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Shoe Carnival, Inc. (SCVL)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Shoe Carnival's Second Quarter 2021 Earnings Conference Call. Today's conference is being recorded. It is also being broadcast via the webcast. Any reproduction or rebroadcast of any portion of this call is expressly prohibited.

Management's remarks may contain forward-looking statements that involve a number of risk factors. These risk factors could cause the company's actual results to be materially different from those projected in such statements. Forward-looking statements should also be considered in conjunction with the discussion of risk factors included in the company's SEC filings and today's earnings press release.

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

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

Clifton E. Sifford

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

Thank you and welcome to Shoe Carnival's 2021 second quarter earnings conference call. Joining me on the call today are Mark Worden, President and the Incoming Chief Executive Officer; Carl Scibetta, Senior Executive Vice President, Chief Merchandising Officer; and Kerry Jackson, Senior Executive Vice President, Chief Financial and Administrative Officer.

As many of you know, today is my final earnings conference call as Shoe Carnival's CEO. This management team has worked tirelessly to deliver consistent growth and value to our shareholders. I am extremely proud of our record performance, and I am convinced we have not come close to realizing our full potential. I am so excited to watch this terrific management team continue to build on the successes we have enjoyed during my tenure as CEO.

I will let Mark, Carl, and Kerry get to the specifics of the quarter; but, first, I'd like to take a few minutes to reflect on the last several years. The strategic initiatives we have implemented thus far and the strategies we have in place for long-term growth have been a critical driver of our strong performance, and I believe that sets Shoe Carnival up for further successes well into the future.

Customer centricity is not just a catchphrase to us; it's a core principle to every decision we make. The customer is and will continue to be at the center of everything we do at Shoe Carnival. Our stores are easy to shop, with all products in an open sale environment; however, we are not a self-service shoe store. Our stores are well-staffed with knowledgeable associates who offer as much service as the customer desires.

Our merchandising team is made up of well-tenured professionals who have a vast understanding of our customers and our stores down to the specific market. This deep understanding of each store-specific consumer and history of category performance allows our merchant team to build specific store-level assortments that are not cookie-cutter.

Our systems then create [ph] size runs (00:03:45) that are specific by department and category based on each store's history. And most importantly, our stores are well-stocked with a broad assortment of the latest trends from the best brands with an adequate depth of sizes. Our customers trust that when they walk into one of our stores, they will find the style they want and the size they need.

While many businesses were shut down during the pandemic, we continued to invest in our future. Our investment in infrastructure and technology has been a game-changer that will pay for itself many times over in the years to come. We launched three internal systems that have positioned us for immediate success in our online and brick-and-mortar stores that will drive future growth.

Our order management system has positioned us to effectively and efficiently improve service for our digital consumer. Our transportation and warehouse management systems have improved our supply chain performance from the Far East to our distribution center, and ultimately, to our stores. Our order management system allows for the fulfillment of our e-commerce orders, either through our distribution center or one of our stores, depending on whichever is the most cost effective and timely way to get the product to the customer.

This fall, we'll launch a new planning software system that will give our merchants the additional tools they need to more effectively plan product assortment and flow to each individual store.

We talked for several years about the ongoing investment we made in our CRM system and our strong commitment to making it best-in-class. CRM is a vital part of our innovative marketing plan, and has allowed us to begin to facilitate personalized communication with our customers. Further, it provides us with viable consumer insights that influence every decision we make. I believe these investments have been the catalyst for outstanding results and market share gains over the past several years.

These strategic initiatives are a testament to the knowledge and tenure of the team, but even more so to our ability to identify an opportunity and seize it in a meaningful way. The methodology that has served us well for many years is our ability to react quickly to the brands and trends of the season, to quickly make the inventory investments that will make Shoe Carnival [indiscernible] (00:06:26) for any current trend.

I have never been more confident than the team that will be leading this organization on a day-to-day basis. It isn't a new chapter; it is a continuum, really. They are smart, aggressive, and ready to take this company to new levels. Mark has been by my side for the last three years helping to craft and execute these strategic decisions, and his leadership has been integral to the successes we have experienced to-date.

Mark is a great friend and will be an even better CEO. With a strong vision, an incredibly talented team, new systems, technology, and a loyal customer base, I truly believe Mark will lead Shoe Carnival into a strong and profitable future growth.

I would now like to turn the call over to Mark to provide an overview of the quarter and an update of our strategic initiatives. Mark?

Mark J. Worden

President & Chief Customer Officer, Shoe Carnival, Inc.

Thank you, Cliff, and good morning, everyone. Footwear customers have resoundingly returned to shopping at Shoe Carnival stores all across the country. Sales and profit results are far exceeding our expectations for fiscal 2021 and, as such, we are significantly raising our annual guidance today.

Before we get into the details, let me provide some context for the comparisons that I will refer to during my comments. Given the impact of the COVID-19 pandemic on our second quarter fiscal 2020, we believe our current performance is best viewed relative to the same period two years ago. In our view, this provides a more transparent picture of the sustainability of the growth we're experiencing, as well as the underlying strength of our business. As such, comparisons I'll provide would be relative to the second quarter of fiscal 2019, unless indicated otherwise. Kerry will provide further comparisons versus 2020.

