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# Shoe Carnival, Inc. (SCVL)

Q1 2019 Earnings Call


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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good afternoon and welcome to Shoe Carnival's First Quarter Fiscal 2019 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 earning 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 first quarter 2019 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 a review of our updated fiscal 2019 outlook. Kerry will discuss the financial results in more detail then we'll open up the call and take your questions.


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As most of you that have followed Shoe Carnival over the years know, like other retailers, our first-quarter sales represent a shift in seasonal footwear from cold-weather boots to more sandalized warm-weather categories. In addition, the timing and size of tax refunds can also impact our rate of growth in the first quarter. This spring, we experienced a very cold and wet start to the quarter, and a delay in tax refunds, which resulted in high single-digit comparable store sales decrease in February. That said, once our customers had a combination of warmer weather and tax refunds, we experienced some very positive changes in sales for March and April. We believe the best way to view the Easter selling season is to look at the sales for March and April combined. With that in mind, March and April comparable store sales increased 3.6%, which compares to the first quarter's comp sales results, which were essentially flat.

Traffic for the quarter declined mid-single-digit, while conversion increased low-single-digit and the average dollar per transaction were down low-single-digit. Average units per transaction were up low-single-digits. We ended the quarter with inventories up 0.3% on a per-store basis. Our merchants did a great job of controlling the seasonal inventory, which allowed us to keep merchandise margins relatively flat, even though we were more aggressive in athletics due to the sales softness in February.

BD&O increased 50 basis points as a percentage of net sales and SG&A deleveraged by 15 basis points. As a result, operating income decreased by 58 basis points. EPS for the quarter was $0.91 per diluted share, an increase of approximately 9.6%, compared to quarter-one last year. Kerry will give you more detail on our financials in his prepared remarks.

Focusing on our first-quarter comparable store sales by department, women's non-athletic was up low-single-digits on a comparable basis. Women's boots and women's sandals were up mid-single-digits on a comparable basis, at higher margins, compared to quarter-one last year. For the combined Easter time period of March and April, women's non-athletic was up mid-single digits on a comparable basis, due to the strong performance of sandalized footwear.

The men's non-athletic department continued its strong performance, posting a mid-single-digit comparable store sales increase. Just like the women's non-athletic department, increases were driven primarily from the sandal and boot categories. For the combined Easter time period, men's non-athletic produced a high-single-digit comparable store sales increase.

The children's shoes department was down slightly for the quarter on a comparable basis. We produced a mid-single digit increase in non-athletic and a low-single-digit decrease in athletic. For the combined Easter time period, children's shoes produced a mid-single-digit comparable store sales increase with non-athletic up double-digit and athletic up mid-single digits. The non-athletic was also down low-mid-single digits on a comparable basis. The lower comp sales in athletic footwear were primarily as a result of the February tax season. On a combined basis for March and April, adult athletic footwear posted a slightly positive comparable store sales increase.

We believe that based on our sales results for the combined months of March and April, that we are well-positioned to take advantage of the key family footwear trends our merchants have identified as we progress through the remainder of the year. We ended the first quarter with 395 stores in 35 states and Puerto Rico. During the quarter, we closed two stores and we had no new store openings.

Our CRM strategy continues to move forward nicely. We expect our initial implementation to be complete by the end of the calendar year. We remain convinced that our holistic approach to CRM will be a sales driver and will


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allow us to better align our real estate team to identify specific market areas where our typical shopper lives. Over the past year, we have spent a great deal of time analyzing our systems and processes, to make sure we have all the capabilities to achieve our aggressive growth plans for the next three to five years. In addition to building a world-class CRM capability, which will drive sales in both brick-and-mortar and online, we are now in the process of improving our capabilities in both supply chain and order-management, through investments in software and analytical tools. Retail is ever-changing and Shoe Carnival will continue to make the necessary investments in technology and customer engagement to take Shoe Carnival to the next level of growth.

Finally, I'd like to give an update on our financial expectations for fiscal 2019. As we gain additional capabilities through our CRM implementation process, we are experiencing some quick wins that are promising. I have been pleased with the way we are personalizing and customizing our messages and the positive result we have seen from this initiative. Our goal, from the beginning of our CRM process, has been to reactivate any loyalty member that may have lapsed, while finding and retaining new Shoe Carnival loyalists. In addition, as we look toward back-to-school and holiday, there will be 1,700 [ph] fewer (00:07:50) stores to buy back-to-school shoes and cold-weather boots in the markets we serve.

