Company: Shoe Carnival

Conference Title: FY2020 First Quarter Earnings call

Conference ID: 5733023

Moderator: Kerry Jackson

Date: May 20, 2020

Operator: Good afternoon and welcome to Shoe Carnival's First Quarter Fiscal 2020 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 or contained in today's press release to reflect future events or developments.

I will now turn the conference over to Mr. Cliff Sifford, Vice Chairman and CEO of Shoe Carnival for opening statements. Mr. Sifford you may begin sir.

Cliff Sifford: Thank you and welcome to Shoe Carnival's 2020 First Quarter Earnings conference call.

Joining me on today's call 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 will provide an update on the ongoing COVID-19 pandemic and the impact it has on our business. As well as updates on our store reopenings and expectations as we move forward.

Mark will then discuss our strategic initiatives and how our historic investments have positioned us well to weather the storm. Followed by Kerry who will discuss the quarter's financial results. We will then open the call for your questions.

Let me start off with a business update on the impact of COVID-19. First and foremost we hope you and your loved ones are staying safe and healthy. When we last spoke, the initial impact of the COVID-19 pandemic was just starting to materialize.

Since then, we have been met with unprecedented challenges as we look to protect our customers, store employees and corporate staff. The fiscal first quarter was really a tale of two completely different environments.

The quarter began well with solid traffic driving a comparable store sales increase of 3.9% through the 12th of March. As the COVID-19 virus spread quickly, by mid-March it became clear that our employees, customers and the communities we serve were at risk.

As a result, on March 18th we made the difficult decision to temporarily close our stores. Further, as soon as we saw evidence of traffic declines in our stores we immediately shifted our marketing efforts towards our e-commerce platform to ensure our loyal customers knew that we were able to continue to meet their needs even in a virtual world.

This strategic decision has clearly paid off which I will discuss in a moment. I would be remiss to not first and foremost thank our employees for their hard work and dedication during this incredibly uncertain time.

During this period where our stores were closed we continue to pay our employees and to date, we have not furloughed a single person. This was incredibly important to us and something we are very proud of as our store associates are what makes Shoe Carnival so special.

Our store environment is unique by being fun and entertaining. It is supported by team members that have been trained to operate our stores the Shoe Carnival way. As a result, the decision to not furlough our store employees has been a clear competitive differentiator as we have reopened our stores.

Not only have we been able to get our sales associates back in the stores efficiently to serve our customers but also support our most important asset, our employees. During this tumultuous time, while our stores were closed, our store teams were busy and engage fulfilling e-commerce orders at each of our locations with inventory on hand to support the substantial e-commerce growth we experienced.

Our vendor partners have also been incredible. We work hand in hand with our vendor community utilizing a multi-tiered approach to adjust quickly to the rapidly shifting environment.

First, we canceled any seasonal product that had a short selling window which included dress shoes and some sandals. Second, we moved seasonal product with longer selling periods to later ship dates where appropriate. Including flat sandals, sports sandals and soccer sandals.

And third, we worked with our vendors to adjust core model flow and reviewed and adjusted back to school assortments. This nimbleness is attributable to our best in class merchandising team and our store vendor relationships which we have nurtured for years.

As a result, after six weeks shutdown, our own inventory at quarter-end was up 4.2%. However, due to the store reopening sales our stores have experienced, our on-hand inventory at the end of last week was down 6.3% as compared to same time last year.

As we head into June, we will be receiving fresh new product across all departments including early initial receipts of athletic styles for back to school.

As I mentioned over the last several months we have continued to serve our loyal customers through our Web site and mobile app which was made possible by our significant investments and our technology platforms including our CRM initiative.

Throughout the second half of the quarter we delivered triple-digit in e-commerce which was driven by both new customers as well as Shoe Perks loyalty members that typically shop in-store which was a huge win for us.

Our athletic business was truly a bright spot as customers look to Shoe Carnival to get the athletic footwear they needed as many began to spend more time outside walking and being active during this quarantine period.

While we were proud of the progress our e-commerce business had made, we are thrilled to have over 80% of our stores open as of today which are delivering sales above our expectations.

By the end of the first fiscal week of June, we anticipate 95% of our stores being open to serve customers. We are excited to see our customers again but our priority remains keeping them as well as our employees safe.

As a result, we have implemented several new health and safety procedures in our stores. Ensuring that both our customers and employees feel as comfortable as possible.

We have equipped all our stores with personal protective equipment which we call PPE. Including masks and hand sanitizer and have enhanced our store cleaning protocol. In addition to PPE we have installed plexiglass protective shields at all checkout lines for our cashiers' and customers' safety.

We have also created signage and floor decals that are displayed throughout the store to remind customers and employees of the importance of good personal hygiene and social distancing during this time.

And lastly, our stores are unique in that we have professional microphone announcers in every store that would normally be announcing special promotions. We are utilizing these talented individuals to verbally remind our customers to social distance.

