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# Shoe Carnival, Inc. (SCVL)

## Q4 2020 Earnings Call

# CORPORATE PARTICIPANTS

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**Sam Poser**
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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good afternoon, and welcome to Shoe Carnival's Fourth Quarter and Fiscal Year 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 that caused the company's actual results to be materially different than those projected in such statements.

Forward-looking statements should also be considered in conjunction with the discussion of risk factors included in the company's SEC filings and today's earnings press release. Investors are cautioned not to place undue reliance on these forward-looking statements which speak only as of today's date. The company disclaims any obligation to update any of the risk factors or to publicly announce any revisions to the forward-looking statements discussed on today's conference call or it contains in today's press release to reflect future events or developments.

I'll now turn the conference call 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 fourth quarter and fiscal year earnings conference call. Joining me on the call today are Mark Worden, President and incoming Chief Executive Officer; Carl Scibetta, Senior Executive, Vice President and Chief Merchandising Officer; and Kerry Jackson, Senior Executive Vice President, Chief Financial and Administrative Officer. As you saw last week, we announced that I will be transitioned to the Vice Chairman role on September 30 of this year, and Mark Worden, currently President and Chief Customer Officer, will succeed me as President and Chief Executive Officer.

On today's call, I want to focus my comments primarily on this transition, which has been well-planned and marks a new and exciting chapter for our company. I have always had complete confidence in our team throughout the organization. Our stores are run by the most tenured management team in the shoe business. They open the doors every morning as if they're opening their own business. They have passion and skills, which creates an unstoppable combination. We have built the best merchant team in the shoe business made up of tenured professionals who have industry-leading institutional knowledge of our customers and how they shop. Our management team on every level also has a tremendous track record and passion for the success of this unique concept.

This announcement is a culmination of a multiyear succession plan we established when Mark joined the company in 2018 which was aimed at ensuring a seamless transition of leadership. This is critical as we position the company to continue our strong track record of financial and operational performance while at the same time maintaining our commitment to our employees, customers, vendors, and shareholders.

Mark and I have worked closely together over the last several years, and his clear passion for our concept and vision for this business gives me great confidence in his ability to lead Shoe Carnival into our next chapter. His strategic direction, deep knowledge of our customers, and unwavering commitment to our employees make him the perfect fit for the job. He has been instrumental in the company's growth since the day he started in 2019. So our transition to Vice Chairman was unwavering confidence that Shoe Carnival will not miss a beat, and I have tremendous confidence that Mark will take Shoe Carnival to new heights. We also made several other leadership changes we believe will enhance the current leadership and provide deep bench strength across the organization. Mark will talk more about these changes in his comments.

Looking back to my time as CEO, I'm extremely grateful for the opportunity to have led a team as talented as the Shoe Carnival family. We have accomplished so much together, both financially and operationally, over the last nine years.

From a financial perspective, we grew revenues to over $1 billion, delivered 11 consecutive years of comparable store sales growth leading into 2020, realized best-in-class merchandise margins and maintained disciplined capital management throughout various economic cycles, most recently as it relates to the COVID-19 pandemic.

I could not be prouder of the Shoe Carnival team's performance throughout 2020 especially considering the ongoing impact of COVID-19 on the retail industry and broader economy. We saw record results for the year. And because of our strong balance sheet, we were able to keep all our employees working. Operationally, our accomplishments over the past nine years have been plentiful. First, we re-launched our e-commerce platform which grew to approximately 20% of our sales. And most importantly, we are ready when our customers needed it most. We also reinvigorated our Shoe Perks loyalty program that grew to 26 million members from 1 million members we could not communicate with. I am happy to say Shoe Perks was responsible for approximately 67% of our overall sales in fiscal 2020.

We have also been in several news systems over the years including the industry-leading CRM program that has brought new sales both online and in our brick and mortar stores. It is transportation management system and order management system. And later this year our buyers will be managing their distribution and orders through a new planning system. These systems have enabled our employees to work more efficiently, saving the company time and resources.

We also established several new programs that have supported our commitment to our customers including our Shoes 2 U program which opened up total company inventory to all stores. And we were first to offer shift from store which just simply turned every store into an e-commerce fulfillment center. Our strong fourth quarter and fiscal year 2020 results are true reflections of the resiliency and dedication of our Shoe Carnival team and their unwavering support of our loyal customers.

It was just a year ago when we announced the closing of all our retail stores, and as a team we quickly shifted gears to meet the needs of our customers, exponentially growing our e-commerce business. By June, we had safely reopened our stores faster than any of our competitors.

Looking back on what we were able to achieve in a time of such uncertainty makes me incredibly proud to have had the opportunity to lead this organization.

Today, as part of the transition, Carl Scibetta, Senior Executive Vice President and our Chief Merchant, will walk you through the merchandise categories. But first, I'd like to turn the call over to Mark Worden to provide an overview of the quarter and an update on our strategic initiatives. Mark?

