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Shoe Carnival, Inc. (SCVL)

Q1 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to Shoe Carnival's First Quarter Fiscal 2018 Earnings Conference Call. Today's call is being recorded. It is also being broadcast via webcast. Any reproduction or rebroadcast of any portion of this call is expressly prohibited.

Management's remarks may contain forward-looking statements that involve a number of risk factors. These risk factors could cause the company's actual results to be materially different from those projected in such statements. Forward-looking statements should be considered in conjunction with the discussion of risk factors included in the company's SEC filings and today's earnings press release.

Investors are cautioned not to place undue reliance on these forward-looking statements which speak only as of today's date. The company disclaims any obligation to update any of the risk factors or to publicly announce any revisions to the forward-looking statements discussed on today's conference call or contained in today's press release to reflect future events or developments.

I'll now turn the call over to Mr. Cliff Sifford, President and Chief Executive Officer of Shoe Carnival for opening remarks. Mr. Sifford, you may begin.

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Thank you, and welcome to Shoe Carnival's first quarter 2018 Earnings Conference Call. Joining me on the call today is Kerry Jackson, Senior Executive Vice President, Chief Operating and Financial Officer. On today's call I'll provide a brief overview of our first quarter operating highlights and sales results as well as review our updated

fiscal 2018 outlook. Kerry will discuss the financial results in more detail. Then, I'll open up the call to take your questions.

First, it is important to note that the 53rd week in fiscal 2017 resulted in a one week shift of our fiscal 2018 calendar. Our fiscal 2018 first quarter ended one week later as compared to first quarter last year. In fiscal 2018, all of our quarterly year-over-year sales comparisons may be impacted if there are seasonal influences near the respective quarter end dates. Comparable store sales for the first quarter are presented on a 13-week basis.

Now, I'll review our operating performance. We experienced a very cold and wet start to the quarter, which affected sales through the Easter selling season. Once the weather turned from winter to warmer, even hot temperatures in certain regions at the end of the quarter, our customers reacted positively to our new spring assortment. We are happy to report a comparable store sales increase of 1.3%. Sales of our spring product categories accelerated as we entered the quarter and we continue to experience the strong athletic and athleisure trend.

Traffic for the quarter declined mid-single digits, while conversion and average dollars per transaction were up low-single digits. Average units per transaction were up at the lower end of the mid-single digit rate. We ended the quarter with inventory down 1.6% on a per store basis. We entered the first quarter with lower per dollar inventory in fashion boots and seasonal clearance merchandise, which allowed us to achieve a 70 basis point improvement in merchandise margin.

BD&O was down 80 basis points as a percentage of net sales and SG&A delevered slightly. The result was a 31% increase in operating income, which when combined with a 13% decrease in tax expense, produced EPS of \$0.83 per diluted share, an increase of 73% compared to quarter one last year. Kerry will give more detail in his prepared remarks.

To add a little more color on the first quarter, we have historically reported Easter on a combined basis for both the months of March and April. Even though we experienced a cooler and wetter Easter time period, comparable store sales for March and April combined were up 3.6% versus the same period last year. Athletic shoes in total were up mid-single digits, while non-athletic was up low-single digits for the combined two-month period.

Focusing now on our first quarter comparable store sales by department, women's non-athletic was down low-single digits on a comparable basis. Women's boots were up in the teens on a comparable basis with much more inventory and at much higher margins compared to first quarter last year. We also experienced a low-single digit increase on a comparable basis in sandals with weather warming up in the latter part of the quarter. The men's non-athletic department was up low-single digits on a comparable basis. We were very happy with the performance of men's dress shoes and boots.

Children's shoes were up low-single digits on a comparable basis. This increase was driven primarily from athletics, although we did experience a low-single digit comparable store increase in children's sandals. Adult athletic was also up low-single digits on a comparable basis. The strong athletic and athleisure trend shows no sign of slowing down. Our customers know they can trust Shoe Carnival to have a tremendous assortment of the season's best styles and the top brands.

