

21-Nov-2019

Shoe Carnival, Inc. (SCVL)

Q3 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to Shoe Carnival's Third Quarter Fiscal 2019 Earnings Conference Call. Today's conference is being recorded and 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 also be considered in conjunction with 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 would now like to turn the conference over to Mr. Cliff Sifford – excuse me Mr. Cliff Sifford, Vice Chairman and Chief Executive Officer of Shoe Carnival for opening comments. Mr. Sifford, you may begin.

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

Thank you, and welcome to Shoe Carnival's third quarter 2019 earnings conference call. Joining me on the call today is Mark Worden, President and Chief Customer Officer; and Kerry Jackson, Senior Executive Vice President, Chief Financial and Administrative Officer. On today's call, I'll provide a brief overview of our third quarter operating highlights and sales results as well as review our fiscal 2019 outlook. Mark will update you on the progress the progress around our customer centricity initiative, then Kerry will discuss the financial results in more detail. Then we'll open up the call to take your questions.

I'm pleased to report comparable store sales for the quarter increased 3.5% on top of the 4.5% increase for the third quarter last year. This increase was driven across all merchandise departments in both athletic and non-athletic categories and across all sales channels. Each month of the quarter delivered positive comparable results. We generated our 17th consecutive year of positive comps for the month of August, demonstrating that Shoe Carnival remains a store of choice for shoes during the back-to-school season. This year's August comp increase of 3.3% was on top of the 6.5% increase in August last year. Our customers trust us to have the latest trends from the best brands in depth throughout the year.

Our commitment to merchandising our stores based on the unique and differentiated customer demographics of each store has always been our focus. Now, with the initial implementation of our CRM program, we can customize our communication to each customer based on their individual shopping preferences. Mark will provide greater detail on this initiative in just a moment.

We ended the quarter with inventory up 1.4% per store – on a per store basis as our team continued to ship receipts earlier to avoid any possible future increase in tariffs. Our merchandise margin was up 50 basis points to last year. BD&O expenses decreased 20 basis points as a percentage of sales and SG&A was flat as a percentage of sales, compared to the third quarter last year. As a result, operating income increased by 70 basis points as a percentage of sales and EPS for the quarter increased 23.7% to \$0.94 per diluted share, the highest quarterly diluted EPS in the company's history. These positive results give us confidence to increase our fiscal year outlook.

Focusing on third quarter comparable store sales by department women's non-athletic was up mid-single digits on a comparable basis. We were pleased with the positive comp performance of women's dress shoes, which produced mid-single-digit sales gain and sport casuals, which produced a high-single-digit increase. And once the weather turned more seasonal, later in the quarter, our fashion boots generated positive results.

The men's non-athletic department continued to generate strong results posting a mid-single-digit comparable store sales increase. Our merchants have done an outstanding job of building our surplus for both everyday wear and work, furthering our goal of making Shoe Carnival a destination for men's footwear.

Shoe Carnival remains a go to store for children's shoes. The children's footwear department posted a mid-single-digit increase for the quarter on a comparable basis. The sales increase was broad based including both boys and girls product categories and both athletic and non-athletic departments. The adult athletics continues to be – there continues to be a shift from performance categories to more casual categories. Our merchant team has done a great job of recognizing this shift in preferences, resulting in slightly positive comparable store sales.

I would now like to give an update on our financial expectations for fiscal 2019. As I mentioned earlier, once the weather became more seasonal, we saw an acceleration in our seasonal boot categories across all departments and sales channels. Seasonal boots account for approximately 25% of our total footwear sales for the fourth quarter and we expect the positive trends that we have experienced since the arrival of cooler seasonal weather to continue through the balance of the fiscal year.

Based on our year-to-date results, we are raising and tightening our EPS guidance from a high of \$2.83 to a range of \$2.85 to \$2.89. This updated guidance represents an increase of 16% to 18%, compared to our actual EPS of \$2.45 for fiscal year 2018. In addition, we now expect total net sales for the full fiscal year to be in the range of \$1.033 billion to \$1.036 billion, which is at the high end of our previously stated guidance. Further, we continue to expect a low-single-digit comparable store sales increase for the year.

With that overview, I'd now like to turn the call over to Mark Worden. Mark?

