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Shoe Carnival, Inc. (SCVL)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to Shoe Carnival's Fourth Quarter Fiscal 2019 Earnings Conference Call. Today's conference 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 also be considered in conjunction with the discussion of risk factors included in the company's SEC filings and today's earnings press release.

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

I'll now turn the conference over to Mr. Cliff Sifford, Vice Chairman and CEO 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 2019 fourth quarter and full-year 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 an overview of our 2019 fiscal year and fourth quarter results as well as the ongoing COVID-19 pandemic. Mark will then update you on the progress we made on our strategic initiatives, followed by Kerry, who will discuss financial results and further detail. We'll then open the call for your questions.

Let me start with a business update on the impact of COVID-19. As you saw in our press release last week, we made the decision to temporarily close our stores until April 2. While this was not an easy decision, the health and safety of our employees, our customers and the communities we serve is our primary concern. As noted, we will continue to pay our associates as scheduled during this time and serve our loyal customers through our website.

For e-commerce order fulfillment, we are allowing our managers to fulfill orders from our stores and locales where we are able. We are adhering to the guidelines from the World Health Organization and the CDC, as well as practicing social distancing. We have also implemented enhanced cleaning and sanitation processes to ensure the safety of our employees today and making sure our customers feel safe when we reopen our stores in the future.

The rapid spread of this virus has far reaching implications for our global community. And while we anticipate that this pandemic will have an impact on our operations, today we're thinking about those who have been affected by this deadly virus and the continued havoc it is causing within our communities.

Our store closures, we believe, are necessary step for us to do our part to prevent the further spread of this virus. From an operational standpoint, we have been working closely with the each of our vendors to determine the full impact to our supply chain and we thank them for their collaboration as we navigate this unprecedented situation.

Our best-in-class merchant teams have been diligently managing inventories to ensure that we're keeping things at a controllable level. Furthermore, we are working to control costs where possible, including reducing SG&A to preserve margin and capital expenditures to maintain our financial flexibility.

Shoe Carnival has a long history of navigating through various difficult cycles, both good and bad. Our team is incredibly disciplined and able to move quickly as conditions change. In addition, we have always maintained a very strong financial position and balance sheets for times just like these. At the end of February, we had $57 million in cash and ample liquidity with our $50 million credit facility. While today, there are many unknowns, we are monitoring the situation closely, and we feel very well prepared to meet the needs of our stakeholders during this difficult time.

Now turning to our fiscal year 2019 results. We reported another record year for Shoe Carnival. Sales rose to $1.037 billion, while net income increased 13% to $42.9 million or $2.92 per diluted share, both exceeding our expectations. At the same time, comparable store sales increased 1.9%, marking the 11th consecutive year of comparable store sales growth.

Last year, at this time, we talked about our journey to enhance our leadership position in the family footwear channel. Shoe Carnival has one of the most distinct brands in the space with a well tenured buying organization that has a proven ability to see trends well ahead of others in this space. In addition, our unique selling concept has distinct brand advantages and assets that resonate with our consumer, setting us apart from our competitors.

Despite the challenging times we are facing, our team continues to focus on the four key initiatives: our CRM program; our brand and customer experience; online sales; and store development. To-date, we have made tremendous progress on all fronts, but I would like to take a few minutes and talk about the success of our loyalty membership program, Shoe Perks, which underscores the investments we have made in our CRM initiative.

In 2019, our loyalty program grew double digits, resulting in sales growth of over $35 million versus the prior year and now exceeds 23 million members. This equates to a mid-single-digit sales growth for the program in 2019, compared to the company comparable growth of low-single digits for the same period. Even more promising is a growth of our Gold tier, which posted double-digit membership growth and comparable sales. Mark will provide greater detail on this and our other initiatives in a moment. But suffice it to say, we are very encouraged with the success we have had thus far.

Moving to our financial results for the fourth quarter of 2019, which capped off another strong year for Shoe Carnival. During the quarter, conversion, average transaction and units per transaction, each grew low single-digits and we ended the fourth quarter with 392 stores in 35 states, and Puerto Rico closing six stores during the year.