## Mark Jonathan Worden

*President and Chief Customer Officer, Shoe Carnival, Inc.*

Good afternoon. Before we discuss our record Q4 results, I'd like to recognize Cliff for his outstanding contributions to the Shoe Carnival organization. I've been very fortunate to work closely with Cliff over the last three years. His deep industry knowledge and leadership in the footwear channel over the past four decades set him apart as one of the retail leaders I respect most. Cliff's decisions during his tenure as CEO helped make Shoe Carnival the healthy, consumer-centric company it is today.

First, investing in consumer technology enhancements put us in a position to succeed during an incredibly volatile market this past year. Making significant investments in our e-commerce platform and customer relationship capabilities were key catalysts to achieving the record results we achieved the last three quarters, following the pandemic store closures, while at the same time laying a foundation for continued growth well into the future.

Anyone who has met Cliff immediately learns just how passionate and knowledgeable he is about merchandising and the vendor community. We've worked tirelessly over the past 24 years to establish Shoe Carnival as the top destination for family footwear customers that have built long-lasting relationships with our vendor partners.

I'm excited to build upon those relationships as we move forward with our strategic partners. I'm honored for the opportunity ahead and to have been selected by our board of directors to succeed Cliff as CEO, and I look forward to continuing to partner with him in his role as Vice Chairman of the board.

In addition to the planned CEO transition we announced, I'd like to highlight three additional components of our succession plan. These changes further strengthen our leadership team and position us well for the future as we execute our long-term strategic plans.

First, I'm thrilled to share that Carl Scibetta, our Chief Merchandising Officer and EVP, has been promoted to Senior Executive Vice President, Chief Merchandising Officer. For the past nine years, Carl has built a world-class merchandising team and has been a key leader among the Shoe Carnival officer team. His 40-plus years of retail merchandising leadership in both specialty retail and department stores will continue to keep Shoe Carnival at the forefront of the industry. I'm excited to work closely with Carl and the vendor community in the years ahead.

Second, Marc Chilton has been appointed Executive Vice President and Chief Retail Operations Officer, succeeding Tim Baker effective April 4th. This month marked Tim's 50th year in the retail industry and his 32nd year as an operations leader at Shoe Carnival. Tim's contributions to the company have been many and significant since joining Shoe Carnival in 1989. We have particularly valued his focus on people development and operational excellence, which has provided us with an industry-leading store organization and a deeply talented leadership team as we move forward. Thank you, Tim, for your dedicated service to Shoe Carnival.

Marc Chilton has been with the Shoe Carnival team for 27 years in roles of increasing responsibility and store operations. Most recently, Marc served as Senior Vice President within operations working directly with Tim. He's a respected executive and people leader across the organization, and his deep broad-based experience would be invaluable as we look to grow Shoe Carnival in the coming years.

Finally, Patrick Edwards has been promoted to Chief Accounting Officer. Patrick has been an excellent addition to our Shoe Carnival finance team since he joined in 2019. Under Kerry's leadership, Patrick will further bolster an already strong finance organization and adds a layer of financial expertise that will enable us to continue to deliver financial strength, discipline and flexibility.

Karl, Mark and Patrick, each bring excellent knowledge, focus on driving shareholder value and experience to our leadership team. And I know both Kerry and I look forward to working closely with them as we move forward.

Moving on to performance, I'm still thankful for the continued commitment of our Shoe Carnival team members, their focus on our customers' experience and delivering operational excellence. 2020 was an unpredictable year, but our team rose to the challenge and delivered value for our customers and our shareholders.

The Shoe Carnival brand, unique consumer experience and broad product assortment positioned us very well for growth in fiscal Q4. We delivered record sales and profits during Q4, with comp sales growth up 6.4%. Merchandise margins expanded by 160 basis points. And operating income climbed to the highest Q4 ever, up approximately 114% versus 2019.

At the heart of our long-term strategy is providing consumers the preferred shopping experience and product assortment within the family footwear channel. We believe our strong 2020 sales and profit outperformance in the channel reflects our 26 million-plus loyal consumers choosing to engage with Shoe Carnival for their family footwear needs wherever and whenever they chose to over the past year.

Throughout the year, we continue to rapidly progress our consumer engagement strategy to develop the leading digital, analytics and customer relationship capabilities in our industry. Despite the pandemic, I'm pleased we've surpassed our brand-building strategic plans during the past year.

By the fourth quarter, we have robust consumer data from our new customer relationship platform which enable highly accretive customer segmentation and targeting capabilities. These new capabilities enable both profitable new customer acquisition initiatives and loyalty-building programs once acquired.

Our deep consumer understanding is rooted in our customers' omni-channel buying behavior. We're positioned in 2021 and beyond to unlock significant consumer insights and growth opportunities with our strategic vendor partners. As I transition into my new role as CEO, I'm excited to work closely with Carl and our top strategic partners to create brand value from our deep consumer analytics and capabilities.

In addition to providing the preferred consumer experience in the channel, another key part of our strategy is to increase merchandise margins by reducing promotional intensity. The consumer data that we've been able to collect and analyze has enabled a sharp reduction in promotional intensity and the elimination of many low-ROI customer promotions and marketing activities.

