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Shoe Carnival, Inc. (SCVL)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to Shoe Carnival's Third 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 these risk factors included in the company's SEC filings and today's earnings press release. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of today's date. The company disclaims any obligation to update any of the risk factors or to publicly announce any revisions to the forward-looking statements discussed on today's conference call or contained in today's press release to reflect future events or developments.

I would now 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 2020 third quarter earnings conference call. Joining me on this call today is Mark Worden, President and Chief Customer Officer; and Kerry Jackson, Senior Executive Vice President, Chief Financial and Administrative Officer. On today's call I'll provide a high level review of our fiscal third quarter 2020 results, as well as an update on our business operations. Mark will then provide an update on

how our strategic initiatives are driving growth, followed by Kerry who will discuss the quarter's financial results. We'll then open the call for your questions.

The fiscal third quarter results clearly demonstrated the strength and dedication of our team and their ability to execute on our strategic initiatives, as well as our enduring competitive differentiators. When we last spoke, we had successfully reopened all our stores, welcoming our loyal customers back to satisfy all their footwear needs in-person. Since then our corporate office has also reopened and we were excited to welcome our dedicated team back. With that being said, the health and safety of our customers and employees remain our number one priority, as such we are diligently watching and adhering to each state's COVID-19 development and any subsequent policy change.

For the fiscal third quarter 2020, we delivered exceptional results. In fact, the third quarter was our most profitable quarter in the company's history. As we had anticipated and communicated, we achieved same-store sales growth in spite of the extended back-to-school season, an achievement you are unlikely to hear from other fashion retailers.

We believe our continued strong performance, in an incredibly volatile operating environment, is a direct result of us putting our employees first and making the decision not to implement furloughs during the mandated shutdown. Instead, we kept our employees engaged, which has proven to be a tremendous competitive advantage, allowing us to reopen our stores quickly and efficiently. Back-to-school played out largely as we had thought with sales occurring later in the fiscal third quarter due to delayed start dates for nearly all of the school within the markets we operate.

Our loyal shoppers trust Shoe Carnival to have the latest trends and the best brands to make their shopping experience simple and enjoyable. In fact, Shoe Carnival has a history of delivering strong back-to-school sales results. This year marks the 18th consecutive year of comparable store sales increases during the back-to-school season, despite the delay in in-person learning. We are incredibly proud of this track record and our ability to deliver the products our customers want and need when they want it.

Mark will provide more detail on back-to-school results in his prepared remarks. At the same time, we continued to see sustained growth in our e-commerce platform, delivering another triple-digit gain in the quarter, even while our brick-and-mortar stores were open.

The execution of our merchandise strategy in the third quarter was second to none. Our merchants in partnership with our vendors were able to keep our inventories fresh and in line with key trends and brands to ensure Shoe Carnival maintain the superior selection of the merchandise our customers were looking for. This focus allowed us to significantly reduce our promotional cadence, which, in turn, drove higher ASPs and a 260 basis points improvement in product margin. As a result, gross profit increased 110 basis points for the quarter.

We replenished fast-selling products, including higher performance sandals and athletic, further driving sales growth and providing the Shoe Carnival customer the differentiated and satisfying shopping experience. Once our merchant team solidified our back-to-school assortments, they quickly turned their attention to holiday and by the time we ended the third quarter, we had transitioned our stores to a great selection of products across all categories for fourth quarter selling.

Our investments in technology continue to drive growth across the organization. E-commerce sales this year are exceeding our three-year target level, while achieving a significantly higher merchandise margin. And I'm very happy to report our Shoe Perks loyalty program continues to expand, now reaching nearly 26 million members

Looking at comparable store sales by department for the quarter, adult athletics continued to outperform. The category was up high single-digits overall, driven by strong growth in both women's and men's product categories. Women's athletic were up low double-digits, while men's athletic was up mid-single digits for the quarter. Sales in both men's and women's non-athletic categories were driven by sandals, canvas casuals and utility. Consistent with the last quarter, dress shoes were down double digits, reflecting a more casual and active lifestyle as many offices remain closed.

Kids' comparable store sales were down low single-digit as a result of a delayed back-to-school and remote learning. Kids' non-athletic was up mid-single-digits, while kids' athletic was down mid-single-digits for the quarter. However, sales rebounded significantly in October as they began to return to in-person learning.