Mark Jonathan Worden

President & Chief Customer Officer, Shoe Carnival, Inc.

Thank you, Cliff. It's a pleasure to be speaking with you on my first earnings call with Cliff and Kerry. I've enjoyed getting to meet many of you from the investment community since joining the company in 2018. Shoe Carnival has generated consistent results over several years. As Cliff mentioned, we deliver on everyday family footwear needs, and when consumers count on us most for seasonal or special occasions, we have what they're looking for. We believe this strong foundation with consumers is just the beginning.

Over the past year, our team has made significant progress on our long-term strategies. Our customer-centric organization is focused on delighting family channel shopper and creating sustainable long-term growth for our shareholders.

Today I'd like to share an update on four of our core strategic imperatives fueling our growth: first, CRM; second, brands; third, e-commerce; and fourth, on real estate. Over the past 15 months, we've shared our enthusiasm about the world-class CRM platform we are building and I'm excited to share that the CRM implementation phase has been completed ahead of schedule.

Our team has already begun to capture actionable insights and enhance value for our consumers. The new platform provides our marketing, merchandising, analytics and real estate teams with a holistic view of our customer shopping behaviors. This in turn helps us identify tomorrow's most valuable customers and deploy resources toward building long-lasting loyalty with them. A few early CRM wins include with new customer insights, we were able to build customer engagement plans that has grown our loyalty program membership 11% this year to over 23 million loyal members.

Our most valuable lifetime customers are Shoe Perks Gold member, generating on average over \$15 more per transaction than our basic loyalty member transaction value. With focused marketing activities, Gold membership is up over 50% year-to-date and in Q3 we grew sales with this group by over 20%. Our teams are capturing new shopper insights, giving us confidence that our CRM capability is fueling profitable growth for multiple years ahead.

A second core strategy is to build Shoe Carnival brand awareness and preference within the family footwear channel. During Q3, we launched our first fully integrated campaign with our agency of record, McCann Detroit. This new marketing campaign in combination with our strong merchandising resulted in our 17th consecutive year of comparable store growth during back-to-school. Growth was driven by increased traffic in both our bricks-and-mortar stores and e-commerce platform, resulting in a high-single-digit growth rate of customers shopping at Shoe Carnival during Q3.

Store conversion continued to be a long-term success driver, growing low-single digits for the year with growth every quarter, demonstrating the excellence of our store operators and our buying organizations.

The third strategic imperative I'd like to provide an update on today is e-commerce. Our short-term objective is to grow our online business to over 10% of our total net sales from approximately 7% today. We launched our online business in 2012 and since then have been rapidly building capabilities that are driving customer traffic growth and conversion growth online. I'm proud of the acceleration we have achieved with our online growth plan for in 2019.

Fourth, opening and repositioning stores to capture customer shopping preferences is a core strategic growth opportunity. During Q3, we opened a new store in Jeffersonville, Indiana; we rebuilt the store in Panama City, Florida that was destroyed by hurricane in 2018; and we repositioned the store in Peoria, Illinois. Customer responses and early sales performance at all three stores are very encouraging. With our CRM implementation phase now completed, we're able to mine for and leverage new insights to resume profitable new store growth.

As part of our strategic initiatives, we are pleased to confirm our plan to open 6 to 8 new stores in 2020 and 8 to 12 new stores in 2021. The strategic plans are focused on growth within our existing 35-state geographic footprint. Finally, our customer-centric focus and strategic progress during 2019 reinforces our confidence in delivering the increased annual earnings per share outlook Cliff shared with you.

I will now turn over to Kerry Jackson to provide more insight into our financial performance.

W. Kerry Jackson

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

Thank you, Mark. Our net sales for the third quarter ended November 2, 2019, increased \$5.5 million to \$274.6 million compared to the third quarter of last year. Of this increase in net sales, \$9.2 million was attributable to the 3.5% increase in comparable store sales and \$1.2 million was attributable to the four new stores opened since the beginning of the third quarter of fiscal 2018. This was partially offset by a loss in sales of \$4.9 million from the 13 stores closed and other non-comp stores over the same period.