The Shoe Carnival team once again rapidly accelerated growth, posting record sales and record earnings per share during Q2. Merchandise margins expanded substantially and we achieved our highest operating profit on record during the quarter, which was nearly 4 times what we reported in the second quarter of fiscal 2019.

We also achieved overall comparable store growth of 25.5% in the quarter compared to Q2 2019. These growth results included a mid-teen increase in customer conversion within our brick-and-mortar stores, dealing double-digit comp store sales increases across all geographic divisions over the same period two years prior.

Importantly, our long term e-commerce growth strategies continue to deliver on our customers shopping needs. For the second quarter, e-commerce sales grew 140% versus the second quarter of fiscal 2019, driven by customer traffic up high double digits. Further, product margin associated with e-commerce sales was up over 1,500 basis points compared to the fiscal 2019 second quarter. E-commerce has grown into both a new customer acquisition pipeline for the company and a major contributor of profit to shareholders.

Turning to back-to-school; the communities we serve are returning to school [indiscernible] (00:10:00) sports and the shopping patterns that are similar to 2019. Our customers are back in our stores shopping at levels exceeding prior back-to-school seasons, and e-commerce sales continue to far outperform 2019 levels.

To provide some additional context; for the first three weeks of August, overall store traffic is up over 50% compared to 2020 when schools did not return normally due to COVID-19. For the first three weeks of Q3 2021 ended August 21st, comparable sales are up nearly 60% versus 2020 and up 23% when compared to August 2019.

Thanks to our best-in-class merchandise team and strong vendor partnerships, when our customers come to shop, they're met with a broad on-trend selection of brands and styles in their size. We expect this momentum to continue throughout the back-to-school season and forecasting it translates into record Q3 sales and profit results. Kerry will elaborate on specific increased guidance later in this call.

Over the last three years, we've been implementing a strategy aimed at delivering a unique preferred shopping experience for our customers. To do this, we knew we needed to get to the core of what family footwear customers want when walking into our store or logging onto our e-commerce site. We've made several significant investments in our technology, including building a world-class CRM system and launching the Shoe Perks loyalty program, while at the same time strengthening our e-commerce capabilities.

As a result, our brand experience and customer capabilities are stronger than ever. Building from the solid foundation, we will align around four strategic pillars: customer first, innovation, profit transformation, and growth acceleration. And through these lines, we will further solidify Shoe Carnival's leadership position within the family footwear space.

Let me talk about the progress we are already making within these pillars and how we will continue to execute this strategy. Customers first; as the leader in family footwear, Shoe Carnival prides itself on delivering a shopping experience that is preferred by our customers whenever and wherever they shop.

We're doubling down on the commitment to relentlessly operate with a customer-first mind-set. Specifically, we prioritize a strategic focus on customer acquisition and then converting newly acquired customers into Shoe Perks loyalty members. Our customer insight and analytics capabilities are growing rapidly and enabling enhanced personalization efforts, resulting in converting more and new customers into the repeat buyers.

For the trailing 12 months ended Q2 2021, we expanded our new customers that purchased at Shoe Carnival by mid-teens percent versus 2019. Important to this strategy, we also grew our Shoe Perks loyalty program membership by over 20% versus Q2 2019 and double-digit growth versus Q2 2020.

Next, to be a customer-first organization, it's critical to always being available whether it be the in-store experience, our back-end systems that enhance customer personalization, or staying at the forefront of key trends from a merchandising standpoint. Innovation will be the cornerstone of how we drive new customer acquisition and retention and, ultimately, long-term financial performance.

We continue to develop innovative marketing plans to ensure strong customer engagement. As we discussed last quarter, we shifted away from profit dilutive, deep discount chain-wide promotions, like buy one get one half off. We replaced this with targeted promotions to our customers powered by our data analytics that gives them the product they're looking for at a price point that represents value to them. One example of these efforts is our back-to-school results, which demonstrate that the strategy is working.

Multiple competitors returned to the standard buy one get one half off profit dilutive promotions used during the last decade. Our back-to-school strategic promotional approach resulted in 23% comp store sales increase through the first three weeks of August, while our product margins were nearly 1,100 basis points compared to August 2019. This type of profit-driving innovation will be a key differentiator for Shoe Carnival and, ultimately, a driver of continued performance for shareholder value creation going forward.

In addition, as Cliff mentioned, we transformed our infrastructure by operating and enhancing our transportation, warehouse, and order management systems, which will allow us to meet our customers' needs more efficiently. Notably, we're in the midst of a multi-year store modernization effort. Shoe Carnival is already known for providing family footwear consumers a unique in-store and online shopping experience.

Last quarter, we stated an aggressive goal of completing the first 100 stores within our fleet modernization plan by spring 2022, and over two-thirds of our store fleet in the next three to five years. I'm pleased to say we're on track to achieve our 2022 target and are pacing ahead of our three- to five-year plans. The feedback from our customers thus far has been overwhelmingly positive. The [indiscernible] (00:15:51), offering an even more exciting and rewarding in-store shopping experience.