We ended the quarter with inventory down 5.6% on a per store basis. However, as I mentioned a moment ago, we continued to work closely with our vendor partners to replenish key categories and classifications that are driving our sales. We are very comfortable with the amount of inventory flow that we have coming in for the holiday period, and I'm especially happy with the terrific selection of fall and winter boots, as colder weather will dictate a transition to more seasonal footwear.

We remain focused on our financial strength and flexibility, as our discipline in this area has proven to be invaluable as we navigate these ever-changing conditions. As I've mentioned, we have continued to support our employees and even with this investment in our people, we remain debt free. We ended the quarter with approximately \$47million in cash and cash equivalents. Our strong balance sheet, combined with our strategic investments and superior execution has allowed us to make incredible progress on our long-term goals and will continue to guide us through any challenges ahead.

The current environment continues to make it difficult to provide clear guidance. Therefore, we will not be providing Q4 guidance. I will say that we're encouraged by our market share gains in Q3 and feel we are well-positioned to continue capturing market share in the future. We're being vigilant to ensure our employees and customers remain safe, and that Shoe Carnival continues to execute and create long-term value for all stakeholders.

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 Jonathan Worden

President and Chief Customer Officer, Shoe Carnival, Inc.

Thank you, Cliff. The Shoe Carnival team achieved incredibly strong results in the third quarter, despite a macro environment that continues to be unpredictable. At the same time, we advanced our core strategic initiatives. We acquired new customers. We grew our market share and achieved record quarterly profits. I'm very proud and so thankful for our 5,000 plus employees' commitment and their customer focus during this challenging macro environment.

So, in Q3, we achieved our 18th consecutive year of sales growth for the back-to-school sales period. During the last earnings call, we shared that we anticipated the back-to-school selling period to start later than it has historically and extend further into early October. This is precisely what happened. Our 2020 back-to-school season occurred throughout all of August, September and continued into early October.

While the course selling period ended by mid-October, not all school systems have returned to in-person education with 36 school districts or nearly 10% still continuing virtual-only education by the end of October. The key to our third quarter profit results was the team's ability to quickly and efficiently shift our marketing investments out of our traditional TV and print plan in early August into targeted digital, marketing, social, CRM, and store experience elements spread later in Q3. This decision enabled us to be nimble with our investments and react to school districts' back-to-school date announcements as they happened. As a result, we're very pleased with our ability to capture market share during Q3 and to deliver same-store sales growth of nearly 1% for the quarter.

Our digital marketing and e-commerce efforts continue to far exceed expectations. Even with all of our brick-and-mortar stores open for Q3, e-commerce sales grew over 150%, achieving high double digit traffic growth and sales growth of over \$20 million. E-commerce revenues surpassed 13% of total company revenues for the third quarter. For comparison, Shoe Carnival's e-commerce sales represented less than 6% of fiscal third quarter revenue in 2019. A world-class merchandising team had the product customers wanted to purchase whenever and wherever they chose to shop. The strong inventory position enabled us to achieve substantial conversion growth, both online and in our stores while significantly reducing our promotional intensity. For example, we delivered an increase in e-commerce product margins of over 200 basis points for the quarter by eliminating low return on investment promotions. Our efforts against our e-commerce growth strategy remain well ahead of our strategic plan and we will continue to invest to grow this business in the years ahead.

Our industry-leading CRM strategy continues to provide valuable customer insights to our business, resulting in more efficient and effective marketing outreach. We delivered a nearly 10% increase in Shoe Perks loyalty membership compared to the third quarter of 2019 and a rapidly approaching 26 million members. We also continue to see Gold members track significant sales, margin and profit dollar growth in the quarter versus Q3 2019. The average basket size of a Gold member was over \$18 higher than a non-member in the quarter. So converting our customers into Gold members continues to be a high priority strategy.

Additionally, our investments in essential technology infrastructure continue to enable our growth strategies. Despite the pandemic, during Q2 and Q3 we effectively rolled out a new warehouse management system and a new order management system. These technology platforms helped enable the realization of our triple digit e-commerce sales growth achieved in 2020. Importantly, these technology enhancements enable a long runway of profitable e-commerce growth in the years ahead for Shoe Carnival.

As we continue to navigate the current environment, we are making continued progress against our long-term real estate and store profitability strategies. During the quarter, we opened one new store within existing markets and did not close any stores. We anticipate one opening and one closing through the end of the year, bringing our year-end store total to 383 stores. We continue to closely monitor the markets in which we operate and make strategic decisions based on store and market profitability.