Our merchandise team continues to do a great job of identifying key family footwear and advertising those items to help make Shoe Carnival the destination store for both selection and value.

Now, I'd like to spend a few minutes to update you on our key initiatives for 2018. As many of you know, we continue to exercise patience with opening new stores. At the same time, I'm pleased to report that we have been successful in improving the performance of some of the stores we had slated to close later this year.

Through a combination of improved performance and better terms with certain landlords, we are reducing the number of projected store closures in a range of 25 to 30 to a range of 20 to 25. We continue to work diligently on each store in the closing list with the goal of improving the metrics of each of these stores, thus further reducing the number of store closures.

New store openings for 2018 will be in the low-single digit range. Near term, this reduces our overall sales volume. However, long term, we expect to realize increased operating income and EPS improvements as a result of our store opening and closing efforts.

For fiscal 2019, we do not expect to continue the level of store closings we have experienced over the past several years. We believe that better real estate opportunities are ahead of us as we look to benefit from the evolving specialty retail landscape, including retail consolidation and store closures. We believe this and the implementation of our CRM strategy will enable us to once again ramp up store growth.

We ended the first quarter with 405 stores in 35 states and Puerto Rico. During the quarter, we closed three stores and had no new store openings. Our CRM strategy is moving forward nicely. We expect our initial implementation to be complete by the end of the calendar year. This strategy is a key element in understanding who our customer is in creating a one-to-one relationship with them.

Although a large part of our customer data comes through our loyalty program, it is not just about loyalty. By identifying our high-value customers and where they live, we will improve site selection in real estate. By understanding how they shop along with the brands and categories they prefer, our merchandise team can improve the merchandise selection on a store-to-store basis. And by understanding the pain points on our customer's journey, we can improve the operations in our brick-and-mortar stores and online.

We believe this holistic approach to CRM will give us a clear runway for growing Shoe Carnival now and in the future. We are very close to launching the next version of our loyalty program, [ph] Shoe Perks Gold (00:08:38). This new program will offer our high-value customers a new tier rewards which is designed to incentivize them to make Show Carnival their store of choice for all their family footwear purchases.

The goal of this program is not to simply reward those customers who spend the most, but to encourage those customers that have not achieved top tier status to shop more often. I'll give you more detail in our updated loyalty program during the next call.

We are also very close to launching our vendor drop-ship program. Our goal is to have vendor drop-ship ramped up by the end of the second quarter. This enhancement will allow our customers the opportunity to seamlessly view and select from a broader branded style selection being currently offered at shoecarnival.com. For Shoe Carnival, we get to test styles, brands and expand sizes without the risk of inventory ownership.

We have a lot of great developments going on at Shoe Carnival today. In order to stay relevant with the changing retail landscape and the ever evolving consumer, we must continuously improve and innovate. The investments we are making in technology and customer engagement are incredibly important as we take Shoe Carnival to the next level of growth.

Finally, I'd like to give you an update on our financial expectation for fiscal 2018. We continue to plan our business conservatively in order to more effectively manage inventory and margin. I am happy with the performance of our spring and summer product categories and the continuation of the strong athletic and athleisure trend we have been experiencing over the past several years. I am also happy with the way our second quarter has begun with both sales and margin exceeding our expectation.

We believe this trend will continue through at least the back-to-school time period. I am also pleased with the work our real estate team has done in reducing the number of stores slated to close this year. Based on these factors, we are raising our EPS guidance for fiscal 2018. We now expect fiscal 2018 earnings per diluted share to be in the range of \$1.90 to \$2.05, which is up from prior guidance of \$1.85 to \$2. And we expect fiscal 2018 net sales to be in the range of \$1.13 billion to \$1.20 billion with comparable store sales up low-single digit.

That concludes my overview. I would now like to turn the call over to Kerry.

W. Kerry Jackson

Senior Executive Vice President - Chief Operating and Financial Officer and Treasurer, Shoe Carnival, Inc.