We've pivoted away from the historical heavy reliance on BOGO half-off promotions during the chain for non-peak periods in 2020, and instead used our customer relationship platform and analytics segment and personalize compelling product offers. Eliminating promotional intensity resulted in an increased product margin up over 300 basis points for Q4. We've been so encouraged by our consumer response to the strategy that we have accelerated our plans. For example, we eliminated all BOGO half-off promotions for the current quarter with continued encouraging consumer results and sales exceeding expectations.

Our brand strategy has resulted in expanding and deepening our connections with our 26 million-plus members at the end of the fourth quarter. We added over 2 million new members or nearly 10% growth in consumers we directly reached year-over-year. For our gold consumer membership, the basket size for this group was approximately $70 for the year, generating over $15 more for order than non-members. We remain focused on growing our relationships with this segment of consumers and see robust growth opportunities with both our athletic and non-athletic strategic brand partners.

Holiday-focused customer acquisition efforts also drove strong results. Consumers who are non-loyalty members grew sales in the teens for Q4, increasing the total year to mid-single-digit sales growth. Our targeted digital marketing capabilities were key in acquiring these new customers and converting into record sales levels.

Our strategy to rapidly accelerate our digital capabilities and specifically our e-commerce strategic plans far exceeded our 2020 expectations. For the full fiscal year, e-commerce sales grew over $110 million or 175%. In fact, Shoe Carnival e-commerce sales grew triple-digit in every quarter during 2020. Product margin associated with e-commerce sales was up over 300 basis points compared to prior year in the quarter and over 150 basis points for the full year. E-commerce sales represented approximately 19% of company sales for 2020 compared to approximately 6% in the prior year.

On the back end, we implemented a new warehouse management system and order management system to enable our long-term strategic growth plans and augmented e-commerce ship from store order fulfillment capabilities already in place.

Moving on to our long-term brand development and consumer engagement strategy, with such robust consumer insights, analytics, and digital capabilities on hand, we're excited to announce a strategic plan to modernize our most profitable stores across the fleet. Our goal is to have approximately two-thirds of our store fleet modernized in the three to five years ahead. This will be achieved through a robust annual remodel plan, relocations where we have strong customer opportunities in the market but underperforming real estate, and reigniting new store growth. We are currently finalizing our beta test mode on store experience and design enhancements, and are very pleased with our consumer learning. We plan to move ahead rapidly with rollout this year, assuming COVID-19 does not disrupt any development plans.

As we shared during the past year, we chose to take a conservative capital approach during the pandemic and we'll continue to do so in relation to new store growth for 2021. Our strategy is to continue to accelerate our store fleet four-wall profit contribution. In 2021, we plan not to renew approximately 10 leases on stores that do not drive long-term profit potential nor connect with our most valuable consumers.

We anticipate to open one new store this year. While we are not providing 2022 store opening guidance at this time, our intent is to reignite store growth in the years ahead and to continue to rapidly accelerate e-commerce growth. Teams are mining the rich CRM insights on hand and as highly profitable real estate opportunities open up in late 2022 and 2023, we plan to pursue store openings within existing operating states as a top strategic priority.

Our disciplined capital management strategy resulted in closing the year in our strongest balance sheet position ever. At quarter end, the company had no debt and approximately $106 million in cash and cash equivalents. The strength of our balance sheet, coupled with our outstanding team and their dedication to executing our consumer-centric strategy, has allowed us to achieve our strongest Q4 operating results in what has been one of the most difficult periods for retail in modern history. Additionally, this healthy position enabled us to return increased shareholder value as our board of directors approved a 56% increase in our dividend last week. Kerry will discuss this and other financial updates in greater detail momentarily.

In closing, I'd like to reiterate my gratitude to Cliff for his leadership and his partnership over the last three years. Further, I want to offer my heartfelt thanks to the entire Shoe Carnival team for all their hard work over the last 12 months. 2020 brought about events that are hopefully once in a lifetime and our team's ability to serve our loyal customers and come together as an organization was remarkable. Our strategic investments to build our brand, our unique consumer experience, our talented team, strong vendor partnerships, and our superior execution have been the cornerstone of our success and continue to be our focus ahead.

I'll now turn it over to Carl Scibetta, Senior Executive Vice President, Chief Merchandising Officer, for an update on our product performance and inventory position.

## Carl N. Scibetta

*Chief Merchandising Officer & Senior Executive Vice President, Shoe Carnival, Inc.*

Thank you, Mark. I'm excited to join today's call and look forward to getting to know each of you more in my new role. Before I get into our performance during the quarter, I'd like to echo Mark's gratitude to Cliff. It has been a pleasure having an opportunity to work with Cliff over the past eight-plus years. His leadership has built a strong company with an outstanding culture that is positioned for growth.

Over the past three years working closely with Mark, we've been able to grow synergies within our merchandising, marketing and e-commerce teams. This enabled us to successfully navigate through the pandemic, maximizing sales and margin. This, along with our outstanding vendor relationships, has positioned Shoe Carnival to continue to grow through both brick-and-mortar and e-commerce channels.

