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Q2 2019 Pier 1 Imports Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Pier 1 Imports Second Quarter Fiscal 2019 Earnings Call.

At the request of Pier 1 Imports, today's conference call is being recorded. (Operator Instructions)

I would now like to introduce Christine Greany of The Blueshirt Group.

Christine Greany

Thank you, and good afternoon, everyone.

Today after market close, we issued our earnings press release, which included the detailed financial results for the second quarter of fiscal 2019.

In just a few moments, we'll hear comments from Alasdair and Nancy, followed by a question-and-answer period.

Before we begin, I need to remind you that any statements made today regarding our business may be deemed to include forward-looking statements that are based on current estimates or expectations of future events or future results, and are made pursuant to and within the meaning of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from such statements. Any forward-looking statements made today are as of the date of this call, and the company does not assume any obligation to update or revise any such forward-looking statements.

The company will also discuss non-GAAP financial measures on this conference call. Pursuant to the requirements of Regulation G and Item 10e of Regulation S-K, the company has provided a reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measures in our earnings press release that was issued this afternoon, which is available on our website at pier1.com.

Now I'd like to turn the call over to Alasdair James, President and Chief Executive Officer. Alasdair?

Alasdair B. James ***Pier 1 Imports, Inc. - President, CEO & Director***

Thanks, Christine, and good afternoon, everyone.

Joining me on the call today is Nancy Walsh, our Executive Vice President and Chief Financial Officer. As we preannounced, we're disappointed with our second quarter results.

We identified two areas where we need to improve our execution, our product allocation and our marketing program. And we have already taken steps to refine and drive improvement in those areas.

Before I speak to those, let me first provide some context around our quarter two results and what we're seeing in the business.

The second quarter proved challenging as a whole. In the first two months, company comp sales declined double-digits, primarily reflecting customer response to legacy product. And as we've previously talked about, our brand relaunch was planned for August, and included a robust combination of new merchandise, new pricing and a significantly enhanced shopping environment, all supported by the nationwide rollout of our new campaign, Pier 1: This is Me.

We were encouraged by the positive results that our test locations had achieved over a period of several months, which gave us confidence that our relaunch would gain traction quickly when rolled out nationally.

Although our comp decline narrowed from double digits in June and July to low single digits in August, that level of performance was below our expectations. While we maintained strict expense control during the quarter, the greater than expected sales decline and margin pressure resulted in EBITDA and earnings per share that were below the guidance we provided in June.

As I mentioned, we have identified two areas of the business where we need to improve our execution.

The first area is in the product. We do not have the level of newness in stores needed to inspire our customers, and in some product lines, our levels of in-stock inventory fell behind demand. This was the result of issues that occurred within our planning, allocations and merchandising functions, and led to delays getting some of our products into stores as planned.

To be clear, this wasn't a supply chain driven issue. This was our own planning and executional issues in the support office. Our teams have moved quickly to address this, and we expect to have increased levels of merchandise flowing into stores in the coming months.

The second area is marketing. Our program didn't drive the level of traffic that we anticipated, based on our learnings and the results from the DSW market test. It became apparent once we implemented the brand relaunch on a national scale that we needed to refine certain marketing initiatives. And in recent weeks, we've begun to implement those changes.

First, we're increasing our TV presence by shortening the length of our TV spots, while adding to the number of times we appear on air. Second, we're adjusting some of our marketing content to include a more pronounced call to action and to skew towards a slightly older customer in our future communications. Third, we're directing a greater portion of spend to social and digital, where we can measure results quickly, and where we're beginning to see positive response from customers.

Taking a step back, we're just nine weeks into our multiyear plan, and remain confident that we're on the right strategic course for our brand. Because we expect sales to turn positive and accelerate later than planned, we've made the decision to bring in an external resource to help our teams sharpen and speed execution. We're encouraged by early signs of improvement in some of our key customer metrics as we've begun to pivot on those key initiatives.

Specifically, in recent weeks, conversion has strengthened and growth in retained and reactivated customers has increased. At the same time, customer response to our new store environment continues to be positive.