Thank you, Cliff. Our net sales for the first quarter ended May 5, 2018, increased \$4.1 million to \$257.4 million compared to \$253.4 million for the first quarter ended April 29, 2017. Comparable store sales for the 13-week period ended May 5, 2018, increased 1.3% compared to the 13-week period ended May 6, 2017. The \$4.1 million increase in net sales was primarily due to increase of \$4.4 million from the 19 new stores opened since the beginning of fiscal 2017 and an increase of \$7.9 million related to stores included in our comparable store sales space, partially offset by an \$8.2 million loss in sales from the 29 stores closed since the beginning of fiscal 2017.

Our gross profit margin for the quarter was 30.0% compared to 28.5% in the first quarter last year. This was driven by 70 basis point increase in our merchandise margin and an 80 basis point increase in buying, distribution, and occupancy expenses as a percentage of sales. The reduction in buying, distribution, and occupancy expenses as a percentage of sales was primarily a result of leveraging lower occupancy expense against the higher sales base.

Occupancy expense for the quarter was lower than in Q1 last year due primarily to a \$1.5 million decrease in occupancy cost for stores we have closed or will close. The increase in our merchandise margin was primarily due to having less prior seasonal carryover and clearing that product at a higher margin than in Q1 last year.

SG&A expenses increased \$1.1 million in the first quarter of fiscal 2018 to \$60.0 million. As a percentage of sales, these expenses remained flat at 23.3% compared to the first quarter last year.

For Q1 this year, the increase in expenses for the new stores were offset by expense reductions for stores that have closed, resulting in a \$1.8 million decrease in non-comp store selling expenses. Significant changes in SG&A for the quarter included increases in incentive and stock-based compensation along with decreases in fixed asset impairments and earnings on our retirement savings plan.

Store closing costs included in both cost of sales and SG&A were \$167,000 in the first quarter this year and there were no impairments of fixed assets reported during this period. Store closing costs included in both cost of sales and SG&A in Q1 last year were \$1.1 million, which included \$646,000 of store-related fixed asset impairments. Three stores were closed in Q1 this year compared to closing five stores in Q1 last year.

There were no pre-opening expenses recorded in Q1 this year. Pre-opening expenses included both cost of sales and SG&A in Q1 last year were \$534,000. There have been no new stores opened this year compared to seven

store closings in Q1 last year. The effective income tax rate for the first quarter of fiscal 2018 was 25.0%, compared to 37.6% for the same period in last year. For the full year of fiscal 2018, we expect our tax rate to be approximately 25%.

As a reminder in December 2017, the U.S. Tax Cut and Jobs Act was enacted which reduced our corporate statutory tax rate from 35% to 21%. Net earnings for the first quarter of fiscal 2018 were \$13.0 million or \$0.83 per diluted share. For the first quarter of 2017, we reported net earnings of \$8.2 million or \$0.48 per diluted share.

Now, turning to our cash position and information affecting cash flow. In Q1 this year, we repurchased 810,613 shares of our common stock at a total cost of \$19.0 million. \$31 million remained available under our \$50 million share repurchase authorization in the Q1. Depreciation expense was \$5.6 million in Q1. Depreciation expense is projected to be approximately \$22 million for the full fiscal year.

Capital expenditures for fiscal 2018, including actual expenditures during the first quarter, are expected to be between \$10 million and \$11 million, with approximately \$6 million to be used for new stores, relocations and remodels. Lease incentives are anticipated to be approximately \$500,000 to \$1 million for the first year – for the year.

My final comment today will focus on adding a little color on our earnings expectation for the second quarter this year. The calendar shift due to last year being a 53-week period is significantly affecting our Q2 sales and earnings compared to the prior year Q2. Last year our second quarter ended on July 29 and the very next week, the first week of Q3, our back-to-school sales accelerated significantly.

Due to the calendar shift in 2018, our second quarter will end on August 4, thereby pulling in those back-to-school sales into the second quarter this year and out of Q3. If the 2017 calendar was restated to reflect the 2018 ending dates, Q2 sales last year would increase by \$23 million in the quarter. While we expect the low to mid-single digit increase in our comparable store sales in Q2 due to the calendar shift, we expect total sales to increase in the low-teens.