Early results from our stores that have reopened are encouraging. Overall foot traffic in the stores down double digits from the prior year. Shoppers coming in are converting at a significantly higher rate and purchasing more units per transaction. Our CRM data has shown that nearly 70% of the customers coming back to the stores are our Shoe Perks loyalty members which was roughly flat with last year at this time.

From a product standpoint, we are pleased with the performance both the athletic and the children shoe categories. Without a doubt this has been a challenging first quarter unlike anything we have ever experienced. We continue to be impressed by our team and their ability to navigate uncertainty.

With most of our stores likely to be open by the end of the first fiscal in June, we will be in the position to take advantage of the most important month of the sandal season. There are however still many unknowns including what states may decide about reopening schools.

That said, we are taking the necessary steps to position the business appropriately for the back to school season. In addition, our e-commerce business continues to be robust with triple-digit sales growth in May. We are optimistic that this accelerated growth with both existing and first time Shoe Carnival customers will allow us to achieve our long term e-commerce goals much sooner than anticipated.

In summary, our financial streak and flexibility has served our investors well. I am proud to say we managed through this unprecedented fiscal first quarter without adding any debt to our balance sheet. This stewardship as well as our strategic investments in our business have allowed us to keep our people working and continue to make progress towards our long term goals.

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

Mark Worden: Thank you Cliff. Last quarter we discussed our four strategic initiatives including the

CRM, brand and customer experience, e-commerce sales and store development.

The investments we have made continue to drive meaningful ROI particularly in this current environment. With digital marketing being as important as ever, the enhancements we have made to our marketing programs have proved instrumental and our new branding and design has resulted in stronger customer engagement.

We have also utilized our CRM and Shoe Perks loyalty program insights to effectively align our marketing efforts to our customers' needs. As a result we have seen continued membership growth in our loyalty program which increased nearly 10% in the first quarter.

The investments we have made in marketing and CRM have driven significant gains in our e-commerce sales amid this challenging environment. Not only are we capturing new members, we are converting traditional in-store buyers to e-commerce buyers.

E-commerce sales achieved all-time week, month and quarter highs while our stores were closed. With sales growth over 350% for the second half of the quarter resulting in over 160% sales growth for the total Q1.

To provide some perspective, e-commerce represented approximately 5% of corporate revenues in the fiscal first quarter 2019. However, our fiscal first quarter 2020 e-commerce revenue would have represented nearly 15% of fiscal Q1 2019 revenues.

While we do not anticipate our e-commerce growth rate to slow down until after we reopen our full store fleet. We are confident that we have materially expanded our e-commerce shopper base. This expanded customer base will lead to a new normalized growth rate considerably higher than it was pre-COVID-19.

As an example, for the last four weeks ending May 16th we grew our e-commerce sales over 500%. We are confident that our investments have us well-positioned to achieve our long term e-commerce sales targets years ahead of the long term strategic plan we have defined.

Turning to our store reopenings. Between May 1st and May 6th we reopened over 50% of our store fleet and as of today have 318 stores representing over 80% of our stores open. Pending any government changes we are on track to have opened over 95% of our stores by the second week of June.

Early results from the reopened stores are very encouraging. As Cliff mentioned, nearly 70% of our sales in our stores have come from loyalty members. Consistent with our prior year results and indicating our customer base is strong and ready to shop with Shoe Carnival in person again.

In fact, last week we achieved high single-digit comp growth for the total company despite having over 100 of our stores still closed. As of May 19th we have achieved mid-single-digit comp sales growth for the company for the month of fiscal May and over 530% sales growth for e-commerce.

This was further evidence that our marketing efforts, our CRM program, our compelling product assortment and industry-leading store operations are resonating with our customers even during this challenging environment.

In closing, I am thrilled our store teams are serving our customers in person once again. And are very encouraged by the continued success of our strategic initiatives. We see that our strategic initiatives are resulting in deeper customer relationships and an even stronger Shoe Carnival brand.

This positions us very well to emerge from this challenging time as a stronger company. With that let now turn the call over to Kerry Jackson to provide more insight into our financial performance. Kerry?

Kerry Jackson: Thank you Mark. As Cliff mentioned, this quarter was a tale of two very different environments. The quarter began well with sales up modestly year-over-year before we temporarily closed all brick and mortar stores mid-way through the quarter.

Where we quickly shifted our focus to e-commerce which increased triple digits in the first quarter of fiscal 2020 compared to the prior year. On the expense side we controlled expenses where we could. Eliminating discretionary spending, reducing executive and board compensation and deferring capital expenditures.

This pivot to a focus on driving cash flow and preserving liquidity allowed us to manage through this crisis without adding any debt to the balance sheet and maintaining sufficient liquidity. Taking a closer look at the first-quarter financial results. Net sales decreased 41.9% to $147.5 million compared to the first quarter of last year.

