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Shoe Carnival, Inc. (SCVL)

Q4 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to Shoe Carnival Fourth 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 comments. Mr. Sifford, you may begin.

Clifton E. Sifford

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

Thank you and welcome to Shoe Carnival's fourth quarter and fiscal year-end 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 annual operating highlights and our fourth quarter sales results, as well as an overview of our fiscal year 2019 guidance. Kerry will review the financial results in more detail, then we'll open up the call to take your questions.

Shoe Carnival finished the year strong, with a fourth quarter comparable store sales increase of 4.7%. For the fiscal year, comparable store sales increased 4.3% and we achieved record net sales of \$1.030 billion, an increase of \$10.5 million compared to fiscal 2017, which was ahead of our expectations. Our record sales were obtained through double-digit growth in digital sales and low-single-digit increase in our brick-and-mortar stores. We also enjoyed increases in all major product categories in each geographic region throughout our chain. We reported record earnings of \$2.45 per diluted share, a 64% increase over 2017's adjusted earnings of \$1.49 a share and we surpassed the high end of our guidance of \$2.43.

Our merchant team continues to do a great job of identifying new trends, categories and key items of the season. They didn't buy these items with a sufficient depth so that we can take advantage of key shopping periods like back-to-school and holiday. We're also pleased with our inventory position at fiscal year-end, which was up 1.6% on a per-store basis. Inventory in our seasonal boot categories ended the year down double digits.

In addition, we returned a record \$50 million to our shareholders during the year through the share repurchases and dividends. This represents a 47% increase versus last year. We ended the year with \$67 million in cash and cash equivalents and no debt. Since 2015, we have returned over \$155 million to our shareholders through stock buybacks and dividends.

Our Board of Directors and management team remain committed to return excess capital to our shareholders. We are pleased our Board of Directors in December authorized a \$50 million share repurchase program for 2019. Our customer-centric initiatives, trend-right product selection of the best brands and the latest fashion along with our exciting and unique in-store environment continues to make Shoe Carnival the store of choice for moderately priced footwear for the entire family.

2018 was a year of innovation for Shoe Carnival. We began the process of implementing our industry leading CRM initiative. This initiative gave us an unparalleled view into our shopper data, allowing us to more effectively communicate with our customer on a one-to-one basis. We are gaining tremendous insights to our customers' overall shopping journeys of where, when, and how they shop our stores either online or brick-and-mortar.

In addition, we are gaining a better understanding of the brands and categories by store location that our customers count on from Shoe Carnival. In addition, in July, we began the initial phase of this program to a relaunch of our new and improved loyalty program, Shoe Perks. We added a new Gold level of rewards for our most active customers. On average, Gold level shoppers shop more often than non-Gold members and spend approximately 20% more than non-Gold numbers each time they shop.

Once we relaunched our new and improved program, they responded very positively to our targeted messaging. Our August comparable store sales increase of 6.5% on top of the 7% comp store increase the previous August was proof that we were getting our back-to-school message directly to our high-value customers. This positive sales trend continued throughout the second half of the year as each month posted positive comparable store sales increases, which led to a second half comparable store sales increase of 4.6%.

The exciting news here is that the official launch of our CRM initiative is still months away. As I've stated previously, there'll be quick wins along this journey. We will be able to show positive results through better technology and a deeper understanding of who our customer is and how they respond to our message.

Before I walk you through our initiatives for 2019, I want to give a brief overview of our fourth quarter results for 2018. I'm pleased that our comparable store sales increased each quarter during the fiscal year. This demonstrates the execution and strength of our ongoing strategic initiatives. For the quarter, traffic declined low

single digits, average transaction was flat, while conversion and units per transaction increased low single digits. We ended the fourth quarter with 397 stores in 35 states and Puerto Rico. During the quarter, we closed five underperforming stores for a total of 14 store closures for the year.

Focusing on our fourth quarter comparable store sales by department, our women's non-athletic department ended the quarter up mid-single digits on a comparable basis. As expected, women's boots were the key driver of this increase. The strong demand in boots produced a 90 basis point improvement in merchandise margin for the category, while driving year-end per-door inventories down double digits versus last year.

