracker.

Marni Shapiro
The Retail Tracker

Actually, Mark, I'm going to weigh in for 1 second and say that I will pinpoint for you exactly that the weather is a problem. It was 1 million degrees in so much of the country for July and August. And no woman wants to try on clothing when she is all sweaty. So I'm going to blame the weather, at least in part of it.

But I'm curious, when the customer came to your store in May and June, did you see good full price selling? I know linen and gauze sold very well. Was that at full price? And when you did break sale in July and August, did she come in to buy the sale? Or was traffic still muted even then and the sale didn't even -- didn't really matter?

Claire Spofford
President, CEO & Director

Thanks, Marni. Appreciate the weather comment, and I agree with you. Yes, to answer your question, May and June were very strong full price selling months pretty much across the assortment. As I said, we did see some weakness in dresses on a relative basis. They still had very high penetration to the business, but just didn't perform exactly the way we wanted them to.

And we did see some drop off throughout the quarter in some of our woven tops businesses. But those core franchises were really strong. A lot of the fashion was really strong. May and June were just really strong full price months for us.

As we moved into July, we tried to lean into that full price selling probably a little more than we should have. We had a refresh in early July that was a full price refresh. And I think the world had moved on to sale, and she didn't respond the way we had hoped she would.

We did see a shift into markdown selling and sales selling in the month. She was not responding to that to the extent that we would have expected her to, and that was part of the slowdown that we saw. We just saw general traffic slowdown in both channels, which says she wasn't responding to sale the way we would expect either.

So we are excited to be moving back into the full price part of the year with fall in September and starting tomorrow. So we'll be looking at it. And I'm sure you will give me a review of our product assortment in stores when you go look at it.

Marni Shapiro
The Retail Tracker

Yes. And I just want to follow up on that comment, because even when you pulled the sale, she still wasn't biting. But it was the same product that was in the stores from May and June. It wasn't -- except for that one new July set, did she stop buying linen and gauze as well, she stopped buying just across the board, right?

Claire Spofford
President, CEO & Director

She slowed down across the board, yes.

Operator

And we have reached the end of our question-and-answer period, and this does conclude today's conference call. We thank you for your participation, and you may now disconnect.

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