TCS 18Q4 Script – FINAL

CAITLIN CHURCHILL:

Good afternoon everyone, and thanks for joining us today for The Container Store's Fourth Quarter and Fiscal Year 2018 earnings results conference call. Speaking today are Melissa Reiff, Chief Executive Officer, and Jodi Taylor, Chief Financial and Administrative Officer. After Melissa and Jodi have made their formal remarks, we will open the call to questions.

Before we begin, I need to remind you that certain comments made during this call regarding our plans, strategies and goals and our anticipated financial performance 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. 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 important factors are referred to in The Container Store's press release issued today and in our Annual Report on Form 10-K filed with the SEC on May 31, 2018.

The forward-looking statements made today are as of the date of this call and The Container Store does not undertake any obligation to update their forward-looking statements.

Finally, the speakers may refer to certain adjusted or non-GAAP financial measures on this call. A reconciliation schedule of the non-

GAAP financial measures to the most directly comparable GAAP measures is also available in The Container Store's press release issued today. A copy of today's press release may be obtained by visiting the Investor Relations page of the website at www.containerstore.com.

I will now turn the call over to Melissa. Melissa?

MELISSA

Thanks much Caitlin, and thanks to all for joining our call today.

I'm eager to share the highlights of our fiscal fourth quarter results, as well as our full year fiscal 2018 performance. Then I'll speak about our strategic priorities for fiscal 2019, before turning the call over to Jodi, who will review our financial results in detail for Q4 and fiscal 2018, and discuss our outlook for fiscal 2019.

As you saw from our press release, we had a very strong fiscal fourth quarter. Consolidated net sales grew 8.8% to $253.2 million and comp store sales increased 8.5%. The January momentum in our business that we discussed with you on our Q3 call continued into February and March, and it was broad-based across both our Custom Closets business, as well as our other product categories. As you know, our most important campaign of the year – our Annual Elfa Sale - occurs during fiscal Q4, driving significant interest in our Custom Closets category overall. But even beyond Custom Closets, we were pleased and encouraged to see all the hard work of the past year or so, coming together. This includes our changes with merchandising, marketing, new product development and inventory management, as well as just overall great execution in our stores and online. This was combined with a nice boost from what you undoubtedly have heard and read so much about – the Netflix show "Tidying Up" with Marie Kondo and the Kon Mari method, which of course aligns **perfectly** with our product assortment and the selling approach that we have been executing for over 40 years. The resulting attention drove increased awareness and interest in our category of storage and organization, and we successfully capitalized on it in Q4. This includes reacting quickly to launch several opportunistic marketing efforts across all channels such as being featured on Jimmy Kimmel Live in February, as well as partnering with "What's Up Moms", the #1 YouTube parenting channel. We created with What's Up Moms, what we think, is a fun and relevant video that they featured on their channel, and so far, it has received an overwhelmingly positive response with over 3 million views. We also saw a considerable spike in social mentions of The Container Store in Q4 and continue to experience elevated levels of positive social activities.

Steady gross margins with SG&A leverage, resulted in a 38% increase in operating income in the fourth quarter which, when combined with interest expense favorability, resulted in Q4 adjusted EPS that almost doubled to $0.33 cents from $0.18 cents in the prior year.

With regards to our full year 2018 results, we had a strong end to the year, delivering a comp store sales increase of 3.5% and Adjusted EPS of $0.42 cents, compared to last year of $0.28 cents. And it's important to note, that in fiscal 2018, we made notable progress against all of our strategic initiatives, as our entire company remained focused and executed with clarity of purpose. We collectively know that our goal is to help our customers accomplish their projects, maximize their space and make the most of their home. All of our initiatives are centered around this - and to be the first choice for Custom Closets and customized storage and organization solutions and services.

I'd like to now share the progress we made against our key initiatives in fiscal 2018.