Gross profit margin for the quarter was 21.3% compared to 29.6% in the first quarter of last year. Merchandise margin decreased 190 basis points primarily due to higher shipping costs associated with the increase in e-commerce sales while buying distribution occupancy expenses increased 640 basis points as a percentage of sales due in part to the deleveraging effect of lower sales primarily related to occupancy costs.

During the time our stores were closed we worked with our landlords to defer certain payments. But in accordance with GAAP we expensed the full amount of the rent to the quarter irrespective of the payment schedule.

SG&A expenses decreased $4.8 million in the first quarter of fiscal 2020 to $54.7 million. As a percentage of net sales, these expenses increased 37.1% compared to 23.4% in the first quarter fiscal 2019. Due to the deleveraging effect of lower sales.

Significant changes in SG&A for Q1 included a decreased in employee wages, tax benefits associated with the employee retention credit under the CARES Act which offset wages. Lower earnings on our company's non-qualified deferred compensation plan. Lower equity-based compensation expense and a reduction in expenses due to store closures.

These decreases were partially offset by an increase of $2.2 million in impairment of long-lived assets recorded on seven stores in the first quarter of fiscal 2020. The effective income tax rate for the first quarter of fiscal 2020 was a benefit of 30.3% compared to 12.8% for the same period last year.

The relatively low prior year effective tax rate was primarily due to a $1.9 million tax benefit related to divesting of equity-based compensation in the first quarter of last year. The benefit reduced our effective rate by almost half in Q1 last year.

Net loss for the first quarter was $16.2 million compared to net income of $13.9 million in the prior-year quarter. Loss per diluted share for the fiscal first quarter was $1.16 compared to net income per diluted share of 91 cents in the first quarter of fiscal 2019.

As mentioned above, in the first quarter of fiscal 2019, we recorded a tax benefit in connection with divesting of equity-based compensation of approximately $1.9 million or 13 cents per diluted share.

Now turning to our cash position and information affecting cash flow. Depreciation expense was $3.8 million for Q1 compared to $4.3 million in the prior year. Capital expenditures for fiscal 2020 including actual expenditures during the first quarter are expected between $15 million and $20 million with approximately $8 million to $10 million to be used for new stores, relocation or remodels. And $2 million to $3 million for upgrades to our distribution center as we continue to focus on enhancing our supply chain.

The remaining capital expenditures are expected to incur for various other store improvements, normal asset replacement activities and continued investment in technology.

Now as Cliff mentioned, we work closely with our vendor partners to strategically manage our inventory and payables during the quarter. We received extended credit terms from our supply partners which allows us adequate flexibility to be underneath of all stakeholders at this challenging time.

As a result, we ended the quarter with $90 million of outstanding accounts payables. We also worked with our banking partners to increase our line of credit from $50 million to $100 million out of abundance of caution.

As of May 2, 2020 we had no outstanding debt and working capital of $186 million. Cash and cash equivalents were $13.1 million. Our borrowing capacity was approximately $95 million at the end of the quarter with increase in cash flow this month from stores reopening, as of today we don't have any borrowings in our line of credit.

However, we do expect to draw modestly on our line of credit in the near future as we begin reducing our payables balance. Our history of maintaining a conservative balance sheet has served us well during this uncertain time.

Looking to the balance of the year, while there are still many unknowns today. We are marching ahead with an orderly reopening of our stores in line with state and local mandates. As of today, we have 318 stores or 82% of our stores open.

While we feel there are too many unknowns to give guidance for the year, based on the results from May thus far we believe that we will end fiscal May with a mid-single-digit comp increase and fiscal June we will see a low single-digit comp increase.

July is difficult to estimate at this time. Last year, the last 10 days of fiscal July began our back to school ramp up and represented about 50% of the monthly sales. If schools continue e-learning or delay the back to school start date we could see a high single-digit decline in fiscal July resulting in a low single-digit decline for Q2.

However, if we see a traditional start to back to school we could see a low to mid-single-digit comp increase for the quarter. This concludes our financial review. Now I would like to open the call for questions.

Operator: Sure. If you would like to ask a question please signal by pressing star 1 on your telephone keypad. If you are using a speakerphone please make sure your mute function is turned off to allow your signal to reach our equipment.

Again press star 1 to ask a question. We will pause for just a moment to allow everyone an opportunity to signal. And our first question comes from Mitch Kummetz with Pivotal Research.

Mitch Kummetz: Yes thanks for taking my questions and I hope you guys are doing well and congrats on getting all the stores open. Let me start Kerry on one of the last things you said in terms of comps by month.

So May, you are looking for a mid-single-digit comp. I just want to make sure I understand what is in that number. Is that just the stores that are open? If you are at 82% you expect to get to 95% by like the middle of June. Does that include the stores that aren't open? Or is it just the comp on the stores that are open plus your digital business?

Kerry Jackson: So the way we report comps is all of our stores plus our digital business. And what we are giving is not an adjusted compared to the prior year. It is the full prior year of all stores opened compared to the stores that we do have open today, the part month and plus the digital expenses or sales.