Our gross profit margin for the quarter was 30.9% compared to 30.2% in the third quarter of last year. Our merchandise margin increased 50 basis points during the quarter while buying, distribution and occupancy expense decreased 20 basis points as a percentage of sales. The increase in the merchandise margin was primarily the result of increase in sales of non-athletic products, especially women's non-athletic which carry a higher margin than our athletic category. The decrease in buying, distribution and occupancy expenses as a percentage of sales was a result of lower distribution costs and the leveraging of expenses against the higher sales base.

SG&A expenses increased \$1.4 million in the third quarter of fiscal 2019 to \$66.6 million. As a percentage of net sales, these expenses reflect compared to the third quarter of fiscal 2018. Significant changes in SG&A in Q3 included increases in payroll, incentive compensation, employee benefits and store closing and impairment charges which were partially offset by decreases in equity compensation, depreciation, advertising and operating fewer stores during the quarter.

The effective income tax rate for the third quarter of fiscal 2019 was 24.9% compared to 25.9% for the same period last year, primarily related to the reversal of valuation allowance on certain NOLs that we now expect to utilize. For the full year of fiscal 2019, we expect our tax rate to be approximately 21.3% compared to 24.3% last year. The reduction in the annual tax rate this year was a result of a Q3 reversal of valuation allowances and a \$1.9 million tax benefit related to the vesting of equity-based compensation in the first quarter of this year.

Net income for the third quarter was \$13.7 million compared to net income of \$12.0 million last year. Earnings per diluted share for the third quarter increased \$0.18 to \$0.94 per diluted share. Weighted average diluted shares outstanding for the third quarter of this decreased 8%.

Now turning to our cash position and information affecting cash flow. Depreciation expense was \$4.3 million in the third 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 nine months of the year, are expected to be between \$18 million and \$19 million, with approximately \$11 million to be used for new stores, relocation, remodels and the purchase of our corporate headquarters.

In the third quarter of this year, we repurchased under our share repurchase program 521,800 shares of our common stock at a total cost of \$16.9 million. For the first three quarters of this year, we have repurchased approximately 933,000 shares at a total cost of \$30.9 million. We currently have \$19.1 million remaining available under our \$50 million share repurchase authorization. We continue to expect diluted weighted average shares outstanding for the full fiscal year to be approximately 14.7 million shares.

My final comment today will be adding a little color on our financial expectations for the fourth quarter. Implicit in our annual sales guidance is the expectation of our Q4 sales to range from \$236 million to \$239 million. This compares with Q4 sales last year of \$234.7 million. In addition, at the high end of our earnings guidance, our expectations for Q4 include a low-single-digit comparable stores sales increase, a flattish gross profit margin and a healthy leveraging of our SG&A. Diluted earnings per share are expected to range from \$0.18 to \$0.22 in Q4 compared to only \$0.09 in Q4 last year. This concludes our financial review.

Now I'd like to open up the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Mitch Kummetz with Pivotal Research. Please go ahead.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Yeah, thanks for taking my questions and also congrats on the quarter. Kerry, let me start where you ended on the guide. And I just wanted to be clear, so you're saying that the high end of your Q4 range is a low-single-digit comp, flat gross margin and substantial SG&A leverage.

W. Kerry Jackson

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

A

Correct.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

If that's the case, is there – are there assumptions embedded on the low-end, and if there are, would you care to share those with us?

W. Kerry Jackson

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

A

Well, you could take a little bit – a few things. So we'd end up on the low end on the sales. You could end up with a flattish to slightly down gross profit margin and we probably would not have quite as higher leverage, we'd still be leveraging our SG&A because of the comparison that it won't be quite as high as we're expecting.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Okay. And then you guys raised – so you raised the sales outlook for the year, but you're still saying kind of a low single-digit comp on the full year, right? So, are you – is the – do you now expect – so I'm not sure what your definition of a low-single-digit comp is, I'm going to say like maybe 1% to 3%, are you now expecting something more towards the higher end of the range of low single digits? Is that the reason why you raised the sales guide by a few million for the year?