Third, as we reach the benefits from our first two pillars, customers first and innovation, we are in an enviable position to deliver enhanced operational excellence which will translate into profit transformation. You can see this most clearly in the record of product margins and operating income we delivered during the second quarter of fiscal 2021. In addition, because of our strategic initiatives, we now believe that we have the ability to sustain operating margins of at least 8% over the long-term. Our new profit level far surpasses our previous strategic plan target to achieve 6% operating margins by 2023.

Fourth, accelerating growth; near-term growth will be focused on new customer acquisition, expanding comparable same-store sales, and increasing sales and profit per square foot. We're very pleased with the progress on our store profitability metrics. At the high end of our guidance for this year, our sales per square foot will be approaching $300 a foot, and our average sales per store will be $3.2 million. This compares to our previous recent highs achieved in 2019 of sales per square foot $245, and average sales per store of $2.6 million. Significant runway exists to grow profit accretive market share in our existing core markets and sustainably deliver over 8% operating margin for our shareholders.

Our disciplined capital management strategy has served us well and will continue to do so as we further evolve as a leader in this space. At quarter-end, the company had no debt and approximately $164 million in cash, cash equivalents, and investments. The strength of our balance sheet combined with the strong strategic vision and execution across the organization has allowed us to achieve our strongest Q2 operating results in company history.

Given the continued record-setting performance achieved fiscal year-to-date, we are significantly increasing our full year guidance. Our increased guidance reflects our confidence in the business fundamentals, our strong competitive positioning, and record results achieved year-to-date. In addition, given the start to the back-to-school season far outpaced earlier expectations and any prior back-to-school start, we will also be offering third quarter fiscal 2021 guidance that represents significant growth over last year. Our solid foundation, coupled with our innovation-led, customer-first strategy will support this increased outlook for the remainder of the year and beyond.

I want to take a moment to recognize our outstanding Shoe Carnival team members for their continued commitment, operational excellence, and their customer-first mind-set. We could not achieve the results we have without their hard work and dedication. We're very excited to continue the great work the team has been doing, but I'm also cognizant of the rising uncertainty in light of the increasing transmission rates of the COVID Delta variant. As such, we continue to prioritize the health and safety of our customers, employees, and communities.

While the environment remains fluid, we are confident we have a strong playbook in place to remain nimble from periods of uncertainty and are well-positioned to react quickly should things materially change.

In closing, we're committed to providing our customers the preferred shopping experience and product assortment within the family footwear channel. The team's strategic efforts will unlock significant brand value over the coming months and years, while at the same time solidifying our position as an innovative leader in the family footwear space.

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. We continue to execute on our focused promotional strategy using data intelligence to drive customers in-store with more personalized recommendations. This strategy has served us well since implementing it over 10 months ago, driving record sales and gross margins. We continue to monitor key metrics that provide valuable insight into customer behavior. We then flex our promotional and merchandising strategies to allow any changes in customer shopping preferences. This flexibility allows us to gain additional insight into our customer which further enhances targeting to drive more customer acquisition growth.

One of our key strengths as an organization is our ability to react quickly to a changing market. The merchant team continues to work closely with our vendor partners to reduce negative impacts from industry-wide supply chain disruptions. We made a purposeful decision to buy for growth in the second quarter as we anticipated a return to more normalized consumer demand for the period. For example, we increased our inventory position for dress shoes to be in line with pre-COVID levels in anticipation of a surge of events like weddings and graduation parties which typically occur in the second quarter.

This was another great example of Shoe Carnival being on trend early. Our stores were stocked with the styles and quantities of dress shoes that customers wanted, giving us an edge over our competition and driving a significant increase in new customers in the quarter. Our ability to lean in continues to set us apart from others in the industry.

Before I get into the results for the quarter, as Mark noted, I will be including comparisons to the second quarter of fiscal 2019 in my comment. The second quarter of fiscal 2021 comparable store sales increased 11.4% over 2020 and 25.5% over 2019. Product margins for the quarter skyrocketed, up more than 1,100 basis points compared to 2020, and over 1,000 basis points compared to 2019.

Turning to comparable store sales by department for the quarter versus 2019, all product categories were up double digits. In-store sales versus 2019 were up over 20% in the quarter, with every major category doing well, as family lifestyles returned to more normal level, and travel and entertainment increased. As a result, we saw category selling returning to a more historical mix by classification.

Comp store sales in both shoes athletic and non-athletic were very strong. Sales in non-athletic were driven by casual and seasonal products, sales from both boys and girls also performed well consistent with what we have seen over the last several quarters. Comp sales in the men's non-athletic categories were up over 30% versus 2019. Increases were driven by men's canvas, seasonal, and all boot categories. Comparable store sales and women's non-athletic categories were up in the high 20s for the quarter. Sales on women's sports seasonal and dress drove the category; but as communities continue to reopen, demand for additional product categories has increased.

We continue to grow our leadership position in [ph] both (00:23:34) athletics, which were up in the high-teens on a comparable store basis, despite the [indiscernible] (00:23:40) events to fiscal Q3. Both men's and women's athletics had strong performances with sales driven by the basketball, skate, and core categories.