Now, turning to comparable store sales by department for the quarter, adult athletics continue to outperform. The category was up mid-teens overall, driven by strong growth in both women's and men's product categories, which were both up mid-teens for the quarter. We continue to deliver triple-digit athletic e-commerce comparable sales increases. Our leadership position in the marketplace enables us to continue to deliver the broad trend-right assortment our customers are looking for.

Sales in women's non-athletic categories were driven by comfort sport shoes as customers continue to work and quarantine at home. Sales in men's non-athletic categories were driven by boot sales. The increase was from both the work boot category as well as the casual hiking boot category which were bought as people got tired of being confined in their homes and ventured out for exercise.

Consistent with last quarter, dress shoes were down double digits, reflecting a more casual active lifestyle as many offices remain closed. Kids' comparable store sales were up mid-teens for the fourth quarter. Once schools and many markets returned to some form of in-class learning, we experienced strong sales in children's casuals and in the athletic categories. Kids' non-athletic was up mid-teens and kids' athletic was up low-teens.

We ended the quarter with inventory down 8% on a per store basis. The industry is currently experiencing major supply chain issues from the factories to the ports and from the ports to our DC. At Shoe Carnival, we have built an outstanding merchant team. Their experience with our company and their position in the marketplace with our vendors is second to none. We believe in the strength of this team and the fact that we did not furlough our buying staff has given us an advantage with the supply chain. We continue to work closely with our vendor partners to deliver fresh new product and replenish key categories and classifications. We are monitoring our supply chain very closely and reacting when needed.

Our increased marketing and analytics capability have given us insights into the results of our promotional activity. We have eliminated most of the store-wide global promotions for fall 2020. This enabled us to drive sales and margin growth through targeted promotions while still providing our customers the value they have come to expect from Shoe Carnival. Our plan is to continue this strategy into 2021. I am confident that we have a powerful leadership team in place that will guide Shoe Carnival to great success ahead. Through our best-in-class merchandising, marketing and store teams and our excellent vendor partnerships, we are confident in our ability to build on our success.

With that, let me now turn the call over to Kerry Jackson to provide more insight into our financial performance for the fourth quarter and full year.

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## W. Kerry Jackson

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

Thank you, Carl. Before I take us through the financials in the quarter, I would also like to express my gratitude to Cliff for his steady leadership. We would not be as fiscally sound as we are today without his guidance and commitment to driving results and improving margins.

Under Cliff's leadership, we had an incredibly impressive year given such extenuating circumstances. We achieved record net sales of $253.9 million for the fiscal fourth quarter into January 30, 2021, an increase of $14 million compared to the fourth quarter of last year. Of this increase in net sales, $15 million was attributable to an increase in comparable store sales and $1 million was attributable to the four new stores opened since the beginning of the fourth quarter of fiscal 2019. This was partially offset by a loss in sales of $3 million from the 14 stores closed and other non-comp sales over the same period.

Comparable store sales increased 6.4% for the quarter on top of a 3.2% comparable store sales increase in the fourth quarter of fiscal 2019. Our e-commerce business sustained its triple-digit growth and represented more than 19% of fiscal fourth quarter sales.

As Mark mentioned, our brick-and-mortar store sales were negatively impacted by customer concern related to COVID-19 and holiday sale crowds. Our gross profit margin for the quarter was 30.8% compared to 29.1% in the fourth quarter of last year. Our merchandise margin increased 160 basis points, while buying, distribution, occupancy expense was nearly flat as a percentage of sales. The increase in the merchandise margin was primarily due to lower promotional activity during the quarter, but was partially offset by higher shipping costs associated with the increase in e-commerce sales.

SG&A expenses increased $2.5 million in the fourth quarter of fiscal 2020 to $67.6 million. As a percentage of net sales, these expenses were leveraged to 26.6%, compared to 27.1% in the fourth quarter of fiscal 2019. The increase in SG&A expenses was primarily attributable to costs supporting increased e-commerce sales.

The effective income tax rate for both the fourth quarter of fiscal 2020 and 2019 was 28.8%. For the full year of 2020, the effective income tax rate was 25.8%, compared to 21.6% in the full year of 2019. The tax rate in 2019 contains a one-time benefit of approximately $1.9 million or $0.13 per diluted share associated with vesting multiple equity-based compensation awards.

Net income for the fourth quarter was $7.4 million, compared to net income of $3.5 million last year. Earnings per diluted share for the fourth quarter increased by $0.28 to $0.52 per diluted share.

Now, turning to information affecting cash flow. Depreciation and amortization expense was $4.1 million in the fiscal fourth quarter, compared to $4.3 million in the fourth quarter of fiscal 2019. Depreciation expense for the full year was $16.1 million, compared to $17.0 million for the full year 2019.

Capital expenditures for fiscal 2020 were $12.4 million, with approximately $5.9 million used for new stores, relocation and remodels. In fiscal 2021, we expect to spend $23 million to $25 million on capital expenditures, with a principal focus on the remodeling efforts Mark spoke about.

As Mark mentioned, we continue to work closely with our vendor partners to strategically manage our inventory, given current supply chain constraints. As a result, we ended the quarter with inventory of $233.3 million, which is down $26.2 million compared to the prior year or 8.0% on a per store basis.