The men's non-athletic department ended the quarter up high-single digits on a comparable basis. We're very pleased with the performance of men's seasonal boots, which posted a low-double-digit comparable store sales increase and a 160 basis point improvement in merchandise margin for the category.

Children's shoes were up mid-single digits on a comparable basis. Children's athletic increased mid-single digits, while non-athletic was up high single digits. Children's boots increased double digits on a comparable store basis, while margin for the category increased 170 basis points.

Adult athletic was up low single digits on a comparable basis. While the basketball category remained soft, we continue to be happy with the performance of the casual and running categories. Throughout 2018, we analyzed customer data, allowing us to identify each customer's unique identity. Our analyst team provided rich data to our marketing, merchant, and real estate teams.

As we look forward into 2019, these teams will now utilize this data to better merchandise each individual store, market to specific customers, and find new store opportunities. As we move this project forward, we will leverage customer insights to better serve our customers and further differentiate the Shoe Carnival brand down to the individual store level. The opportunity for growth is great as [ph] we set in (00:09:28) our high-value customers through the data we have and then target a broader market of customers who have the same characteristics.

Also in 2018, we had strengthened our executive management team with the addition of Mark Worden, Executive Vice President, Chief Marketing and Strategy Officer. We immediately began the process of working through a comprehensive five-year strategy. Our goals, which include building an incomparable brand, a unique customer experience, the industry's best people and unmatched capabilities throughout our customers' journey, will be critical as we look towards becoming a multibillion-dollar brand.

Our first imperative was to hire and on-board a world-class marketing agency of record for creative strategy in all media. We accomplished this imperative in 2018 with hiring of McCann Detroit. Their job is to help Shoe Carnival become the most distinctive and compelling brand in the family footwear channel. Their vast and successful experience they bring to this important initiative include great companies such as General Motors, Chick-fil-A and Pure Michigan.

We believe by combining the expertise of McCann with our unique and entertaining store environment and our customer-centric capabilities, Shoe Carnival will continue to grow our comparable store sales and, once again, expand store count. Over the past two years, we are focused our real estate operations and merchandise teams on improving the metrics of stores that are not performing to our expectations.

I have been very pleased with the success that these teams have delivered so far. When we entered into the 2018 fiscal year, we've had identified 30 to 35 stores that we were going to close by year-end. Through the hard

work and dedication of these teams, we reduced the number of store closures from the high end of our expectation of 35 down to 14.

I am happy with the performance of the stores [ph] we are able to save (00:11:42) and I believe it shows that our Shoe Carnival team working as one can and will deliver positive results. For 2019, we have identified between 7 and 10 stores for closure and for the immediate future, there are no new stores we plan to open. However, with the great success we have had so far with the implementation of our CRM program, we have identified marketplaces where our core customer lives and we will be searching those markets for new store opportunities. If those opportunities present themselves for 2019 opening, we will react. We have established a goal to open 10 new stores in 2020, utilizing the customer data we are collecting through our customer analytic team.

I am pleased with all of the decisive strategic actions our teams have taken to further differentiate Shoe Carnival for future growth. The investments we've made in technology and customer engagements are incredibly important as we take Shoe Carnival to the next level of growth with today's consumer. We accomplished quite a bit in fiscal 2018 and believe our efforts will continue to yield benefits in fiscal 2019.

Finally, I'd like to give a little color on our expectations for fiscal 2019. Since Easter shifted out of March and into April, I will not give quarter-to-date sales results. However, as I said earlier, I'm proud of the way our buyers continue to identify key items and categories. I feel very confident that we are well positioned with the right product and the appropriate depth to continue to drive comparable store sales increases.

As you all know, we plan sales conservatively and then react quickly to any emerging trend, which allows us to manage inventory and control margins. Our marketing plans are coming together nicely and we continue to expect great things through our CRM initiative. Based on this, we continue to expect fiscal 2019 net sales to be in the range of \$1.035 billion to \$1.043 billion, with comparable store sales up low-single digits. We expect earnings per diluted share to be in the range of \$2.60 to \$2.70.

This 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 & Treasurer, Shoe Carnival, Inc.