We ended the quarter with inventory up 4.2% on a per-door basis compared with 2020 and down 4.9% to 2019. We are working closely with our vendor partners to replenish key categories and are diligently monitoring our supply chain. While these shortages are forecasted to continue for the balance of the year, we believe that our outstanding buying team through our excellent vendor relationships will continue to be successful in providing our stores with the products needed to accomplish our goals and sustain our record-breaking numbers.

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

W. Kerry Jackson

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

Thank you, Carl. As Mark mentioned, given the impacts of the COVID-19 pandemic during the second quarter of fiscal 2020, we believe our performance is best viewed relative to the same period in 2019 as this will provide a more accurate depiction of our outstanding results we achieve during the period. I'll provide comparisons relative to 2020 and we will place added emphasis on some our results compared with second quarter of fiscal 2019.

We achieved record net sales of $332.3 million for the fiscal 2021 second quarter, an increase of $31.4 million, or 10.5%, compared to the second quarter of fiscal 2020. Comparable store sales increased 11.4% for the second quarter of 2021 compared to the prior year, and 25.5% compared to the second quarter 2019.

Our brick-and-mortar comparable store sales were up 25.8% in the second quarter 2021 compared to the second quarter of 2020, and up 19% compared to the second quarter 2019. E-commerce sales were up 140% in the second quarter 2021, compared to the second quarter 2019, but down in line with expectations against the second quarter of 2020.

Second quarter 2021 gross profit margin was 40.9%, a record high for Shoe Carnival, and that's more than 1,300 basis points compared to the second quarter of 2020, driven primarily by our tremendous merchandise margins in the quarter. Buying, distribution, and occupancy expenses decreased slightly as a percentage of sales when compared to second quarter 2020.

To put a finer point on our incredible growth, when compared to 2019, second quarter 2021 gross profit margin grew by more than 1,000 basis points, driven by a 960-basis-point improvement in merchandise margin and a 50-basis-point improvement in buying, distribution, and occupancy expenses as a percentage of sales. These results clearly underscore the successful execution of our merchandising strategy highlighted by Cliff, Mark, and Carl earlier on to call.

SG&A expenses increased to $7.8 million in the second quarter of fiscal 2021 to $76.0 million. As a percentage of net sales, this expense increased to 22.9% compared to 22.7% in the second quarter of fiscal 2020. The increase in the SG&A was driven by higher employee compensation expense related to increased store level wages and incentive compensation as a result of our continued record performance.

When compared to second quarter 2019, SG&A expenses as a percentage of sales for the second quarter of 2021 decreased 190 basis points due to the significant increase in sales. Operating income was $59.7 million, or 18% of second quarter 2021 sales, which is a record for the company; compared to $14.4 million, or 4.8% of sales, in the second quarter 2020. When compared to second quarter 2019, second quarter 2021 operating income increased an extraordinary $44 million.

As Mark mentioned earlier, we believe we can sustain future operating margins of at least 8% when the retail environment has normalized. The effective income tax rate for the second quarter fiscal 2021 was 25.8% compared to 29.6% in 2020. Net income for the second quarter of 2021 was $44.2 million compared to net income of $10.1 million during the same period last year. Earnings per diluted share for the second quarter 2021 increased by $1.19 to $1.54 per diluted share. Compared to the second quarter 2019, earnings per diluted share increased $1.14.

Now, turning to information affecting cash flow; depreciation and amortization expense was $4.6 million in the fiscal second quarter, compared to $4.0 million in the second quarter fiscal 2020. We ended the quarter with inventory of $308.1 million which was up $9.3 million compared to the prior year, or 4.2% on a per-store basis. Compared to the second quarter of 2019, inventory is down 0.9% on a per-store basis. As was mentioned earlier, we continue to work closely with our vendor partners to strategically manage our inventory given current supply chain constraints.

As of July 31, 2021, we had no outstanding debt, and total cash, cash equivalents, and marketable securities were $163.9 million. Our borrowing capacity was nearly $100 million at the end of the quarter.

As you know, during the second quarter, our board of directors authorized a two-for-one stock split of the shares of the company's common stock, which was effected in the form of a dividend. The stock split entitled each shareholder of record at the cost of business on July 6, 2021, to receive one additional share of common stock for each share they owned as of that date, and was paid on July 19, 2021. Upon completion of the stock split, our outstanding shares increased from approximately 14.1 million shares to approximately 28.2 million shares.

During Q2, we repurchased approximately 117,000 shares of common stock at a total cost of $4 million. As of July 31, 2021, we had $46 million available for future repurchases under our share repurchase program. We will continue to evaluate the repurchase of shares under the repurchase program during the remainder of fiscal 2021.

Turning to our outlook; given our third quarter results to-date and our expected continued strength for the remainder of the quarter, we expect third quarter diluted earnings per share in the range of $1.10 to $1.15, and net sales the range of $307 million to $315 million for the third quarter of fiscal 2021. Additionally, we are raising our full year fiscal 2021 guidance, and now expect diluted earnings per share in the range to $4.35 to $4.50, and net sales in the range of $1.21 billion to $1.23 billion.