As of January 30, 2021, we had no outstanding debt and cash equivalents of $106.5 million. Our borrowing capacity was $98 million at the end of the quarter. Free cash flow was $61 million in the quarter, driven primarily by the reduction in inventory. Due to volatility this year, no shares were repurchased in fiscal 2020. As of January 30, 2021, $50 million was available for future repurchase under our board-authorized share repurchase program.

The company plans to resume the repurchase of shares under the repurchase program in fiscal 2021 under the assumption that general economic conditions will stabilize and the pandemic will have significantly less impact on the company's performance and operations.

The company paid $5.1 million in cash dividends during the fiscal year 2020. The company announced last week that our board of directors has approved a 56% increase in the quarterly cash dividend. The quarterly cash dividend of $0.14 per share will be paid on April 19, 2021, to shareholders of record as of the close of business in April 5, 2021.

Given the continued uncertainty around COVID-19 and its impact on consumer spending behaviors and recent supply chain disruptions, we are not introducing annual guidance at this time. That being said, we are providing our initial view of first fiscal quarter for 2021.

The delay in tax refunds, along with severe weather throughout most of the country, led to a difficult sales month in February. However, in early March when our customers began receiving their tax refund and stimulus payments, our sales trends rapidly shifted, increasing to record-setting levels.

Based on quarter-to-date results, we are currently anticipating a record first quarter in both sales and earnings. If we continue to see positive sales trends the remainder of the quarter, sales for Q1 are expected to be a minimum of $273 million, with diluted EPS of at least $1.40. This is a 54% increase over the $0.91 earned in Q1 of 2019.

While the rebound in March sales has been strong and concentrated, the month to month variability in customer spending we have experienced during the quarter has made predicting the duration of this recent sales intensity difficult.

My final comments today are about the transitions happening at Shoe Carnival. Cliff opened the call by saying the company is embarking on a new and exciting chapter. I share Cliff's enthusiasm for the future. While Shoe Carnival would not be what it is today without the contributions by Cliff and Tim, they have both planned for this transition by putting in place talented individuals that they can seamlessly pass the baton to. Our management team is strong and prepared for the future.

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

# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] Our first question comes from Mitch Kummetz with Pivotal Research. Your line is open.

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

Q

Yes. Thanks for taking my questions. Congrats on the quarter and also congrats to Cliff, Mark and Carl on the transitions. Although, Carl, I think you got the short end of that deal just now you've got to be on these conference calls. And with that as a transition, I'm going to start with you, my friend. So you were talking about some of the categories. You've kind of went through some stuff on women's non-athletic and men's non-athletic, but I don't think you gave the comps on those. Do you happen to have that?

**Carl N. Scibetta**
*Chief Merchandising Officer & Senior Executive Vice President, Shoe Carnival, Inc.*

A

We gave comps that were both down on the non-athletic for the quarter. Comps on women's non-athletic were down low singles and on men's non-athletic, low singles as well.

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

Q

Okay. Great. Thank you. Yeah, stimulus. I'll just jump ball for who wants to take it. Actually, maybe, Kerry, could you talk about – so you've given guidance on the quarter and that's, yeah, just on a two-year basis. I think the sales were up 8% from two years ago. I think last year is not a very good quarter to compare to.

I'm just kind of curious. You mentioned February was a little rough given refunds and weather, and then March has been good as refunds have come in and stimulus has kicked in. Is there any way you can tell us sort of where you are quarter-to-date on your sales and then kind of what the assumption is for the balance of the quarter just so we have a sense as to kind of what you're thinking for the remainder of the quarter?

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

A

Well, we're the same way as you are, Mitch. We look at both comparison to last year, 2020, which is difficult because the stores were closed during this period last year. We're also comparing it back to more normalized 2019. So we are seeing – as you said, February was tough because of weather, the delayed refunds. Well, in March, as soon as those tax refunds started coming out plus we had the double benefit of seeing the incentive checks coming out, so we built into – implicit in the guidance we gave would be approximately a 90% comp increase against 2020. But a more comparative look would be – against 2019 would be about a 9% comp increase built into our guidance on that.

Now, we're trending hotter than that right now. However, we recognized some of that stimulus and tax refunds, and we expect it to slow down as we progress further through the quarter.

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

Q

Got it. Okay. That's helpful. And then also maybe for you, Kerry. So again, if I look at this versus 2019, the $273 million was like sales up 8%. I can kind of back into an EBIT number that implies an operating margin of close to 10%, not quite 10% but close to 10%, and that's versus, I think, 6.1% two years ago. So that's a pretty big jump and I'm wondering how much of that – I wouldn't think it was that kind of a sales increase over two years, that a lot of that margin will be coming from occupancy leverage. I would think it's probably coming on the product margin side and maybe having to do with getting rid of all the BOGOs that you've talked about. So maybe could you address those margins or kind of how the margins are shaping up for the quarter, assuming that my math is halfway correct?

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

A

Your math is halfway correct, as you got it [indiscernible] (00:38:65). But it is being driven by the great margins we're driving at retail. We've been seeing sustained second half increases in our product margins and we're seeing that closer to the Q1 also.