We have confidence that Shoe Carnival is poised to win our share of those shoppers looking for a new home that offers a large selection of footwear for the family, at compelling values. With that in mind, combined with our CRM early successes and continuing activation, we have confidence in the remainder of the year. We continue to expect net sales in the range of $1.035 billion to $1.043 billion with comparable stores sales up low-single-digits. At the same time, we're raising our earnings outlook to reflect a first-quarter tax benefit and now expect fiscal year 2019 EPS to be in the range of $2.73 to $2.83.

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 & Treasurer, Shoe Carnival, Inc.*

Thank you, Cliff. Our net sales for the first quarter ended May 4, 2019, decreased $3.6 million to $253.8 million, compared to $257.4 million for the first quarter ended May 5, 2018. Comparable store sales decreased 0.2% in the first quarter of fiscal 2019. The $3.6 million decrease in net sales was primarily due to a $3.9 million loss in sales from the 16 stores closed since the beginning of fiscal 2018 and $639,000 decrease in comparable store sales. These decreases were partially offset by an increase of $883,000 from the three new stores opened since the beginning of fiscal 2018.

Our gross profit margin for the quarter was 29.6%, compared to 30.0% in the first quarter of last year. This was driven by a 10-basis-point increase in our merchandise margin, offset by a 50-basis-point increase in our buying, distribution and occupancy expense as a percentage of sales. We deleveraged our occupancy expense for the quarter due to higher expense primarily from higher property tax as a [ph] CAM (00:10:12) adjustment pass-through from the landlords, and a reduction in sales for the quarter. SG&A expenses decreased $479,000 in the first quarter of fiscal 2019 to $59.5 million. As a percentage of sales, these expenses increased to 23.4%, compared to the 23.3% in the first quarter last year.

Strong expense controls during the quarter and a $1-million reduction in expense for stores that have closed, resulted in a decrease in SG&A expense for the quarter. Other significant changes in SG&A for the quarter included decreases in incentive compensation and depreciation and increases in wages and earnings on our retirement savings plan.


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The effective income tax rate for the first quarter of fiscal 2019 was 12.8%, compared to 25.0% for the same period in last year. For the full year of fiscal 2019, we expect our tax rate to be approximately 21.0%, compared to 24.3% last year. The reduction in the tax rate for the quarter and year was the result of a $1.9 million dollar tax benefit related to divesting of equity-based compensation in Q1 this year.

Net income for the first quarter of fiscal 2019 increased $918,000 over Q1 last year, to $13.9 million. Diluted EPS increased $0.08 to $0.91 per diluted share, which includes the $0.13 benefit from the vesting of equity-based compensation during the quarter. For the first quarter of last year, we reported net earnings at $13.0 million or $0.83 per diluted share.

Now turning our balance sheet information affecting cash flow, we adopted ASC 842, the new lease accounting standard, in the first quarter of fiscal 2019. This new guidance requires us to recognize our operating leases on the balance sheet in the form of right-to-use assets and lease liabilities. Based on our assessment of the guidance, we recorded lease liabilities of $251.7 million upon adoption, based on the present value of the remaining lease payments using an average incremental borrowing rate of approximately 5%. We recorded a corresponding right-to-use asset on the balance sheet for the same amount, reduced by accrued rent and amortized deferred lease incentives of $30.6 million. Additionally, we recorded a $3.5 million reduction [indiscernible] (00:12:59) retained earnings to reduce lease-related capitalized costs, which no longer qualify for capitalization under the new standard.

In the first quarter of this year, we repurchased 411,168 shares of our common stock, at a total cost of $14.0 million. $36 million remained available at the end of the quarter under our $50 million share repurchase authorization. Depreciation expense was $4.3 million in the first quarter. Depreciation expense is expected to be approximately $17 million for the full fiscal year.

Capital expenditures for fiscal 2019, including actual expenditures during the first quarter are expected to be between $20 million and $22 million, with approximately $9 million to be used for relocations, remodels in one new store, and $7 million for our corporate headquarters which we repurchased in the first – which we purchased in the first quarter this year. The remaining capital expenditures are expected to be incurred from various other store improvements, normal asset replacement activities, and continued investment in technology, including investment in upgrades to our supply chain.

My final comment today will focus on adding a little color on our earnings expectations for the second quarter this year. We expect Q2 comp store sales to increase low-single-digit. While we expect our merchandise margin to be relatively flat compared to Q2 last year, we do expect to moderately deleverage our buying, distribution and occupancy expense. This deleveraging will be more than offset by the leveraging of our SG&A expense, resulting in a small increase in our operating margin. The deleveraging of occupancy cost is a result of recording in Q2 last year, a $1-million lease termination benefit for two stores in Puerto Rico, where the landlord cannot make and check contractually required hurricane repairs within the allotted time. The leveraging of our SG&A is due to expected lower equity and incentive compensation during Q2 this year. Based on our strong earnings in Q2 last year, we incurred an increase in the incentive and equity compensation expense of $4.8 million. In Q2 of this year, we're expecting a more typical level of expense.