Thank you, Cliff. We've included in our earnings release today a GAAP to non-GAAP reconciliation table, illustrating and describing the adjustments that only affect the prior year fourth quarter and prior year full year earnings. Fiscal 2018 Q4 and fiscal year earnings have not been adjusted and are presented on a GAAP basis. Where appropriate I will compare this year's earnings results first to the adjusted results from last year and then follow up the prior year GAAP results.

In addition, Q4 of last year and the full fiscal year of 2017 included an additional week of activity compared to Q4 and full fiscal year in 2018. Where it adds value to comparing this year's results with last year, I will identify the additional week of activity included in the prior year. We reported net sales of \$234.7 million for the 13-week fourth quarter of fiscal 2018 compared to the net sales of \$243.2 million for the 14-week fourth quarter of 2017.

Comparable store sales for the 13-week period ended February 2, 2019 increased 4.7% compared to the 13-week period ended February 3, 2018. The change in our fourth quarter net sales included increase in sales of \$9.6 million in comparable stores and \$2.8 million in new stores, offset by decreases in sales from closed stores of \$5.7 million and a \$15.2 million due to the net effect of one less week in the quarter.

Our gross profit margin for the quarter increased 0.9% to 28.4% compared to adjusted gross profit margin of 27.5% in the fourth quarter last year. The merchandise margin increased 0.5%, while our buying, distribution and occupancy expenses decreased 0.4% as a percentage of sales. The increase in the merchandise margin was primarily driven by our non-athletic categories during the quarter. The decrease in our buying, distribution and occupancy expense as a percentage of sales was due to lower occupancy expense due to stores that have closed and a leveraging effect of the comparable store sales increase for the quarter.

The extra week in the prior year fourth quarter had minimal effect on the margin comparison between this year's Q4 and last year's. On a GAAP basis, our gross profit margin in Q4 last year was 28.9% and included a \$3.3 million gain on insurance proceeds related to hurricane affected stores.

SG&A expenses increased \$446,000 in the fourth quarter of fiscal 2018 to \$65.2 million compared to adjusted SG&A expenses of \$64.7 million in the fourth quarter last year. An increase in incentive and equity compensation of \$3 million in Q4 was partially offset by the reduction in expense of having one less week in Q4 of this year. As a percentage of net sales, these expenses increased to 27.8% compared to 26.6% in the fourth quarter of fiscal 2017.

On a GAAP basis, SG&A in the fourth quarter last year was \$70 million or 28.8% of sales. Included in the GAAP SG&A expense, but not in the adjusted SG&A expense in Q4 2017, are non-recurring charges, including non-cash impairment charges of \$3.4 million for 30 underperforming stores and a \$1.9 million increase in stock-based compensation expense due to the enactment of the U.S. Tax Cuts and Jobs Act of 2017 and its impact on the anticipated vesting of the company's outstanding performance-based restricted stock.

Store closing costs included in both cost of sales and SG&A in Q4 this year were \$487,000 compared to an adjusted \$901,000 in Q4 last year. On a GAAP basis, store closing costs in Q4 last year were \$4.3 million and included non-cash impairment charges of \$3.4 million. There were no non-cash impairment charges incurred in Q4 this year. We closed 5 stores in Q4 this year compared to closing 16 stores in Q4 last year.

Adjusted income tax expense increased \$23,000 in Q4 this year to \$456,000. On a GAAP basis, income tax expense decreased \$3.6 million. Income tax expense in Q4 last year included a \$4.4 million charge related to the remeasurement of the company's deferred taxes due to the change in the tax laws. The adjusted income tax expense excludes this additional charge to the income tax expense and excludes the tax effect of the gain on insurance proceeds, non-cash impairment charges and additional stock-based compensation expense I referenced earlier. We expect our effective tax rate in fiscal 2019 to be approximately 25% compared to 24.3% for fiscal 2018.

Net income for Q4 this year was \$1.4 million or \$0.09 per diluted share, compared to adjusted net income in Q4 last year of \$1.7 million or \$0.11 per diluted share. Weighted average shares outstanding in Q4 this year decreased [ph] 593,000 (00:20:31) shares or 3.7%. Total shares outstanding at the end of Q4 this year were 15,335,000. On a GAAP basis, including the effect of the previously discussed one-time and unusual items, we incurred a net loss in Q4 last year of \$3.9 million or \$0.24 per diluted share.