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

A

And, Mitch, hi. It's Mark. If I can just build on it, in the comments, we learned a lot about our customers and through our analytics, we tested significant reduction of promotional intensity throughout 2020. And to share, this Q1, I've shared in my prepared remarks that we eliminated all BOGO half promotion as one example and in doing so, continue to be very pleased with the merchandise margin expansion and the sales acceleration.

So the strategy is working and we have great confidence that we can continue to make merchandise margin improvements and lower promotional intensity this year.

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

Q

Okay. Great. And then, Cliff, maybe one for you. I don't want to let you off the hook too easy. Vacancies, store closures, I feel like that's kind of been in the backdrop for the last couple of quarters. I don't know if you're at the point where you want to speak to that yet but I imagine it probably helped a little bit in the quarters, probably helping in the first quarter and just how do you see that competitive landscape right now?

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

A

Just to be honest with you, we don't know. We think the increase that we have today is, A, because we have the right product and the right stores at the right levels. So we are in the athletic business. We are in the sandal business. We're in the businesses that the customers are looking for. So I think that is – that's number one, two and three. We really have not been able to pinpoint the closures and say, yeah, that is – that's the reason our business has been driven. It all happened at one time. So our business started to get really good as you know, last year, mid-year and as we reopened our stores early and it just has continued.

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

Q

Let me ask one more and I'll jump back in the queue. Just, Kerry, on the SG&A line, kind of just thinking about the cost structure. Your SG&A in 2020, was it dollar-wise wasn't that different than 2019 even though the sales for the year were down close to 6%? I'm just wondering how you're thinking about those SG&A line items in 2021. Can you keep those dollars reasonably flat? I mean assuming you build on the sales amounts in Q1, looks like your sales are going to be up quite a bit from Q1 of last year. I'm just wondering how maybe permanent are some of the cost cuts that you've taken? And again, it doesn't seem like you guys really cut to the bone like some companies did in 2020 that – because your dollars are sort of flattish.

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

A

Well, they were flattish. What we saw was increased SG&A on a year-over-year basis and as a group in Q2, Q3, and Q4. What we saw during the shutdown is we saw a reduction in SG&A and that's really where the number that kept it flat versus the prior year of 2019.

So, we look like when you true-up Q1 to be more in line with the rest of 2019, that'd be more in line with what you should be thinking about.

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

Q

Got it. Okay. All right. Thanks, guys. Appreciate it.

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

A

Thank you.

**Operator**: Our next question is from Sam Poser with Williams Trading. Your line is open.

**Sam Poser**
*Analyst, Williams Trading LLC*

Q

Good afternoon. Carl, I have to ask you the question on your promotion. Is the old – is the new head merchant better than the old head merchant?

**Carl N. Scibetta**
*Chief Merchandising Officer & Senior Executive Vice President, Shoe Carnival, Inc.*

A

Well, Sam, I think there's a store in North Carolina you need to ask that question. She's waiting for it.

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

A

But I did predict you would ask that question though.

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**Sam Poser**
*Analyst, Williams Trading LLC*

Q

Okay. Anyway, well, speaking of North Carolina, apparently, Nike has made a number of decisions – one of your larger – to make some cuts, so stop selling from retailers later this year and especially a Carolina-based company there. Given the 1,000 stores there and is there anything that could facilitate opening – getting the store openings going more quickly? It sounds like you're back end – you talked about back end of 2022 to really get going here.

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

A

Hi, Sam. It's Mark. It's a great question. As we said in the prepared remarks, we're taking still a conservative capital approach for 2021 and we're prioritizing our investment on our multi-year strategy to modernize our existing highly profitable stores. We're incredibly excited about, yeah, the store experience that we are putting in place and want to rapidly roll that out as fast as we can, assuming there's no COVID disruption.

With that said, Sam, though, we're looking closely at every market we compete in and looking for profitable opportunities where our consumers are there. And if that opportunity presents itself, we're ready to rapidly move back into store growth. As I said, we plan to reignite store growth whether that's late 2022 or in 2023, that's our intent right now. But if we find something faster, we're ready to move.

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**Sam Poser**
*Analyst, Williams Trading LLC*

Q

Thanks. And then after the stores reopened or let's say in the fourth quarter, how did this – I mean how did the stores comp versus – I mean are your stores as productive – are they more productive now than they were in 2019 given the – or are they less because of the influx of e-commerce? And so when you go for the full year and then start doing this work, you could really increase the productivity of the stores. I wonder if that sort of quick – can you – or is why – or how we should think about the increased productivity of the stores?

And then secondly, how sticky do you think this level of e-commerce revenue is looking forward, I mean given all the new customers you've gotten and everything else?

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

A

So, during the year, we picked up over $100 million in e-commerce sales or 175%. We did see some switching from our existing stores. We are starting to see the percent of total company stabilize as consumer shopping habits are getting more and more predictable the further we get away from the start of COVID. And we would forecast that the store continues to drive, as we talked about, four-wall contribution increases as a core part of our strategy in the years ahead.