1. Starting with our highest priority - which is to **Own** Custom Closets. In fiscal 2018 we delivered strong Custom Closets performance with the category driving 3 percentage points of our 3.5% comp increase. But we still see so much opportunity given our relatively low brand awareness for Custom Closets and what we believe were some product gaps in our Custom Closets offering. Hopefully you are aware, that in Q4, we launched a new Custom Closets product line, Avera, and rebranded our Custom Closets offering to segment our portfolio more intuitively for our customers. What was known as TCS Closets, the highest end of our offering, is now branded Laren, and our new Avera line is the

perfect mid-range price point for our customers. Our Elfa Classic product line is accompanied by our Elfa Décor line, which has the same reliable functionality and clean look of our Elfa Classic product line, but with the addition of beautiful wood and deluxe options. With the addition of Avera, we have rounded out The Container Store Custom Closets offering which we believe is now more complete, more comprehensive and a beautiful and compelling Custom Closets collection for the market. While we launched Avera in Q4 we only completed the rollout of Avera across our store base early in fiscal Q1, so we look very forward to this new product line contributing positively to our Custom Closets business in fiscal 2019.

2. Our second priority is to Deliver on Accomplishing Projects Across All Customer Touchpoints, and in fiscal 2018 we made significant strides to better communicate how The Container Store can help our customers accomplish their projects.

   In marketing: Our priority on accomplishing projects in our marketing messaging improved the clarity of our brand and purpose and accelerated new customer acquisition. Our marketing tag line "The Container Store – Where Space Comes From" embodies this well, being included in nearly all our marketing messages since July 2018.

We have also launched what we call our "Brand Ambassador Program", which enlists socially active influencers from among our follower base to help us create consumer-generated brand content. Our Ambassadors accomplish projects in their customers' homes on a monthly basis and showcase them to their audiences in a relatable way that helps us continually spread the message of The Container Store, "Where Space Comes From."

In-store and online, we enhanced our visual and merchandising presentations, campaigns and signage to support our focus on accomplishing projects. This was most visible in our redesigned flagship Dallas store, which continues to generate learnings and very favorable customer feedback. In addition, we incorporated visual merchandising changes in six additional test store locations. Like our Dallas flagship redesign, these changes include utilization of lower profile fixtures to provide improved sight lines into key areas of the store, grab and go tables at the front of the departments, and new visual signage.

We also helped our online customers accomplish their projects by providing a curated, bundled collection of "Starter Kits" – all available in one easy-to-shop product page. In fact, our online business grew a healthy 22.9% in Q4, and 19.1% during fiscal 2018. Total website generated sales, which includes click & pick-up and delivery sales, now account for approximately 15% of our retail sales. We attribute this improvement in part to increased digital spend and near real-time optimization of our digital marketing, all contributing to our increases in online sales growth and overall site traffic.

The results of all these efforts were apparent in our most recent customer survey where brand awareness, consideration, and price perception metrics all improved since our last customer survey in July 2018.

3. Our third priority is to Leverage Digital and Data Insights to Enable Omni-Channel Growth.
   a. In fiscal 2018, we grew the number of POP! Stars 22%, from just over 6 million at the end of fiscal 2017 to over 7.3 million today. As the number of POP! Stars grow, our ability to leverage this data to deliver more targeted messages to our POP! Stars gets better and better.

      We have streamlined the online experience for our POP! Stars, making it easier for them to sign up for the program, improving our messaging about the program's benefits, and making it easier to access their rewards. We also are building our POP! text database, allowing us to send POP! rewards by both email **and** text.

b. In addition, we developed and launched more digital tools to support our Custom Closets business both in-store and online. During Q3, we launched a new Elfa design tool that was further enhanced during Q4 to accommodate the addition of our Avera product line.

Finally, in fiscal 2018, a key focus for us was Closing the Gap on Value for the Money. This entailed utilizing the learnings of our pricing initiative to address opportunities in our product assortment, as well as our visual merchandising to more effectively communicate our value proposition. We added select opening price point products and solutions, bundled certain products, as well as modified some prices. We are pleased that our updated value perception survey conducted in January 2019 showed an 8-point improvement in our score on value for the money in just seven months since the previous survey was done.

Let's now talk about fiscal 2019, which we are really looking forward to. Our work on our key initiatives will continue, and we are focused on driving ongoing market share gains – particularly in our Custom Closets business. Fiscal 2019 will also be an important year from a systems and infrastructure perspective, as our second distribution center is planned to become operational, positioning us to generate significant savings and efficiencies in fiscal 2020 and beyond. Let me outline how we plan to execute on our key initiatives for fiscal 2019 across stores, merchandising, marketing and infrastructure.

Starting with our **stores.**

New and relocated stores.