Shifting to promotional back-to-school sales into Q2 will have a negative effect on our merchandise margin but should create significant leverage on our buying, distribution and occupancy expenses leading to a 50 basis point to 80 basis point increase in our gross profit margin. The shift will also result in a high-single digit increase in our SG&A dollar spent compared to Q2 last year, but will still be leveraged against the higher sales base.

This concludes our financial review. Now, I'd like to open up the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And we'll go first to Mitch Kummetz with Pivotal Research.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Yeah. Thanks for taking my questions. I guess I had a few. Cliff, let's start with you. The athletic business continues to trend well. I think you said it was up low-singles on the quarter or delta – I thought it was up low-singles. Could you just talk a little bit about the benefit that you're seeing from better access to athletic brands? I know Adidas in particular is focusing more on the family channel. I suspect Puma is doing the same. To what extent, are you benefiting from that? And at some point, do you lap that? And when you get to that point, does that become kind of an issue for you guys or no?

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

Mitch, it's a great question, but we've seen this trend up at least for the last two, maybe even three years. And I keep getting – we keep getting exactly that question is what happens when you lap it, and the category continues to get stronger. That changes brand to brand. And we don't talk about brands on the call, but it does change brand to brand. But the top four brands within the athletic world for us anyway are all positive and continue to be positive.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Got it. And then, Kerry, on the guidance I think you said for Q2, if I heard you correctly, a low to mid-single digit comp, which is stronger than the comp you just posted and also kind of better than your full year outlook. Is there something that you're seeing in the quarter already or kind of something baked into your outlook to suggest an acceleration in the comp for Q2?

W. Kerry Jackson

Senior Executive Vice President - Chief Operating and Financial Officer and Treasurer, Shoe Carnival, Inc.

A

Well, as Cliff said in his remarks that we saw our spring seasonal products accelerate at the end of the quarter when it warmed up and we have seen continued into May and we're taking into account what probably was some sales shift because of weather from the seasonal products into the second quarter.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Okay. And then lastly on the full year guide, it looks like the high end of the sales range came down a few million, the EPS went up, I'm guessing the EPS went up partly due to the gross margin benefit you get from closing five fewer stores. I would have thought that that would also help on the sales lines. So, is there something else happening on the sales line that is offsetting that or how do you just sort of reconcile those pieces?

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

Mitch, I'll jump in and I'll let Kerry finish. But on the sales line, when you close stores, the sales accelerate, but you have to clear through all the inventory.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

That's right.

Q

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

We made the decision to not close those stores. We really had to lower the sales volume for those five stores. So that's part of the reason why we brought sales down or lower the top end of the guidance. Kerry?

A

W. Kerry Jackson

Senior Executive Vice President - Chief Operating and Financial Officer and Treasurer, Shoe Carnival, Inc.

[indiscernible] (00:21:33) it was just some fine-tuning based on what we saw coming out of Q1 in expectations for the rest of the year. But you're right on the increase in the EPS, because we're closing fewer stores and not liquidating those margins, we're able to – we'll have better margins, plus we're not accelerating expenses for the store closings into the quarter so that will help us also and that was attributable – help attribute to the increase in EPS along with the stronger margins and the...

A

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Got it.

Q

W. Kerry Jackson

Senior Executive Vice President - Chief Operating and Financial Officer and Treasurer, Shoe Carnival, Inc.

...strong margins in the first quarter.

A

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Okay, guys. Thanks. Good luck.

Q

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Thanks.

A

Operator: We'll go next to Sam Poser with Susquehanna.

Renato Basanta

Analyst, Susquehanna Financial Group LLLP

Hey. Good evening, guys. This is actually Renato Basanta on for Sam. How's it going?

Q

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Good, Renato. How are you doing?