I think the e-commerce, while we're talking about approximately 19% of company value, we see that over the next two to three years that incremental sales from e-comm to the company will result in it being in the low to mid-20s is what we anticipate in the next two to three years. So this would probably be a stabilization year as customers are very excited to get unboxed and get back out there in the stores. And we're seeing that tremendous energy in our stores right now which Kerry discussed.

**Sam Poser**
*Analyst, Williams Trading LLC*

Q

Yeah. Thanks. And then, Carl, given the comps that you've driven and it sounds like you're driving right now given all the supply chain issues that are out there, how much have you narrowed the assortment, targeted big key items better using all the data and consumer insights you have versus 2019? I mean are the assortments narrower in the stores? Are you going deeper? Can you give us some color on that?

**Carl N. Scibetta**
*Chief Merchandising Officer & Senior Executive Vice President, Shoe Carnival, Inc.*

A

Sure, Sam. We started down that road, I would say, really in a big way in 2017, and we've continued to pare down the assortments and make big items bigger, and that, since 2019, has continued. And we are in a process now on big key items or big key categories. We continue to accelerate human sales frankly beyond our projections of where we've been in the past. That will continue to be a core strategy in 2021 and beyond.

**Sam Poser**
*Analyst, Williams Trading LLC*

Q

Great. And I'm sorry, I'm asking so many questions. But the merchant – okay, I'm just looking at my notes here, sorry. When do you expect inventory to catch up here? Or do you think that gross margins will benefit for the entire year because there's sort of going to be a permanent chase mode?

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

A

I think gross margins will continue throughout the year, and we're anticipating increases. Right now, we're anniversary-ing BOGO with non-BOGO, which gives you a natural margin increase. We're chasing products like everybody else. We're experiencing the same supply chain issues that everybody else is at this point. We're working with the vendors in constant communication. We certainly had a slow start to deliver spring, but I will tell you that the flow of product, it has ramped up and it's consistent with previous years at this point. We hope to get closer each quarter and as we move through the season – or each month I should say.

**Sam Poser**
*Analyst, Williams Trading LLC*

Q

Great. And then, lastly, I mean just Nike. I mean, how is your relationship with Nike right now? Are you planning on putting in those Nike shops? I think you're adding another 100 stores or so this year? Are you planning on accelerating that as you remodel these – as you redo the stores and modernize the stores? And then, I have one last one for Cliff just because I have to. But I'll leave it there for that question.

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

A

Sam, we take great pride in providing unique customer experience, and we are continuing to invest in providing the most differentiated athletic shopping experience in the channel. And we have plans to continue to put that modern store design in as we proceed through the year.

**Sam Poser**
*Analyst, Williams Trading LLC*

Q

Thanks. And then, Cliff, given that everybody wants to pass you the baton, in your new role solely as Vice Chairman, we're changing your name to [ph] Harold Bill (00:49:48), and that's what I'm going to leave it with. Congratulations.

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

A

Thank you, Sam.

**Operator**: Our next question is from Greg Pendy with Sidoti. Your line is open.

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

Q

Hey, guys. Thanks for taking my questions. Just two. Just you're making the decision to pare back on BOGOs using data from arguably an abnormal year in an environment where inventory out there is kind of lean. What type of risk do you think you might be able to manage, I guess, from not alienating a core customer of yours that was looking for that value? I mean, do you think you'll still be able to retain them? Is that a risk that you're aware of and going to manage? Any thoughts on that?

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

A

Yeah. We're monitoring it every week with our 26 million strong loyalty members. We're able to see if their purchase behavior is changing. And if so, we'll adjust our tactics in the future. So far, we have retested it throughout multiple quarters at the height of the pandemic when it was calming down to really low points and holiday. And it works across all of those. And we've decided to test it for Q1 and we've taken that out of all of Q1 and this works consistently. Now, if you're spot on, we need to monitor how the customer behavior continues to change as normal life, hopefully, returns very soon. But we're ready to pivot, should we need to, on the dime.

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

Q

Okay. And then if I'm not mistaken, you're looking to 10 store closings this year. Are those natural lease expirations? And I know you don't have mall exposure, which a lot of retailers struggled with. But is there anything kind of thematic in those 10 closings? Maybe there was an anchor that was driving traffic to those types of locations? Or is there anything with the real estate, I should say, specific to it that is sort of a trend within those 10 store closings?

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

A

First answer, yes, they're natural lease end dates. They're stores that simply do not have accretive four-wall contribution possibilities long-term for us, nor that customer base that really fits our CRM profile, where we have great opportunity. There's probably not one broad sweeping commonality across them, but there are a handful within that that are very small format, small square foot stores that simply don't allow us to provide that differentiated unique experience as well as we would like to. And so, we are closing those ones.

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

Q

Great. That's helpful. Thanks a lot.

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

A

Thank you.

**Operator**: Our next question is from Mitch Kummetz with Pivotal Research. Your line is open.

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

Q

Yeah. Thanks. Just a couple of follow-ups for me. Mark, on the consumer insights, I mean, it feels to me like you guys are still pretty early in that. You've added a lot of people to your member program, your Shoe Perks program. You've got a lot of data. What's the low-hanging fruit over the next year or two as you take that information and those learnings? And what can you achieve, that's pretty obvious to you guys right now in terms of driving the business?