In closing, I continue to be very proud and thankful of our team members driving sales growth, the record profits achieved during the quarter and the continued success advancing against our long-term strategic initiatives.

With that, let me turn the call over to Kerry Jackson to provide more insights into our financial performance for the quarter.

W. Kerry Jackson

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

Thank you, Mark. As Cliff and Mark both mentioned, we saw another strong quarter in an unpredictable environment thanks to our team and their continued commitment to delivering on our strategic priorities. We delivered sales of \$274.6 million in the quarter with comparable store sales of nearly 1% driven by e-commerce sales. This quarter's comparable store sales growth was on top of a 3.5% comparable store sales increase in the third quarter of fiscal 2019. Our e-commerce business sustained triple-digit growth, while our brick-and-mortar store sales during the quarter were negatively impacted by delayed back-to-school shopping and COVID-related uncertainty in the quarter.

Our gross profit margin for the quarter increased to 32.0% compared to 30.9% in the third quarter of last year, making it Shoe Carnival's most profitable quarter ever. Our merchandise margin increased 160 basis points, while buying, distribution and occupancy expense increased 50 basis points as a percentage of sales. The increase in the merchandise margin was primarily due to lower promotional activity during the quarter. An increase of 260 basis points in our product margins offset 120 basis point increase in e-commerce shipping expense. The increase in buying, distribution and occupancy cost as a percentage of sales was primarily due to higher distribution expense.

Investments in our distribution center this year resulted in higher software, depreciation and labor cost for implementation during the third quarter. These investments will allow our distribution center to assist the stores in fulfilling e-commerce orders as we rapidly grow our e-commerce sales.

SG&A expenses increased \$1 million in the third quarter to \$67.6 million, primarily reflecting higher advertising and e-commerce related operating expenses. As a percentage of net sales, SG&A increased to 24.7% compared to 24.3% in Q3 last year. The effective income tax rate for the third quarter was 26.8% compared to 24.9% in the same period last year. The lower tax rate in the prior year was due to a favorable adjustment last year which did not recur this year. Net income for the third quarter was \$14.7 million compared to net income of \$13.7 million in the third quarter last year.

Net income per diluted share for the third quarter was \$1.03 compared to income per diluted share of \$0.94 in the prior-year third quarter. Net income and diluted net income per share in the quarter were all-time records for the company.

Now turning to our cash position and information affecting cash flow, depreciation expense was \$4.2 million for the third quarter compared to \$4.3 million in the prior-year quarter. Capital expenditure for fiscal 2020 including actual expenditures through the third quarter are expected to be between \$14 million and \$15 million with approximately \$8 million to \$9 million to be used for new stores relocation and remodels. The previously mentioned upgrades to our distribution center are expected to be about \$4 million.

As Cliff mentioned, we continue to work closely with our vendor partners to strategically manage our inventories. As a result, inventory declined 5.6% on a per-store basis and we ended the quarter with inventory of \$274.3 million, a decrease of \$23.7 million compared to the prior-year third quarter. As of October 31, 2020, we had no outstanding debt and working capital of \$215 million. Cash and cash equivalents were \$46.7 million and our borrowing capacity was just shy of \$100 million at the end of the quarter.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And your first question comes from the line of Mitch Kummetz from Pivotal Research. Your line is open.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Hi. Thanks for taking my questions. I wanted to start by digging into the Merch margin a little bit. So, Merch margin up 160 bps, product margin up 260 bps; Kerry, is the difference to e-comm shipping, was that 100 bps of pressure on the Merch margin?

W. Kerry Jackson

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

A

There was 120 bps of margin pressure for the increased e-commerce shipping.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Okay. And then the 260 bps increase in product margin, I would imagine that there was a little bit of pressure with athletic comp being up I think close to the high singles. So that was better than your overall comp. That – was that not the case?

Clifton E. Sifford

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

A

Mitch, the reason Merch margins were up had everything to do with, we became less promotional during the quarter.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Right.

Clifton E. Sifford

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

A

What we found was that we had a tremendous selection in athletic product. We had a good selection of product that the customer was looking for and there was really no reason for – I have to say – I don't want to talk about competition, but I think we had a superior selection of those kinds of products that the customer was looking for and really we look at each other and said, why the world are we going to promote this? Customers are coming in and buying, let's get every penny and margin we can out of it and that's the decision we made.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Yeah.