W. Kerry Jackson

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

A

Well, keep in mind that's a flow through primarily of what we saw come through in the third quarter. We exceeded what our expectations have been on the third quarter and we're flowing through the year.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Okay. And then can you make any comments on Q4 to-date where two-plus weeks I guess into the quarter, you talked about improving trends on the boot side, is there – can you give us any numbers around kind of how you're trending?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

We're just not going to give fourth quarter-to-date, and let me tell you the number one reason why is that Thanksgiving moves out of the third week of November into the fourth week of November and that changes a lot of metrics. So we're going to stay silent, and tell you that we expect low-single-digit increase for the fourth quarter.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Cliff, can you talk a little about that calendar shift if I'm not mistaken, I think the last time we saw Thanksgiving on the 28th was in 2013, I don't know if you have any recollection as to how that impacted your fourth quarter results that year?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

I don't – I'd have to go back and specifically look at – in fact, Kerry is looking at that right now. It creates a one week less between Thanksgiving and Christmas which doesn't affect the shoe business. There as much that does the department store business. It has a pretty good effect on the department store business but not so much in shoes.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Okay.

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Mitch, we're more concerned in the fourth quarter about weather trends than we are about calendar shift.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Sure. And then speaking of weather on boots, so I just want to be clear as to what you said about the third quarter and then I want to ask you a little bit about your Q4 outlook there. But on third quarter I think you said that that women's fashion boots were positive, I wasn't sure if that was a comment on the quarter itself or if that was more...

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

I think what I said was that as we – as the weather got cooler throughout the quarter women's boots turned positive.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Okay.

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Mind it, it's a less positive once it turned cooler. We were not positive early in the quarter in boots. We needed the weather to change and once it did change the customer did show up and start buying boots.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Can you say what boots were for the quarter? Were they down for the quarter, were they – is there just sort of an overall boot number that you can give us?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Well, if you look at our overall boot business, it was flattish but that would include...

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Okay.

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

...men's and kids, our women's fashion boots were slightly down.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Okay. And then I guess just lastly on your outlook for boots in Q4, I think you said that seasonal boots are 25% of the total. Is that just the weather dependent? Okay, I guess all boots are weather dependent to some degree but is that like more like insulated boots, is your overall boot business bigger than 25% of that?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

No. Not – what I'm trying to say in that and maybe I'll need to figure out a way to clean it up is that excluding work.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Okay.

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

So if you look at boots bought for every day wear fashion that's approximately 25% of our total fourth quarter footwear sales.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Got it. All right. Okay, thanks guys. I'll get back in the queue.

Operator: And our next question comes from Greg Pandy with Sidoti. Please go ahead.

Gregory R. Pandy

Analyst, Sidoti & Co. LLC

Q

On the new store guidance that you gave, was that a net or is that just the new stores and we can expect some of those number to be offset ...

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Greg I'm afraid that the first part of your question was muted, so if I can get you to ask it one more time?

Gregory R. Pandy

Analyst, Sidoti & Co. LLC

Q

Sure. Can you hear me now?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Yeah, I can hear you fine now.

Gregory R. Pandy

Analyst, Sidoti & Co. LLC

Q

Okay. Sorry about that. I just wanted to understand on the new stores, was that just new stores or is that the net of stores and store closings? I think you're targeting six to eight new stores in 2020, but can we expect that to be offset by some closings?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Hi Greg. You're right, those are new stores we're talking about there, 6 to 8 is the range of new stores and then 8 to 12 for 2021. And if we look...

Gregory R. Pandy

Analyst, Sidoti & Co. LLC

Okay.

Q

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

...into that – if you look further into that trend, we are forecasting climbing to net store growth towards the end of 2021 or into early 2022 depending on the success of finding, the highly productive, highly profitable sites of markets we know we can win with.

A

Gregory R. Pandy

Analyst, Sidoti & Co. LLC

Okay. And then, can you just talk a little bit about, as you're evaluating these new stores what you're seeing in the real estate environment for these new stores and how you're thinking about that?

Q

Mark Jonathan Worden

President & Chief Customer Officer, Shoe Carnival, Inc.

Yeah, we're focusing it on our 35 core states first of all where we know our shoppers very well and where we have a strong propensity to succeed with growth. We're finding in our core markets, it is a challenging marketplace to find robust opportunities because we're being incredibly selective to find ones where we know our shoppers are. And so, from our perspective here, we're going to stay really focused on finding stores we believe can be accretive to our revenue per door averages and accretive to our profit for the corporation long term.