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


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# QUESTION AND ANSWER SECTION

**Operator**: Thank you. At this time, we will open the floor for questions. [Operator Instructions] We'll take our first question from Mitch Kummetz with Pivotal Research Group.

Mitch Kummetz
*Analyst, Pivotal Research Group*

Q

Yeah, thanks for taking my questions. I got a bunch, I'll ask a few and then jump back in. Just on the quarter itself, I think when you guys reported the last quarter, you were pretty far into Q1. I know March was trending at a plan at that point, February obviously was bad. I'm just curious was – did April miss your expectations?

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

A

April was positive because Easter moved into April. So April was positive, so it did not miss our expectations...

[indiscernible] (00:16:48)

Mitch Kummetz
*Analyst, Pivotal Research Group*

Q

Okay, I guess I'm surprised you were guiding to a low single-digit comp at that point, unless...

[indiscernible] (00:16:53)

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

A

Mitch, I believe what we said was that we were guiding for the year at a low single-digit comp, and I believe Kerry even mentioned the fact that it would be loaded toward the back-half of the year.

Mitch Kummetz
*Analyst, Pivotal Research Group*

Q

Got it. Can you say what Q2-to-date looks like?

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

A

No. We're not going to talk about Q2 today.

Mitch Kummetz
*Analyst, Pivotal Research Group*

Q

Okay, fair enough. And then on sandals, I know Q2 is a big sandal quarter. Can you remind us what percent of sales it is in Q2? I want to say it's – maybe in that 20% range and how you guys are planning to...

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

A


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It is between that 20% and 25% range. We'll get it for you and report that in just a second, but it is between that 20% and 25%.

Mitch Kummetz
*Analyst, Pivotal Research Group*
Q

And it was a really strong sandal quarter last year; I'm just wondering how you're thinking about lapping that. When you – you're guiding to a low single-digit comp on Q2, are you expecting more of that to be coming from the athletic side as you start to flow in some of those new Nike products, or are you thinking that you can comp on sandals?

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

Well, we believe we can comp on sandals, that's number one, and without giving you a quarter-to-date or even a season-to-date, we're not unhappy with our sandal performance. We do, however, expect, and we don't talk about – really don't want to get into brands, but we are excited about the product that we see coming in from back-to-school, which has begun, just slightly, to flow in, and will be coming in truly in earnest, in June and early July. So, very excited about that and excited about what we've received so far.

Mitch Kummetz
*Analyst, Pivotal Research Group*
Q

Okay that sounds good. I'll jump back in the queue. Thanks.

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

All right. Thank you.

**Operator**: Thank you. We'll take our next question from Greg Pendy of Sidoti.

Gregory R. Pendy
*Analyst, Sidoti & Co. LLC*
Q

Hi, guys. Thanks for taking my question. I just – I guess maybe, bigger picture, you mentioned earlier 1,700 fewer stores. Can you kind of put that into context? I think maybe two years back there was a big wave of store closings; I mean, is this sort of the biggest wave you've seen or is this maybe going to be similar to maybe what you experienced in 2017 in terms of a reduction of competition out there in the markets you serve?

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

Basically, what we've seen over the past several years has been a reduction in department stores closing and that was a – that was a big news in 2017 and 2018. This happens – the reason I bring this up and the reason I believe this is compelling, is the fact that this is a shoe retailer, which was, at one-time, the largest shoe retailer in America, closing stores, and we have 1,700 of them are within a market area where we have a store.

Gregory R. Pendy
*Analyst, Sidoti & Co. LLC*
Q


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And then I guess just in 2017 and 2018, you guys had mentioned, maybe the [ph] competent (00:20:07) – are the impacts from liquidation going on? Is that something that you're thinking about in Q2, just from competitors closing stores?

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

A

We are thinking about that in Q2, and that's one of the reasons I – we really didn't want to talk about quarter-to-date. The key retailer that is closing 1,700 stores at our market area will be gone by the end of June. That means 1,700 fewer stores to shop at, come July.

Gregory R. Pendy
*Analyst, Sidoti & Co. LLC*

Q

Yeah. That's helpful.

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

A

They're closing the stores throughout the quarter, consolidating products into other stores, and so we see – we see that 1,700 as a building process. If that makes sense.