- We plan to open one new store in Memphis, TN this year and plan to relocate our Dallas Galleria store.

Existing stores.

We have a number of exciting activities underway to update our existing stores. These include:

1. Re-configuring merchandising presentations with the overarching objective to increase Custom Closets space allocation – increasing the "presence" of Custom Closets and other space solutions – again, to help our customers accomplish their many projects. During fiscal 2019, we plan to do this in at least ten existing stores.
2. We plan to redesign our Farmer's Market store in LA, which will be rebranded as The Container Store Custom Closets store. This store will showcase many closet displays that span across our Elfa Classic, Elfa Décor, Avera and Laren product lines. The completion products that complement these Closets and other spaces such as pantry, laundry, office, garage and lifestyle work spaces will allow a customer to better visualize our solutions in their own home. We currently expect to curate completion products to under 4,000, as compared to 8,000-10,000 products that we carry in our typical store format. Customers will be able to order any products that are not carried in this store online for

pick-up in-store or delivery. We anticipate opening this new concept store in Q2 of fiscal 2019. Additionally, our Dallas Galleria store will relocate and open in a similar **concept** later this calendar year.

3. We plan to roll out chain-wide a number of merchandising changes that we tested in six stores during fiscal 2018, and that originated in our redesigned Dallas flagship store. This will be most impactful in our storage, office, closet and kitchen departments.

Growth. I want to re-iterate the incredible opportunity for **growth** that remains at The Container Store. In the last few years we have intentionally moderated our new store growth to allocate capital to pay-down debt, to invest in our second distribution center and to test and learn changes that we made in our existing stores. Our return on investment for new stores continues to be very strong, driving average first year 4-wall Adjusted EBITDA margins in the high teens. Once our distribution center investment is behind us, in fiscal 2020 we plan to strategically increase the number of new store openings, prioritizing markets and formats with the most attractive payback. We currently expect to open at least three stores in fiscal 2020. We still believe there is **significant** runway for new stores and our brand across the United States, with currently only 92 stores. We look forward to updating you on our new store growth plans for the next few years as they unfold.

The Custom Closets market is fragmented, with the largest portion of the market currently belonging to home builders and contractors. We estimate the Custom Closets market opportunity to be approximately $6 billion. This is clearly a sizeable market, and one in which we currently have a relatively small share. Our opportunity to capitalize on this and take more market share is incredible – and we intend to do just that. Our distinct advantage is that we have national presence through our retail stores in the largest growth markets in the US, with the ability to effectively sell Custom Closets and a large assortment of completion products to retail, trade and commercial customers. That's why this is our number one strategic priority.

We also have growth opportunities that exist both in Custom Closets and general merchandise within Business Solutions, which serves our business-to-business customers. We have clarified our strategic priorities for this channel of business, and have restructured our team and marketing focus to align with these priorities. This includes the hiring of a new Sales Director with experience selling to multi-family residential customers. It also includes a shift in media spend from print to tradeshows, where we can tell our story to a targeted set of customers, both by industry and geography.

Merchandising: We kicked off the year with our most significant new product launch in years – the Avera Custom Closets line that I spoke of earlier, however, again, the product line has only been in all stores since the middle of last month. Initial customer response has been enthusiastic. We are excited about the potential for this line, and yet are being smart with our expectations for its contribution this year, including an assumption for some near-term cannibalization of our other Custom Closets product lines - Elfa Classic, Elfa Décor and Laren. We also have new products from Elfa that we will be introducing this year, as well as a pipeline of other new products from other product categories that we think our customers will love.

Private Label. We are committed to expanding our private label business in key departments like closet, kitchen and storage. We have formalized a strategic initiative with cross-functional collaboration to execute on this opportunity. John Gehre and team have been working closely with our key vendor partners across the globe to facilitate and execute this strategy.

His team is also focused on speed to market for all new product introductions, as well as removal of any under-performing products in our assortment. Additionally, we continue to see opportunity on how we merchandise our products, particularly key products that help accomplish projects, and are working to always make sure that the inventory levels are always maintained on the shelves.

We continue to carefully assess and analyze our campaigns to ensure maximum effectiveness, and have made a number of improvements and adjustments in our decisions for a campaign and how we approach our campaigns. Specifically, we have addressed how much inventory we send to a store at the start of a campaign and the products we feature front and center in our stores and online. We will continue to evolve and improve our merchandising and marketing approach to campaigns, as John Gehre and Melissa Collins, our Chief Marketing Officer, work very closely and collaboratively together.