A

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

If I can – and Greg, if I can add to that, there're sites out there, but we're being very, very selective and that's – one of the things that CRM has brought to us is that we know exactly – we have a very real idea as to who our customer is and who's shopping in our stores. And so, we're making sure that the sites are being brought to us by our real estate team. When we go out to visit those stores, we make sure that the demographics and the customer profile in and around those stores match exactly who we are.

A

Gregory R. Pandy

Analyst, Sidoti & Co. LLC

Okay. That's helpful. Thanks a lot.

Q

Operator: Our next question in the queue comes from Chris Svezia with Wedbush Securities. Please go ahead.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Good afternoon, everyone, and congratulations on the quarter and welcome Mark to the conference call.

Q

Mark Jonathan Worden

President & Chief Customer Officer, Shoe Carnival, Inc.

Thank you, Chris. Thank you.

A

Christopher Svezia

Analyst, Wedbush Securities, Inc.

I guess first, Kerry, for you, just what's the – when you think about Q4, remind me again what the comp by month or what you're up against, just walk through that if you could?

Q

W. Kerry Jackson

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

So last year, our November was up high singles, our December was up – and December and January were up low singles. We ended the quarter up 4.7%.

A

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Okay. Okay. Thank you. And then, I guess Mark, for you, just on the CRM, I'm just trying – I know you went live during the quarter, and I know you've been getting incremental wins throughout the year, but I guess was there anything material that developed during the quarter that drove comp acceleration to the loyalty program? Can you talk about your Gold membership and the growth there? Just anything you did maybe that you suddenly was incremental in terms of turning on that CRM or no?

Q

Mark Jonathan Worden

President & Chief Customer Officer, Shoe Carnival, Inc.

Absolutely, Chris. We're able to capture multiple quick wins. And one, I'd say is, we're able to utilize the data to understand the shoppers who used to shop at corporations that no longer exists in our competitive space and try to communicate to those folks to help them understand we're a new alternative for family footwear when they used to shop at a place that no longer is there. That was really very profitable use of our early analytical data this quarter.

A

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

I would also add to that that we saw an increase in traffic from our Gold member, so that not only were we able to attract new members, but our most loyal customer which are our Gold members, shopped us, we saw an increase in basket size from them as well.

A

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Okay. That's great. Good to hear. I want to go just from a product perspective just on the athletic, seeing a slight increase, I know you talked about there's some shift to casual from technical athletic. What's sort of your thoughts about the outlook as you go into Q4 and maybe early next year? But any color about Q4 as sort of availability of certain product becomes more heightened or whatever the case? Are you talking about trying to continue or do you expect something to change a bit in Q4?

Q

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

I definitely expect the casual trend that we've seen over the past couple of quarters to continue and maybe even accelerate a little bit. However, I also think that as we head into 2020 and the product that we've seen and, as you know, like the top categories and/or brands, but the product we've seen is very encouraging and I believe we're going to see a continued growth out of the athletic. Maybe not – I think we'll see growth out of the casual categories, but I think you're going to see even the technical or what we would consider to be technical accelerate as well.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

Okay. Got it. And then just on – another just category question, just on the dress category performing well. I know it's been spotty there, but I think you've had some recent success. Just kind of what's driving that or any color you want to add about that?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Well, six months ago, I would not have told you that in the third quarter our dress shoe business would be good, okay? As this – that was – I mean, I can tell you it caught us by surprise. I'm just going to tell you, our merchants did an incredible job of going after the right items. And I don't want to get specific on the categories that are selling, because again competition, as you know, listening to this call, but I was very pleasantly surprised to see our women's dress shoe business accelerate the way it did.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

Okay. Final thing for me, just on a margin question and just on the boot, just curious, how do you think about demonstrating fashion boots and cold weather boots and what you saw in the quarter and your expectation in Q4? And Kerry, why flat gross margin if you comp up low-single? Are you assuming the merchandise margin is down and that's just because of difficult comp or is that predicated on how well the boot business performs?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Chris, I'm going to take the easy question, which is what's the difference between fashion boots and all other. When I say fashion or seasonal boots, what I'm doing is excluding work that you guys don't really want to know about work because that's an ongoing business for us, you want to know how the fashion business which is where all the risk is. So, when I talked about fashion boots or seasonal boots, it really is just excluding work.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

Okay. But is there any difference between the two of them, between a fashion, which is like a beauty or stuff like that versus...