Mitch Kummetz: Okay so even with stores closed. Again I want to make sure I am thinking about this right. Some stores are closed. You are still looking for a mid-single-digit comp in May.

Kerry Jackson: Yes as Mark said that as of today or as - that we have a comp increase for the month even though we have approximately 100 stores still closed. And as we continue to open them up throughout the rest of the month. That is where we are getting our expectations.

Mitch Kummetz: Okay. When you look at the comp trends that you are seeing in stores as you have opened the stores. I don't know if there is any way you can slice or dice that a little bit.

I am just curious if you are seeing any differences across markets? Maybe stores and large markets versus small. Maybe stores and markets with a lot of COVID cases versus few. Stores in red states versus blue. I don't know if you are sort of, you know, dissecting the data to see if you are noticing any trends. Or is it just everybody is kind of doing the same.

Cliff Sifford: Mitch I am going to let Mark take that question. In the markets where COVID was exponentially higher we are still not open. So like in Philadelphia, certain markets in New York we are still not open. And the Midwest we really were not affected the way, sadly the way the Northeast and the East Coast was. So Mark why don't you...

Mark Worden: Hi Mitch. As Kerry was saying with all the open and closed stores we are +7, over 7% at this point for the month of May through yesterday. And what we are seeing is results that far exceeded our expectations of how the customer would come out across states. Across the states that governors have relaxed or opened up. Whether it is from Texas to Florida.

We are seeing double-digit gains after we open up and as Cliff alluded to it. Traffic is down double-digit. But what we are learning is that the customers that come out are ready to purchase and conversion is up extremely high growth and units per transaction are also up very high. So we are having strong success.

Mitch Kummetz:Okay. And Cliff or Mark do you think that you are seeing any current benefit from the fact that you guys have maybe opened your stores faster than some of your competitors? Maybe within the family channel or even that you guys are in locations that were allowed to open where maybe some malls are not open. And you are taking market share from some of those mall stores.

Cliff Sifford: I think it is both. And because the malls are not open. We were open - we got our stores open pretty quickly. And you know I hate to compare this to a hurricane market. But that is typically what happens. As soon as - we prepare so well prior to a hurricane that once the hurricane passes through we are usually the first retailer to open up.

And I feel we did the same thing in this particular - during the pandemic. We were so well prepared and continued to prepare during the closed time. That as soon as we got the orders from the governors we were able to open up. And a lot of that Mitch has to do with the fact that we chose not to furlough our employees.

Mitch Kummetz: Right. And then last question. I am just - so Kerry you kind of gave the numbers sort of May, June and sort of how you are thinking about July depending on what back to school looks like. I don't know if you could provide any color on how you are thinking about the holiday season? Especially maybe how you are planning the boot business?

I don't know if you are planning conservatively because it is - maybe it is a riskier category given the seasonality and you are not quite sure what, you know, the marketplace might look like. But I am just kind of curious if you have any sort of initial thoughts on holiday?

Kerry Jackson: Mitch I know that everybody would be interested in how we might perceive the second half but we really need to see how back to school starts and what is going to happen there. How the shoppers are going to react. We gave some near term ideas because we have better visibility.

Longer term we are just not comfortable yet until we have more information from our consumer how they are going to shop and how back to school is going to open, et cetera. How GOB sales are going to occur. There are a lot of unknowns out there that make us reticent to make a comment on that.

Mitch Kummetz: Got it fair enough. All right thanks guys. Appreciate all the color.

Cliff Sifford: Thanks Mitch.

Operator: And our next question comes from (Sam Posner) with Susquehanna.

Sam Poser: Hi I will get my brother on in a second. Whoever that was.

Man: How are you doing Mr. (Posner)?

Sam Poser: I am well how are you? Good to talk to you guys. All right so let me get right to it. How much of your business - it is great your digital is up 160%. Was it month to date up over 500% is what you said I believe?

Cliff Sifford: That is right Sam.

Sam Poser: Last year in fiscal '19 what percentage was e-commerce of total sales?

Man: For the year?

Sam Poser: For the year. What are we dealing with here? What do these numbers mean? You know can you give us - can you let us hone in on how meaningful all that is? Or, you know, just so we can understand it how meaningful it is. And now that you are expecting it to keep going. How meaningful it potentially will be.

Mark Worden: Sure Sam great question. If we look just at Q1 of last year, e-commerce represented approximately 5% of corporate revenue. If you take what we just sold this Q1 that would have represented approximately 15%.

Sam Poser: Of last year.

Mark Worden: Of last year's revenues, Q1. If you look at all of fiscal '19, e-commerce exceeded 8% of company revenue for the first time. If you remember I was sharing that in the last quarterly call.

Sam Poser: Okay.