In the context of the four key priorities under our New Day strategic plan, we're continuing to make progress in areas such as our store transformation, sourcing and supply chain.

I have updates to share for each of those.

Priority #1, relaunching the brand with a compelling point of view and price value equation. As we work to improve our execution, we expect to be able to deliver the product newness and accessible pricing that the home decor and furnishings customer is looking for. As

I've said, this is still a work in progress, but there are key categories where we've already been successful. Textiles, pillows and fragrance, for example, are important categories for Pier 1, where we've got the right mix of product that reflects a structure around our pricing of good, better and best, and is supported by strong promotional message with great product.

Where we've gotten this right, the response from our customers has encouragingly been very good. Our objective is to take this template for success to the other categories and use that as a platform to drive the improvement that we're seeking across the business as a whole.

In the second quarter, we continued to prepare for the rollout of our markdown optimization tool, and commenced our pilot program just last month.

Although, we're beginning to see some improvement in conversion in recent weeks, average ticket remains soft. We plan to address this, in part, through refinements to our product mix.

Priority #2 was bolstering the shopping experience. I'm pleased to tell you that our in-store execution has been excellent. Our teams successfully converted the first 310 stores to the new formats on time and under budget. The remainder of the portfolio is scheduled to begin conversion to the new layout and fixturing after the holiday selling season. But we have been able to incorporate a number of those changes already.

Our stores teams have embraced the physical changes, and they love that the new environment has freed them up to spend more time on the selling floor connecting with customers, which is something that they are very passionate about, and I think one of our key strengths.

Indeed, the strength of our store associate is as I've said, probably one of the biggest assets that we have within our organization.

Equally important, our customers really appreciate the new store environment and have been sharing their feedback with us during exit interviews and shop alongs. We consistently receive high marks for ease of shopping, style and inspiration.

With that said, we recognize that we have more work to do to improve our pricing message and the value perception that customers have whilst in the store.

Going forward, we'll be taking steps to further differentiate the in-store experience through signage and technology, and more effectively leverage our omni-channel platform.

In the second half of the year, we'll be bolstering our merchandising initiatives and featuring a greater number of lifestyle vignettes to provide greater inspiration and encourage self-expression for the customer.

Moving onto Priority #3, leveraging our growing e-commerce channel married to new in-store experience to drive a robust omni-channel operation. Our objective is to give our customers what they want, when they want it. Our dropship initiative, for example, is allowing us to offer customers a broader assortment of merchandise online.

Our sourcing team can reach out to large e-commerce vendors, and get them onboarded quickly to begin testing product. While still relatively small, this is an important and growing part of the business that has the potential to expand rather significantly over time.

We're also increasing the frequency of deliveries to our stores to facilitate more buy online pick up in store. More on that in a few minutes.

Priority #4, improving our sourcing, supply chain and distribution to compete more effectively. On the sourcing front, we are continuing to track ahead of our full year goals. We've built out the majority of our global sourcing team and have an experienced group in place.

Thus far in fiscal '19, we're tracking ahead of plan against our targeted product cost savings.

Now as a reminder, this includes $18 million in negotiated savings that are expected to flow through the P&L in fiscal years '20 and '21. We're consolidating our vendor base and developing new partnerships with the goal of enhancing our purchasing power, while bringing greater innovation, newness, uniqueness and value to our business.

And in August, we held our first vendor conference in Asia, which gave Nancy and me, together with the senior members of our sourcing team, the opportunity to engage with more than 200 vendors in the different forums we held, and to speak to them directly about how they can partner with Pier 1 as we implement our new strategy. The conference was a resounding success and something we intend to do regularly going forward.

Turning now to supply chain. Our team is engaged in ongoing initiatives to reduce costs and increase speed. We've been fully operational in our new Columbus facility for three months now. The newly configured space, which moved us from three buildings down to one, is enabling faster processing, improved accuracy and smarter packaging. We're now positioned to take the learnings from this transformation and bring this model to the remainder of our supply chain network over time.

Beginning this month, we will start transitioning to pool distribution, which will allow us to replenish our stores more quickly and enable our customers to buy online and pick up store much faster than they can today. We expect this to be fully rolled out over the next six months or so, with deliveries from our DCs to stores increasing to twice a week instead of once.