Gregory R. Pendy
*Analyst, Sidoti & Co. LLC*

Q

Yeah, that makes sense. That helps a lot. And is that something you're thinking about in terms of – you know, I know right now your target is 2020, I think, for returning to store growth, but are you kind of looking for real estate opportunities actively now? I know you're probably waiting for the CRM completion or more data to come from that, but are you – you mentioned the real estate team kind of combining with the CRM; is that something that's taking place now?

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

A

We – you know, we have asked our real estate team to find us sites, but unfortunately, if they were to find a site today – any site they find today and going forward, most likely won't open until 2020. So, unfortunately – well, I'm [indiscernible] (00:21:49) say unfortunately; it was a strategic move to put off store openings until we got our CRM program implemented, and we felt like we're far enough along now and we have some incredible learnings on our customers to-date that we can start looking for store sites. So you'll see growth out of us from a store – new store perspective beginning next year.

Gregory R. Pendy
*Analyst, Sidoti & Co. LLC*

Q

That's helpful. Thanks a lot guys.

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

A

Thank you.

**Operator**: Thank you. We'll take our next question from Chris Svezia of Wedbush.


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Christopher Svezia
*Analyst, Wedbush Securities, Inc.*
Q

Hey, guys. Good afternoon. I guess, first, I just want to start, just what was the comp cadence second quarter last year by month, can you just remind us what that is – was?

W. Kerry Jackson
*Senior Executive Vice President, Chief Operating and Financial Officer & Treasurer, Shoe Carnival, Inc.*
A

So last year, we had a low-teens increase in May, a high-single in June and a low-single in July.

Christopher Svezia
*Analyst, Wedbush Securities, Inc.*
Q

And did liquidations at all have any negative effect or are you seeing any negative effect as Payless pulls out of – you know, starts to liquidate some of these stores? Are you seeing anything in these trading areas that are affecting your business or no, you're not?

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

Where – we have stores that compete with Payless head-on within a short distance. Our comps there are – have been affected slightly. And conversely, stores where Payless are further than five miles, six miles, comps have not been affected as much. In fact, it would have been a low single-digit comp.

Christopher Svezia
*Analyst, Wedbush Securities, Inc.*
Q

Okay. With regard to, I just want to go back to the athletic comment for February; that was just a function of rebate tax, not having money to spend, therefore the biggest area of that pressure with your athletic business, some of your premium-priced athletic business, so that urban shopper, is that how I characterize that for just February? And that is improve...

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

Yeah, it did improve as we move through the quarter, but the number-one reason, and you're on it, the number-one reason was that checks did not get out. We're affected – our customer is moderate income and they are definitely affected by tax refund checks at the beginning of the year.

Christopher Svezia
*Analyst, Wedbush Securities, Inc.*
Q

And then just refer to Kerry, I just want to go back to your Q2 – your Q2, I guess, guidance, I'm not really sure, just some of the comments you're throwing out there, so just to kind of, nail you down a little bit, if possible, so I understand that you're expecting gross margin net to be down, merchandise margin up, BD&O more than offsetting it down, are we talking similar to Q1 down, and it's sort of kind of 40 basis points, or, can you add some color about that? And then I was going to ask about similar observation about SG&A?

W. Kerry Jackson
*Senior Executive Vice President, Chief Operating and Financial Officer & Treasurer, Shoe Carnival, Inc.*
A


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That would be about right because it's primarily like – I was trying to give some qualitative guidance for the quarter to help see the quarter as we're seeing it, and with a relatively flat merchandise margin, with that $1 million benefit that we received in Q2 last year which reduced the occupancy cost, if you calculate that, you'll find that's about that 40-basis-point reduction that we saw. So it'll be similar to Q1, but we had such an increase in equity and incentive compensation in Q2 last year, which we don't expect to repeat. We expect to see some leverage in excess of the de-leveraging of the BD&O so that we have an increase in our operating margin for the quarter.

Christopher Svezia
*Analyst, Wedbush Securities, Inc.*

Q

Okay. So, operating margin could be somewhere up 20 basis points to 40 basis points; am I in the right domain when I think about that?

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

A

Yeah, it's probably closer to the lower end of your scale.

Christopher Svezia
*Analyst, Wedbush Securities, Inc.*

Q

Okay. All right, got it. And then just, last few things, just with regards to your confidence as you go into back-to-school, you've got some big numbers as you go up against – you've got better athletic product from some of the major vendors, you're getting – seeing better access, you might be doing some things on loyalty, so I guess just stepping back, your confidence level in the ability to hit at least low single-digit comp again to the July-August timeframe, just kind of maybe walk through confidence level around that, if you could.