Now, turning to our cash position and information affecting cash flow. We ended the year with \$67 million in cash and cash equivalents and no cash borrowings on our \$50 million line of credit. Cash generated from operations after purchases of property and equipment was \$67 million. In fiscal 2018, we repurchased 1.5 million shares of common stock at a total cost of \$46 million. During Q4, we repurchased approximately 197,000 shares at a total cost of \$7 million. We currently have \$50 million available under our share repurchase authorization, which runs through December 31, 2019.

In addition, for fiscal 2018, we returned \$4.8 million to shareholders through our quarterly cash dividend. Depreciation expense was \$5.3 million in Q4 this year and \$21.8 million for fiscal 2018. Capital expenditures for fiscal 2018 were \$7.4 million, with \$2.5 million used for new stores, relocations, and remodels. Leasing centers from landlords were \$634,000 for the year. For fiscal 2019, capital expenditures are expected to be up to \$22 million. Approximately \$9 million is to be used for relocation or remodeling at certain of our existing stores.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We will now take our first question from Sam Poser of Susquehanna. Please go ahead.

Samuel Poser

Analyst, Susquehanna International Group, LLP

Good afternoon, gentlemen. How are you?

Q

Clifton E. Sifford

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

How are you doing, Sam? We're doing fine. Thanks.

A

Samuel Poser

Analyst, Susquehanna International Group, LLP

Good. Hey, Cliff.

Q

Clifton E. Sifford

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

Yes. We hear you fine. Can you hear us?

A

Samuel Poser

Analyst, Susquehanna International Group, LLP

I can hear you guys. Thank you. Real quick, I know you're not guiding to the quarter because of the shift of Easter, but there is a lot of talk about sort of the impact of the shifting tax refunds and everything. How did that to this point net out for you? I mean, like as expected, did it net – I mean, could you give us some color there because there are lot of moving parts and we've heard a lot about that?

Q

Clifton E. Sifford

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

There are quite a bit of moving parts, Sam, as you mentioned, the fact that Easter moved into April, there is a big shift. But I will tell you that – what I am prepared to tell you is that we weren't disappointed in the sales for February and they came in a little below our expectations. However, we are pleased so far with our sales for March, they're running ahead of our plan.

A

Samuel Poser

Analyst, Susquehanna International Group, LLP

Okay. And that's even with Easter being this coming Sunday last year. So...

Q

Clifton E. Sifford

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

We've planned for that, Sam. So, that's built into the plan.

A

Samuel Poser

Analyst, Susquehanna International Group, LLP

So, let me ask you this in general, have you caught up to your plan with you combining the two months thus far?

Q

Clifton E. Sifford

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

Like I said in my prepared remarks, we're not going to tell you where we are for the quarter. I gave you a bit more information I should have telling you we were not pleased with our February results.

A

W. Kerry Jackson

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

Sam, one thing we will say additionally is that we took into account February and our expectation for March and the rest of the quarter when we evaluated our previously stated guidance and we chose to remain with our previous guidance after evaluating where we stood for the quarter.

A

Samuel Poser

Analyst, Susquehanna International Group, LLP

All right. Thank you very much. And then, since the close of the quarter – I know it's going to come out in the K, but since the close of the quarter, have you used any of that \$50 million or have you been...

Q

[indiscernible] (00:25:32)

W. Kerry Jackson

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

No. As stated in my remarks that we still have \$50 million available, we've been in a close period since the end of the fiscal year since we hadn't released earnings at that point of time. So, we had not purchased any stock at that point.

A

Samuel Poser

Analyst, Susquehanna International Group, LLP

Okay. And then, Cliff, can you talk about how you're viewing sort of both in the short and long term the impact of Payless going away?

Q

Clifton E. Sifford

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

Well, Sam, any time a competitor goes away is we have to look at it – from a human standpoint [indiscernible] (00:26:16) for the employees, but from a business standpoint, I think it's positive for us and others inside of the

A

family channel. The great part about Shoe Carnival is that we carry a broad range of product in a broad range of price points. So, I think there is a benefit to be had for Shoe Carnival with Payless going away.