Over the past 18 months, I've seen a great deal of passion and enthusiasm across the Pier 1 organization for our customers. The execution issues we have identified are within our control. As we approach the holiday selling season, we're taking actions to improve our execution as quickly as possible. We'll also be leveraging the strength of our store associates that are highly skilled at delighting our customers, especially at this time of year. With the help and engagement of our dedicated associates, our priority over the coming months is to take the steps needed to drive sustainable sales growth and long-term profitability, and to continue taking care of our customers in a way that sets us apart from our competitors.

Pier 1 has a vast and storied history, and we intend to make the next chapter a success. It's taking slightly longer to execute those elements than we had intended, but we remain convinced that the course is correct.

Now I'll turn the call over to Nancy to take you through the financials. And then we'll open the call to questions. Nancy?

Nancy A. Walsh ***Pier 1 Imports, Inc. - EVP & CFO***

Thank you, Alasdair. And good afternoon, everyone. As we previously reported, company comparable sales declined 11.4% in the second quarter, while net sales declined 12.8% to $355 million.

Second quarter gross profit was $94 million versus $104 million a year ago -- $140 million a year ago. And gross margin rate came in at 26.3% versus 34.4% in the second quarter of fiscal 2018.

The pressure on our gross margin rate reflects lower merchandise margin as well as 220 basis points of deleverage on occupancy due to the lower sales base.

The year-over-year decline in merchandise margin is primarily attributable to three factors: One, our investment in the pricing strategies we implemented earlier this year, which don't bear fruit in the short-term; two, increased promotional discounts; and three, higher supply chain costs, primarily due to increased freight expense.

As we look at the second half, we remain focused on improving product allocation and driving traffic, but anticipate that we'll see some year-over-year pressure on gross margin, while we work toward improving execution.

Total SG&A expense was $143 million or 40.3% of sales, compared to $138 million or 33.9% of sales in Q2 of fiscal '18.

Ongoing expense discipline throughout the organization was offset by the planned increase in marketing expense for our brand relaunch.

Looking at second quarter SG&A on a normal course basis, without the planned investment in marketing, our teams did a good job of maintaining strict control over expenses.

Going forward, we will continue to focus on rigor around cost control and will look for levers we can pull to be as efficient as possible. It's important to note, however, that we are continuing to invest in the brand relaunch, and as we previously communicated, marketing expense was planned to peak at approximately 9% of total sales in both the second and third quarters. We came in at 9.5% of sales in the second quarter and expect to be lower in Q3.

Second quarter net loss totaled $51 million or $0.63 per share. And EBITDA was negative $49 million.

Moving now to the balance sheet and cash flow statements. We have a sound capital structure and healthy balance sheet. At quarter end, we had $117 million of cash and short-term investments.

Ending inventory was $387 million, down 15% from a year ago. The increase in accounts payable from our fiscal 2018 year-end primarily reflects changes in trade terms with certain vendors, as well as the timing of merchandise purchases.

There was $192 million outstanding under our term loan at quarter end, and we did not have any working capital borrowings under our $350 million revolver.

Additionally, we have significant runway to our debt maturities in 2021 and 2022.

Going forward, we will be focused on preserving our financial flexibility as we work toward improving execution and reversing current business trends.

Capital expenditures totaled $25.6 million year-to-date and were deployed towards supply chain, technology and stores. We expect capital expenditures to total approximately $60 million for the full year with $45 million of that supporting our strategic plan.

As we previously announced, we are not providing financial guidance at this time. Due to the factors we have discussed today that are impacting our financial performance, we currently have limited visibility into the remainder of this fiscal year. As we have done today, we expect to provide commentary on forward-looking business trends on our quarterly earnings calls.

As you work through our models, for fiscal 2019, you can use a fully diluted share count of approximately 81 million shares, and depreciation of approximately $13 million per quarter.

Lastly, I would like to provide you with our perspective on the subject of tariffs. As we previously communicated, approximately 59% of our sales in fiscal 2019 are expected to be generated from goods produced in China. And about half of that will consist of product classes that are subject to the 10% tariff that went into effect last week.