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

A

Well we're in a process now of putting together our marketing efforts -finalizing, not putting together, but finalizing our marketing efforts. I can – best way to answer that question, Chris, without telling everybody on the call exactly what we're doing is that we're – we have high confidence that we can achieve the numbers that we have to go against for back-to-school.

Christopher Svezia
*Analyst, Wedbush Securities, Inc.*

Q

Okay. I'll get back in the queue. Thanks guys, congrats.

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

A

All right. Thanks.

**Operator**: Thank you. We'll take our next question from Sam Poser of Susquehanna.

Samuel Poser
*Analyst, Susquehanna International Group, LLP*

Q

Good afternoon. So I just want to – for the full year – thank you for taking my question. For the full year, are we looking – what are we looking for gross margin to add first of all? I got a whole bunch of questions, so, I mean, on


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the – as a – is that going to be – are you planning to – are you planning for gross margin to be flat or up a little bit for the full year?

**W. Kerry Jackson**
*Senior Executive Vice President, Chief Operating and Financial Officer & Treasurer, Shoe Carnival, Inc.*
A

We expect it to be flat to slightly down.

**Samuel Poser**
*Analyst, Susquehanna International Group, LLP*
Q

Okay. And then SG&A, I mean, you spent – your SG&A was actually down in dollars in Q1, it's going to be down in dollars again in Q2; is that something that again should continue for the full year to be down, likely with Q2 being down more than any other quarter? Is that – am I thinking about that right?

**W. Kerry Jackson**
*Senior Executive Vice President, Chief Operating and Financial Officer & Treasurer, Shoe Carnival, Inc.*
A

Well, for the full year, we expect it to be slightly down in dollars, which will create some – at the high end of our guidance, will create nice leverage on our SG&A line.

**Samuel Poser**
*Analyst, Susquehanna International Group, LLP*
Q

To what degree – I mean like – so what kind of leverage for the full year are you thinking about on SG&A, sort of in the midpoint?

**W. Kerry Jackson**
*Senior Executive Vice President, Chief Operating and Financial Officer & Treasurer, Shoe Carnival, Inc.*
A

30 to 40 basis points.

**Samuel Poser**
*Analyst, Susquehanna International Group, LLP*
Q

At the midpoint. Okay. And then – the – so we don't have this problem again...

**W. Kerry Jackson**
*Senior Executive Vice President, Chief Operating and Financial Officer & Treasurer, Shoe Carnival, Inc.*
A

I'll just say, Sam, I'm sorry, at the high end of that, that wouldn't be midpoint; at the high end of our guidance, that's where we're – that's the leverage you might expect.

**Samuel Poser**
*Analyst, Susquehanna International Group, LLP*
Q

Okay. So high end is 30 bps or 40 bps of – all right. So we avoid the problem with that one-time event. I mean, shouldn't we just adjust our – I mean, next year your tax rate for Q1 is going to be, you know, in that 25% range again, and then you're going have to explain why your earnings are down; why not just call it $0.78, $0.79 and move on? I know we can do that, but the problem is, you know, your real tax rate was just under 25%, I mean, why not just call it what it is and move forward, and then just maintain your full-year guidance on an non-GAAP basis?


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

A

So, Sam, this isn't a one-time issue. Any time there's a vesting, there will be – there was an accounting change a couple of years ago, that said [indiscernible] (00:29:55) these changes for tax purposes, it won't run through retained earnings, but it will run through your income statement. Up till now, we haven't had anything that was a magnitude that would bring – that would bring it too forward and bring attention to it. In Q1 next year, we're – we would expect to be vesting some more stock. We don't think it will be at the same magnitude. It also depends on what the stock price is, as to what level of benefit or expense gets recorded in the quarter. We'll have more vestings for the rest of the year, but they'll be immaterial, so we really haven't broken them out, but next year, I'd expect it to be material, but not to the level it is this year.

Samuel Poser
*Analyst, Susquehanna International Group, LLP*

Q

So I mean, so we can always count on the tax rate in the first quarter theoretically being under – like you take the midpoint, you call the tax rate 18%, 19% in Q1 as a number to work with, that captures some of that and it could be a little higher, could be a little lower, is that the way to think about it because of the vesting?

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

A

Well, the problem with that, Sam, is, the tax benefit or expense, it could be – it depends on – you compare your grant price against the vest price, and if there is an increase in price over time, and depending on the magnitude of that increase, that would create a benefit. If the grant price is higher than the vest price, then you have to record additional expense. Now...

Samuel Poser
*Analyst, Susquehanna International Group, LLP*

Q

But I mean – yeah, I understand. Maybe just...

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

A

What we see...