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

No.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

...cold weather?

Q

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

No, I probably just seen the good work – I'd just probably – no, I include cold weather into that because that it's crossing the line. I mean would you then include fur boots as cold weather or would you say cold weather is strictly cold – leather that keeps dampness away from your foot, I don't know. So what we do is anything that's not work, that's our fashion boot category.

A

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Got it. Okay. And on margin?

Q

W. Kerry Jackson

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

So, Chris, we are expecting to be able to leverage our beat – as I said, our flattish gross profit margin. We expect to see some leveraging out of our buying, distribution and occupancy cost on a little more cost base than a year before, plus having the comp store sales increase.

A

We also expect – so there's two parts to our merchandise margin. The actual sale and cost of the shoe, but then we have some accounting adjustments we have to add into it and one of them is you have to put capitalized costs into the cost of the shoe. As your inventories are increasing, those reserves increase along with it. We are expecting due to operating fewer stores and putting – lowering our per store inventory to have actual total dollar inventories down at the end of this year versus last year. That's reversing out some of those capitalized costs that we had accrued in prior periods into Q4 and causing that to be – so the overall merchandise margin will be down because of those accounting adjustments even though we expect the pure profit on the sale of shoe to be up on a year-over-year basis.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Okay, I think I got it. Okay, I got it. Thank you. All the best, guys. Appreciate it.

Q

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

Thank you, Chris.

A

Operator: [Operator Instructions] And we'll take our next question. This one comes from Mitch Kummetz with Pivotal Research. Please go ahead.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Yeah, I've got some follow-ups. So first of all, I didn't – Cliff, I didn't hear what you said about adult athletic. I think maybe specifically you just said it was up slightly in the quarter, what was it up in the – was it up in the quarter?

Q

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

Adult athletic was basic – was dead on flat.

A

Mitch Kummetz

Analyst, Pivotal Research Group LLC

It was – I'm sorry it was flat?

Q

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

It was flat. That's correct.

A

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Okay. Okay. So, I think that's a slight improvement from last quarter, right? I think last quarter it was down slightly?

Q

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

What?

A

Mitch Kummetz

Analyst, Pivotal Research Group LLC

I guess this is really – my question – I find interesting that you're talking about 2020 and you like what you're seeing on the product side for 2020. Correct me if I'm wrong, but I kind of feel like going into this year you guys were pretty bullish on what you were seeing product wise as well on the athletic side. And it seems like two of your more important athletic quarters, Q2 and Q3, didn't really play out as well as maybe you would have anticipated going into this year. I'm just wondering if you could do like a postmortem on that what – I don't want to say what went wrong but did that not live up to your expectations? And if so, why?

Q

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

No, that's a great question. We were excited coming into the year on skate and we expected, as we entered into the second half of the year, for certain brands to strengthen. We knew that we have brands that were not going to be strong for the first half of the year but we expected other brands to strengthen as we headed into the second half of the year. And I really don't want to get specific on whether that brand disappointed us or it came along, but I am – to be honest with you, I think what happened to the fact that athletic was flat and we showed a 3.5% comp store increase for the quarter, shows the strength of our concept that is customer shift from one category to the other, we can take advantage of that and I believe we did.

A

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Okay. And then on Payless, I think last quarter you guys talked about how I didn't really have much of an impact because Payless was dumping a bunch of product and then their customer kind of went away for a little bit because they weren't – they didn't have much of an appetite to buy after that, but you're kind of expecting them to

Q

kind of come back this quarter. I'm wondering if you could maybe talk about the impact of Payless. Is there any way to kind of break out your comp versus stores that overlap with...

[indiscernible] (36:03)

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Sure.

Q

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

I can tell you that our comps within a – I'm not going to breakout the comps between overall Payless and non-Payless, but I will tell you that the stores that were closest to where a Payless store was within 1 mile or 2 mile radius. Those stores had better sales results in the stores that were more than 5 miles away from a Payless store.

A

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Okay. Got it.

Q

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

But you got to remember, Payless had a lot stores, so I think we're near a lot of our stores, I mean a lot, so the vast majority of them.