Looking at comparable store sales by department for the quarter, women's non-athletic was up mid-single digits, driven primarily by strong demand in the women's dress shoes, partially offset by declines in boots, which were negatively impacted by mild winter weather throughout the quarter.

Excluding boots, women's non-athletic was up double-digit in the fourth quarter. Men's non-athletic was up low single-digits, supported by mid-single-digit growth in casual shoes and seasonal boots, offset by declines in dress shoes.

Children's non-athletic, including sandals, casual and dress shoes, continued to perform well, helping drive low-single digit comparable growth. Adult athletics overall were down modestly, driven by low-single digit growth in women's athletic, offset by men's athletic low-single-digit declines.

For the fourth quarter of 2019, merchandise margins were up 70 basis points, while BD&O expenses were flat as a percentage of sales compared to the prior year. Even more importantly for fiscal 2019, we delivered the fourth consecutive year improvement in merchandise margins, driven by favorable product mix of high growth categories.

We are quite encouraged by these results as they demonstrate the capabilities of our merchant teams in leveraging our new CRM program to better identify seasonal trends, enhancing the product selection available to our customers.

I'd also like to provide an update on our capital allocation strategy. Over the long term, returning capital to stakeholders remain a top priority. However, as we are still working to determine the full impact of the COVID-19 pandemic on Shoe Carnival, we are focused on maintaining the financial strength and flexibility of our business.

With that being said, we do not currently plan to engage in any further share repurchases during fiscal year 2020, but we'll continue to re-evaluate the strategy on an ongoing basis. At this time, we do not anticipate any changes to our quarterly cash dividend policy.

Before I hand the call to Mark, I want to remind you that as we stated in our press release last week, we will not be providing guidance for fiscal year 2020 given the significant uncertainty created by COVID-19. However, it's worth noting that as we began our fiscal year, comparable store sales through March 10 exceeded our expectations with comp store increase of 4.5% through that date.

From that point forward, we did see a significant decline in brick-and-mortar traffic leading up to our decision to close our stores, but we were pleased to see e-commerce traffic and sales have grown significantly. Mark will discuss this a bit more in his remarks.

With that overview, I'd like to turn the call over to Mark Worden to provide an update on our strategic initiatives. Mark?

Mark Jonathan Worden

President & Chief Customer Officer, Shoe Carnival, Inc.

Thank you, Cliff. During 2019, Shoe Carnival made great strides advancing our four key initiatives: CRM, brand and customer experience, online sales, and store development. We believe these four initiatives will drive long-term profitable growth for the business, strengthen our customer-centric organization and extend our leadership position in the family footwear channel.

We're very encouraged by our customers' response to our 2019 CRM initiative. We continue to see that insights captured by our customer analytics, coupled with our strategic marketing programs, are supporting strengthened customer loyalty and ultimately value creation for shareholders. Information collected through the CRM provides our marketing, merchandising, analytics and real estate teams with a holistic view of our customer shopping behaviors, in turn helping us to identify tomorrow's most valuable customers and deploy resources toward building long-lasting loyalty.

To put a finer point on this, loyalty member sales grew over $35 million this year with the average transaction value of members roughly $10 higher than that of non-members. I'm most encouraged by the rapid growth achieved with our Gold loyalty members, whose transaction value was over $16 higher than non-members for the year and both sales and membership count grew double-digit for the year.

Over the long-term, our strategic priority remained centered on driving member sales to over 80% of total company revenue as it has the most effective customer reach as well as the highest ROI amongst our marketing channels. During 2019, the first year of the CRM implementation, member sales as a percentage of total corporate revenue reached 70%, up from 68% in the prior year and exceeding our expectations.