Mark Worden: As we talk about having over 500% growth during our fiscal May and having over 75% of our fleet open far exceeded our expectations in how consumers have responded to our CRM, to our marketing investment, to the assortment and we couldn't be more pleased. So like I said in the prepared remarks. We do foresee that percent to slow down as all of our store fleet opens up and consumers' shopping behavior reverts back to something more normal.

But our - but we are very confident that our e-commerce business has leap years ahead of our strategic plan and certainly represents a much larger portion of our business on a go-forward basis.

Sam Poser: I mean I assume you think that sort of on a normalized basis after this event on an annual you ran at 8% last year. You are probably thinking I would I think like 10% to 12% sort of, you know, making up for this new normal and the jump start that your e-commerce got this quarter. Would that be like a fair way to think about where your head is at, you know, for this year on whatever that number is going to be?

I mean for instance if last year, if this had happened the year before last and last year where you did 8%. That number likely be in the 10% to 12%. I assume that is what you are thinking.

Cliff Sifford: We are going to learn a ton over the next weeks Sam. Our long term goal was to drive well beyond 10% of corporate revenues into the teams. And so it yet to be seen where that is but we couldn't be more pleased with the response we have seen during the period of time where stores were closed and even now.

Like I said with over 500% growth during the fiscal month of May. We are excited how consumers are reacting and we are even more excited to learn how this plays out over the months ahead.

Kerry Jackson: I will tell you this. We are - just to add to that. We are - we know based on the fact that we have new customers shopping our site that had not shopped at before. That we are introducing a lot of people to our e-commerce site. So we expect that the e-commerce percent total should accelerate.

Sam Poser: Got you. And then when you are thinking about - well let me ask you this. You know I have heard from quite a few people who have opened stores even a handful of stores that their business has been pretty good.

I guess how much of that do you think has to do with the government money in people's hands. And you know I mean they are not - you know it is like when they get a tax breaks or the income tax refunds. How much of it is you know maybe just okay I have money and now I am coming in and spending it and that goes away when that money stops coming.

Cliff Sifford: Well there is no question that our customer and we talked about it. Ever since I have been with the company that when they get a check from the government for whatever reason, tax refund or rebate or whatever reason. They like to come in and buy shoes. They like to come in and buy anything.

So yes that is fueling it. But I will tell you that we took that in consideration as we talked about the way that we thought that May and - excuse me that June and July would come in. So if we thought the government money was going to continue to be part of what they were spending we would have got it much further up than what we did. So we took that into consideration.

Sam Poser: All right I have got a couple more. One, when you are thinking about and I am not asking the same question Mitch did about planning back half of the year. But just planning your mix in general. How much narrower from a brand and item perspective given that uncertainty are you going to get?

How much are you going to even focusing more on key items? Maybe eliminating categories such as dress shoes because I know when the next time anybody is going to sell dress shoes.

And so what are you going sort of to really hone in on, you know, sort of the way consumers - this apparent change sort of to comfort that has sort of taken another step forward during this pandemic?

Cliff Sifford: Well look I will walk you through our merchandise assortment. So our competition knows exactly what we are doing. But I think you are 100% right that dress shoes are not going to be in anything as we forward or very little especially for our customers. It is going to be more casual. And I think that is going to equate even to the boot category when that comes on.

I feel confident that as long as there is not a second wave that our inventory position and our product mix of casual boots and booties for the fall time period are going to be good.

Right now, just as I mentioned in my prepared remarks. All of that athletic and certain casual sandal categories. But and I think that is going to continue for the near term at least up until and maybe even through September. Then at that point I believe you will see the casual boot market come on strong.

Sam Poser: Right but I mean like generally if you think about next spring, you know, you are going to remix no dress shoes and things like that. I mean it is going to be hard to imagine that the casual comfort piece of your business doesn't say. Sort even become more top of mind to the consumer.

Cliff Sifford: Absolutely. I agree with that 100%. That lifestyle is going to be much more casual going into the next year.

Sam Poser: And how is your clogs business?

Cliff Sifford: One other thing too Sam. You have got to remember we are not a very good - our customers do not flock to the dress market, to the dress aisles. That is not a very strong category for us. And so we have always been known for our casual and what we call sport casual categories.

And I think that might be part of the reason our business has been stronger than we even anticipated once we got our stores open. Because customers know that they need casual product, casual sandals especially and athletic we are the place to come.

Sam Poser: Okay and then clog business and then I am finished.

Cliff Sifford: Clogs business? We have a - we don't talk about brands on this call and that was a really good try. Really good try. We have to give you credit.

Sam Poser: I know you carry at least three brands of clogs.

Cliff Sifford: So.

Sam Poser: Thank you guys very much. Good luck and we will talk later.

Cliff Sifford: All right thank you now.

Operator: Thank you. And our next question comes from (Greg Pensy) with (inaudible).

(Greg Pensy): Hey guys thanks for taking my question. Kerry I think when you were talking about the monthly same store sales trends. Correct me if I am wrong. But you haven't factored much in for going out of business sales. Just can you remind us last year you had a major competitor or company I guess close down. When did they kind of wind down as we anniversaried out of that?