A

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Sure. In those stores that you – yeah, in those stores that you overlap, did you see any real difference in terms of how you comped by category? I think when you're talking about I know that from a price point standpoint there was only so much overlap. But I think you had said that you thought that could benefit you on the athletic side a little bit, maybe some other sides, maybe work, I'm not sure. Did you see it help you?

Q

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

I think it benefited us in dress shoes.

A

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Okay.

Q

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

We were asked earlier why our dress shoe business was up. We think it's the Payless affect. They sold a lot of dress shoes.

A

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Yeah. Okay, that's helpful. And then on boots, I'm just curious in terms of – it sounds like boots were probably a little worse than what you thought on the quarter. I know you had a tough comp last year, I know what the weather was doing. How do you feel about your boot inventory? Do you feel like there is any risk or can you just sort of shut off the spigot if need be, can you probably push things back to your vendors? And then how do you think about just sort of channel inventory for boots more broadly outside of kind of what you guys are carrying?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Well, I think maybe you're asking me if this gotten more promotional, that's a way of asking me if it's more promotions, we haven't seen that yet. Our boot inventory is in great shape. And the reason for that, Greg, (sic) [Mitch] is the way we run our business is that we buy what we need upfront and then we place back up, so if the boots don't take off the way we originally thought they were going to sell, then those back up for cancelable and we're aggressive on that as we go through. So my boot inventory is in great shape and I give the merchants all the credit in the world because we had a decent third quarter in boots – no, actually, we had a flat third quarter in boots. We're having a pretty decent fourth quarter in boots, and I think we're going to be in good shape.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Okay. And then last question maybe for Kerry. I knew that you guys said that you're a 3.3% comp in August, I don't know if you can tell us October, or I'm sorry, September and October. I'm guessing October was stronger than September just from a weather standpoint, but – Kerry?

W. Kerry Jackson

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

A

No. What we saw was September was low-single-digit comp increase, and then October we accelerated to a mid-single-digit comp increase.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Okay, great. All right. Thanks again guys.

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Thank you.

Operator: Our next question in the queue comes from Sam Poser with Susquehanna. Please go ahead.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Hi. Just went to work for a new bank apparently. Congratulations, guys. A phenomenal quarter, best quarter I have ever seen from you guys.

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Thanks, Sam. [indiscernible] (39:38)

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

That still I hope will be [indiscernible] (39:40) but anyway let's keep moving, yeah. Can you – I want to follow up. How many stores are you planning in closing next year and the following year? Can you just give us an idea? You said you're going to be net opening. You plan to be net opening maybe in 2021, but next year, I mean, can we expect you're going to net flat or net close? Could you give us some idea?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

It is going to be a net flat is where our thoughts are now. We haven't talked about that as much today, Sam, because we're working really hard to actually show store growth for next year and we've been really successful.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

But I mean if we're going to model it, it's better modeling is for...

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Yes, then modeling it as net flat.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Net flat and then you get an improvement...

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

That's right.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

And then the following year, I mean like net 5 open would probably be a good starting point or do you think it...

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Right, now I'd tell you the following year it would be a little lower than that somewhere net flat to 5.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Okay, thank you. And then can you talk about the like your – given the – and I'm going to get to CRM in a second, but can you – given the CRM and given what you're learning from it with the new stores, can you talk about what

that productivity expectation will be for those new stores that you open with the new information that you're garnering?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

We would fully expect that a new store within a reasonable point in time and let's say between the year three – around year three to be at the company average.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

But you don't expect those to outperform given the new information and open faster, and like open stronger because of the new manner by which you're taking the patience and the manner by which you're...

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

It really depends on – Sam, it's a difficult question because it depends upon where you open the store. What we found this year is and we haven't opened many stores, but where we open up stores where they're already know us, they're outpacing – they have outpaced our current comp. Well, they're doing slightly better than our existing...

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Got you. If they know who you are – if they know who you are, the work shows itself more quickly. Fair?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

That's right. That's fair.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Okay. How much help – I know you just kicked off the CRM sort of in earnest this quarter, but if you could – and I know this isn't going to be scientific, but how much do you think this improved communication with the customers, vis-à-vis the CRM, helped your comp in the quarter?