While we don't expect this to have a material impact on our fiscal 2019 results, we are evaluating the recently announced 25% tariff, and how that may impact our fiscal 2020 results.

Together with our sourcing team, we are proactively approaching this through a number of initiatives, including supplier negotiations, diversifying our sourcing relationships and countries of origin, engaging in lobbying efforts with industry groups and strategic price increases.

As Alasdair noted earlier, under our New Day strategic plan, we are continuing to make progress in our store transformation, sourcing and supply chain initiatives.

With our focus on execution, our priority over the coming months is to take the steps needed to drive sustainable sales growth and long-term profitability, and to continue taking care of customers in a way that sets us apart from our competitors. We appreciate your time this afternoon and the continued support of our analysts and shareholders.

Now Alasdair and I would like to open the call to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Geoff Small with Citi.

Geoffrey R. Small ***Citigroup Inc, Research Division - Senior Research Associate***

I first want to ask about top line trends. You noted improvements in some of the key customer metrics, including conversion and activation in recent weeks. But it sounds as though correcting the marketing and product allocations issues may take a few months. In light of that, we were hoping you could provide some quantitative color regarding the trends you're seeing early in the third quarter? And just your expectations for the next 2 quarters? And whether your internal goals are for same-store sales to turn net -- to turn positive before the fiscal year end?

Alasdair B. James ***Pier 1 Imports, Inc. - President, CEO & Director***

So what I would say is that there are couple of things. First of those would be, when you are putting a transformation like this into place, one of the key things I'm looking to see is, are we attracting new customers to visit us? Are they coming more frequently? Are they actually liking what they see? And is that then having an effect on the business? And if you've got new customers coming and an increase in that measure, and you see an improvement in conversion of those customers coming through the doors, those are signs of encouragement that you can build upon. So I am encouraged to see those 2 things being positive for us. They haven't yet materialized in driving the sales top line in the way we would like for the reasons that Nancy called out. Our average ticket is softer than we had expected. And when you put those things together, you therefore get that negativity that we described. So our focus is absolutely on how we take the categories where we've done a good job and replicate that template across those categories where we have more work yet to do. The encouraging thing, if encouraging is the right phrase, is that these things are within our control. And therefore, if we make those changes, we can see those improvements flow through. The reason we are not providing guidance is there isn't yet enough consistency in our measures week-by-week for us to be clear on what that likelihood is in terms of timing. And so, whilst we're intending to continue talking to those measures and giving an idea of what others are doing going forth, it's partly because we don't have that consistency that we haven't been able to provide that guidance. And so, responding to your questions, specifically is not something we can break out with enough accuracy for us to be confident that you can make the right decisions on that.

Geoffrey R. Small ***Citigroup Inc, Research Division - Senior Research Associate***

Understood. Thank you, Alasdair. And clearly accounts payable was the principal contributor to your quarter end cash balance, and I think Nancy mentioned a couple of factors that, that drove that. Just curious whether you expect those factors to reverse in the coming quarters? And then a little bit bigger picture looking ahead of the back half, do you have expect to have to borrow from the revolving credit facility?

Nancy A. Walsh ***Pier 1 Imports, Inc. - EVP & CFO***

So with respect to the 2 factors we called out, one of which was modifying some of the vendor terms we're not anticipating. That will change in terms of the timing of product. Also at this point in time, not expecting a major change as we go through the end of the quarter for the second half. But of course, some of that is not necessarily something I can predict right now. With respect to -- what was the second question? What was your second question again, I just lost it?

Geoffrey R. Small ***Citigroup Inc, Research Division - Senior Research Associate***

Just curious if you're expecting to have to borrow from the revolving credit facility?

Nancy A. Walsh ***Pier 1 Imports, Inc. - EVP & CFO***

Yes, as I said during Q2, we have not borrowed against our revolver. And again because of the factors that Alasdair talked about, I'm not expecting that our short-term borrowings are going to be anything different than what you've seen historically. But we will not know those exact numbers at this point in time.

