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Shoe Carnival, Inc. (SCVL)

Q4 2021 Earnings Call

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James Andrew Chartier

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Chris, and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Shoe Carnival 2021 Fourth Quarter Earnings call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.
[Operator Instructions] Thank you.

Mark Worden, President and Chief Executive Officer, you may begin.

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Good morning and welcome to Shoe Carnival's fourth quarter earnings conference call. Joining me on today's call are Carl Scibetta, Chief Merchandising Officer; and Kerry Jackson, Chief Financial and Administrative Officer.

I'd like to start by recognizing our team of nearly 6,000 members for their commitment, perseverance, and their winning spirit demonstrated throughout 2021. And to our millions of loyal customers and new customers across the hundreds of communities we serve, we are thankful you selected Shoe Carnival for your family footwear shopping experiences.

I have the pleasure of opening today's call by reporting that Shoe Carnival generated more profit for our shareholders during 2021 than the prior six years combined. Furthermore, growth momentum remained very strong at Shoe Carnival. No doubt, 2021 presented a challenging macro environment. COVID-19 and supply chain disruptions required our exceptional merchandising team and operators to navigate ongoing complications. Inflation in a tight job market made clear how essential our team members are and how important our commitment to invest in competitive wages, compelling benefits, and long-term career growth is.

One element was constant for Shoe Carnival every quarter in 2021. Our customers shop in-person at record levels, and when they did, the merchandise assortment delivered on their family footwear needs. Sales grew 36% for fiscal 2021 with every quarter growing double digit versus 2020. We were most encouraged with the sustained market share growth achieved as every quarter grew over 20% versus 2019, which we view as a more normal sales profile, but that's the pandemic disruption in 2020.

Millions of new customers experienced Shoe Carnival for the first time during 2020 after reopening our stores following the pandemic shutdown. Our team's 2021 focus was to leverage our advanced CRM and digital marketing capabilities to convert these new customers. The plans worked exceptionally well. For example, Q4 marked the seventh consecutive quarter of comp store growth and the sixth consecutive quarter of record earnings per share delivered. [ph] Growth was (00:3:07) driven by double-digit store customer traffic increases and the acquisition of over 3 million new loyal customers versus prior year.

Total Q4 sales grew 23% with exceptionally strong holiday sales generated from the hottest athletic and non-athletic brands and styles with the family in stock. Despite the Omicron variant surging in Q4, our customers shop in-person during the holidays at the highest levels in our history and did so with gross margins for the entire Q4 at 37.4%, up 650 basis points compared to Q4 last year. Carl and Kerry will discuss the margin results and sustainability of it shortly.

Sales momentum has continued into fiscal 2022. We expect to deliver another sales record in fiscal 2022 with sales growth of 4% to 7% on top of a 36% growth achieved the prior year. We aim to surpass \$1.4 billion this year, which will result in Shoe Carnival sales 43% larger on a two-year stack.

For the first six weeks fiscal 2022, net sales continued to grow, driven by strength of customer traffic gains. The second half of Q1 and Q2 [ph] brought (00:04:33) against large government stimulus funds in the prior year which we are not anticipating being funded again this year.

As such, we anticipate the first half of 2022 to generate net sales between flat and low-single-digit increase. Once we last the major stimulus funding, we forecast mid- to high-single-digit growth for the remainder of 2022. I would like to turn now to our strategic plan to transform shareholders profit. In 2019, we set a long-term objective to increase our operating margins from the historical 4% to 5% range which was lacking the competitive set to a long term ambition to exceed 10%.

To accomplish this objective, we invested in consumer technology, analytics, and hiring top talent so we could build out advanced customer relationship management, and digital marketing capabilities. These investments resulted in profit generation faster and higher than we expected. For the full fiscal year, operating margin and EPS more than doubled versus our historical averages.

For the fourth quarter, despite the supply chain cost headwinds and average hourly wage inflation, earnings per share grew 177% versus the prior year and 500% on a two-year stack. For the full year, earnings per share grew 271% versus the prior record achieved from 2019, resulting in a return on beginning equity of 49.9%. Looking forward, we'd see our business model generating high levels of cash flow and gross margins. We do not see the 49% return achieved in 2021 being the norm. However, we have plans in place and now sustained double-digit operating margins and earnings per share more than 250% higher than the pre-pandemic levels.