And speaking of **marketing and Melissa Collins -** one of our key 2018 learnings was our low customer awareness when it comes to our Custom Closets offering. To make substantial progress toward our goal of Closet Domination we intend to increase customer awareness by making **significant** incremental marketing investment that is directed entirely towards building awareness of our Custom Closets product offerings. We believe this will result in more customers thinking of The Container Store for their Custom Closets solutions. This incremental marketing investment will be supported in-store, online, and in all our marketing messages accompanied by a strategic promotional calendar for the entire year.

Additionally, we will continue to leverage our growing POP! program, with a focus on customer acquisition, retention and engagement. Furthermore, our media mix model will continue to influence our marketing spend allocation decisions throughout the year.

Our trade program, which was redesigned and launched in fiscal 2018. We intend to grow our trade program through new important partnerships with professional organizers, architects and interior designers. We have seen nice traction with this updated program, particularly around The Container Store Custom Closets. During fiscal 2019, we plan to participate in select national trade shows throughout the year, engage with national interior design organizations, conduct personal events with top interior designers in key cities, and continue to promote our brand in trade publications.

With regards to our **systems and infrastructure**. By far one of our biggest initiatives this year, is the opening of our second distribution center in Aberdeen Maryland. This is a $23 million-dollar cap-ex project for which we incurred half of the capex in fiscal 2018 and will incur the balance this year. Jodi will review with you the anticipated impact of this on our fiscal 2019 financial results in just a moment. While we anticipate expense headwinds in fiscal 2019 associated with the opening of our new distribution center - next year, in fiscal 2020, this new distribution center is expected to generate **material** freight savings. We estimate net annualized savings of approximately $6 million, along with much improved customer service delivery times for our stores and online orders. The project is progressing on time and on budget.

We also have a number of technology initiatives in fiscal 2019, including planned enhancements to our website, improving our web-based design tools for Custom Closets, and various other infrastructure activities including cloud migration of primary systems.

And just a brief mention about tariffs, as I know there has been so much in the press of late about this and it's ever-changing. Our fiscal 2019 outlook assumes that the 10% tariffs remain, and that the 25% tariff levels are not instituted. However, we continue to be proactive and are taking a number of preemptive actions to mitigate the impact of tariffs, including adjusting the country of origin to maximize gross profit and quality, as well as seeking opportunities to reduce costs in our structure. This includes going direct-to-factory, negotiating lower costs, taking advantage of moving exchange rates, or bringing in new vendors. We also believe that our pricing work will be helpful in allowing us to determine where to pass along any needed price increases should the tariffs move to the 25% level.

And finally – next week we will begin selling a group of products developed in partnership with The Home Edit, a fabulous organization business based in Nashville, Tennessee that uses The Container Store products in many of their client's homes. The Home Edit has over 1 million Instagram followers and has worked with many A-list celebrities to bring storage and organization to their lives. We are also proud to sell their new book, The Home Edit in our stores and on our website, and look forward to our future partnership with them.

In conclusion, we are **delighted** with our Q4 results and our strong end to fiscal 2018, including the operational progress we made across so many areas of the business. In fiscal 2019 we are excited about the opportunities that lie ahead, as we continue to realize our vision of being a beloved brand and the first choice for customized organization solutions and services.

In closing, I want to thank our incredible employees. I am so appreciative and grateful for their contributions and dedication this past year. It's inspiring, and I thank them for their leadership and commitment in making The Container Store all it can be. Yes, I am encouraged about the future for all of our stakeholders.

I'll now turn the call over to Jodi to discuss our financial results and outlook in more detail. Jodi?

JODI:

Thank you Melissa, and good afternoon everyone.

For the fourth quarter ended March 30, 2019, our consolidated net sales were $253.2 million, up 8.8% compared to the prior year period.

Sales for The Container Store retail business were up 10.1% to $235.7 million. The increase was driven by a comp store sales increase of 8.5% as well as incremental sales from new stores. Custom Closets increased 7.4%, contributing 3.8% of comp store sales growth in the fourth quarter, and our other product categories increased 9.9%, contributing 4.7% of our 8.5% comp store sales growth in Q4.