And how big picture are you thinking about going out business sales? Maybe an early pain from liquidation before you grab market share. What are you seeing in the landscape this year?

Kerry Jackson: Well it is hard to tell. Last year we had a competitor going out of business and they completed theirs by the end of June. Now if you look at our comps to the first half of last year. You could say that you couldn't see it in effect. But in the second half it felt like we had an accelerated comp particularly in certain categories last year which we started to believe that was the benefit of that customer being dislocated.

This first half is going to be hard to judge right now until we actually see how they open up and what they are liquidating. What their pricing is to make any comment. It is something we have taken into account and that is one of the reasons I mentioned that we are not giving guidance for the second quarter or the remainder of the year because it is hard for us to gauge that. What that is going to do to margins and how much that is going to overlap our market areas? What product categories, et cetera.

(Greg Pensy): Okay that is helpful. And then just one final one. Do you have any exposure - kind of to the oil patch region areas you think? And how does the consumer look if so in those types of areas given the volatility we have seen?

Cliff Sifford: It is really hard to tell because we have as you know all our stores were closed. And once we opened up our stores even in those regions we saw an accelerated growth. I haven't been able to say it is because it is an oil region or not. So we have seen accelerated growth wherever we have opened up stores.

(Greg Pensy): Okay great that is helpful. Thanks a lot.

Cliff Sifford: Thank you.

Operator: And our next question comes from Chris Svezia with Wedbush.

Chris Svezia: Good evening gentlemen. I am glad you are all well.

Man: Good evening Chris.

Chris Svezia: Great job managing through Q1. Really impressive.

Man: Thank you.

Chris Svezia: So a couple of things I guess from me. Number 1, just what are you assuming for e-comm in June exactly given the 500%+ growth in May? Just what are you assuming in a low single-digit positive comp total company? What is the e-commerce makeup of that?

Cliff Sifford: Hi Chris it is Mark. We see low triple digit will continue during this period of time for the first half of the quarter. And we believe we have line of sight to low single digit continuing at least until we get to the back to the school season.

As Kerry shared in his remarks we are not ready to declare where would the consumer will go until we learn more about the back to school season. But low triple digit we foresee continuing.

Chris Svezia: Okay. And just on the - any color on margins for e-comm sales? I know it gets extremely distorted in Q1 with everything that is going on. But just help us understand given the growth that you are seeing. Any color about the margin profile that you see on your e-commerce business? Maybe year-over-year or just what you are seeing at this point on that segment.

Mark Worden: Chris are you talking about Q1 margin comments or are you talking about Q2.

Chris Svezia: Q1, Q2, any color that you want. I mean I guess I am assuming historically it is roughly in line with stores but given the acceleration I don't know if there is just leverage components. I don't know if more sales have been done at full price? Just any color about the margin profile on e-commerce only.

Cliff Sifford: Chris I said on my remarks in Q1 is there are a lot of gives and takes on the merchandise margin. It was down 190 basis points. However, the big factor to that decline was additional shipping due to the e-commerce being, you know the tail end of the quarter - the half of the quarter being the primary driver.

It was hard to tease out but that was the real reason for the decline on a year-over-year basis.

Mark Worden: And then on a more qualitative approach our pricing and promotions strategy was to drive profitable revenue and drive a high ROI through the e-comm channel while we were moving inventory into cash flow during Q1.

So we also provided our consumers free shipping during the quarter for joining our loyalty program. And we found that to be transformational in the number of consumers that we have been able to engage with. Learn more about them and to have become long term potential buyers which gives us great confidence in that triple-digit e-commerce sales growth continuation.

But I am very proud in the merchant team. The assortment they put together in this new world where we didn't have stores open. And that our pricing and promotions were strategically profitable versus a fire sale.

Chris Svezia: Got it. That is helpful. I am curious just on the inventory. With your inventories where they are you are comfortable enough bringing in additional product in June? Just any color you can provide about how we think about the margin profile as you move forward? Promotional activity whether what you see in the market, what you see in those stores that have opened relative to what the competition is doing.

Just it seems like potentially you might not have to be as aggressive on promotion to move product and generate comp. Just any color about how we should think about that?

Cliff Sifford: Chris, to be honest with you. The only margin issue that we would have is I believe the athletic will become a larger percent of our overall business for the short term. Because until everybody gets back to work I think we are going to see a strong athletic trend. And that runs the margins just slightly less than the brown shoe business.

So that might have a small effect. We really felt like we were going to have to become truly promotional during this time period to get our inventories back in line but the customers - between what we were able to do with the dinner community. That is Number 1 and I can never thank them enough with the cancellation of the movement of product into later receipt months.

And the reaction of the customers not only to our e-commerce platform but once we opened our stores. I feel like our inventories are in line. I would have never dreamed that I would be telling you that as of this past Saturday night, our inventories were actually down against last year. We are looking for inventory. We are looking for product and we are thankful that as so many people cancelled a lot of product so we can actually get our hands on some.