[indiscernible] (00:21:00)

Clifton E. Sifford

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

A

Just one second. The greater part about Shoe Carnival – and we can make those decisions on a daily basis as the [indiscernible] (00:21:07) such that a business can turn sour at any time during that time period and we could have added all of those promotions pretty much the very next day.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Yeah, the reason I asked about athletic is because I would have guessed that that was a bit of a drag, which – the reason I wanted to get that answer was because I would think from a like-for-like standpoint, your product margin was up even more than 260 basis points. Do you see what I'm getting at?

Clifton E. Sifford

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

A

I'm trying to go with you. What are you – what...

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Well, I would have thought with athletic more than the overall business, typically that's a bit of product margin drag, so if you were sort of to adjust for that, that would suggest that the product margin was even stronger than the \$260 million. Does that make sense?

Clifton E. Sifford

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

A

Yeah. I hear you. I think it all had to do – it could have been – so, let me say it in another way. Sandal margins were really strong, athletic margins very strong because we weren't near as...

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Yeah.

Clifton E. Sifford

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

A

...promotional as we were a year ago. We actually cancelled one of our back-to-school insert because we just didn't need to do it. And that then allowed us to get additional margin out of the product...

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Yeah.

Clifton E. Sifford

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

A

...that we sort of gotten.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

So what's the takeaway for Q4 on the product margins? Again, I think some of reason why you were able to avoid the promotions was just because you guys had great product and channel inventory's pretty lean. I would imagine you feel equally good about the product and channel inventory going into Q4, although I don't want to put words in your mouth. Would that suggest that you would expect a strong fourth quarter for product margins?

Clifton E. Sifford

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

A

Well, as I said in my prepared remarks, I'm very pleased with the merchandise selection that we have today, I'm pleased with the level of seasonal product, I'm pleased with the level of athletic product. But we're not going to give – well, there's just too many unknowns going into Q4 and we just can't give any guidance.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Yeah, a couple of things. Cliff, on boots, you made a few comments on boots. It's been warm, I know that those things kind of even themselves out and I would imagine – I think December was warm last year, so maybe there's an opportunity there. But can you kind of just speak to – if I recall it correctly that's about 25% of your Q4 typically and I think you were encouraged about boots going into the holiday season although I think as an overall category you have it planned; down – I think casual up and dress down. So just anything more you can say about your outlook for boots and the importance of whether to kind of really get that going?

Clifton E. Sifford

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

A

I'll say this. You take good notes. It is about 25% of our total volume for the fourth quarter. And we've experienced warmth beginning from the fourth quarter in the past. And what we found is that when the weather turns cool and the customer can't get out and walk the neighborhood because it's just too cold to do so, at that point they buy boots. And the boots we have this year and the selection of boots this year are a little different than years past, not because people aren't in their offices. Very casual and very warm – cool weather-driven. I was going to say warm to wear, but cool weather-driven.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Okay. And then I guess lastly, speaking of good notes, I think we all – a few of us asked you on the last call if you could comment on any benefits that you saw from some of the bankruptcies out there. And I think you said that you'd be better prepared to address that on this call. So I don't know if you have any new information to provide there.

Clifton E. Sifford

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

A

I'd love to be able to pass that question over to Kerry or Mark, so I won't have to answer it. But if they answered it, they'll have any – anything to add to that. There are – what we saw is that early in the quarter is I've said everything was – everything turned on as soon as the schools were announced that when they were going to open, we had a pretty tough August as we related in our last call. But once schools started to come back, things popped everywhere, not just in the markets where we lost competition. So, I don't really have a lot to add to that.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Okay.

[indiscernible] (00:25:47)

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Yeah. Yeah.

Mark Jonathan Worden

President and Chief Customer Officer, Shoe Carnival, Inc.

The back-to-school was so unusual. We were so delayed for the quarter, it's really hard to tease out what were the various changes other than the big picture that the schools went back to later and a lot of sales were shifted like Cliff said in his speech into September and October.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Right. Okay. Thanks, guys. Good luck.

Clifton E. Sifford

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

Thank you.

Operator: Your next question comes from the line of Sam Poser from Susquehanna. Your line is open.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Good afternoon, everybody. Well, let me just follow up a little bit on the margins. I mean you just adjusted – just put it to bed. You guys chose not to be promotional because your inventories were clean and you didn't need to be and you had items people wanted to pay regular price for.