Alasdair B. James ***Pier 1 Imports, Inc. - President, CEO & Director***

Jeff, we typically dipped into revolver in previous years for small amounts at various points in quarters -- in quarter 3, and yes, just to Nancy's point, we expect to dip in. But we're not expecting it to be significantly greater than in any previous year. Does that answer your question?

Operator

Our next question comes from the line of Steven Forbes with Guggenheim Securities.

Ryan Kilbane ***Guggenheim Securities, LLC, Research Division - Associate***

This is actually Ryan Kilbane on for Steve. Just as it relates to occupancy pressure on gross margin. Can you just expand a little bit on that? And then maybe what the outlook for the second half might be?

Nancy A. Walsh ***Pier 1 Imports, Inc. - EVP & CFO***

Well, it really is a function of just the sales volume dropping, that our occupancy cost has actually gone down slightly year-over-year. But as a percent of sales it's increasing, so that has factored into as we look at our total gross margin. We continue to look at our store leases as they come up for renewal. We are anticipating as we normally do closing around 15 stores a year. About 20% of our fleet comes up for review each year, and we will continue to use that to remove some of the stores that have negative cash flow, which is less than 5% of our fleet.

Ryan Kilbane ***Guggenheim Securities, LLC, Research Division - Associate***

Got it. And then just as a quick follow-up. You mentioned the 300 plus conversions. Can you expand a little bit on how those stores are trending relative to chain average?

Alasdair B. James ***Pier 1 Imports, Inc. - President, CEO & Director***

Yes, so what we've said is that we wanted to try and incorporate as many elements of the chain as we could across the estate. So if you remember from the last call, all of the stores were getting the new product, where it was relevant, the new promotional structures and pricing. And those things obviously have the biggest impact in terms of businesses performance. But the 310 stores have a great degree of change in the store environment from the perspective of the fixturization. They have other elements of clearance stores and whatnot within them. So we are seeing a slight difference in the 2 different concepts that we've got out there. But the material driver of performance is really product price and promotion and those things are the same across both entities. So what we said last time was we would take a pause on the store development process until after the holidays. And then we'll continue to roll out process for the fixturization and clearance shop in the other stores after the holiday. And we expect to complete it over 12 months. We don't expect to have any difference to that time line.

Operator

Our next question comes from the line of Michael Lasser with UBS.

Michael Lasser ***UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines***

So why do you think this turnaround is taking longer than what you had previously anticipated? What element of pricing, merchandising store layout service is just not resonating with the customer?

Alasdair B. James ***Pier 1 Imports, Inc. - President, CEO & Director***

So let me unpack that, there's a quite a bit in that question. So first thing I would say is both customers and also noncustomers really like the new store layout. So we've had very positive feedback from both. If you remember from previous calls, one of the things, I've been concerned about is that we didn't make changes that actually alienated our core customer, and so I'm actually very positive about the fact that both noncustomers who shop in home decor, but haven't historically shopped with us and our core customer, both give us really positive response about our store environment. The reality is in categories where we've been able to flow the new product into the stores in time. And we have the architecture of price and promotion that makes sense to them, so a good bit of our structure and an architecture that makes sense. We've seen positive results coming. I called out on the call, pillows, candles and textiles is an example of where we've done that well. In other categories where we've either flowed merchandise too slowly into our business, so we haven't therefore been in the stores as early as we expected or we flowed and not done a good job of clarifying for the customer the architecture -- the overall pricing architecture. We haven't seen that level of lift. Now those things are entirely within our control, and it's disappointing to me to have to say on a call like this that executional issues are behind the performance, but that is the reality. And therefore, that is what we have to address. And we're going to do it category-by-category. Does that answer your question?

Michael Lasser ***UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines***

It does. And do you have, without providing too much guidance, do you have a sense of when we should expect it to have a meaningful impact that said trends will improve?

Alasdair B. James ***Pier 1 Imports, Inc. - President, CEO & Director***

So part of why we're not providing guidance, mostly tied to that point. As you see, if we saw our textiles, pillows, candles performance replicate across the business, we're encouraged by what that will mean for us. The timing when that will happen based on stuff flowing through the supply chain. And we haven't yet got sufficient consistency for us to be able to provide that guidance, which is why we're not providing guidance. But I'm talking months rather than years. So as we look at our October, November, December time frame, the faster we can do it, clearly the better. And that's what we're all focused on.