Samuel Poser

Analyst, Susquehanna International Group, LLP

Q

And then, two other things. Kerry, can you give – or either one of you, can you give us the comps by month for the fourth quarter? And, Cliff, can you talk about the athletic business? In the quarter, it sounds like it sort of eked out, but can you – two of your larger brands had sort of been okay at best last year, could you give us any color on any changes you may or may not be seeing there as well? Thanks.

W. Kerry Jackson

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

A

Sam, we saw November being up high singles and we saw December and January both up low singles.

Clifton E. Sifford

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

A

And, Sam, as you know, we don't talk about brands, that's a policy we've had longstanding. I will tell you that our athletic business was positive for the quarter. I'm very pleased with where we came out in the fourth quarter with athletic.

Samuel Poser

Analyst, Susquehanna International Group, LLP

Q

And then, as far as like mix of athletics, is it so important to you just in the general sense of looking ahead to this year? How do you feel about that?

Clifton E. Sifford

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

A

We're still positive about athletic. In fact, we plan our athletic business up low to low-single digits. We consider low-single digits anything under 3.5%.

Samuel Poser

Analyst, Susquehanna International Group, LLP

Q

Okay. Well, thanks very much. I'll let somebody else go. Have a continued success.

Clifton E. Sifford

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

A

All right. Thanks.

Operator: We will now take our next question from Greg Pendy of Sidoti. Please go ahead.

Gregory R. Pendy

Analyst, Sidoti & Co. LLC

Q

Hey, guys. Thanks for taking my question. Just wanted to dig into that goal, I think you mentioned of 10 new stores in 2020, you mentioned as you gather data on the CRM. But could you also share with us a little bit on what you're maybe seeing on the real estate lease environment out there? And is that something you think will

potentially get more favorable as some of the competitors go away and just kind of how you're weighing opportunities from a cost perspective? Thanks.

Clifton E. Sifford

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

A

Greg, we're certainly hoping that the lease opportunities open up from a – gets a little better from a costing standpoint, but the fact is we're really early in the process of looking for sites for 2020. We've been at this now for about three or four months and I can't really give any more guidance than that. I will tell you this that we're looking in our current footprint, we're really not looking to expand outside of the current footprint. For competitive reasons, I won't name the markets, but there are markets that we're in that we believe we have opportunity to grow store base and that's where we're concentrating our efforts.

Gregory R. Pendy

Analyst, Sidoti & Co. LLC

Q

That's helpful. And then, can you just kind of give us a little bit of color on what you're seeing in the Puerto Rico stores right now?

Clifton E. Sifford

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

A

Puerto Rico as a territory is performing positively. However, today, there are, I believe, five stores opened whereas a year ago there were only two or three stores opened from that had recovered. There are six stores opened today in Puerto Rico. Year ago, there were three or four. I can't remember exactly. So, the sales that we're experiencing in Puerto Rico are spread over more stores than a year ago. So, our comps are not positive there. And we find that happens sometimes after a devastating hurricane like Puerto Rico had where the stores come back very strong for a year and then as the stores are working to open up immediately, come online that the sales spread out. But that makes sense.

Gregory R. Pendy

Analyst, Sidoti & Co. LLC

Q

Yes, that's helpful. Thanks a lot.

Operator: We will now take our next question from Chris Svezia of Wedbush. Please go ahead.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

Good afternoon, gentlemen, and congratulations on a great close to the year.

W. Kerry Jackson

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

A

Thanks.

Clifton E. Sifford

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

A

Thank you.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

You're welcome. So, I got a bunch of questions. Sorry. So, first...

Clifton E. Sifford

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

A

I hope we have a bunch of answers.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

The first is just cadence comp Q1 last year, can you just walk through, Kerry, February, March, April, what they were?

W. Kerry Jackson

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

A

March and April is really hard to describe because Easter moves around so much. So, we had a soft February or similar to this year where it was cold and it felt like the tax checks were a little delayed. We were down just into mid-single digits in February and then the combined March/April was up just into mid-single digits which gave us a slight comp increase of 1.3% for the quarter. But it was back loaded significantly. When it warmed up, we saw our sales take off and people start responding. We saw some really good sandal sales when that actually occurred.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

Okay. Got it. When you think about low-single-digit comp, is that basically the function every quarter? Is that fair to say?