Clifton E. Sifford

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

Our inventories are always clean because we're very conscious of keeping clean inventories. But what we saw, Sam, and your – so the rest of your answer is correct. Customers were coming in. They were very focused, incredibly focused on what they wanted to buy and there was just no reason for us to give margin away on that product.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Okay. And then can – you mentioned that – what were the store comps down in the quarter? You sort of hinted at that one, Kerry, I think.

W. Kerry Jackson

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

A

We're only given the overall comps and not the individual components.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Okay. And then, when...

[indiscernible] (00:27:19)

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Yes, I know that. You said they were down. You gave us direction, but I wanted a little more direction. You talked about the stores. Given how well you are doing, it looks like the CRM is working, you're driving – you're gaining share as you put it. Where does this leave us thinking into next year about store – net store openings, being more aggressive with store openings, and so on and so forth? Do we – are you going to step on the store openings – are you going to step on the store opening gas? Are you intending to do so?

Clifton E. Sifford

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

A

Well, there's – one, having a good quarter and going out to the real estate market and saying okay, now we're ready to open up a lot of stores, that just doesn't happen. Those are long-term, slow processes. So, I'm not going to comment on whether we're going to do store opening. I'll comment on this; we can't make a decision on the third quarter store opening and next year and that actually happened. So...

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

I'm not asking you that. I'm saying, like you had a much better than everybody else's Q2 also, so the evolution over this year so far, has that driven any increase in your store opening plans over the last six months? For next year – do you anticipate you'll have net openings next year, and if so, how much?

Mark Jonathan Worden

President and Chief Customer Officer, Shoe Carnival, Inc.

A

Hey, Sam, it's Mark. We're going to continue to be conservative capital viewpoints at this moment of time with all the volatility going on in the macro environment. So at this point, we're not putting guidance out there related to the store count. But as we've previously shared, we do not envision having a net new store openings in the 2021 perspective. But the world is evolving very rapidly, so we're not ready to put a firm line in the sand. We're staying nimble. We're evaluating the markets. We're evaluating going out of business of competition and markets we're strong in, and we'll continue to evaluate as we get more clarity in the – the COVID-19 evolution over the months ahead.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Thank you. And then two more. One, can you give us the comps by month or at least the general direction of comps by month...

W. Kerry Jackson

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

A

Yes, August was down in the mid-teens, September was up in the high 20s and October was up mid-singles.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Okay. And then lastly, Nike's made some decisions to close a number of retailers including a lot that sort of overlap regions that you have stores. Do you foresee this as an opportunity? I know you've talked about; you have a bunch of the Nike shops in the stores. Do you foresee this as an opportunity for next year, and how many of these shops do you have now and are you planning on opening?

Clifton E. Sifford

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

A

Sam, we are so excited about our partnership with Nike and continued strength. We have over 100 Nike shopping shops currently within the Shoe Carnival fleet and our plans over the next three years start to have over 100 more rolled out across the fleet. They have – north of half of our overall store footprint that might be shopping shops. So they've been a wonderful brand statement, a tremendous assortment that a merchant [indiscernible] (00:31:07) has with Nike Company and we think our opportunity lies to continue to conduct phenomenal assortment we have with Nike with our family of footwear shoppers. So we think we're in a really good shape.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

And as far as the other retailers, Nike being pulled from a number of other retailers that you overlap with, I mean how is that impacting – no need to be specific – but how is that impacting the way you're planning forward in general, because that should help drive some traffic to you to buy theoretically Nike as well as other stuff.

Clifton E. Sifford

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

A

Sam, that'd be giving – the concern, the strength of Nike to our overall sales that would be – actually be giving guidance. I'll tell you that we have incredible relationship with Nike. We've spoken with them many times over the past – this past quarter. And so, our relationship has never been stronger and the opportunity that presents itself will be addressed both companies.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Thank you. I'm going to vote for you for President in four years and thanks guys very much.

Clifton E. Sifford

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

A

Thank you, Sam.

Operator: Your next question comes from the line of Greg Pendy from Sidoti. Your line is open.