Turning to store productivity and growth, the full fleet is healthy, with all comp stores cash flow positive and the chain generating sales of over \$300 per square foot. With these results achieved, we have now completed our

multi-year store productivity improvement plans and forecast limited, if any, store closings for the next several years. Our store modernization plans continue to generate accelerated sales and positive customer feedback.

Our athletic shop-in-shops with the brands our customers love and seek out is playing out as a compelling traffic driver and a competitive differentiator. With net sales and gross margins over-performing expectations, we are again accelerating capital investments for this program. We now aim to complete the modernization program across the fleet by the end of fiscal 2024. As we concluded fiscal 2021, approximately 20% of the fleet remodels were complete. We have over 100 more in flight and planned to have approximately 50% of the fleet complete at the end of this year.

Our first acquisition closed successfully on December 3, 2021, acquiring the assets of a leading southeast retailer Shoe Station. Our original plan was to complete the back office integration by late 2022 and then begin rapid store growth in the 2023-2024 horizon. I'm very pleased to share today that the teams did an amazing job and the back office integration is complete six months ahead of our expectations.

With this rapid, smooth start, we have shifted resources to store growth mode and building advanced CRM capabilities for the new banner. We're seeing encouraging opportunities to grow our new banner with complementary consumer demographics and real estate locations to the Shoe Carnival banner. The real estate and analyst teams are deep into our CRM data and finding many promising markets to expand into. With both banner stores productive and generating strong cash flow, we are moving into store growth mode.

For 2022, we aim to add over 10 stores to the fleet then accelerate over 20 stores annually beginning in 2023 through a combination of organic growth and opportunistic acquisitions where a strong regional or local player exists.

Turning to shareholder value, we forecast earnings per share to be in the range of \$3.80 to \$4.10 for fiscal 2022, compared to \$1.46 in fiscal 2019. This will generate a return on beginning equity between 24% and 26%. Additionally, with our strong cash flow and balance sheet, we're raising our dividend by nearly 30% after raising it 50% last year. Kerry will discuss this shortly.

In closing, Shoe Carnival's growth momentum is strong despite the challenging macroeconomic environment. 2022 will be yet another record growth year, thanks to our exceptional team and rapidly expanding loyal customer base.

I would now like to turn over the call to Carl.

Carl N. Scibetta

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

Thanks very much, Mark. As Mark said, we're delighted to report our strongest ever fourth quarter as well as our best fiscal year ever. I will highlight several areas that were key to delivering our outstanding performance. The first is, we are winning with loyalty and brand building. For our ongoing investment in CRM, we understand our customers better than ever. This enables us to continue to execute our promotional strategy using data intelligence, drive customers into our stores and online. These targeted, personalized promotions have been a key component of our innovative marketing plan and has served us well since we implemented it over a year ago.

Our best-in-class CRM is driving record sales and gross margins, and as we saw in the fourth quarter, it consistently drove higher customer acquisition, retention, and reactivation all at the same time. With the use of the valuable consumer insights our CRM provides, we can leverage deeper engagement across both online and in-

store channels. The stellar results we announced today are the strongest evidence to-date our strategy is working.

Secondly is our unparalleled vendor relations. Our merchandise story is, above all, one of overcoming supply chain challenges through working with our vendors daily to minimize the disruptions being caused by the global supply chain issues. In this challenging environment, our vendors are highly selective with their inventory allocations, and many do not have the capacity to supply demand from retailers at the mall, department stores, and discount stores.

Customers love brands and they will go to retailers where they can reliably find those brands. Giving our firmly embedded relationships with our vendor partners, we continue to stay stocked with a variety of depth, breadth of the hottest in-demand products. As a result, we are uniquely positioned to capture customers dislocated from other sources, which are no longer able to cater consistently to customers' needs. We saw the power of those relationships throughout every quarter in fiscal 2021. The outstanding results [indiscernible] (00:12:24) we had the right products at the right time. As a result, we enjoyed an exceptional holiday season.