A

Renato Basanta

Analyst, Susquehanna Financial Group LLLP

Q

Good. Good. So I guess my first question. So I guess how should we be thinking about the cadence of comps I guess for the balance of the year beyond 2Q? 3Q was very strong last year I think partly because of the hurricanes and then the later start to back-to-school. So just trying to get a better feel for the puts and takes here, just anything we should be thinking about in terms of back-to-school shifts this year, anything else that would affect that cadence?

W. Kerry Jackson

Senior Executive Vice President - Chief Operating and Financial Officer and Treasurer, Shoe Carnival, Inc.

A

Well, on a comp basis, comp store sales basis, we report the equivalent is weak. So, you're not going to have shifts for that because – for back-to-school, et cetera because of that. From a tax-free standpoint, it's all marrying up. That's the primary shift we'd have that might cause that to move.

We had guided for the year low-single digits and that was – every quarter, it was similar to that on a low-single digit basis. And like I said a moment ago, we were a little on the low end on our expectations on comps in Q1 because of the seasonal products not selling till the end of the quarter and we pick that up in the Q2. But generally, it's low singles for the year for each quarter.

Renato Basanta

Analyst, Susquehanna Financial Group LLLP

Q

Okay, that's helpful. And then you're closing fewer stores than expected. Can you just talk a little bit about how you're planning these closures versus the last year, more in terms of – any color on how efficient really you can be in clearing that inventory, given some of your improvements in e-commerce and then maybe some learnings from last year?

W. Kerry Jackson

Senior Executive Vice President - Chief Operating and Financial Officer and Treasurer, Shoe Carnival, Inc.

A

Well, in all honesty, liquidating inventory on a store is not an easy process. You have to force it out the door. You've taken basically a complete turn of inventory and pushing it out in half the time you would normally do. So, you're going to take some hits on margins. We did have some learnings from last year about markdown cadences that we think is going to help. But from a standpoint of how many stores we're liquidating this year compared to last year, that's where we're seeing the large hit.

Last year in Q4, we closed 16 stores, but seven of those stores we didn't liquidate to the walls. We ended up transferring some of that out to replenish some of our hurricane stores that were affected when we lost the inventory, if you remember. This year, all stores that we plan – the 20 to 25 stores we planned on closing were going to be forced to liquidate all that inventory. So, it's going to be a larger hit to margin this year than it was last year.

Renato Basanta

Analyst, Susquehanna Financial Group LLLP

Q

Okay. That's helpful. And then I guess just last one for me. As we look out to 2019, are you seeing – it seems like there's a potential for you guys to really reaccelerate store growth. What are you seeing in terms of store economics, rents, et cetera that potentially give you greater confidence in getting that store growth number back up again after the slowdown this year?

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

Renato. Right now, we have nothing in the pipeline for 2019. It doesn't mean that we won't have any new stores in the pipeline. We're waiting for the shakeouts. There are still closures going on all around us. They had – our team just got back literally, just got back from the biggest real estate show of the year in Las Vegas, and the ICSC. And we plan on meeting with them next week to discuss what they found out there.

But one of the reasons we slowed our growth down is that rents were just getting outrageous and landlords were not feeling the pain of all the store closures that we were seeing around us. So we wanted to give that an opportunity to shake out. And we'll be a lot smarter on that once we get to debrief our real estate team next week.

Renato Basanta

Analyst, Susquehanna Financial Group LLLP

Q

Okay. Thanks, guys. Very helpful. Good luck.

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

Thank you.

Operator: We'll go next to Christopher Svezia with Wedbush Securities.

Paul Nawalan

Analyst, Wedbush Securities, Inc.

Q

Hi. This is actually Paul Nawalan on for Chris. Hi, everyone. Congratulations on the quarter. I just have a few questions. In terms of the fiscal year outlook and forgive me if you might have touched on this outside of 2Q, what color could you provide as to gross margin and SG&A? And then secondly, how do you feel about inventory in the channel overall and if you could provide any color on how you might be planning boots for this fall? Thank you.

W. Kerry Jackson

Senior Executive Vice President - Chief Operating and Financial Officer and Treasurer, Shoe Carnival, Inc.