We ended the fourth quarter with 92 stores and approximately 2.2 million of gross square footage, as compared to 90 stores and the same gross square footage at the end of the fourth quarter of fiscal 2017.

Now, turning to Elfa International AB. Elfa's third-party net sales decreased 6.4% to $17.5 million, due to the negative impact of foreign currency translation during the quarter which decreased third-party net sales by 11.7%. This impact was partially offset by higher sales in the Nordic markets.

From a profitability perspective, in the fourth quarter, consolidated gross profit dollars increased 8.6% to $148.3 million and consolidated gross margin was 58.6%, consistent with the prior-year period. Gross margin at The Container Store retail business was up 70 basis points, primarily due to the impact of our Optimization Plan and a positive impact from FX. Elfa's gross margin decreased 340 basis points from the prior-year period, primarily due to higher direct material costs attributable to higher raw material prices and a weaker Swedish krona.

Moving on to SG&A. As a percentage of net sales, SG&A decreased 150 basis points during the quarter primarily due to decreased marketing expense associated with a shift in timing of recognition of campaign-related marketing costs from the fourth quarter to the third quarter. This was due to accounting changes, as discussed on previous calls. We also incurred decreased costs as part of the Optimization Plan, as well as decreased professional fees, along with ongoing savings and efficiency efforts during the quarter.

Our net interest expense in the fourth quarter of fiscal 2018 decreased 21.5% to $6.0 million from $7.6 million in the prior-year period, due to the September 2018 amendment of our Senior Secured Term Loan facility.

The effective tax rate for the quarter was 28.3% compared to 103.1% in the fourth quarter of last year. The change in the effective tax rate is primarily due to items related to the Tax Cuts and Jobs Act and a pre-tax income position. On an adjusted basis, our effective tax rate for Q4 was 27.1%, compared to 37.1% in the fourth quarter of last year.

Our net income for the quarter was $15.9 million, or $0.33 per share, as compared to a net loss of $400 thousand, or a loss of ($0.01) per share, in the fourth quarter of last year. On an adjusted basis, excluding transition taxes and Optimization Plan costs last year, and certain one-time tax-related items in both periods, our adjusted net income was $16.2 million or $0.33 per share as compared to $8.4 million or $0.18 per share in the fourth quarter of last year. Adjusted EBITDA was $37.8 million in the fourth quarter this year, compared to $31.1 million in Q4 last year.

Now turning to our full fiscal year results. Our press release issued this afternoon includes details of our fiscal 2018 full year financial performance. Consolidated net sales increased 4.4% to $895.1 million, driven by a 5.4% increase in The Container Store retail business. Elfa third-party sales decreased 6.2% to $65.5 million, due to the impact of foreign currency translation, which decreased third party net sales by 6.9%, partially offset by higher sales in the Nordic markets.

Our comparable store sales increase for the year was 3.5% as compared to 0.9% in fiscal 2017. Consolidated gross margin increased 50 basis points year-over-year to 58.5% of sales. Gross margin at The Container Store increased 80 basis points during fiscal 2018, primarily due to lower cost of goods sold associated with the Optimization Plan. This was partially offset by higher promotional activity and increased costs associated with shipping services. Elfa gross margin decreased 320 basis points primarily due to higher direct material costs, a shift in product mix, and a weaker Swedish krona.

Consolidated SG&A as a percentage of sales increased 20 basis points to 48.2% in fiscal 2018, primarily due to the deleverage of occupancy costs, higher payroll costs, and increased marketing expense associated with the branding campaign launch in the second quarter of fiscal 2018. These costs were partially offset by decreased expenses associated with the Optimization Plan.

New store pre-opening expenses decreased from $3.2 million to $2.1 million in fiscal 2018 as we opened four new stores, including two relocations in fiscal 2018, as compared to five openings, including one relocation in fiscal 2017.

Net income was $21.7 million, or $0.45 per share, in fiscal 2018 compared to net income of $19.4 million, or $0.40 per share, last year. On an adjusted basis, excluding the impact of the Tax Act, costs associated with the Optimization Plan, debt extinguishment costs and gain on disposal of property at Elfa, adjusted net income was $20.4 million, or $0.42 per share, as compared to $13.6 million, or $0.28 per share in fiscal 2017.