Gregory Pendy

Analyst, Sidoti & Co. LLC

Q

Hey guys. Thanks for taking my question. Can you just remind me – I know for a while you had 10% as your long term target for e-commerce stuff. Did you up that recently and what is the new target, if you did? When you spoke earlier on to [indiscernible] (00:32:56) I think you mentioned giving here, a long-term e-commerce target. Is that 10%?

Mark Jonathan Worden

President and Chief Customer Officer, Shoe Carnival, Inc.

A

Hi, it's Mark. Our multi-year goal was to reach 15% in our plan. With the strength of the consumer switching to e-commerce, we have increased that and we are aiming for a 20%-plus objective in the next three to five years. So we continue to see a great reaction from conversion once a consumer is engaged with Shoe Carnival's online business and traffic is surging with CRM activity. So, yes, we have significantly increased our expectations.

Clifton E. Sifford

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

A

But the only thing I'm going to add to that – and Mark mentioned it was our – was the CRM program. The – I think the most positive thing we've done over the past three or five years was to implement, in my opinion, the best CRM program in the family channel. We have the ability here – and I've talked about it many times – ability to talk one-on-one with our customer and drop into either our e-commerce site or to our stores. So we do see – and we think that with the one positive coming out of the COVID-19 is the fact that our customer has discovered our website and this gives us tremendous opportunity to execute our long term vision in the short term.

Gregory Pendy

Analyst, Sidoti & Co. LLC

Q

All right. So the I guess going out to what Sam affirmed on the prior questions about just store growth, if they are becoming – if you're growing towards 20% in e-commerce and every time you search shipping centers, how important is it to get sort of closer to the customers and be sort of nationwide, because it seems like you are slowing a bit on the store growth and your presence on the West Coast might be a little bit lag, I mean, how important is it to be closer – to get more stores out there to lower your shipping costs?

Clifton E. Sifford

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

A

If you look at that strategic target we have out there to achieve 20% in three to five years, we can surpass that within our existing footprints of the 35 states we operate in. We've got significant whitespace within those states as highly profitable, strong brand awareness and great affinity. Longer term, there are certainly opportunity for nationwide growth and significant penetration in the years beyond that three to five year window. So, we really see this as a tremendous mid-term growth, both revenue, share, and profit engine as then moving into a long-term growth as the customer moves more and more online.

Gregory Pendy

Analyst, Sidoti & Co. LLC

Q

Okay, great. Thanks a lot.

Clifton E. Sifford

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

A

Thank you.

Operator: Your next question comes from a line of Chris Svezia from Wedbush. Your line is open.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Good afternoon, gentlemen. Nice job on the quarter.

Clifton E. Sifford

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

Thank you, Chris.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

So Mark, first question for you, e-commerce, digital up 150%, seems like that accelerated coming out of August, just what was the trend line throughout the quarter? And any reason we should step back and say that should moderate it all going into Q4. Just any color about the trajectory and store process broadly as we think about Q4 the comparison versus last year, et cetera, would be helpful?

Mark Jonathan Worden

President and Chief Customer Officer, Shoe Carnival, Inc.

We saw a triple-digit growth on our e-commerce business growing throughout the Q3 period, particularly as the back-to-school dates became live later in the September timeframe and continuing onto October. We – as we said on the call, we intentionally shifted our activities to engage with the customer as those back-to-school day happened, so they were quite nimble being able to move day-by-day, week-by-week to adjust to the schools when they went back to school.

It continued to generate 150%, but as I was saying, heavily weighted in the higher triple-digit growth towards the back-to-school dates from September onwards. In terms of go-forward, as Cliff said, we're not going to give guidance, per se, but we remain very confident in our position for e-commerce. The customers' engagement from a conversion perspective continues to meet our strategic goals. And I think we're quite optimistic that we have a right to continue to grow our market share here now and in the future.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Got it. Was fair to say October was pretty similar to September in terms of overall growth on e-comm?

Mark Jonathan Worden

President and Chief Customer Officer, Shoe Carnival, Inc.

It would be fair to say September and October were very similar, strong triple-digits, yes.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Okay. With regards to the margin shipping expense, 120 basis points headwind, I think that's down relative to what it was last quarter, correct me if I'm wrong, but as we roll forward with everything you're doing from targeted promotions and [indiscernible] (00:38:35) CRM on the digital side in addition to this new warehouse update, does that pressure point moderate, so that as we roll through Q4 and into next year, that pressure on shipping expense lessens, obviously, because of the growth next year, but just curious about your thoughts on that?