Next, I'll touch on our overall brand and customer experience initiative. We're very proud of the customer-centric experience we've continued to deliver. This coupled with our broad product assortment for families were key drivers to achieving our 11th consecutive year of comparable store sales growth. Store conversion growth was achieved every quarter of 2019 by our excellence for operators across 35 states in Puerto Rico, underscoring the effectiveness of our store operators and our merchants.

Customer traffic during the fourth quarter and for the full year delivered growth exceeding our annual expectations with a double-digit increase of customers shopping within the Shoe Carnival omni-channel. Continuing the trend from the prior quarter, customer traffic increased at both, our bricks-and-mortar stores and through our e-commerce platform during the fourth quarter. More specifically, customers' response to our marketing engagements during the core holiday shopping days was well above expectations as we saw strong omni-channel traffic results and sales.

We're also continuing to see rapid acceleration of consumer demand for our online shopping experiment, which is our third initiative. Online sales grew over 15% during the year and exceeded 8% annual total company revenues for the first time.

Our online platform surpassed multiple engagement milestones, setting records throughout key shopping days, throughout 2019. In light of the current macro environment and our stores being temporarily closed, we're shifting resources and marketing initiatives from brick-and-mortar to e-commerce to further accelerate our online growth trends. While these are very early days, I'm encouraged by the exceptional team effort to respond to the external challenges we are facing today. Online traffic has exceeded our expectations over the past year. But over the past week, we've seen a steep acceleration of customer engagement online driving triple-digit order increases.

Turning to our fourth initiative, store development, we opened one store and closed six in 2019. While long-term strategic new store growth remains a priority for us, we are reevaluating our 2020 and 2021 store plans in light of the uncertainty that exists today. With that said, our strategy remains consistent to open and operate stores within our existing 35 states footprint to the maximize value creation and customer loyalty.

Finally, we're working closely across the organization from our corporate team to our store operators and employees to ensure we are once again able to serve our clients in person as soon as we can safely reopen our stores. We believe the initiatives we are executing are deepening our customer relationships, strengthening our brand and positioning Shoe Carnival for success over the long-term. While we are cognizant of heightened uncertainty that exist today, we believe, we are taking the necessary steps to mitigate the impact near-term.

With that, let me now turn the call 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 fourth quarter ended February 1, 2020, increased $5.2 million to $239.9 million, compared to the fourth quarter of last year. This increase in net sales was attributable to a 3.2% increase in comparable store sales and a $720,000 increase attributed to the four new stores opened since October 2018, partially offset by a loss in sales of $3.3 million attributable to the 11 stores closed over the same time period.

Our gross profit margin for Q4 was 29.1%, compared to 28.4% in Q4 of last year. Our merchandise margins increased 70 basis points, while buying, distribution and occupancy expense was flat as a percentage of sales.

The increase in the merchandise margin was primarily the result of being less promotional in Q4 other than the boot category and realized margin increases in our women's dress and casual, children shoes and adult athletics.

SG&A expenses decreased slightly in Q4 to $65.1 million. As a percentage of net sales, these expenses decreased to 27.1%, compared to 27.8% in Q4 of last year, primarily due to leveraging effect of higher sales. Significant changes in SG&A for Q4 included increases in wages and employee benefits, which were offset by decreases in advertising, depreciation and operating fewer stores during the quarter.

The effective income tax rate for Q4 was 28.8% compared to 25.1% in the same period last year. For the full year of 2019, the effective income tax rate was 21.6%, compared to 24.3% in the full year of 2018. Our effective income tax rate decreased in 2019, primarily due to a $1.9 million tax benefit related to divesting of stock-based compensation recognized in Q1.

Net income for the fourth quarter was $3.5 million, compared to net income of $1.4 million last year. Earnings per diluted share for the fourth quarter increased by $0.15 to $0.24 per diluted share, weighted average diluted shares outstanding for Q4 this year decreased 7.2%.

Now turning to information affecting cash flow; depreciation expense was $4.3 million in Q4 and $17.0 million for the full year compared to $5.3 million in Q4 last year and $21.8 million for the full year last year.