Michael Lasser ***UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines***

And I have a follow-up on tariffs. That you outlined a number of mitigation strategies you're using, going back to the vendors, renegotiating, some select approach actions, changing sourcing. How -- can you give us some breakdown of that, such that you don't think it's going to have 10% on a 1/3 of your sales, that's a lot? And how should we think about the...

Alasdair B. James ***Pier 1 Imports, Inc. - President, CEO & Director***

Yes, I get the question. So what Nancy said was we didn't see having a material impact this year. Part of that reason was because our sourcing team did a good job of getting most of the products that are going to be affected by the 10% tariff into our business prior to the tariffs deadline occurring. So we don't see a material impact this year, is what Nancy said, in this fiscal year. Clearly, back there, in terms of a full year, next year, the impact will be greater, and the 25% communication greater still. So the actions we're taking are really threefold. One is working with our current vendors and figuring out what we can do together to mitigate those costs, either from consolidating volumes, changing materials that go into a product such that we avoid tariffs where possible, moving production of that product to locations outside of China, or just simply looking at contributions to the increased cost that vendors are able to make. So those are things we're going to do. I don't think those things are any different from what every other retailer will be doing in terms of the engagement, but the thing that gives me a degree of confidence is, we are already because of this plan, looking at driving sufficient cost out of our business. And therefore, slightly further down the road and ahead of plan on our sourcing target of $18 million that we have for this year. The other thing I would say is that there's always an opportunity with these things to carefully sort of change different elements of the overall mix in order to mitigate the effects. But the reality is, I would expect to see pricing increases as it's been called out by many other CEOs in order to mitigate the answer fully through the P&L. And my challenge, our challenge is the business is to mitigate as much as we can. And then where we need to take price increases to do that in a way that has the least effect on volume and least effect on consumer perception.

Operator

And our next question comes from the line of Cristina Fernández with Telsey Advisory Group.

Cristina Fernández ***Telsey Advisory Group LLC - Director & Senior Research Analyst***

I wanted to go back to the inventory issues you had during the quarter. Can you give us a sense of how much of the inventory that you had planned to get into the stores by August actually came in? And the product allocation issues that you had, were those mostly your new products that came -- the new product that came in at lower pricing that sold out? And did it affect all stores or was it just specific number of stores?

Alasdair B. James ***Pier 1 Imports, Inc. - President, CEO & Director***

So I'm -- that's a level of detail and granularity, Cristina, that we wouldn't typically break out. What I would say to you is, the issues have been category-by-category and are varied across categories. It has been across new product, but there's also been some products that aren't new that were wrapped up in it as well. So whilst it's predominantly related to bringing in new product, there were some previously purchased products, year-over-year products that were also involved. So it is a mix of both. The majority would be new, however.

Cristina Fernández ***Telsey Advisory Group LLC - Director & Senior Research Analyst***

And then my second question, can you explain how your Dallas test is performing? Now that it's been around for a couple of months? And when you've looked at that market compared to other markets, I guess what are key differences that you've been able to identify for why the other markets didn't perform in line with your test market?

Alasdair B. James ***Pier 1 Imports, Inc. - President, CEO & Director***

So what I would say is, we used the test market in Dallas-Fort Worth as the benchmark for how to launch the national brand. So off the back of that, of the exposure we had, we took the view as to how best to launch our national program. So how is Dallas [performance] national, clearly the Dallas launch back in March performed better than we've seen nationally with the rest of the country. We're doing 3 things really to pivot, based on those learnings. First of those is to change the targeting slightly of the media we're buying. So we're -- rather than targeting a 30-year-old, early '30s, we're sort of targeting the late 30-year-olds instead, so we've actually shifted the targeting slightly older. It's not materially older, but we are recognizing that a slight shift in age would be helpful. We are increasing the number of slots that we are purchasing in our mass media, so TV specifically, and reducing the length. So going from 30s second ads down to 15 second ads, which enables us to get a greater degree of coverage and impact with our consumer. And the other thing I would say is that we've moved a degree of money across into more digital and social investment where we've been seeing the greatest level of cut through and performance. Those would be the key 3 things I would say. Cristina, did that answer your question?