W. Kerry Jackson

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

A

It is. They're built into our guidance. Yes.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

Okay. Got it. And I know it's going to be a little bit hard to calculate this, but I would assume normally March is a bigger month than February, is that fair to say?

W. Kerry Jackson

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

A

Yeah. Because March is a five-week month, so typically it is larger.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

Okay. Got it. Okay, good. I'm curious, Kerry, just on cadence or any color – so just for the year in terms of your expectations, I mean, it's basically driven largely by the buyback or maybe any color you can give as it pertains to the gross margin and SG&A, how we should think about those as a percent of sales as it pertains to wherever you want to be, the midpoint, the high end of your guidance, just any color about that.

W. Kerry Jackson

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

Are you talking about a little color around our guidance for fiscal 2019?

A

Christopher Svezia

Analyst, Wedbush Securities, Inc.

For the year as it pertains to gross margin and SG&A, yes.

Q

W. Kerry Jackson

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

Okay. So, built into the high end of our expectations, we're looking at a flat gross profit margin. And built into that is both the idea that merchandise margin is relatively flat and the buying, distribution and occupancy is relatively flat. Remember, in 2018, in Q2 this year, we recorded \$1 million benefit from two stores in Puerto Rico that didn't open, and that reduced our occupancy costs in Q2 of this year and, therefore, for the full year of 2018 that we're not seeing a repeat of in 2019. That was not included in the adjusted numbers I discussed today.

So, that's a little bit of headwinds for leveraging BD&O in 2019. We expect to see some leverage on our SG&A line, particularly related to a decrease in our incentive and equity comp because of the great performance we had in 2019, we had above-normal expense in those areas, we expect those return back to more normalized expense, and that will create some leverage.

A

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Okay. And final two things, do you anticipate earnings growth every quarter? I know there was a lot of certainly benefit in the first half of the year due to the calendar shift, just how should we think about that? I know Q2 is a pretty high hurdle, but any color you could give there?

Q

Clifton E. Sifford

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

We do expect a low-single-digit increase each quarter of the year. We got tremendous plans for our back-to-school time period. And so, even though – last year, Chris, you will remember, every conference call we kept reminding everyone that we had – goal against the 7% increase in August and then we topped it with a 6.5% increase. So, I believe that our concept, it is great when it comes to back-to-school time period. So, yes, we have planned our sales up each individual quarter.

A

W. Kerry Jackson

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

I was actually talking more specifically about earnings, Cliff, not so much sales, but just from an earnings perspective how we think about each quarter...

A

Clifton E. Sifford

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

Well, then I will turn that over to my financial expert, Kerry.

A

W. Kerry Jackson

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

A

Well, we really need to see how the rest of this quarter ends up. But aside from this quarter, we're looking for increases in our EPS in each of the additional quarters. Depending on the rebound and the continuation of the positive sales we're seeing in March, it could be closer to a flattish quarter in Q1.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

Okay. So, Q1 is the only one that could be sort of flattish, outside of that, you got growth every quarter?

W. Kerry Jackson

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

A

Correct. That's what we're guiding to. That's the high end of our guidance.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

All right. Got it. All right. I'll get back in the queue. Thanks very much guys, and all the best.

Clifton E. Sifford

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

A

Thank you, Chris.

Operator: [Operator Instructions] We will now take our next question from Steven Martin of Slater.

Steven L. Martin

President, Slater Capital Management LLC

Q

Hi, guys, and congratulations. It's a shame you weren't able to buy back stock during this depressed period.

Clifton E. Sifford

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

A

Thank you.

Steven L. Martin

President, Slater Capital Management LLC

Q

Cliff, I know it frustrated you. Kerry, your guidance...

Clifton E. Sifford

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

A

Well...

Steven L. Martin

President, Slater Capital Management LLC

Q

Go ahead.

Clifton E. Sifford

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

No, you go ahead.

A

Steven L. Martin

President, Slater Capital Management LLC

Kerry, your guidance is based on what share count?