This concludes our financial review. Now, I'd like to turn the call back to Mark for some additional comments.

Mark J. Worden

President & Chief Customer Officer, Shoe Carnival, Inc.

Thank you, Kerry. Before we open the call for Q&A, I would like to take a moment to recognize Cliff, given this would be his last earnings call. First and foremost, I would like to express my personal gratitude to Cliff for his innumerable contributions to the Shoe Carnival organization and the broader family footwear industry for more than two decades. I appreciate the strategic partnership and the great friendship we have developed working closely together over the last three years.

Cliff has built an incredible company culture. His vision, combined with our collective strategic investment to build our brand and consumer experience, provides us with the springboard to drive long-term success for Shoe Carnival. And I am honored to be following his lead.

Cliff has also pioneered philanthropic efforts on both the personal level and at the company. In fact, he was recently announced that he would be awarded with T. Kenyon Holly Memorial Award by the Two Ten Footwear Foundation in December, the foundation's highest honor for exceptional humanitarian achievement. We are so proud of his well-deserved recognition as it perfectly sums up who Cliff is as a person.

Cliff, from all of us at Shoe Carnival, it's been an honor and a privilege to work with you. We with you nothing but the best as you transition into your new role.

So now let's open up the call for questions-and-answers.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from Mitch Kummetz with Pivotal Research.

Mitch Kummetz
Analyst, Pivotal Research Group LLC
Q

Hi. Thanks for taking my questions. Cliff, yeah, a pretty good quarter. I should probably add my congratulations. So, I'll reluctantly do that just for you.

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

Thank you for that.

Mitch Kummetz
Analyst, Pivotal Research Group LLC
Q

Of course. I've got a handful of questions. So, first off, obviously, business had a great quarter, you're having a strong start to Q3. When you reflect on that, how much do you think that's the macro, stimulus, pent-up demand, things like that, versus some of your company-specific strategies around consumer acquisition and engagement, or even just the fact that you may have better product [indiscernible] (00:34:43) than some of your competition. Could you maybe just talk a little about that?

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

Mitch, I'd like to tell you everything that we've done through the years [indiscernible] (00:34:51) but to be perfectly honest with you, I'm going to let Mark answer this question because the things that he's put in place and to take the CRM to the next level is what's got us to where we are today, and I am so confident what he's going to do as I transition to Vice Chair is going to take us to the next level. So, Mark, why don't you take that?

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

Thank you, Cliff. And Hi, Mitch. Thank you for the congratulations. Mitch, relative to business fundamentals that we were seeing throughout Q2 and even more encouraged by the way the plans have worked as we started out Q3. As I shared in my prepared remarks, Q3 is on pace to set a record back-to-school, and we're so confident in the traffic, the conversion, the merchandise products that Carl and team have gotten are delighting customers that we're already ready to share the record Q3 earnings.

So in short, we believe our strategic plans are working well and set us up to maintain this momentum throughout the remainder of the year [indiscernible] (00:36:01) the tremendous in earnings and sales [indiscernible] (00:36:06).

Mitch Kummetz
Analyst, Pivotal Research Group LLC

Q

And then, Kerry, on the guidance, when I kind of look at sort of what's embedded over the balance of the quarter, it looks like you're expecting some moderation in the trend. I'm just curious, is that just some conservatism baked into the outlook or is there something that you're seeing as you think about the balance of the quarter? And again, I'm sort of really thinking about that on a two-year basis. I know that back-to-school was spunky last year, but I'm thinking about that in terms of two years ago.

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

A

Well, back-to-school, as we've said before, it's kind of a forced buying event. All kids go back to school with new shoes. And since the kids have gone back to school physically in presence, we're seeing a nice surge which we wouldn't expect to see outside of a peak demand like this. So, yes, sequentially through the rest of the quarter, we are expecting it to get more normalized [ph] to sort of positive (00:37:03).

Mitch Kummetz
Analyst, Pivotal Research Group LLC

Q

Okay. And then, Carl, talk to me about boots. You made some comments on the quarter about the non-athletic business being good, people kind of getting back to events. I'm kind of curious how you think about that into the holiday season. I mean, do you expect [indiscernible] (00:37:23) business? I mean, just broadly talk about kind of your outlook for boots?

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

A

Sure, Mitch. [ph] We plan boots stock (00:37:30) for the back half of the year mid-single digits. I'll tell you that [ph] early boot reads (00:37:37), and the numbers are very small so we have to keep that in mind. [ph] Early boot reads (00:37:41) are outstanding so far, and its multiple categories of boots that are performing. Some of the fashion that we saw in 2019 that we expected to accelerate in 2020, that obviously got derailed because of COVID, we're seeing that happen in 2021. So, we're encouraged on boot sales for the fall of the year.

Mitch Kummetz
Analyst, Pivotal Research Group LLC

Q

Okay. Just a couple last ones. Any comments on the supply chain? It looks like you guys are doing a really good job in terms of having good product availability. But I'm just kind of curious, what are you hearing on the supply chain? What are you seeing more broadly across the industry? And we've heard that people expect the supply chain remain challenged at least through the balance of this year into the first half of next year. And I'm kind of curious how you think about that relative to what you think channel inventory might look like, and your ability to kind of, again, continue to hold off promotions if things stay pretty clean out there?