Chris Svezia: So just to be clear on all this. What you are observing is really from a margin perspective on gross margin is really a mix, you know, hit if anything? Not specifically price promotion. It is just more of a mix situation you see going forward.

Cliff Sifford: It is two things Chris. Our women's margins are down from a year ago. And that has more to do with the fact that we did not have the Easter and we had to get through the dress shoes and dress sandals that would have sold during that time period.

We didn't also - Mother's Day was for all practical purposes canceled. So again I had to get through some of that. So margins of women's non-athletic was a little lower. Margins in athletics is not lower and we are doing a good job there.

So I think that is all temporary. At least we had to get through that product. As you know we always, our Number 1 thought every day is inventory and making sure that we stay clean. So as soon as we saw that Easter wasn't going to happen, Mother's Day wasn't going happen we did get a little more promotional. So I think that solves itself as we move into second half of the year when category shoes become more important.

Chris Svezia: Got it okay. And last thing for me. Just on June and maybe Kerry if you could recap what you said about late July. But in June, if e-comm is still triple digit growth you have potentially almost all your stores open.

You are assuming comp moderation relative to May. Is that just because more competitor doors open up? And Kerry just remind me again what you said about the last week of (inaudible) again? Walk through that one more time.

Kerry Jackson: You are correct on June. We are assuming that more of our competitors will be open. There are also may be some pressures from GOB sales. So we felt that directionally to slow down the comp even though we are expecting a nice acceleration to e-comm. We don't want to overestimate what we will do in this time frame.

What I said in July is that taking last year's comparison. In the last 10 days of fiscal July last year we started to see the ramp-up in back to school. That represented about 50% of our sales.

We are concerned because we don't have the information yet. That if the schools continue to be e-learning or they go back to school later so they decided to pick a later date in August and shift those sales. That we could - out of July into the third quarter. We could see up to a high single-digit decline in July. Which would lead to a low single-digit decline in comps for the quarter.

However, if we see a traditional back to school tempo then we believe that for the quarter we could see based on the strength of May and June. We could see a low to mid-single-digit increase for the quarter from a sales standpoint. But it is unknown right now because the schools are evaluating what they are going to do right now. They don't have - they haven't announced plans.

Chris Svezia: Got it. Okay helpful. That is all I have for now. Thank you and all the best.

Cliff Sifford: Thank you Chris.

Operator: And our next question comes from Mitch Kummetz with Pivotal Research.

Mitch Kummetz: Yes I have got some follow-ups. So first just along the lines of one of Chris' questions on inventory. Sounds like you are pretty happy there Cliff. But I am curious given kind of the outperformance of athletic I don't know if some of that came at the expense of the sandals? Do you feel good about your sandal inventory right? Kind of where you are in the season having missed a couple of key dates. But obviously going into Memorial Day weekend.

Cliff Sifford: I do. You know the largest - I alluded to this in my prepared remarks. The Number 1 selling month for sandals is June. That is two reasons. One is warmer obvious and two is (inaudible) weak month. So we fell we are in very good shape for the month of June and even for July.

So I am not very concerned about sandals at this point. We are and I want to be clear and I mentioned this in my prepared remarks. We are selling sandals. We are selling (inaudible) sandals, we are really well selling soccer and a lot of the athletic sandals. Anything that they can wear while they are working from their home offices I guess. It is amazing. But anyway.

The dressier sandals is where we saw the issue. And we addressed that quickly through the product.

Mitch Kummetz: And then Cliff on these bankruptcies, you know, you have got Stage, Modell's, J.C. Penneys stores are closing. As you kind of look at maybe those as a group. Like where do they overlap with your business? Either by category or price point. Where is the opportunity for you to kind of steal share as some of those stores go offline?

Cliff Sifford: Well I will tell you. Modell's going away has kind of helped us tremendously in the Northeast from Pennsylvania up through New York. So I - I hate to say excited because that means people are out of work. But no I think we have great opportunity there.

And as far as Stage is concerned, you know, we have a very strong presence in Houston and throughout Texas. As Texas I believe is our Number 1 state. So we see opportunity there as well.

Again I hate to use the word excited but I think there are opportunities. From a product standpoint it will help us in athletic in the Pennsylvania Northeast market with Modell's obviously. And in Stage they weren't very strong in athletic. They are actually not very strong in any category. But where they did do well I guess would be casual women's and anyway. That is all I could say about that.

Mitch Kummetz: Okay and then on the marketing spin. I am just curious how are you guys managing that? I mean it seems like you guys were outperforming some of the competition at least currently.

Is this an opportunity to maybe ramp it up as some others are taking down their marketing in order to kind of really go for a market share grab in this environment? I am just curious how you are thinking about that.