During the final weeks of 2021, we generated record sales and 6 times earnings per share compared to the fourth quarter of 2019. That said, our industry faces potential challenges this spring. Consumer spending will be impacted as the stimulus programs of 2021 are no longer and the supply chain inflation issues continue. We are immune from these challenges, but thankfully we are well-positioned to continue to increase our market share due to our strong management and vendor relations.

Our inventory levels are up versus last year, and our stores are ready for spring selling. And we are winning with strong merchandise categories and assortments. As Mark mentioned customer shop in-person for their holiday needs. Drilling down to consumer trends, we are seeing customers back to buying non-athletic shoes. Across customer groups, non-athletic sales grew by over 20% in the fourth quarter, while athletics continue to grow by low-teen percentage points. Currently, we have a 50/50 non-athletic/athletic merchandise portfolio, which has us well-positioned for growth and mitigates risks related to changes in consumer demand. We feel this balance gives us an advantage over competition.

Q4 continuing the path of business normalization that we saw in preceding quarters as our brick and mortar customers responded very positively to merchandise and storage strategies. Comp sales in the fourth quarter versus 2020 were up 17.7% and up 25.3% versus 2019. We are also delighted with our e-commerce business. In 2021, e-commerce sales grew 146% to over \$160 million compared to fiscal 2019. While we don't see the explosive growth in post-pandemic environment, we do expect our thriving e-commerce channel to play a significant role with our customers as they balance their new hybrid work lives.

Our e-commerce margins as a result of these evolving customer trends were 880 basis points higher compared to Q4 2020. Improving last mile delivery is a key aspect of e-commerce. During the fourth quarter, we became the first in the family footwear channel to launch same-day delivery in partnership with DoorDash in late December. We are proud of our team's ability to launch this innovative offering to benefit our many busy last minute holiday shoppers.

Going forward, we expect e-commerce to be a high-single-digit, low-double-digit long-term growth area. We will continue to be an omni-channel growth story as we provide a highly complementary bricks and clicks offering that provides our customers with winning merchandise and high-quality service they've come to expect from us.

As Mark mentioned, we continue an aggressive rollout for our store modernization program. We want our customers to feel the joy and fulfillment of in-person shopping in our stores. Our efforts are moving fast. We will complete modernization of over 100 stores in 2022 and half the fleet will be completed by year-end.

Our stores have an open, modern, clean look that facilitates a pleasant browsing experience. Our digital displays and brand shops connect customers to the trends and the promotions they see. Our athletic shops continue to rollout. Our assortment of brands and our strategic vendor partnerships with the top global athletic brands are strong. These environments are motivating and more customers stepped through the door and browse.

As we continue to invest in new store designs, our Shoe Station prototype flagship store is well underway and will open later this year. Our integration of Shoe Station is ahead of schedule. We have worked with our vendor partners from the Shoe Station business and we are mutually excited about the future growth opportunities ahead. Our southern-based Shoe Station buying team is engaged and ready to go.

We expect modernization of all existing 21 stores to be completed along with our company-wide modernization strategy. Above all, our people are friendly, knowledgeable and always put the customer first. In fact, customer first is a core value and key differentiator in the category.

Now turning to results. All merchandise categories, comparable store sales for the quarter were up double digits versus 2020, and margins were up 710 basis points for the same period, and 1,030 basis points versus 2019. Even though inflation could have some effect on margin levels in 2022, we feel that changes in our promotional strategies and the power of our CRM program has fundamentally changed the merchandise margin levels for the company going forward.

Kids comparable store sales in the fourth quarter were up in the low-20s, both athletic and non-athletic kids sales were up over 20%. Men's non-athletic comparable store sales were up in the high-20s. Sales were driven by both the dress and casual shoe categories. Women's non-athletic comparable store sales were up in the low-20s. Sales were driven by dress, casual, and sports shoes. Adult athletics were up in the low-double-digits. As mentioned earlier on our previous calls, non-athletic shoes across men's, women's, and children's have made a huge comeback.

Our team of seasoned merchants continue to navigate through supply chain challenges with the same anticipatory approach to sales and inventory as they have throughout the pandemic. Through their hard work and excellent vendor partnerships, the team was able to deliver the products customers wanted to generate these outstanding results. Despite industry-wide near-term headwinds, we feel we are well positioned to succeed in fiscal 2022 with a strong inventory position. Fiscal 2022 beginning inventories per door were up in the high-teens versus 2021 and mid-single-digits versus 2020.