Capital expenditures for fiscal 2019 were $18.5 million with approximately $10.4 million used for new stores, relocation, remodels and the purchase of our corporate headquarters. In the fourth quarter this year, we repurchased 184,000 shares of our common stock at a total cost of $6.9 million. In total for the fiscal year we repurchased approximately 1.1 million shares of our common stock for a total cost of $37.8 million. In addition, for fiscal 2019, we returned $5.7 million to the shareholders through our quarterly cash dividends.

To reiterate Cliff's comments, we're really comfortable with our current level liquidity. Our cash on hand, along with access to an additional $50 million from our line of credit, offers us the financial flexibility to run our business in this uncertain operating environment.

My last comment today is to remind our analysts and listeners that we won't be to be able to address any questions that relate to fiscal 2020 quarterly or annual sales, earnings, margins, expenses or inventory positions in any greater detail than we've discussed in our prepared remarks.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will open the floor for your questions. [Operator Instructions]

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Operator, we can take the first question.

Operator: We'll take our first question from Mitch Kummetz with Pivotal Research.

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Thanks for taking my questions, and congrats on the quarter. I'm afraid that some of these might violate what Kerry was just saying, but let me try anyways. So you guys are, I think you're on day 7 of this 14 day closure period. It sounds like digital is doing really well. If I heard you correctly, maybe it's up triple digits since you closed the stores. But, is there any way you can give us some sense as to what the impact on sales and EBIT looks like during this period of closed stores, like the first five or six days, is there any way you can sort of frame that for us?

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

A

Yeah, Mitch, we're not going to comment at all on any forward-looking activity in fiscal 2020. We won't be addressing any sales margins inventory position. It's just not foreseeable right now, so we're not going to be...

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Sure.

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

A

...addressing it on the call.

Mitch Kummetz
Analyst, Pivotal Research Group

Q

All right. Let me try another one. I'm going to ask it maybe in a different way. So you're probably not going to tell me if you're going to open stores after April 2, but can you at, least say, what you're looking at in order to inform that decision? Is that kind of based on CDC guidelines, what's being said at the state and federal level. I'm sure it's something you're going to have to make that call and I'm just kind of curious what's maybe going into your thinking.

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Mitch, as you know each state, not every state, but each state has come out and issued a statement that stores must be closed. Not every state, but most. I think at some point, the government will make a decision to allow us or as you heard last night, the President wants to get back to business as quickly as possible, but the health and safety of our employees and our customers and our communities really are our primary concern, so we are going to stay closed until April 2, and then we'll continue to follow guidelines from the local and federal officials whatever they say. And as you know, situation is incredibly fluid. And as soon as we know something, we'll let you guys know.

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Can I maybe just the last one. What can you say about leases? What recourse do you have? I know that Simon and some of the other landlords have shut down centers. I don't know if that's impacting you whatsoever. But, do you have any recourse if a center is closed or if there's a co-tenancy clause that's been violated? I know April rent is due soon. Are you guys going to pay rent? How are you thinking about leases and is this going to end up in the hands of the lawyers as you kind of work through this, so that you get some rent relief or how are you thinking about that side, if that's obviously a big expense for you guys?

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

A

Mitch, that deal is directly with what the results would be for 2020 and how we'd operate within it. And we really can't give you any guidance on that at this point in time.

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Okay. Fair enough. Thanks, guys.

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Thank you.

Operator: We'll take our next question from Sam Poser with Susquehanna.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Good afternoon, and thanks for taking my questions, gentlemen. So, I'm going to ask you a few sort of what ifs, and then I've got some other things. One, if you are forced to – if you decide to keep the stores closed longer than April 2, which seems like it's going to be longer, have you thought about how you're going to compensate your employees and yourselves for that matter? Some companies have come out today and say they're reducing some C-suite salaries for the year and so on so forth and that it seems like they're using that to help their people. So, can you give us some thought process on how you're thinking about that?