A

I'll take your first part and let Cliff finish up with the last two. From a standpoint of gross margin for the year, we expect our gross profit margin to be – our merchandise margin to be flat to down slightly. We expect to leverage our buying, distribution and occupancy cost for the year, which will lead to a slight increase in our gross profit margin. We expect to deleverage our SG&A slightly, but overall our operating margin should increase a little.

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

And from an inventory perspective, I think you asked about our inventory level and that of our – the rest of the channel. We really don't comment on the rest of the channel. I'll tell you that I believe personally that the family footwear channel is the best managed footwear channel out there. And I am not going to comment on their inventory levels, but I think it suffices to say that most of the family footwear leadership is very concentrated on having the right levels of inventory.

From a boot perspective, we really don't like to comment this early on boots for competitive reasons, but we do expect to see a slight increase in the boot category as we move through fall.

W. Kerry Jackson

Senior Executive Vice President - Chief Operating and Financial Officer and Treasurer, Shoe Carnival, Inc.

One clarification I'd like to make on the earnings outlook for the year, that was against adjusted earnings from last year. If you remember, we had several adjustments that we are using for adjusting that with the basis that usually compare against our expectations for 2018.

Paul Nawalan

Analyst, Wedbush Securities, Inc.

Great. Thank you very much.

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Thank you.

Operator: And we'll go next to Greg Pendy with Sidoti.

Gregory R. Pendy

Analyst, Sidoti & Co. LLC

Hey, guys. Thanks for taking my question. I just wanted to – just get a real quick on BD&O. You said, I think, Kerry, it was \$1.5 million in occupancy decrease for the quarter. And just given your outlook for comps and you think you can leverage BD&O for the year, if I'm not mistaken, you've typically needed about a 2% to 3% comp historically. Is it the store closings that's probably bringing that closer to the 2% range?

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Yes, it is. The stores we've been closing have been lower productivity stores. And some of the larger hits to the occupancy side were in prior years to the compares. So therefore, in 2018, we're seeing the reduction, not only reduction in total occupancy cost because of store closings, but we're able to leverage it a little bit easier because those were the inefficient stores from an occupancy standpoint.

Gregory R. Pendy

Analyst, Sidoti & Co. LLC

Got it. That's helpful. Thanks a lot.

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Thank you.

Operator: [Operator Instruction] And we'll go next to Steven Martin with Slater.

Steven L. Martin

Managing Member, Slater Capital Management LLC

Hi, guys.

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Hey, Steve.

A

Steven L. Martin

Managing Member, Slater Capital Management LLC

So, Kerry, I ask you this almost every quarter. Can you give us the going forward share count for both outstanding and for fully diluted calculation, assuming you don't purchase any more shares?

Q

W. Kerry Jackson

Senior Executive Vice President - Chief Operating and Financial Officer and Treasurer, Shoe Carnival, Inc.

Well, we haven't been giving it that way, Steve, but we've been saying it's built into our guidance. So I'll give you based on what we've purchased and expect to purchase and we plan through the year. We're expecting our share count – fully diluted share count at the end of the year to be just slightly over 15 million shares. And I don't have the total outstanding with me.

A

Steven L. Martin

Managing Member, Slater Capital Management LLC

Okay. Given that your second quarter is going to end a week later and include a solid August week of back-to-school, should we anticipate that the inventory at the end of Q2 will be down again on a year-over-year basis?

Q

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Steve, this is Cliff. I believe that inventory will be slightly down on a year-over-year basis, but we had three very large weeks of back-to-school and – so they're not going to be down a great deal.

A

Steven L. Martin

Managing Member, Slater Capital Management LLC

Okay.

Q

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Week one, by far, is the largest week, but not by far excuse me – week one and two are fairly equal in size. And then, week three is slightly lower.

A

Steven L. Martin

Managing Member, Slater Capital Management LLC

Okay. Can you comment – well, let me – are there – the store reductions, the 20 to 25 you've given us, is there a possibility that will go down further based on current negotiations or is that a solid number from there?