W. Kerry Jackson

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

A

For shipping expense, our per package basis continues to escalate, but the biggest driver for us is the comparison of the volume. So, last year after we started our CRM program, we increased our e-commerce penetration by quarter, which Q1, Q3 last year it was about 5% to 6% and Q4, we did about 11%.

So, our comparison in Q4 this year will not be as big a delta between what we did last year in Q3 to this year in Q3, so that we should see while we see pressure against our shipping charges, it should not be as large just because our volume delta won't be as large as it was in the prior quarters.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

Okay, got it. And moving now Q4 will be down relative to what you've probably thought in Q3 because of the volume in Q4 last year. Okay, got it. No, it makes sense. I'm curious, just on boots, Cliff, how you're – just remind me of how you're planning in for the season?

Clifton E. Sifford

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

A

Down mid.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

I'm sorry, you said down, like mid-single-digits, I didn't catch what you said.

Clifton E. Sifford

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

A

Down mid-single-digits, sorry, my bad, I didn't put digits in there, but, yeah, down mid-singles.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

Okay. And just on the – I'm curious, I know you're not going to give guidance here necessarily, but I'm curious with sort of the momentum you had in October, digital clearly being strong, you're through sort of the challenges of back-to-school. Any reason or give me the reasons why you wouldn't potentially see a positive comp, [indiscernible] (00:40:56) low single, what are the things that you're cautious about? Obviously store shutdowns to some degree, you have the benefits of digital, so I'm just curious how you think about that in terms of Q4 and comp growth?

Clifton E. Sifford

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

A

Well, there's been an upsurge in the virus and we have no idea what's going to happen state-by-state, the Governors were in charge of that. So, I'm not being smart here, but if we had better visibility of that, then I can give better visibility on guidance. But no, the issue is that until we get a vaccine, and customers feel comfortable getting out again, I think giving guidance any quarter until that time period is going to be tough.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

Let me ask this way, if you don't see any store closures or any material store closures?

Clifton E. Sifford

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

A

We do not and it does not appear at this point that that's going to happen at this point. The Illinois Governor has limited hours of restaurants, but has not talked at all about the retail.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

Okay, just on – lastly from me, just on the SG&A side, just Kerry [indiscernible] (00:42:31) year-over-year, just anything we should think of [ph] LGD (00:42:34) delayed by any chance, or is that real SG&A growth year-over-year and any thoughts as we sort of roll forward we should be mindful of will be helpful?

W. Kerry Jackson

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

A

Well, the increase in the SG&A was really two factors. If you remember, in our prior call, we said that we shifted our advertising to more reflect how we thought the schools are going to go back. So we saved advertising dollars in Q2, particularly in July. And we redistributed those in the September and October timeframe to follow – to have it follow where we thought the customers could be shopping.

So, the biggest increase on a year-over-year basis in Q3 was advertising and then to the other standout was because of higher e-commerce level expenses associated with e-commerce were up on a year-over-year basis.

Christopher Svezia

Analyst, Wedbush Securities, Inc.

Q

Okay, got it. Okay, that's all I have. Thanks guys.

Clifton E. Sifford

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

A

Thank you.

Operator: And we have a follow-up question from the line of Mitch Kummetz from Pivotal Research. Your line is open.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Q

Yeah, thanks. I've got a few more. So, I guess to start with on the digital side, I'm curious to get your thoughts on whether – how much better positioned are you than you were, let's say a year ago, just given where the Shoe Perks membership is, the Gold membership, any CRM learnings over the last 12 months? How confident are you in the e-comm business relative to a year ago given sort of those dynamics?

Clifton E. Sifford

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

A

Extremely confident in our progress against the strategic plan and delighted with the way the Shoe Carnival customers responding. When we look back a year ago, the e-commerce business represented less than 6% of our total revenues and for this latest quarter it surpassed 13%. We really feel that the clear profitable line of sight with all of our technology infrastructure now in place, with a team that is exceptional, and with our continued world-class merchandising, we think, we absolutely had a clear trajectory to get to 20-plus-percent of the company's revenues in the next three to five years. So, we're very confident on it.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Got it. And then I think it was mentioned, I can't remember who said it, but the 10% of schools were not yet back in session by the end of October, I'm guessing that probably those schools aren't going back until maybe January. If that's so, how much do you get – how much do you think that will play into the holiday season that you'll get maybe just kind of a small back-to-school season in December? I mean, for the kids that haven't gone back in person yet, that might be going back in January for second semester, is there something potentially to that?