I mean, I don't know what happened in Indiana, but I know like in Alabama a week ago, Monday the cases in Alabama were 11 and now there's 280, so that's like, I mean, goodness God knows how big an increase that is in a very short period of time. So, I can do the math, but just how you're thinking about all that?

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Sam, as we stated last week, we'll continue to pay our store associates as scheduled through April 2. And as you know, this is really a rapidly unfolding situation and we'll provide any updates as appropriate on a go-forward basis, but that's as far as I can go with that at this point.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. All right. And your e-commerce business, you said, I believe that the commerce was 8% of total sales last year. Can you give us a little more color on how that was sort of more recently, let's say, in the fourth quarter and how that performed? Did it get stronger throughout the year? Can you give us some color on that? That's not forward-looking.

Mark Jonathan Worden
President & Chief Customer Officer, Shoe Carnival, Inc.

A

Yeah, Sam. Hi, it's Mark. We've definitely seen significant increases in online traffic, especially more recently once we announced the store closures. But in the fourth quarter, we outperformed our expectations with very strong results during the peak holiday period as I said, both through the Thanksgiving through Cyber Monday as well as during the core holiday season. We're very happy with the acceleration we saw. And then over the last week, of course, we've seen the acceleration and it has been a triple-digit acceleration since we closed the stores.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

I understand that. My question really was – is towards 8% of total sales for the year, did it run at, let's say, 10% or 12% in the fourth quarter? Was it ramping as a percent of total sales? I mean you do more. I'm just trying to get a feel for that. That will help...

A

Yes.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

...some sort of.

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.
A

Sam, historically our fourth quarter e-comm sales have been the strongest quarter of the year for us and this year was no different. So you're right in line.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Okay. And then a couple of things, just housekeeping. What is sort of a normalized tax rate without that thing that happened last year, what would the – I mean, if we're thinking I know it's a 2020 question, but I mean if we're thinking about a normalized tax rate, it's like 23% to 24%?

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

Well, you know we're not going to talk about 2020, but I would tell you that if you backed out the $1.9 million in our tax rate that actually occurred in 2019, our tax rate would have been about 25.1%. So, you know, I would say that somewhere between 24.5% and 25% would be a range that you could look at for the prior year on a normalized basis.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Okay. And then also, I know your share count, your average share count was at 14.3 million, but you bought back a bunch of stock. So you know with this no guidance, but what should – what is sort of the starting share count for the year, because it's lower than 14.3 million, that was an average. So can you give us sort of where the actual share count is that you won't be buying back from?

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

So the outstanding shares you're asking at the end of the year is closed. They are going to be about 14.2 million.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Thanks. And then, you know, given the situation and given sort of it's – the fluidity and questioning how long is it all going to last, are vendors starting to give you – are you getting dating on orders and are you getting back dating on orders that came in for – to extend payment terms with your vendor partners?

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.
A

Sam, we've always had a policy that we don't talk about any negotiations with the vendors. I will tell you this that the vendors have been incredible to us. And it shows – it tells me how important we are to them and how we've treated them in the past, so the vendors have been very cooperative.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

But one vendor that remain nameless went out, sent out a note apparently saying for orders that came in X to X we're extending the dating by 60 days. And if you write orders between now and June 30 or something, we're going to give you an additional 60 days dating and they sent that out in a general letter to people. So I'm not asking you for specifics on what the extension is or what companies are doing what. But, I mean, can we assume that you've gotten your payables stretched to be able to reflect the time closed for the reason that you mentioned by general sense...

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

A

...we hate to keep referring back to this, but we're not going reference anything about the cash flow, sales, earnings, inventory positions of fiscal 2020, until we have better clarity on how the year is going to play out.

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

The only thing I'll add to that...

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

But you're comfortable...

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Sam, the only thing I'll add to that that that I'm incredibly proud of the relationships that Shoe Carnival has been able to build with the vendor community. So that as we navigate anything good or bad, we know they have our back. And that's far as I'm going to go with that.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. And then lastly and I just might have missed this if you didn't say it. Could you give us what your same-store sales by month were? November, December, January, you can give us until February and March if you want, because it's current and we'd like to know about anyway?