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. It's exciting to share with you some financial highlights from the best fourth quarter and the best fiscal year of the company's history. We achieved a record fourth quarter with net sales of \$313.4 million, an increase of \$59.5 million, or 23.4% compared to the fourth quarter of fiscal 2020. Comparable store sales increased 17.7% for the fourth quarter fiscal 2021 compared to the prior year. Our brick and mortar comparable

store sales were up 22.1% and e-commerce is mostly flat in the fourth quarter compared to the fourth quarter of 2020.

Fourth quarter 2021 gross profit margin was 37.3%, a Q4 record high for Shoe Carnival and up more than 650 basis points compared to the fourth quarter 2020 driven primarily by continued strength in our merchandise margins in the quarter. Excluding one-time acquisition cost, our Q4 gross profit margin was 37.6%.

Buying, distribution and occupancy expenses decreased 140 basis points as a percentage of sales when compared to the fourth quarter of 2020 despite higher supply chain expense. These results clearly underscore the successful execution of our merchandising strategy highlighted by Mark and Carl earlier in the call. SG&A expenses increased by \$21.3 million in the fourth quarter of fiscal 2021 to \$88.9 million.

As a percentage of net sales, these expenses increased to 28.4% compared to 26.6% in the fourth quarter of fiscal 2020. Excluding one-time acquisition cost, SG&A expenses in Q4 were \$85.7 million or 27.3% of net sales. The increase in adjusted SG&A was driven primarily by increased investments in advertising and store level wages.

Operating income was \$27.9 million or 8.9% of fourth quarter 2021 sales. In comparison, operating income was \$10.6 million or 4.2% of sales in the prior year quarter. Adjusted operating income in Q4 was \$32.2 million or 10.3% of net sales. Net income in the fourth quarter of 2021 was an all-time fourth quarter record of \$20.6 million compared to net income of \$7.4 million during the same period last year. Earnings per diluted share for the fourth quarter of 2021 increased by \$0.46 to a record \$0.72 per diluted share, adjusted net income in Q4 was \$23.8 million or \$0.83 in diluted earnings per share.

We closed out the quarter with inventory of \$285.2 million, which was up \$51.9 million compared to the prior year or 19.2% on a per store basis. A little over half of the increase in inventory was due to the 21 stores acquired in the Shoe Station acquisition. We have ample liquidity to fund our growth through store expansion and modernization, target further acquisitions while continuing to build cash on our balance sheet.

As of January 29, 2022, we had total cash, cash equivalents and marketable securities of \$132.4 million and no outstanding debt. We have more cash on hand than last year, even after paying for the Shoe Station acquisition in cash. As we invest for future growth, we continue to follow through on our commitment to shareholder return. In addition to our current share repurchase authorization, our board of directors approved the payment of a 29% increase in our quarterly cash dividend to \$0.09 per share from \$0.07 per share previously.

Turning to our longer-term outlook. As we continue to see momentum in our business as we come into March and based on our expectation of continued strength, we expect fiscal 2022 net sales to increase mid-single-digit to \$1.38 billion to \$1.42 billion, and earnings per diluted share for the fiscal year to be in the range of \$3.80 to \$4.10.

In closing, this morning we announced the best results in our 43-year history. Looking ahead, with continued strength, the success of our fast growing omni-channel sales model, our transport profitability profile all supported by robust cash flow, we are better positioned financially than ever before to execute on our growth strategy, which combines organic store expansion and modernization, on one hand, and selective acquisition strategy on the other.

With that, I'll conclude our financial review. Now, I'd like to open up the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Mitch Kummetz with Seaport. Your line is open.

Mitch Kummetz

Analyst, Seaport Global Securities

Q

Yes. Thanks for taking my questions, and congratulations on the quarter and the year. I've got a few questions. You guys have referred to momentum through the first six weeks of Q1. I was hoping you might be able to quantify that. And I'd be most interested in knowing how that performance compares to the first six weeks of 2019 if you happen to have that.

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

Good morning. Mitch. Mark. Thank you for the congratulations. We're thrilled with the way last year included and that momentum had carried into the first six weeks of fiscal 2022. We're of great confidence based on the start that we can continue to grow and have a record 2022 this year, as we said, growing 4% to 7% revenue range.