Clifton E. Sifford

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

I think anytime you have a school opening, especially the one that's going to open – we do have a few schools that are going to go back to in-class learning the first part of January. I do think that you'll see in those particular cases, the athletics business, and maybe even the boot business picked up for those kids. But it's such a small percentage overall of our stores that we chose not to even talk through that other than mentioning it.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Yeah. And then just Cliff last thing on just on the product side, there's been a lot of talk about kind of what – how COVID is impacting the business and obviously, the dress business [indiscernible] (00:46:22) athletic businesses is good. I'm just curious when you guys – when you gave your numbers on the products, I think you said adult athletic was up high singles, but then kids' athletic was down mid-singles. I assume that there's adult athletic that's flowing into the back-to-school business, I guess, my question is, to what extent can you disaggregate in the quarter what was back-to-school versus just a rising tide from the strength of sort of health and wellness? And how much do you think that that's a real thing that should continue to drive your business in the fourth quarter as well?

Clifton E. Sifford

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

That's a tremendous question and [indiscernible] (00:47:05) we ask ourselves the same thing, here's what I know is that our athletic business took off when businesses started shutting down and customers started – or people started getting out and exercising more. Our athletic business in the second quarter was terrific. And then in the third quarter, we got a little concern, especially in the kids' arena, because the kids' business was not good. And we felt it was due to the later back-to-school and that proved itself out as schools began to open late September, early October. It just wasn't – there wasn't enough time for us to breakeven as you look in kids' athletic from the time that schools began to go back and at the end of the quarter that makes sense. So, the kids' athletic business, the only thing I'd say about fourth quarter, continues to be good as kids are returning to school and finding a need to replace their athletic shoes.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

All right. Thanks again, guys.

Clifton E. Sifford

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

Thank you.

A

Operator: And we have another follow-up question from the line of Sam Poser from Susquehanna. Your line is open.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Thanks again. So, with all your e-comm, what are – how is curbside pickup working for you? How many stores do you have that in? And as you evolve and as – whenever the vaccine comes, which would then theoretically – it helps more store traffic, what are you going to do in your communication with the consumer to drive more people to the stores going forward?

Q

Clifton E. Sifford

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

Sam in our current model our focus is on buy online pick up in store, and we are messaging and engaging with customers, so they understand they can have the product right to their home in many different fashions, or they can come in and have a great Shoe Carnival experience. And so we've focused the message on the buy online pickup in store.

A

In terms of a go-forward basis, we think that's incredibly important lever because the Shoe Carnival experience brings so many advantages when you do come in store that our focus is trying to convert that customer to be an omni-channel shopper. They're the most profitable, they're the most loyal, and they get to have that experience, which is a delight for my 5,000 plus passionate employees who care so much and give that great service, as well as the convenience of 24-hour shop in online, deliver right to your house, in any fashion you like.

We make great strides on buy online pick up in store during the last six months. They've been significantly growing as a percent of our online orders, particularly as shipping becomes more and more expensive during the past year for all retailers.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Can you give us some idea of what percentage focus is to your sales and are you going to do a reserve online pick in store feature as well?

Q

Clifton E. Sifford

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

It's still less than a quarter of our orders and it's growing at a very rapid pace. So, we think there's a lot of upside for us to have that ongoing customer engagement. We absolutely have communication with our nearly 26 million CRM members to have it, like I said, right to their doorstep and as quick as they like to long, highly efficient value deliveries or help them at the store later on that day.

A

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Thank you very much.

Q

Clifton E. Sifford

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

Thank you.

A

Operator: And there are no further questions at this time. Mr. Cliff Sifford, I turn the call back over to you for some closing remarks.

Clifton E. Sifford

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

Thank you. I would again like to thank everyone for joining us today and hope you all stay well. I continue to be proud of what our Shoe Carnival team has been able to accomplish in this ever-changing environment. Our commitment to financial strength and flexibility will ensure the continued success of our business. We hope you and your loved ones are staying safe and healthy and that you have a happy Thanksgiving. And we look for then holiday time period and we look forward to speaking with you again in March. And once again, thank you.

Operator: Ladies and gentlemen, this concludes Shoe Carnival's third quarter fiscal 2020 earnings conference call. Thank you for participating. You may now disconnect.

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