Q

W. Kerry Jackson

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

For next year, we're looking at diluted shares outstanding for the full year of just over 15 million shares.

A

Steven L. Martin

President, Slater Capital Management LLC

So, you're assuming basically no incremental buyback in that?

Q

W. Kerry Jackson

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

We factor in a certain amount. We don't typically factor in initially because we don't know what the stock price is going to be throughout the year, but we do plan a certain amount of buyback of the total \$50 million.

A

Steven L. Martin

President, Slater Capital Management LLC

Got you. You commented on Payless earlier, but you've also had Sears close or not close, but get out of the footwear and apparel business. You've had more J.C. Penney closings, you've had Shopko close, you've had maybe the second half of Bon-Ton and now rumored Modell's. Can you talk about any impacts you've seen or you expect to see positive or negative?

Q

Clifton E. Sifford

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

I'm not sure how to measure it unless we talk to you about stores on a location-by-location basis. But I can tell you that that 4.3% increase for the quarter and – our sales were up mid-single digits for the quarter and mid-single digits for the year. And some of that had to be the fact that there was less competition. So, I don't want to get down to the specific area or geographic region where our competition is closing, but we've always talked about the fact that the U.S. is over-retailed and today it's less so.

A

Steven L. Martin

President, Slater Capital Management LLC

Okay. You said you were very anticipatory of back-to-school, can you tell us what about the second half of the year and back-to-school has you enthused?

Q

Clifton E. Sifford

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

Well, back-to-school, as you know, is our strongest time period and we plan for it. We plan for it all year, back-to-school and holiday are very, very important to us. We spend the entire year, I'm very excited about the product

A

we're seeing. I don't want to give too much insight because just like we listen to our competitors' calls, our competitors listen to ours. So, I'd just tell you that we're excited about what we've seen and the plans that we've put in place.

Steven L. Martin

President, Slater Capital Management LLC

Q

Okay. And some of your other – besides Puerto Rico you had some newer markets that were underperforming that had gotten a little better. Can you talk about some of your other markets?

Clifton E. Sifford

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

A

I'm not sure, but specifically which markets you're talking?

Steven L. Martin

President, Slater Capital Management LLC

Q

Philadelphia, Detroit, Houston.

Clifton E. Sifford

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

A

Again, Steve, I don't really want to get down on a conference call talking about individual markets. It really sends a signal to the people we compete with every day.

Steven L. Martin

President, Slater Capital Management LLC

Q

All right. Not a problem. Thanks a lot.

Clifton E. Sifford

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

A

All right. Thanks, Steve.

Operator: We will now take our next question from Chris Svezia of Wedbush.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

Hey, I just have one follow-up here. Just on the CRM initiatives just real quick, I know you said, Cliff, that you got a couple more months to go before you really roll it out, but clearly you're seeing things in the data and mining through the data that you're already utilizing in terms of your marketing, probably your inventory purchases and things of that nature. Just maybe talk about when – it's just right before back-to-school you really start to lever some of that benefit from the CRM initiative in totality or just sort of how do I think about that.

Clifton E. Sifford

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

A

Chris, I'm going to answer that two ways. Our business really took off in August of last year when we relaunched our Shoe Perks program. Our customers are very excited about what they saw and excited about what we were

doing and how we were messaging them, and that took off and continued throughout the fall season. So, that gave us great confidence that we were headed down the right path.

So, with CRM, we're getting improvements almost on a monthly basis. The entire program won't be done until the second half of the year, sometime after back-to-school, but prior to fourth quarter. That's our goal at this point. But we're seeing the benefit from what we're learning and how the customers are reacting to the messaging that we're using to know the marketing initiatives that we've utilized under this program. So, we expect to continue to see benefit from CRM, even though the entire program won't launch until the fourth quarter.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. Sounds good. I appreciate it and continued success.

Clifton E. Sifford
President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

All right. Thank you.

Operator: There are no further questions. At this time, I would now like to hand the call back to Mr. Cliff Sifford for any additional or closing remarks.

Clifton E. Sifford
President, Chief Executive Officer & Director, Shoe Carnival, Inc.

I just want to say thank you for participating on our call today and we look forward to speaking to you again in May. Thank you again.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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