Specific to these first six weeks, we are seeing continued strength in store traffic and people coming out despite all of the macroeconomic things going on. And we're very comfortable that before we started lapping of stimulus, we were seeing high-single-digit-type growth, Mitch, compared to the prior year.

Mitch Kummetz

Analyst, Seaport Global Securities

Q

Okay. That's helpful. And then, Mark, you kind of broke out the year first half, second half in terms of kind of the year-over-year. Sort of quick back of the envelope math that I've done, again, we're not trying to compare this to 2019 which was the last pre-COVID year, that kind of implies high-20s growth in the first half, high-30s growth in the second half versus 2019. I can appreciate the lapping of stimulus on a year-over-year basis, but I'm kind of curious why more growth in the back half versus the first half when you compare it to that pre-COVID. Is that mainly kind of inflation and supply chain that's holding back the sales growth a little bit in the first half that you would expect to kind of you alleviate in the back half or is there something else going on?

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

Yeah. You're right regarding versus prior year, it is purely the stimulus that's going to be a challenging headwind for retail for the next month or two. And then we get into rapid growth once we start [ph] lapping (00:27:30) that. If you look two years back, no doubt, the supply chain and inflation are challenging headwinds that everyone's facing at this moment in time and we expect that to continue to be challenging for us to navigate. Our merchants as we talked about last year navigated it with astonishing nimbleness, and we're able to secure the inventory we needed at our stores well-stocked when customers were there. And we have confidence we're going to do that again this year.

However, compared to 2019, we're not immune to – there are delays in the shipping, there are delays throughout the supply chain, and inflation is causing consumer sentiment to be different than the 2019. With all that said, we have great confidence we get beyond that in the coming weeks as we head towards back to school. We're positioned very well to accelerate growth.

Mitch Kummetz

Analyst, Seaport Global Securities

Q

And then Mark, you mentioned double-digit operating margin is kind of a new sustainable level for the company. That's up I think over 500 bps from where you were pre-COVID. Can you just talk about the structural changes that you've seen in the business that gets you to this new level? I mean I would imagine a pretty good piece of that is going to be the CRM, and your ability to be more kind of targeted and strategic with your promotions.

And if there's anything else that you might want to refer to help explain that lift in margins whether that's market share gains that you've taken that helps with the fixed cost leverage. I mean, can you maybe kind of go through some of those components?

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

Sure. I'll highlight three of them that are key drivers versus our investment to build advanced analytics and CRM capabilities like you touched on. We're at the stage of gaining leverage from those systems we've been investing in for multi-years and gaining through [ph] it a bit (00:29:32). We can target consumers effectively. We can promote far more profitably and still generates the top line we want. That's going to be a key contributor.

Second, that capability and our merchants' excellence has enabled us to eliminate the historical buy one get one half off, and other deeply unprofitable promotions we used to do. Between those two key elements, we can sustain margin significantly higher. And Carl and Kerry can build on that.

Third, the job environment is tighter than I've seen in my nearly 30 years. And we have made a conscious decision to invest in our employees, invest in a compelling [ph] payment (00:30:22) for them, invest in benefits, and invest in career opportunities. And so, I'm thrilled today to share that effective this year, all full-time employees at Shoe Carnival will be earning at minimum \$15 per hour. And this is allowing us to invest and having that best talent we need in our stores that customer first mindset.

So two major tailwinds from more analytics are helping increase our gross margin and then an investment in our people helps us win, but also puts pressure on SG&A pulling down some of the high results, and that 49-plus-percent return on equity we delivered this past year.

Mitch Kummetz

Analyst, Seaport Global Securities

Q

Okay. All right, guys. Thanks and good luck.

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

Thank you. Mitch.

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

Sam Poser

Analyst, Williams Trading LLC

Q

Thank you. Thank you very much. Thanks for answering my questions. Kerry, I was just wondering if you could just give us some details or, Carl, on the sales increases by month or the same-store sales increases by month in the fourth quarter given how – there was some stimulus lapping in January.

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Hi, Sam. Good morning. It's Mark again.