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

A

Starting with, our excitement is we think there's multiple years of comp store growth in our existing fleet that the CRM program will open up. And more profit-rich, lower promotional opportunities, so that we can have continued sustainable shareholder value. So I think that's the high level.

Specifically, though, I'm really excited about how we're now able to segment our consumers so that Carl and I can personalize product offers to them. And the big insight that we're shifting away from is using a global offer that gives everyone the same offer because we don't know what's important to the specific consumer.

We're now getting into another – Carl and I can really think about the specific product, the subcategory, and giving them an offer and message that's attractive to them. So I'm very excited about our personalization capabilities and how we can leverage that in the year ahead.

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

Q

Just to put that in context, when did that start? I mean, are you a quarter or two into that? Or where exactly are – or what inning are you in that process?

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

A

Well, probably the second, third inning. Now, we have the capabilities of doing it as we're lapping into the second year of our CRM platform. And we have significant years ahead of us to continue to mine insights and grow profits and sales. It's a big opportunity for us, we believe, for many, many years to come.

We learn it. We learn something new almost every day. So it's a – not only are we in the second and third inning, but in some cases we're in the first inning because we learn something new about our customers as they continue to shop our stores. And it's just like the BOGO half promotion. By billing those target our customers with specific products that we know or categories that we know that they shop, we were able to continue to eliminate those BOGO half days.

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

Mitch, the second thing that I think we're very excited about and that's with these insights in hand, working closely with our strategic partners on where their consumers can best convert and how we can help them acquire the most important consumer to them or reactivate someone. So I think our differentiated digital first capabilities will really help the partners who we value so much and value us as well.

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

Okay. And then last question, so we're, I guess, a little over a year into COVID now. And I know your guys athletic business has been particularly strong. I mean, I think it was already sort of turning that way pre-COVID and then I think a lot of it would – you've gotten some good product, whether it's like Court Vision by Nike or whatever. But I'm curious – and then I think other aspects of 2020 might have been more COVID-driven, whether it was like the slipper business or maybe things like hiking boots. I'm curious, for Carl, as you think about lapping COVID, how are you thinking about kind of those product opportunities, whether or not you think this year is just going to be kind of a continuation of some of the trends that kicked in last year because of COVID, or do you think there's actually going to be some shift back to some things that didn't necessarily work as well – maybe not necessarily dress shoes but maybe some other stuff that didn't work so well in COVID. But now that people are getting out and getting immunized, and there's going to be social gatherings, types of product there that whether it's like going into Easter or Memorial Day or Fourth of July, those type of events that you can sort of capitalize on that that didn't happen last year.

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

Sure, Mitch. We're seeing right now obviously the continuation of the COVID product, the athletic product, and some of the things that drove COVID, and you're dead-on with the hiking category. What's very encouraging is we're seeing a big uplift in seasonal – new, fresh seasonal product that has been delivered and the customer desire to go out and freshen up things. So we continue – we believe that's going to continue throughout the season.

The athletic stuff with our increased selection fashion in the athletic business should continue. But we think that seasonal sandal for spring will certainly kick in. It's already kicked in, in earnest. That gives us great encouragement that they're going to buy those products and attend those events you talked about. I almost don't want to say this, but we're seeing a slight tick-up in some fashion forward, maybe younger dress shoes today that maybe aren't used for work but they are used for social occasions. It's a minor tick-up, but it's the first one we've seen in over a year or so. That gives us encouragement that the consumer's mindset is ready to get out there and get back to normal life.

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

Okay. Great. All right. Thanks again, guys.

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

Thank you.

**Operator**: Our last question is from Sam Poser with Williams Trading. Your line is open.

**Sam Poser**
*Analyst, Williams Trading LLC*

Q

Real quick on capital allocation, what's the priority? You said you're going to – you'd reinstated the buyback. Are you willing to buy back? Are you planning on buying back stock around these levels, or what's the real – what's the game plan there?

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

A

Look, Sam, our priorities haven't changed. First is investing in growth, and as Mark talked about, investing in new store design and refreshing our stores, that's going to be our top priority with our capital and that's why we're almost doubling our CapEx for the year and that's almost entirely going to the remodeling process. The board just increased the dividend by 56%. So they felt that that was a priority to put that out there and show the long-term belief in the company. And the last component of our capital allocation has been buyback shares. So it really don't signal when we buy back. Like we said, when we see this, there's a clean economy going forward and we feel comfortable with it, then we'll be out there and buying shares back.

**Sam Poser**
*Analyst, Williams Trading LLC*

Q

Thanks and good luck.

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

A

Thank you. Thanks, Sam.

**Operator**: Ladies and gentlemen, this concludes the Q&A session. I'll now turn the call back over to Mr. Sifford for any closing remarks.

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

Thank you. I would again just like to thank everyone for joining us on the call today. I hope you all are staying well. I just want to close by saying thanks to all our Shoe Carnival team and all the work that they've done to elevate this company over the last nine years and particularly over this past year. We look forward to speaking to you all again at our conference call in May. Thank you again.

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