Mark Jonathan Worden

President & Chief Customer Officer, Shoe Carnival, Inc.

A

Hi, Sam. It's a material contributor and a diagnosis I could give you is, if you look at our Shoe Perks Gold members, as I shared earlier, that membership grew 50%-plus for the year. And if we look at the comp with that growth, they're growing at a rate more than two times faster than our total company comp rate we just did. So said differently, the insights are allowing us to bring consumers into our loyalty program rapidly trade them up to our highest tier on those valuable locations and their comps are growing at a pace we're extremely excited about.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Cool. And I have a few more. One, did you buy back any stock after – since quarter end that would be reported in the 10-Q?

W. Kerry Jackson

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

A

No, because we've been – we're locked up until after we released earnings. So we're in a blackout period until after the release of earnings, so we're not allowed to buy back.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Okay. The athletic business, Cliff, do you – when do you foresee that on a year-over-year basis sort of gaining momentum, turning around given, as Mitch brought up, the expectations coming into the year and sort of what you've learned in the meantime?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Yeah. I think – let me say this. As we looked at new product for spring 2020, we're excited about the things that we're seeing from some of our top vendors. To Mitch's point...

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Is one of those vendors from the Northwest by chance?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

To Mitch's point, we were not – unexcited about entering into 2019, but – and as you know, we've been flattish all year with athletic. So I feel good about it. I can tell you that I feel really good about where Shoe Carnival is right now with their customer and the fact that not many people are reporting increases in traffic and increases in sales the way we have. And based on whatever happens in the spring of 2020, we'll be prepared and we'll move with the customer as quickly as possible.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

And you just mentioned your traffic in the stores for the quarter were up or not?

Mark Jonathan Worden

President & Chief Customer Officer, Shoe Carnival, Inc.

A

Traffic was up, Sam, in both bricks and mortar and our online. We were...

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Cool. Okay.

Mark Jonathan Worden

President & Chief Customer Officer, Shoe Carnival, Inc.

A

...successful both on the traffic and conversion.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Okay. Cool. Congratulations on that. Two more questions. Furry boots, how are you doing with them? How does it look? I know that's some fashion, some weather, so any initial read on furry boots?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

So far we are not unhappy with furry boots than – and in fact that's probably as closest I'm going to get to talking about product categories.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Okay. And then – all right. So you brought in some product earlier in the quarter, partially to offset tariffs. But it's going to be hard to offset tariffs and we're still waiting to find out if the December 15th ones happen. But assuming they don't, when you're looking at tariff impact into next year or prices that you're seeing if that additional 25% happen, can you give us an idea of the magnitude of the increases and the progress you're making with factories and vendors and so on and so forth?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

So far – and we've talked about this quite a bit internally. So far, we haven't seen a lot of price increases. We did have a major vendor that you're familiar with that did institute across the board price increase and we were able to mitigate that somewhat by the product we bought. Some product is worth more than others. And so we were able to, I think in my mind, able to mitigate that price increase. But we haven't seen a lot of price increases. I think the majority of the vendor community is waiting to see exactly what happens. The good news with the athletics is that the majority of athletic goods are made in Vietnam not in China. So that's 52% of our total volume, so not seeing a lot there, not seeing a lot in any of the – other than the one brand I talked about, I'm not seeing a lot of increases at this point.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

And I mean on your dress – women's dress product, I mean most of that is non-leather and most of that would be impacted by 4B tariffs and...

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Right.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

And so everybody is sort of holding their breath on that is sort of how to think about it?

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

They're holding their breath on in at this point. And orders have been placed with cost given so no, Sam, I don't expect that we're going to – and in fact, Carl nor myself think we're going to be affected at least in the spring time period with tariffs.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

All right. Well, thank you very much and continue the success.

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

All right. Thank you.

Operator: There are no further questions in queue. At this time, I would like to turn the call back over to your speakers for closing remarks.

Clifton E. Sifford

Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

I'd like to thank you all for your participation on today's earnings call. We look forward to announcing our fourth quarter and full year results in March. I also want to wish each of you a great Thanksgiving and a very happy holiday season. Have a great evening and thanks again for tuning in.

Operator: Thank you ladies and gentlemen. This concludes today's presentation. You may now disconnect.

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