Operator

And our next question comes from the line of Budd Bugatch with Raymond James.

Alessandra Jimenez

This is Alessandra Jimenez for Budd Bugatch, he's on a plane right now, and apologizes for not being able to be on the call. Pier 1 has always been stellar in finding unique items for many countries around the world. And a key to that has been for the last decade or so, a robust and highly experienced group of buyers and merchants, 30 or so, as I recall, from the last time we checked. We know that the senior merchant retired just about the time of the Analyst Day last year, we have not seen a successor named. So could you please update us on the number of buyers now in the merchandising organization? The tenure of those merchants and the leadership of the merchandising organization?

Alasdair B. James ***Pier 1 Imports, Inc. - President, CEO & Director***

So, no is the answer to your question. I appreciate your question, but no. I mean, I think, the spirit of the question you're asking is you've not had a head merchant in the business for some time, e.g. where are you with that. What I would say is, our buyer -- we now have our buying population, populated with buyers. So it's not that we have a large number of vacancies in the buying population now. We've had a couple that followed the late head merchant leaving as to be expected, but as of today, we're okay. In terms of the piece around lead merchant, it's a very important role. There's no question. I mean, I agree, with the sentiment of what you said. We have a storage past of sourcing unique products from all over the world. And that hasn't changed. So I have been very hesitant to appoint anybody to the role that we didn't feel was strong enough and good enough. We have had an exhaustive search that we've held true to those values on, but we are at the end stage in that process. So we have a very short list of candidates, we're hoping to make an announcement shortly. Obviously, I can't say that with certainty because you never know quite what's going to happen to people with accepting things. But we're very definitely heading towards the end of that process. And we'll have a good strong merchant to lead the merchant function again going forward.

Alessandra Jimenez

Thank you for the color. And then my follow-up question also relate to merchandising. So Pier 1 has been blessed for many decades by having a loyal and experienced cadre of agents in your sourcing countries. In your New Day presentation, you noted that you had expected to reap and recover some of the costs and commissions the agents received from the company. So could you be kind enough to update us on the status of your agent population? Have you lost some? And if so, how you replace the services, quality control and new product development functions?

Alasdair B. James ***Pier 1 Imports, Inc. - President, CEO & Director***

Yes, so I mean I've always said in the New Day presentation back in April was that there's an opportunity for us to source product directly, and for us to actually work through agents. And agents play a particular role in helping us to find new and different products across all the countries where we engage. We have agents across all the countries we operate with. And what I would say to you is we have a full complement of agents still within our business. And continue to seek and ask them to bring to us new and unique products in the way that we need it. The value an agent needs to provide is continually changing as the market changes. And the agents we work with are, I think, some of the most professional in the markets in which they operate, and are very clear about the role that they need to provide. So I've got no concern about that at all. With regard to their belief, if you like, in the plan, I'm very encouraged by their response to the New Day plan. They're positive about it. And they have all engaged in actually lowering costs as a result of the plan we put in front of them to help invest in that. So again, positive.

Operator

And our next question comes from the line of Chuck Grom with Gordon Haskett.

Charles P. Grom ***Gordon Haskett Research Advisors - MD & Senior Analyst of Retail***

Just I hopped on late. I just didn't know if you guys quantified the number of remodels that you've completed so for across the chain over the past couple of months? And if you could also share with us what the sales lift or traffic increase has been in these remodels?

Alasdair B. James ***Pier 1 Imports, Inc. - President, CEO & Director***

So we shared, we've done 310, Chuck, and we're going to do the remainder after the holiday period is finished. And we expect it take it roughly 12 months, from beginning to end, to roll through those. But we also shared that the majority of the benefit that you get is actually from the product price and the promotions and both the remodels and the non-remodels, if you like, benefit from that change. So we haven't split out the difference because the difference is difficult to understand without that level of clarity.