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

A

Sure, Mitch. This is the all-consuming part of my day, trying to get our arms around the supply chain and trying to sort of move things around. We've been fortunate so far that we have been able to deliver inventory and, based on our inventory levels, I quoted my prepared remarks we're quite pleased where we are right now. We think we're positioned as we move through third quarter and into the first part of fourth quarter that we have our products flowing. We have anticipated delays. And even with those delays, we feel pretty good about where we are.

[indiscernible] (00:39:30) late fourth quarter in the spring, we do see this continuing especially with the issues that we're having in – that the industry is having in Vietnam right now and how that's going to play out. We don't have complete vision to that today. But I will say that our team is executing very well. So far, our vendor partners have really stepped up and supported us and I expect that to continue here throughout the fall, although I do see the possibility that the channel will be light on inventory and we'll once again be able to hold off promotion-based [indiscernible] (00:40:11).

Mitch Kummetz
Analyst, Pivotal Research Group LLC

Q

Okay. And then lastly, if I heard you guys correctly, I think you said that 8% operating margin is kind of where you think it being more sustainable level which that would be down from kind of where you guys should land this year. So, I'm kind of curious what do you think you give back. Is it just that as the environment normalizes, just maybe the sales come down a little bit, [indiscernible] (00:40:38) leverage some or is it really on the merch margins aren't sustainable at this level? I know you've kind of moved away from BOGOs, and I would expect that you would think that continues. But, I mean, the margins have been are so good, you just think that you have to give some of that back? Can you just maybe talk through that?

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

A

Sure, Mitch. I'm going to compare it versus 2019 in our historical pre-pandemic stance. We just put in place a transformational [ph] profit (00:41:07) improvement plan to get to the 6% operating margin by 2023. As historically pre-pandemic, we were running low-5s, high-4s and in that range for the five years leading into it. So, we've put a variety of plans in place that we talked about the last quarters including our innovation, our newer systems, our customer-first focus, and most importantly, our view of the transformation.

Those things are coming to bear faster than we thought. And by nature, we're giving guidance now that 8% is our new norm compared to 6% in 2023. So, we're thrilled with that. The primary driver of it will be landing a promotional strategy that delivers margins significantly higher than pre-pandemic. And it's not that we've shifted at all from delighting our value-based customer; we're still talking to them, providing them the best product at the price for them, but we're doing it on more of a personalized one-on-one basis, leveraging our CRM, our marketing plans, and our best-in-class merchandise buying on trend.

So, we are confident that we can come out there today, not ready to give guidance on revenue or other 2022 items [indiscernible] (00:42:35) step-change the profitability from low-5s pre-pandemic to 8% is the new perspective. There's a lot we need to learn about other cost structures, supply chain, revenue and leverage, and therefore, we're not giving guidance overall to-date, and we're not ready for that, but we're very confident in the step-change.

Mitch Kummetz
Analyst, Pivotal Research Group LLC

Q

Okay. All right, guys. Thanks. Good luck. Cliff, I know you're probably not going to miss these calls, but we're going to miss having you on them. So, thanks again.

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

A

Thank you.

Operator: The next question is from Sam Poser with Williams Trading.

Sam Poser
Analyst, Williams Trading LLC

Q

Well, good morning, everybody. This was by far the most amazing, unbelievable, spectacular quarter I've ever seen. And now, I hope nobody ever says anything like that again. Now...

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

A

Thank you, Sam.

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

A

Thank you, Sam.

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

A

Thank you, Sam.

Sam Poser
Analyst, Williams Trading LLC

Q

All right. So, number one, I just want to dig in to the post early holiday inventory availability situation. I mean, we are hearing all sorts of stuff; vendors pushing back orders, potential cancellations, lots of different stuff going on. So, when you think about how much of those issues, let's say, in primetime holiday, let's say, December/January, are in that – how is that impacting the guidance through the balance of the year? And what are you doing to make sure that you can be in position for spring 2022, because that seems to be the wild card right now. Holiday is big but spring 2022 sounds like it could even be a bigger issue.

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

A

Hi, Sam. It's Mark. Thanks so much for the congratulations. We have baked in the supply chain concerns into our Q3 and Q4 guidance that Kerry has provided today. So, we feel confident with the current situation and the landscape and the global supply chain. We are on track to achieve what we've just guided to. [indiscernible]

(00:44:38) to build on, a couple of past holiday season as we start to look to the uncertainty that still exists in 2022.

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

A

Hi, Sam. We feel good like we've mentioned about getting into the holiday season, getting through the holiday season meaning delivery of products in January/February of next year. That's still somewhat an unknown. Every day, we're getting more answers from our vendors regarding delivery moves and shifts. We're not seeing a large quantity of cancellations at this point, although we are seeing some delays in that supply chain. [indiscernible] (00:45:35) the majority of the noise we're getting is all about Vietnam products. You know what those are. So, it's hard to tell at this point where Q1 2022 is going to fall as far as beginning inventory. We feel good getting through early fall and then holiday and we getting more updates every day on January/February. And it's really early in the game for me to give you more than that.