Samuel Poser
*Analyst, Susquehanna International Group, LLP*

Q

...this is an – this is something that's totally out of your control. It's abnormal, it isn't part of ongoing operations, or anything. It's just your tax rate was better so you've got a $0.13 benefit, and you're going to raise your guidance on that, and then next year, assuming whatever happens, higher or lower, I mean, it should just be – shouldn't we just normalize it at the normalized tax rate and call it a day? Because, I mean, it also happened with the deleverage in the BD&O because of the extra $1 million. You had this $1 million one-time last year that nobody took out. So, I mean, shouldn't we sort of be carving around all this and not – and so we can really easily look at apples to apples, and then understand that the tax rate – the run rate, the tax rate is 25%, and it's 12% – it's 21.4% only because of the 12.8% in the first quarter?

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

A


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Sam we'll let you make that judgment as – how you want to characterize it, and you're right it's – what I'd caution, it's not as simplistic as you may be laying out because the expense side of it, which is part of it, is included in the SG&A side of it, so it's not like it's all by itself. It's matching up to an expense, but it may not be in the same quarter. So, over time, the two pair up against each other. So, we chose not to show it as adjusted earnings partly due to that reason and we'll let the analyst characterize it as they see fit.

Samuel Poser
*Analyst, Susquehanna International Group, LLP*
Q

Okay and then lastly, with – Cliff with Payless, you commented that your athletic business was tough, but your non-athletic businesses really held in nicely, they didn't get pounded that much in – relative to athletic in February, and they seem to outperform going forward. Payless is athletic business, branded athletic is non-existent, so you're really competing with them on more fashion, especially women's fashion product. I mean, how much headwind could this really – are we at the beginning of this, in the middle of this, how much headwind could this really provide and how much headwind are you building into your second-quarter guidance or your full-year guidance for that matter?

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

We've taken that into consideration for our full-year guidance, and let me answer your last question first. Your first question – right now, they're still, believe it or not, taking shoes. Now there are – people tell us that they're going to – they're closing stores at the end of June, but they're still taking in shoes. So, my guess is that – and by the way, Sam, they're not as promotional today as I think they'll be in another two to three weeks, but they are going to sell a lot of pairs between now and the end of June.

Samuel Poser
*Analyst, Susquehanna International Group, LLP*
Q

And so – but I mean – and you're guiding with low singles, that means 1% or better...

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

We're guiding with low singles for the year, Sam. It's important that you...

Samuel Poser
*Analyst, Susquehanna International Group, LLP*
Q

[indiscernible] (00:34:37) but did you expect – I think Kerry said low singles in the second quarter too...

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

Yes, but that's due to the bounce that we expect to get at back-to-school for July, when there aren't – there is no – there are 1,700 less of those stores...

Samuel Poser
*Analyst, Susquehanna International Group, LLP*
Q

So theoretically....


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

A

...along with a better product.

Samuel Poser
*Analyst, Susquehanna International Group, LLP*

Q

...the low-single digits is – you're really saying the low end of low-single digits in second quarter...

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

A

That's correct.

Samuel Poser
*Analyst, Susquehanna International Group, LLP*

Q

...because of that. Okay.

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

A

And Mitch asked about sandals, and I didn't have a number in front of us, but sandals represent about 14% of our total company's volume and about 35% of our total women's business. So, we expect that business to continue to stay strong in the second quarter.

Samuel Poser
*Analyst, Susquehanna International Group, LLP*

Q

All right. Thank you very much and good luck.

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

A

Thank you.

**Operator**: Thank you. We'll take our next question from Mitch Kummetz of Pivotal Research Group.

Mitch Kummetz
*Analyst, Pivotal Research Group*

Q

Yeah. Thanks for letting me take my follow-up questions. Kerry, just on the guide – on the earnings guide, it sounds like you're just – you're taking the $0.13 tax benefit and you're flowing that through to year-end. I'm curious, how you're thinking about the share count; you guys bought back a lot of stock in the quarter; has your view on a weighted average diluted share count changed for the year?

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

A

We're projecting a slightly lower number than we did at the beginning of the year.


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**Mitch Kummetz**
*Analyst, Pivotal Research Group*
Q

Okay. And then, I don't know, can you quantify that? I don't know what slightly lower means...

**W. Kerry Jackson**
*Senior Executive Vice President, Chief Operating and Financial Officer & Treasurer, Shoe Carnival, Inc.*
A

No, because...

**Mitch Kummetz**
*Analyst, Pivotal Research Group*
Q

...another 100,000 shares or?