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

A

Sam directionally we were slightly negative low-single-digit negative in November, because the shift of Cyber Monday sales we were up in mid-single digits in December and high singles in January.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And what was it that drove that high single-digit increase in the January?

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Well, we had a very strong sales in the women's shoes in January. Believe it or not we drove that without boots. Boots were slightly negative in the month of January. But our women's business was very strong. Our kids business was very strong and I was very happy with our men's non-athletic product as well.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Thank you very much and good luck with all this stuff going on right now.

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Thank you, Sam.

Operator: We'll take our next question from Chris Svezia with Wedbush.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Good afternoon, everyone. Hope you're all doing well.

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Hey, Chris.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

I'll ask you about the weather since you're not going to answer anything else. So, how's the weather treating you guys?

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Actually, it's beautiful here in Evansville today.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Very nice. I'm kidding. So, actually, I've got questions. And Kerry, this is way too easy for you. I'm just kidding. Just in terms of defaulting to that statement. Anyway, in all seriousness, so you commented about the comp momentum up until March 10. In any way, you want to talk about it? What was driving that? I know you just in reference to Sam's question you're answering the women's business, the kid's business. Did athletic improve? What else was going on in the business up to that point that you feel comfortable enough you can comment or add some color about?

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Well, we continued to see our women's business perform in the month of early February or through February. Tax refunds were actually out earlier this year and I really believe that they were last year. If you remember we felt there was a delay in tax refunds last year into the March time period. So we think that they got out to the customers in February, because the business actually accelerated as we got toward the end of February and into the first seven or eight days of March. So, that usually signals to be what we call Taxmas here. But we were selling again women shoes, our kid shoe business was very, very strong during that time period and we did see some acceleration in the athletic area. However not as much acceleration there as we saw in a non-athletic categories.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. And in the women's non-boot category, you referenced as the four – just you're picking up market share, I assume there has been comments about Payless to competitive environment. Is that still or was that still the case and the reason why that category was improving?

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

I do believe that one of the reasons that our category is improving is because we have less competition with Payless being gone. However, I think it's really important that I give credit to the merchant team who reacted to the fact that the Payless was no longer around, but beefing up our women's dress shoe area and our women's casual area, so that the customers that have been buying that product from Payless knew that they could get it from Shoe Carnival.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. Got it. And I want to go to stores and store openings after April 2. I know you mentioned that you're sort of watching what the CDC had to say and the government. Would you do anything local-by-local market depending on what those local agencies, those states are indicating as to whether or not you can open up stores or would you just think nationally if all sorts of stores also closed or would you go state-by-state depending on what's going on. I'm just curious how you think about that flexibility when you step into post April 2?

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

I will tell you that the states or local communities would give the go ahead to open retail, our stores will be open.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay.

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

That might be the only forward-looking statement I'm going to give, but we are ready, willing, and able to open our stores when they're given the go ahead by any government agency.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay.

Mark Jonathan Worden
President & Chief Customer Officer, Shoe Carnival, Inc.
A

Chris, hear me out first. First is going to be the health and safety of our employees and our customers and when we perceive to be safe that's when we can look at it on a regional basis if there is different levels of safety across the country.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Got it. Okay that's helpful. E-commerce just so I understand something 8% of sales. What do the margin dynamics look like now on that segment of the business, are they comparable to the corporate average, probably just where does that stand right now?

Mark Jonathan Worden
President & Chief Customer Officer, Shoe Carnival, Inc.
A

Hey, Chris. We're very pleased to say they are still comparable with where the profitability was throughout the fiscal year and comparable as we get down to bottom line profitability with the rest of our business, roughly.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. Thank you, Mark. And is it fair to say that in fact you're doing and have seen acceleration triple digit increases does that improve the leverageability and profitability of that segment as you go through this period.