Q

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

We are working on that number every day and there wouldn't be anything that would please me more than take that number down. So for today, that's a solid number. I'm not going to tell you that's going to be the number by the end of the year.

A

Steven L. Martin

Managing Member, Slater Capital Management LLC

Okay.

Q

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

I would like for that number to be lower, but, Steve, I only know what I know today, right?

A

Steven L. Martin

Managing Member, Slater Capital Management LLC

Right, right. I just meant, is it too late? Like, if a landlord came to you tomorrow and said, okay, we're going to cave and give you some extra rent reduction. Is it too late to keep that store open, because you haven't ordered for it or is it still...

Q

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Not yet, that's a great – Steve, that's a great question, because it does – there will come a time when it will be too late, but it's not there yet.

A

Steven L. Martin

Managing Member, Slater Capital Management LLC

Not there yet. Okay. Can you talk about the status of Puerto Rico in this whole issue of stores? I know it's a favorite subject of yours.

Q

W. Kerry Jackson

Senior Executive Vice President - Chief Operating and Financial Officer and Treasurer, Shoe Carnival, Inc.

Well, we had nine stores before the hurricane, one store was permanently damaged and it will not reopen. We have two more stores that haven't reopened at this point in time, and the landlords haven't turned those over to us yet. They're anticipating doing that later this year.

A

Steven L. Martin

Managing Member, Slater Capital Management LLC

And Puerto Rico, as a market, how is that doing, because I know you've been under – you've been little disappointed? And now that there's a little less competition, is it a better market?

Q

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

No, we don't normally talk about market-to-market on the call. But you know it's just like any market where you have that kind of unfortunate devastation that they had. There's always a bump in sales afterwards. It remains to be seen at this point how long that's going to last. But for right now, as in the any market that suffers the kind of devastation that they suffered, those are positive.

A

Steven L. Martin

Managing Member, Slater Capital Management LLC

Q

Okay. And one last one related to drop-ship. You said you'll have that up and running by the end of the second quarter. Does that mean so you'll have it going for back-to-school?

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

Yeah. My goal is to have it done before this call and as you and I discussed earlier. But it's a complicated system that requires a lot of vendor cooperation and input. So we will have it up and running before back-to-school.

Steven L. Martin

Managing Member, Slater Capital Management LLC

Q

Got you.

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

[ph] Not normal though (00:36:06) to say anything...

Steven L. Martin

Managing Member, Slater Capital Management LLC

Q

Got you. Thanks a lot.

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

...but we will have to run it before back-to-school.

W. Kerry Jackson

Senior Executive Vice President - Chief Operating and Financial Officer and Treasurer, Shoe Carnival, Inc.

A

Or there'll be a lower head count.

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

We will...

W. Kerry Jackson

Senior Executive Vice President - Chief Operating and Financial Officer and Treasurer, Shoe Carnival, Inc.

A

[ph] Same here (00:36:17). I've got your number on the shares outstanding.

Steven L. Martin

Managing Member, Slater Capital Management LLC

Q

Okay. Go ahead.

W. Kerry Jackson

Senior Executive Vice President - Chief Operating and Financial Officer and Treasurer, Shoe Carnival, Inc.

A

16,076,000.

Steven L. Martin

Managing Member, Slater Capital Management LLC

All right. And that's as of quarter end?

Q

W. Kerry Jackson

Senior Executive Vice President - Chief Operating and Financial Officer and Treasurer, Shoe Carnival, Inc.

As of quarter end.

A

Steven L. Martin

Managing Member, Slater Capital Management LLC

Okay. Thank you very much.

Q

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Thank you, Steve.

A

Operator: At this time, I'll hand the call back over to Cliff Sifford for any additional or closing remarks.

Clifton E. Sifford

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Thank you for participating in today. We look forward to talking to you about our second quarter results in August. I hope each of you have an enjoyable Memorial Day weekend. Thank you.

Operator: That does conclude today's conference. We thank you for your participation.

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