Sam Poser
Analyst, Williams Trading LLC

Q

Okay. And then, you said that e-commerce business versus last year was in line with your expectation. Since you've been giving all the other numbers, can you tell us what the e-com was versus 2Q 2020?

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

A

Sure, Sam. Like I said, we are delighted with the customers we've brought in for our acquisition of digital. It's landed, as we said, 140% growth versus two years ago. Through now, it's down mid-double digit versus last year. And by now, I mean through where we are three weeks into August, we're down low double-digits versus 2020, exactly in line with where we had planned the year.

We are incredibly excited by how fast customers have returned to our bricks-and-mortar store and then return even faster. So the acquisition of customers that we've taken through CRM both with digital and in our bricks-and-mortar is dramatically higher as I said in the call from two years ago and significantly higher than one year ago. But I do want to call out our bricks sales accelerated faster than we thought, and the e-com sales held in line with the switching back that we had anticipated.

Sam Poser
Analyst, Williams Trading LLC

Q

Okay. So I'm going to be a pain. DICK'S Sporting Goods just reported earnings. They just said that their e-commerce was down 28% year-over-year. They gave a number. They understand – everybody understand, last year's e-commerce business was through the roof. So, [ph] what is it down (00:48:00) versus last year? Just, give us the number. You gave us the 140%. Give us what the down is this year. I just I mean it's not...

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

A

Look...

Sam Poser
Analyst, Williams Trading LLC

Q

We understand. It's just, the number's the number.

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

A

Sure, Sam. Yeah. We're down approximately 18% year-to-date e-commerce sales.

Sam Poser
Analyst, Williams Trading LLC

Q

And then the second quarter?

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

A

We do not have second quarter in front of us right now, Sam, but it's higher than that, but in line with expectations.

Sam Poser
Analyst, Williams Trading LLC

Q

And then, what's the store opening/closing situation look like given the productivity of the stores are going up? How do you see [indiscernible] (00:48:45) what do you see for the balance of the year into next year right now for your store plans?

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

A

Yeah. Right now, we are really excited about reigniting the store growth plans as well as all the energy we're putting in the modernization plans. Our current plans are, I guess, the net new store growth as we approach 2023. 2022 is currently focused on finding those sites, really driving with acceleration, the modernization of our fleet and accelerating the profitability.

Sam Poser
Analyst, Williams Trading LLC

Q

And for the balance of this year, what's the plan right now for stores?

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

A

Still no change. We've just opened one store last quarter. And we have two to three we continue to expect to close this year [indiscernible] (00:49:36) that are low performing.

Sam Poser
Analyst, Williams Trading LLC

Q

Okay. All right. And, Cliff, congratulations, and enjoy your retirement, not a retirement.

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

A

Thank you, Sam.

Operator: Your next question is from Greg Pendy with Sidoti.

Greg Pendy
Analyst, Sidoti & Co. LLC

Q

Hey, guys, thanks for taking my questions. Just two. I guess on the near-term outlook, August, is that typically – I think in the past, you've mentioned that's around 70% athletic. And just kind of – I guess, the context of the question would be, I mean, is that where you're winning most, because earlier in the call you kind of mentioned market share.

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

A

Hi, Greg. This is Carl. Typically, the 70% athletic for the month of August, I can tell you right now we're running a little bit less than that percentage of athletic to the total. And that's not a reflection I don't believe of athletic sales slowing. It's a reflection of other fashion categories accelerating like they were in the beginning of – for fall of 2019 before they got derailed. So slightly less than 70%, but still a giant number.

Greg Pendy
Analyst, Sidoti & Co. LLC

Q

Okay. Understood. And then just considering your customer demographic, I know it's a little ways out, but the tax credit, can you kind of talk to – on childcare – just how to think about that, and maybe even relative to 2019? If you can kind of remember what was the refund season like in the sense of anniversary-ing that now that people will probably – they're getting their credits now and they won't be getting the refund. How should we be thinking about that?

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

A

We're seeing that our customers continue to be motivated to come into Shoe Carnival stores live following the child tax credits that are coming out monthly. We've seen specifically traffic spike double digit weeks after the new tax credits come out. Conversion has been exceptional, and comp sales have been continuously strong following each of the tax. Still a little early but it's been consistent for most of the month so far and it seems to be lasting for a good one to two weeks where we're getting material bump.

So we feel since the remainder of the year forecast for [indiscernible] (00:52:06) credits, similar expectations that we continue to fuel a part of that growth. It's too early to understand yet for 2022 what the impact will be, but we are clearly seeing it's resonating with our customers. They're choosing Shoe Carnival, and conversions and traffic are exceptional.

Greg Pendy
Analyst, Sidoti & Co. LLC

Q

Okay. That's very helpful.

Operator: Your next question is from Jim Chartier with Monness, Crespi, Hardt.

James Andrew Chartier
Analyst, Monness, Crespi, Hardt & Co., Inc.

Q

Good morning. Thanks for taking my questions. I just want to talk about the composition of the sales growth for 2019. How much is being driven by the gains in your customer base and over the last two years, and how much is an increased spend by your existing customers?