Mark Jonathan Worden
President & Chief Customer Officer, Shoe Carnival, Inc.
A

We believe it has the ability, Chris, as we move towards our mid-term objectives to grow from, yeah, below 8% last year to above 10% of company revenue and we'll continue to get some leverage and we believe we'll be able to translate that into a higher profitability through those transactions.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Got it. SG&A, Cliff, you mentioned you're looking at expenses, you're looking at CapEx. I guess, what are you looking at where just I don't know, Kerry, if you gave a CapEx number or if that's [indiscernible] (00:39:15) 2020 guidance and you don't. But just curious where are you looking at SG&A expense savings? Any color about that you can provide on CapEx?

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

Chris, like we said at the beginning of the call, we're not going to be able to provide any guidance on 2020, on how we're operating within this environment, how we're looking at SG&A. We won't be able to answer that question.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. Last thing I guess I got is, you referenced $57 million in cash as of – I don't remember the exact date and you said that $50 million on the revolver. You haven't drawn anything on the revolver at this point, correct?

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

A

We had not drawn anything on the revolver at the end of the year, and we're not able to update you on that. I guess we gave you a number of cash on hand at the end of our fiscal February.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay.

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

A

At that point in time, we could say we didn't have any borrowings on that, because we had significant cash obviously on hand at that point in time.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay, got it. Okay. That's all I got. All the best to you guys. Appreciate it.

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Thank you, Chris.

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

A

Thank you, Chris.

Operator: And we'll take our next question from Mitch Kummetz with Pivotal Research.

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Thanks. I've got a few more. So, on the digital, I hope this is fair game because you guys said in your prepared remarks that digital is up triple digits of late. I'm just curious do you think that's a natural migration as the stores are closed, or is that a function of certain strategies that you guys have employed. And then in addition to that, actually I guess along the same lines, how are you leveraging those 23 million Shoe Perks members in order to encourage traffic and conversion. Can you maybe speak to some of the strategies and how you think those will work?

Mark Jonathan Worden
President & Chief Customer Officer, Shoe Carnival, Inc.

A

Sure. Hi. It's Mark. It's both. There is a natural consumer shift now that our store base is closed, but we're also shifting our marketing investments to accelerating traffic in new ways to come into our online channel. And it's really the CRM program and the knowledge that we have gained about our 23 million plus members, we're able to tap into that in moments like these times and try to leverage in ways with high profitability and high effectiveness we've seen over this first seven days in this volatile marketplace.

We're really pleased with the response we're seeing – I guess that we're seeing triple-digit increase in orders and we're seeing an acceleration. And as we learn more and more through our rich analytics, we're continuing to invest to bring more and more of those consumers into our base. So, we're really pleased with how our teams are responding, how they're rapidly getting new vehicles out there to consumers and how we're able to still satisfy some of the demand in the marketplace during these unprecedented times.

Mitch Kummetz
Analyst, Pivotal Research Group

Q

I mean, you also mentioned that you guys are fulfilling from stores where you're able to do that. Can you maybe just sort of walk through the strategy behind that? Is there a reason that you're doing that sort of just going out of – do you see – is there a certain number of stores within a certain regions that you kept open with some people on staff in order to do this?

Mark Jonathan Worden
President & Chief Customer Officer, Shoe Carnival, Inc.

A

Sure. Our ongoing income e-comm fulfillment strategy has been to utilize our store base. We still believe that's the most effective way to have our inventory ready to be purchased in our 392 stores or fulfill to the constituents closest to those respective stores from a supply chain effect from this at a cost efficiency. So in this moment, where government officials are allowing us to, we're continuing to use our stores to fulfill e-commerce orders. In addition, we're using our DC, so that we've got dual capabilities to fulfill both, from a distribution center as more stores have closed, as well as from around the country where governors are allowing us [ph] through our local officials (00:43:37).

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Okay. And then just ...

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Mitch, I might add...

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Go ahead.

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

And if I can add to that, you know a lot of the states, the governors have come out and said that the stores have to be closed. However, fulfillment and that's the key word, fulfillment can still take place as long as you're recognizing to fix that separation.