**W. Kerry Jackson**
*Senior Executive Vice President, Chief Operating and Financial Officer & Treasurer, Shoe Carnival, Inc.*
A

No. And the reason I want to be cautious about it is because we had an estimate of what we're going to buy for the year, and we accelerated and bought more than we had anticipated, because we saw opportunity in Q1 and that may – we may choose to limit our purchase later in the year and stay within the original guidance. So, all you're doing is shifting it between quarters.

**Mitch Kummetz**
*Analyst, Pivotal Research Group*
Q

Right.

**W. Kerry Jackson**
*Senior Executive Vice President, Chief Operating and Financial Officer & Treasurer, Shoe Carnival, Inc.*
A

Now, if we buy to the level that we had originally expected in Q2, Q3 and Q4, as we put it in our guidance, we had overachieved what we had expected, so that's what is left to be seen, so I really don't want to – it's fair to say that our original guidance was around 15 million shares outstanding, now we're expecting slightly lower than that, but it's left to be seen how much slightly will be.

**Mitch Kummetz**
*Analyst, Pivotal Research Group*
Q

Got it. Cliff, on the back-half of the year, I mean, I know you guys are really bullish on the – well, I think you're bullish on the athletic business, starting for back-to-school, given some of the product that you're following. I'm curious, how you're thinking about the non-athletic side, particularly boots. I'm wondering, in order to fund some of the increases you might be expecting in athletic, are you pulling some dollars away from boots or are you finding some other categories that just – whether it's dress or something like that, that hasn't been working well for you and taking the dollars from there to go to athletic or...?

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

You're right that we – we expect our – to see a nice back-to-school from an athletic standpoint due to some of our top vendors, and what they've shown us. And as you know, I don't really talk about specific vendors on the call. As we leave August and move into September and October, especially in the October timeframe, we absolutely expect that boots will start to accelerate and it's going to come out of a lot of different categories. You mentioned


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one, and that is true, and we expect to see an acceleration of boots throughout the latter part of the second – excuse me, third quarter and fourth quarter.

---

Mitch Kummetz
*Analyst, Pivotal Research Group*

Q

And then just my last question is, Cliff, any thoughts on tariffs and your exposure there? I don't know what your – what conversations you're having with your vendors, I don't know how much you're bought for the back-half of the year, I don't know how you're thinking about your ability to raise prices; anything on tariffs would be helpful.

---

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

A

Well, I don't know if you've heard of the organization called FDRA, but they represent the footwear business in Washington, and I happen to be on the board of that along with other retailers and wholesalers, and we are working very hard to try to make sure these tariffs don't go through. We are – I don't know if you know this, Mitch, but we are already the highest-tariffed...

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Mitch Kummetz
*Analyst, Pivotal Research Group*

Q

Yeah.

---

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

A

...apparel industry and it just makes absolutely no sense. But, we can't just sit back and hope that it doesn't happen, so we are making changes, we are – we have begun to move product away from China and then to other countries in Southeast Asia, and you know, the good news is that the – much of our athletic product has already been moved out of there by the brands. So it – we've taken a very proactive approach through FDRA and through our vendor community. So, we can't just sit back and hope that it doesn't happen.

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Mitch Kummetz
*Analyst, Pivotal Research Group*

Q

Got it. All right. Thanks guys. Good luck.

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

A

Thank you.

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**Operator**: Thank you. We'll take our next question from Chris Svezia of Wedbush.

And Mr. Svezia, your line is open.

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Christopher Svezia
*Analyst, Wedbush Securities, Inc.*

Q

Yeah. Sorry about that. Thanks for taking my follow-up. Just following up on Mitch's question, I'm just curious, how are you guys actually planning to do business? Just kind of given the performance last year, high inventories – inventory levels locked in kind of fashion versus cold weather or seasonal. Just any color you want to give about how you're thinking or planning about that business, maybe from a comp perspective or anything around that?


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

A

I really hesitate giving you a plan of how we're going to – where our increase is and where our inventory increase is. If I was just talking to you, talking to the Street, that's one thing, but I'm also talking to my competition. I really hate to give you that.

### Christopher Svezia
*Analyst, Wedbush Securities, Inc.*

Q

All right.

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

A

I'm going to pass.

### Christopher Svezia
*Analyst, Wedbush Securities, Inc.*

Q

All right, [indiscernible] (00:41:22) just on the supply chain order management, just maybe elaborate a little bit more on that? What are you doing, when does that take effect and just any color about that would be helpful? Sounds like something new, so I was just curious.

### W. Kerry Jackson
*Senior Executive Vice President, Chief Operating and Financial Officer & Treasurer, Shoe Carnival, Inc.*

A

Well, we've recognized that in order to achieve our long-term goals of accelerating our digital sales and beginning to become a growth company, we need to have a better supply chain system put in place and an order management system. So we're going to kick off our program in June, that will be a multi-year program that will basically replace many – our major components of our supply chain being our warehouse management system. We're going to bring in a more sophisticated transportation management system to help us control costs, and get our product to our distribution center in a more efficient manner, and get it into your stores more efficiently.