Charles P. Grom ***Gordon Haskett Research Advisors - MD & Senior Analyst of Retail***

Okay, so there's no way to take the 310 and compare it to the stores that are in market that have not received the remodel and compare and contrast the 2?

Alasdair B. James ***Pier 1 Imports, Inc. - President, CEO & Director***

It relates to my previous comment about traffic and our execution in terms of flowing product through. There's such a variation between both categories and also different stores across our state, but it is difficult to give that number of consistency. I understand where your question is coming from and as soon as we can provide that to you, we will, but at the same time I don't want to give you something that you can't act upon with accuracy.

Charles P. Grom ***Gordon Haskett Research Advisors - MD & Senior Analyst of Retail***

Okay, fair enough, I understand. And then just on the cadence of the company, you said the first 2 months were down low doubles, and then August was down low singles, you are about 4, 5 weeks here into the third quarter. Just wondering if you think it fair to share with us the direction of sales? You spoke a little bit about the gross margin direction, gave a little bit of DNA color and some help on the marketing line. Just wondering if there is any way you can hold our hand here on the third quarter where you're thinking from a comp perspective?

Alasdair B. James ***Pier 1 Imports, Inc. - President, CEO & Director***

So I mean, I think, the reason we called out the fact that we were going to remove guidance for the balance of the year is partly because we're seeking to have a level of consistency, which enables you to draw those conclusions. Without that consistency, it's very difficult to provide that guidance and give you certainty to the point which the business is turning, and turning consistently. And it really is varying for us by category, as I said, and also across stores. So that again, I would therefore say no. We wouldn't break that out. Once we have that consistency in place, we will. What I would say is that, this isn't about the plan being wrong, this is around our execution of bringing it to life. So as we are executing appropriately, we start to see that lift. The challenge for me is in at what point that lift, is it carrying with sufficient consistency across the entire state for you to be able to act on it with certainty. And that's why we've removed the guidance.

Operator

(Operator Instructions) And our next question comes from the line of Jeremy Skrezyna with Southpaw.

Jeremy S. Skrezyna ***Southpaw Asset Management, LP - Senior Research Analyst***

I just have 2 quick ones. I know that you said you don't want to provide any guidance for the year. But can you at least say if you expect to be EBITDA positive or breakeven on a full year basis?

Nancy A. Walsh ***Pier 1 Imports, Inc. - EVP & CFO***

At this point, we are not providing any information.

Jeremy S. Skrezyna ***Southpaw Asset Management, LP - Senior Research Analyst***

Okay. And then on the -- to follow-up a little bit more on the accounts payable balance. Could you quantify again how much of that was due to changed vendor terms and how much was due to delayed receipts or delayed payments? Just because it was such a meaningful increase versus historical precedents?

Nancy A. Walsh ***Pier 1 Imports, Inc. - EVP & CFO***

I would say at a high level, 2/3 in terms of the vendor payment terms, and 1/3 in terms of the timing of the seasonal products-- the timing of product, not just seasonal.

Operator

And I'm showing no further questions at this time. And I'd like to return the call to management for any closing remarks.

Alasdair B. James ***Pier 1 Imports, Inc. - President, CEO & Director***

Okay. Thank you very much. I mean, I think, as I've spoken to a number of you, the challenge for us in the business is to execute against the plan we originally laid out perfectly. When we execute perfectly in the categories that we have in our business, we are seeing positive results, but by our own admission, that level of execution has not been where it needs to be, and our focus is absolutely on fixing that category-by-category. So I know it's less than ideal, a number of you felt that we're being too ambitious in terms of the plan that we originally laid out and unfortunately our execution has sort of borne that out. So for me, this is a timing issue, this isn't a is it the plan issue. I went back to look at the plan and we've done ton of investigation to sort of understand some of the drivers of our issues. And the first question I ask myself was is the plan the right plan or not? And where I drew the conclusion is, it absolutely is the right plan. Customers are as clear today as they were when we drew the plan up. And we just have to do our part in executing it across all the categories that we have.

So I thank you for your time today. That's where we're focused on. I hope to be able to bring you better news on our next quarterly call.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.