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

Good morning. Thank you for the question. We see the lion's share of the growth is being driven by new customer acquisition versus the pre-pandemic. The double-digit gains we're bringing in have been the primary fuel to our success, we believe. And the conversion at that point of time is a credit to what Carl and his organization have had; the right product, the right trend, and importantly in stock to convert on time during the supply chain disruption.

So without a shadow of a doubt, new customer acquisition has been primary. Secondary though, our Shoe Perks loyalty program has also grown double-digit. And we think that's the magic to the quarter that we've been able to bring double-digit customers in but make our Shoe Perks loyalty member [indiscernible] (00:53:51) highest it's ever been. [ph] Fans (00:53:53) are really enjoying it and we're bringing them through that value chain of awareness trial, trial in-store importantly, buying and then becoming loyalty members which are our most profitable. So, we're thrilled with the dynamics we're seeing for the underlying business fundamentals.

James Andrew Chartier
Analyst, Monness, Crespi, Hardt & Co., Inc.
Q

Great. And then in terms of the new customers that you acquired last year, are they behaving similar to earlier cohorts of new customers? And then, is there a maturation period for new customers?

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

They're behaving differently and reacting incredibly positive to our new promotional strategy, in fact. If we look at 2019, the core new customer acquisition was coming in through lower promotion profitability activity. Now, we're targeting new customer acquisition specifically with brands, with styles, with communication, with experience. And it's taking our average basket size up to some of the highest levels we've seen, and our profitability and margin to the highest levels we've ever seen.

So, they're acting quite positively to the CRM investments, I would say. And we're bringing in a customer that's still value-oriented but not looking for cheap. And that's a big differentiator we're articulating internally. We will have the value for the best product, but we'll give it at the right price, not a cheap price that is given the right value for shareholders.

James Andrew Chartier
Analyst, Monness, Crespi, Hardt & Co., Inc.
Q

Great. And then on the store modernization plan, how do the Nike shops kind of play within that? And so if there's 100 hundred stores you're planning to modernize by next spring, how many of those will include the Nike shop, and then just kind of follow up, how are you thinking about benefits from Nike's distribution rationalization going forward?

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

Yes. As we said on the call, we are very pleased with how the store modernization is rolling out. We are on track to exceed the pace for the three- to five-year plan to have at least two-thirds of the store done. So, we're very confident that's going well. Related to next year, we're on track for that first 100 to be completed by spring. And even more exciting part I didn't share before, this quarter, the first 50 of those will be completed.

And we're very proud of that despite COVID and all that's going on, our teams have worked tirelessly to still refresh, and the first 50 will be completed this quarter. More specifically to your question, by spring of 2022, when we have that first 100, approximately half of the company's fleet will have Nike shops in them, and our plan is right now for the lion's share or all of those to have Nike shops in them.

James Andrew Chartier
Analyst, Monness, Crespi, Hardt & Co., Inc.

Q

Great. And then just thoughts on kind of when you'll start to see the benefit from some of Nike's wholesale distribution [indiscernible] (00:57:05).

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

A

Hi, this is Carl. We really don't get into individual hands on the call, and how we're planning individual brands at this point. And I guess that's all I'd say about that at this time.

James Andrew Chartier
Analyst, Monness, Crespi, Hardt & Co., Inc.

Q

Okay. Great. That's all I have. Thank you.

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

A

Thank you.

Operator: You have a follow-up question from Mitch Kummetz with Pivotal Research.

Mitch Kummetz
Analyst, Pivotal Research Group LLC

Q

Hi. Thanks. I just have one quick follow-up. Kerry, obviously great quarter and then great start to Q3. I'm just curious when you look at Q2 by month on a two-year basis, can you maybe speak to the month? I don't know if you have any numbers on the months versus two years ago. And if you don't, can you at least maybe kind of – how consistent was the quarter or was it lumpy? Anything there would be helpful.

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

A

Against the prior year, we had a very strong May and June in the 30%-plus range and then July was up and loaded double-digits. So we had a very strong quarter.

Mitch Kummetz
Analyst, Pivotal Research Group LLC

Q

Do you have any sense of how that was versus two years ago? Was it even more...

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

A

That was the two years.

Mitch Kummetz
Analyst, Pivotal Research Group LLC

Q

That was a two year? Okay. I'm sorry. I thought you said prior to last year. Okay. All right. Thank you.

Operator: Since we have no further questions at this time, I will now turn the call back over to Mr. Sifford for closing remarks.

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

Thank you. I cannot fully express my gratitude to the Shoe Carnival family, that includes our customers, our employees, our vendor partners, our investors, everyone on this call and to the Shoe Carnival board of directors, who believes in this team and gives us the latitude to win. It has truly been my honor to lead such an impressive organization for the past 9 years and be part of it for 24. I truly mean it when I say the Shoe Carnival family. This company has and will always feel like home.

I look forward to working with Mark and the team as I join the board full time and I wish the team all the success in the world. I cannot wait to watch you continue to do such great customer-focused work. Thank you all once again. Mark and the team look forward to speaking with you in November.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.