And we'll replace the order management system on top of that to give us greater functionality and to be able to leverage the cost better. As we accelerate those costs over time, we'll be able to show cost reductions by going to a new program. So we find it's really exciting, it's a long-term program, it's not going to yield dramatic benefits, if any, this year, but it will set the stage for some long-term growth with some world-class systems.

### Christopher Svezia
*Analyst, Wedbush Securities, Inc.*

Q

Got it. Thank you. And just last thing, just on – you didn't talk too much about SHOE PERKS customers, their purchasing habits, e-commerce, that kind of thing; any color about that?

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

A

No, we're very happy with our SHOE PERKS program. 72% of our first quarter sales came – the sales for our SHOE PERKS customer actually up mid-single-digits. Unfortunately, our non-member revenue fell, but we are – we continue to put a lot of emphasis on our stores and getting customers signed up. Our GOLD program is working very, very strong, and I'm excited about the growth we have there. So, real happy about what's going on with SHOE PERKS, even happier with how we've been able to – how we're taking that SHOE PERKS data and


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the customer data and we're building a CRM strategy around it, which is allowing us, Chris, to talk to the customer.

I mentioned it briefly in my prepared remarks, I talked with customers one-on-one, based on their shopping patterns and based on what they look to us for, and I'm very pleased with the way that is working.

---

Christopher Svezia
*Analyst, Wedbush Securities, Inc.*
Q

Okay. Thank you very much. All the best, guys.

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

Thank you.

---

**Operator**: Thank you. We'll take our next question from Sam Poser of Susquehanna.

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Samuel Poser
*Analyst, Susquehanna International Group, LLP*
Q

I've just one more. One, are you pulling orders forward into the second quarter with – due to the threat of the tariffs? And two, do you have any information on tax-free holidays and back-to-school thus far?

---

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

The answer to your first question is yes, we are, especially the price-sensitive product. We are pulling as much of that forward as possible. So, we've been working hard on that over the past several weeks. And tax-free holidays are pretty much comped this year versus last year. There's one very small market that went away, but overall, they are fairly comped.

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Samuel Poser
*Analyst, Susquehanna International Group, LLP*
Q

And then just to follow up on the inventory – on the pulling orders forward, so Kerry, how high – I mean, how far – I mean, how far up at the – I mean, we're going to expect to see high – elevated inventory levels for a good reason at the end of the quarter. To what degree do you think we're going to look at? I mean your inventories were down year-over-year in Q1, but that doesn't sound like that's going to happen in Q2.

---

W. Kerry Jackson
*Senior Executive Vice President, Chief Operating and Financial Officer & Treasurer, Shoe Carnival, Inc.*
A

It'll be up low single digits on a per-store basis, but to give a more specific answer, it's very difficult because we're still in the process of trying to see what we can do to move forward. So indeterminate about how it's – how much we're going to be able to do that.

---

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

And much of the product that we're moving forward, we're moving forward out of September and October and into August. So, that won't show up in the second quarter. I do fully expect that our inventory levels at the end of August would be higher than we had originally planned.


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Samuel Poser
*Analyst, Susquehanna International Group, LLP*

Q

But not at the end of July at the end of the quarter or...

[indiscernible] (00:46:14)

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

A

Part of the reason for that – okay. Thank you.

Samuel Poser
*Analyst, Susquehanna International Group, LLP*

Q

No, go ahead. Go ahead. Go ahead.

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

A

Well part of the reason for that, Sam, is that we build our inventories so dramatically for back-to-school that we really can't put a lot more product into our stores, obviously, [indiscernible] (00:46:35) hold some in our distribution center, but – by the way, the reason we call it a distribution center is because we don't hold a lot of product there. But – so, our goal right now is to move as much product as we can into August, before the before the tariffs hit.

Samuel Poser
*Analyst, Susquehanna International Group, LLP*

Q

If they hit; which we hope they don't.

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

A

That's correct.

Samuel Poser
*Analyst, Susquehanna International Group, LLP*

Q

Thank you.

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

A

Thank you.

**Operator**: And at this time, we have no further questions. I'll turn it back to speakers for closing remarks.

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

Okay. Thank you for joining us today and we hope that you all have a very enjoyable Memorial Day weekend. We look forward to talk to you about second quarter results in August.


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**Operator**: Thank you. Ladies and gentlemen, this concludes today's conference. You may now disconnect.

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