Turning to our balance sheet, we ended the quarter with $7.4 million in cash, $267.5 million in outstanding borrowings, and combined availability on revolving credit facilities and cash on hand of approximately $83.5 million. Our total debt position was down approximately $17.7 million from last year.

We ended the quarter with consolidated inventory up 11.6%, primarily due to new product introductions, including the new Avera Custom Closets line, new stores, and strong sales in key other product categories. On a per store basis, inventory levels at TCS were up 11.1%.

Now, turning to our outlook. For fiscal 2019, we expect consolidated sales to be in the range of $915 to $925 million, based on a comp store sales range of up 2% to 3%. We expect GAAP and Adjusted EPS to be between $0.41 and $0.51 on a weighted average of 49 million diluted shares outstanding. Fiscal 2019 EPS outlook includes an estimated $4 million, or $0.06 per share headwind associated with net expenses to get the second distribution center up and running. In fiscal 2020, we expect a $6 million, or $0.09 per share increase in EPS from fiscal 2019 from the second distribution center due to considerable freight savings we expect once the facility is fully operational.

We expect TCS and consolidated operating margins to be flat to up slightly. Anticipated FX favorability in fiscal 2019 and some residual pricing initiative benefit in the first half of the year is expected to drive full year gross margin expansion, which is planned to be largely offset by SG&A deleverage. We expect to incur an incremental estimated $6 million, or approximately 60 basis points, marketing investment for The Container Store Custom Closets this year, as well as approximately $4 million, or 40 basis points, second distribution center net set-up investment costs. While we plan to continue our efforts around SG&A

efficiency to offset a portion of these expenses; we do expect SG&A to de-lever during fiscal 2019. We expect our tax rate for the full fiscal 2019 to be approximately 30%, and our annual interest expense using forward LIBOR rates, to be approximately $22 million.

In fiscal 2019, we expect to spend approximately $43 million in capital expenditures for our planned 2 store openings, including 1 relocation, a second distribution center expected to become fully operational in late fiscal 2019, technology projects, existing store merchandising activities already outlined, and our Elfa business.

We plan to generate positive free cash flow again in fiscal 2019, which we expect to utilize for further debt reduction. We also anticipate using cash flows during fiscal 2019 to purchase inventory for our second distribution center. We expect to carry elevated inventory levels throughout the year as we receive inventory at this facility while continuing to ship to all stores out of our Dallas-area distribution center.

Our current thinking around the quarterly cadence of our full year 2-3% annual comp sales outlook is that the strongest comps of the year are expected in Q1, slight moderation from that level in Q2, further moderation in Q3 as we are planning the holiday quarter with conservatism, and low single digit negative comp sales in Q4 as we conservatively think about cycling the strong 8.5% comps in Q4 that we just delivered.

Specific to our **first quarter**, there are a few call outs:

1. We currently expect our Q1 comp sales to be slightly above our fiscal 2019 annual outlook range, as we have continued to see good sales performance early in the quarter.
2. During Q1 we expect to spend approximately $2.5 million incremental marketing dollars over last year in order to support the launch of The Container Store Custom Closets rebranding efforts, including the introduction of the Avera product line.
3. As a result of these items, we currently expect our Q1 EPS to be in the range of a loss of $0.09 to $0.11.

   As a reminder, Q1 has historically always been our lowest period of sales and earnings during the fiscal year.

For the remaining three quarters of fiscal 2019, I'd like to share a few key data points:

1. As outlined, we expect approximately $6 million of incremental marketing spend for the year, with $2.5 million of that in Q1. The current thinking is that the remaining incremental spend will increase year-over-year as follows: Q2 and Q3 up approx. $1.5 million each and Q4 up approximately $500,000.
2. Additionally, with regards to the approximate $4 million of net costs associated with our second distribution center we currently expect that headwinds will be realized in Q1 to Q3, and then we expect to begin to realize the associated freight benefits leading to a slight tailwind in Q4.

As a result, given the cadence of these investments, we currently anticipate EPS to be down in both Q1 and Q2, relatively flat in Q3 and up in Q4.

In summary, we are very pleased with our Q4 sales and financial performance. Our focus on our strategic priorities, including a strong focus on Custom Closets, is having a positive impact and becoming more evident in our results.

Thank you. Now, I'd like to turn the call back over to the operator so that we can open the line for questions. Operator?