Cliff Sifford: This is an opportunity for us to gain market share for sure and we are in the e-commerce space in particular this period of time. But we also see with the revenue down as we reported. We are looking to reduce our cost structure this year and we are looking to reduce our marketing investment commensurate with the level of revenue we see.

And I say we are being very nimble with it as things are responding and generating a positive ROI. We are investing more. And as we learn more about the consumer during this pandemic we will continue to be able to have the nimble flexibility to invest in things that are generating ROI and getting market share and pull back on things we think are not useful.

For example, we shut down some things specifically directed towards store traffic like circulars during the period of time we were closed that were able to generate some savings for the year as an example.

Mitch Kummetz: Okay and then Kerry on the - again kind of thinking about the comps for May and June. The mid-single and then the low single. A lot of that is going to be driven by e-comm. So how do you think about occupancy? I assume you are anticipating deleverage for those months despite, you know, positive comps?

Kerry Jackson: Some. At the higher end of the estimate we gave for the second quarter we will still see some leverage. At the lower end it could be much more significant. But nowhere near the 640 basis points we saw in Q1.

Mitch Kummetz: Got it okay. And then Cliff, you know, Sam was clearly out of line asking you about clogs. But I don't know if you have any comments with shoes with holes in them? I mean that is, you know, you sell lots of shoes with holes in them. I don't know if you have anything to say about that.

Cliff Sifford: You know some of the shoes you can actually buy decorative.

Mitch Kummetz: You can fill the holes.

Cliff Sifford: That is right. That is right.

Mitch Kummetz: Thank guys.

Cliff Sifford: Thank you.

Operator: And our next question comes from Sam Poser with Susquehanna.

Sam Poser: Good news I don't want to follow up on his follow up. But I do want to know, I mean are you planning to open stores this year? And if so, what is your store openings and closings look like?

Cliff Sifford: Hi Sam. We are planning. We have currently four stores with signed leases in hands that we are planning to proceed with. Because of the various states that we are opening in having different shutdown periods. The timing has been fluid and we are not ready to share yet what quarter they are opening as we still work through permitting and a variety of topics.

So yes we are. We are very excited that as we shared earlier in the year. We are in the reopening process. So we have stores where we are energized to engage with as the year progresses.

Sam Poser: And then in closings? What do you foresee closing this year?

Cliff Sifford: Closing we have put a range of 7 to 10 stores out there of stores that are delivering low ROIs. And we have seen not being accretive to continuing on with.

Sam Poser: And will we assume that most of those closings would happen in Q4 just given sort of the timing, you know, given you could hit holiday and get out of them? And with everything else is going on. Or would you foresee that happening prior to holidays so you don't have to buy inventory for them?

Cliff Sifford: There are some early in the year. For example, we have closed two already this quarter of those. And then you are correct to assume a large amount of them are in the back half of the year. We do not foresee having any inventory challenges as these are all well planned for and how the team is buying.

Sam Poser: And then looking ahead into next year do you foresee yourself net opening stores at that point, you know, on a more normalized basis?

Cliff Sifford: I would love to be able to give you visibility to that but I can't at this point in time give you guidance on that far out yet Sam. We will be able to as soon as possible and we are assessing the opportunities as fast as they present themselves. Particularly with the many GOBs and the CRMs we are learning. But we are not ready to commit to that at this stage.

Sam Poser: Got you. And then two more. I mean you sort of talked about it. You are sort of assuming that there is going to be - are you seeing - how much excessive or abnormal promotional activity relative to other years are you seeing now?

Or are things really calm and you think once the stores start reopening that is when it is going to happen? And to what degree have you worked that into sort of the direction you provided for the balance of the quarter?

Cliff Sifford: Right now things are calm but not all stores are open yet. Most of our competitors have opened some stores not all. And we just don't see a lot of competitive issues out there today.

And again with our inventory levels at where they are Sam. We are not going to get overtly promotional. There is just no reason to. In fact we are on the lookout for additional products to fulfill the customers' needs.

Sam Poser: Okay and then lastly, how are you doing with the product that comes from Niwot, Colorado?

Cliff Sifford: I hope you are doing well. I think the call - we have taken up our hour.

Sam Poser: Mitch has a follow up to that. All right thank you guys.

Cliff Sifford: Thank you.

Sam Poser: Same here. Talk to you soon. Bye.

Operator: All right gentlemen that concludes today's question-and-answer session. At this time I will turn the conference back to you for any additional or closing remarks.

Cliff Sifford: Okay thank you. I would again like to thank everyone for joining us today and I hope you all stay well. While this has been one of the most difficult operating periods in the company's history, I am very proud of what we've been able to accomplish as a team. We reacted quickly to protect our customers and employees and worked closely with our vendor partners to ensure we maintained appropriate inventory levels for both near and intermediate-term. Were, at the same time, our ongoing commitment to financial strength and flexibility will ensure we can weather this storm and emerge a stronger company. And we look forward to speaking with you again in August.

Thank you, operator.

END