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Got it. And then a follow-up to one of the Sam's questions, he was asking about e-commerce percentage. You guys said it was 8% for the year. I get it that it's higher in Q4 because of the holiday, but can you say what it is and what it was in Q1 last year. I assume it was under the 8%.

Mark Jonathan Worden
President & Chief Customer Officer, Shoe Carnival, Inc.

A

Yeah. We're not currently breaking out our e-commerce results and it is the first for us to share our aggregate numbers, but again...

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Yeah.

Mark Jonathan Worden
President & Chief Customer Officer, Shoe Carnival, Inc.

A

...really delighted to get it to climb over 8% and we see a runaway despite what's currently going on, our strategic plan to have us get north of 10% for the next one to two years despite the acceleration we're going to naturally get right now.

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Okay. I've got couple more. One, is there any way you guys can characterize what percent of your Q1 inventory is seasonal. I know it's bigger in Q2 than Q1, but I've just and whether it's, you just called sandal seasonal if there's other things that you consider to be seasonal?

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

You know, Mitch, we're not going to address anything related to our inventory positions that we currently have.

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Okay. And then last one maybe for you, Kerry. I know that, you know rent and store payroll are two of your bigger SG&A line items. Can you maybe address some of the other ones like T&E or marketing other line items on the SG&A side and just sort of frame them and are they – is marketing a few hundred basis as percent of sales. Is T&E I don't know, but and you just give us some sense as to because those are some of the line items that you would maybe have the most flexibility to trim.

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

A

We're not going to – like I said, we're not give the 2020 guidance and even the historical numbers we wouldn't get into that level of detail deciphering our business like that. So I'm not going to be able to address that question directly.

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Can you say what marketing is. I don't know. I don't know if you've given marketing before, but that's kind of a number that a lot of people do give.

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

A

Typically it's disclosed in our K. We run approximately around 4% of sales some years, a little higher some years a little bit lower, but generally it's around 4%.

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Okay. Great. Appreciate that. Thanks guys. Good luck.

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Thank you.

Mark Jonathan Worden
President & Chief Customer Officer, Shoe Carnival, Inc.

A

Thank you.

Operator: We do have a follow-up question from Sam Poser.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Oh. Hi. Thank you for – thank you. I'm going to sort of pile on with Mitch the – I understand that you're very pleased with your e-commerce business and how it's going. However, and normally you don't talk about a lot of things. And since you're not giving us guidance, these are extraordinary times. So that being said, we recognize your e-commerce business is really good and growing. But as a percent of sales in Q1 2019, what was the e-commerce as a percentage of sales so we have a framework. So we cannot put out totally ridiculous numbers with our 1Q estimates that we will do. Thank you.

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

A

Sam, we are not going to give exact numbers if we were 8% for the full year and we have a higher percent in Q4, so Q1 was under the average. So you see that Q1, Q2 and Q3 were under the average of the percent and Q4 be over the average that as a percent.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

How much was Q4 over? I mean, was it over – it had to be over a whole lot. I mean, was it like 12% and then everything else was 6% or 7% is that directionally correct?

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

A

We aren't going break down the specifics at this time. I just have to leave it that. But we do have – with Cyber Monday and the holiday sales, e-commerce is very strong in the fourth quarter. And so, that's what drives it through as a higher percent of the overall. We see Q1, Q2 and Q3 to be a more consistent percent of the total.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

So, I think, Mitch and I would arguably say that source is taken care of. So thank you and success in throughout all this situation.

Clifton E. Sifford
Vice Chairman & Chief Executive Officer, Shoe Carnival, Inc.

A

Thank you, Sam.

Operator: And at this time, I'm showing no further questions. I'll now turn it back to our presenters for closing remarks.

Clifton E. Sifford

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

I want to thank you for participating in our conference call and your continued interest in Shoe Carnival. We do look forward to talking to you again in May as we report our first quarter results.

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