Sam Poser

Analyst, Williams Trading LLC

Hi Mark.

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

I can share that with you. Q4 was exceptional, delivering over 23% growth overall and over 17% comp. It was driven by holidays. We've never seen stronger holiday traffic. Consumers were flocking in-person back to our bricks. And we saw over 20% comp growth for both the month of November and the month of December. Turning to January, that was the unknown when we spoke to everyone last that what would be the impact of not having the stimulus funds which were in our consumers' hands the prior year.

We had expected to have an over 20% sales decline in January, and we're thrilled we far outperformed that. In fact, for the month of January, we had a mid-single-digit decline, again beating our expectations by over 10%. It was a great learning for us too, Sam to show as we grew so many new customers, we're able to talk them of CRM that we've been able to grow market share during this past January offsetting some of the stimulus money that was there last.

Sam Poser

Analyst, Williams Trading LLC

Thank you. And then a number of retailers within your markets are losing access to one of your largest vendor and others have closed, how – but I've also heard that some of that may – some of that product flow because of the delays isn't happening as quickly as anticipated. How do you foresee that helping or I won't say helping, impacting your business this year?

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

We talk about our store modernization plans exciting us and accelerating our plans to have the whole fleet accomplished. One of the things that consumers are gravitating to is our athletic shop-in-shops. And so this year, we have in flight another 100, 100-plus to be rolled out with the best brands that those consumers are shopping for across channels, and they're delighted when they can find them in our athletic shop-in-shops.

The brand experience, the full price realization, the way that brands love seeing them come to life is at Shoe Carnival, we believe better than anyone in the channel. So, we're moving full steam ahead and plan to have the entire fleet of athletic shop-in-shops by the end of fiscal 2024. Carl, could build on our vendor base too of how excited we are about that.

Carl N. Scibetta

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

Sure. Sam, while we don't talk about individual vendors on the call, what I'll tell you is the top five athletic brands from 2021 produced 37% of the company's business. And in 2022, those same top five athletic brands are projected to equal the same 37% of the company's business.

Sam Poser

Analyst, Williams Trading LLC

And does that include the Shoe Station acquisition?

Carl N. Scibetta

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

That includes those particular numbers are the Shoe Carnival. The Shoe Station acquisition stores carry a different merchandise mix with access to some of the other more premium running brands. And we don't see a change in the way they have historically been assorted.

Sam Poser

Analyst, Williams Trading LLC

And then your store opening plans to open 10-plus stores this year and 20-plus stores next year, can you give us details as to what the composition of that is between Shoe Station and Shoe Carnival? And as far as I know, you don't plan to close – I believe you said you're not going to close any stores or don't plan to close any stores this year.

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Yeah. That's correct, Sam. So, for 2022, we plan to add at least 10 stores. The lion's share of those will be Shoe Station. We will be adding Shoe Carnival, but the vast majority this year will be Shoe Station as the real estate opportunities we see there are so exciting. The analytics we're just diving into are pointing into how we can explosively multiply that fleet number over the next few years.

As we get into 2023 and 2024, we're pursuing growth of both banners. It's our aspiration to have double-digit net store count growth for both banners. We do see more opportunity for Shoe Station. Based on the mere size, it's a small footprint, and we have so many states we can bring this great new brand too. By 2024, it's our ambition to be 25-plus additions a year, and we're incredibly energized. The only thing keeping us at low levels is we're at a – we're starting from scratch right now to get real estate. If more real estate becomes available, those numbers will go up quickly.

Sam Poser

Analyst, Williams Trading LLC

And then, lastly, when you acquired Shoe Station, you said that you anticipated around \$100 million in revenue in 2022 for Shoe Station. But I don't imagine that that included opening as many stores as you are now opening. So is that \$100 million still the number or is that number gone up? And then when we think about over the next two years, I mean, you're going to add more than 50% store growth, almost 100% store growth by the end of next year, probably. So how should we think about that Shoe Station revenue?

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

In other words, three and a half months deeper into it with even more conviction with what we've acquired this brand, the growth, the profitability. We're so energized. You should think about this year as we will deliver what we said, the \$100 million built in some store growth.

And with where we are in the year, Sam, when we talk about those 10, most of those will be Q4 or towards the very tail-end. So we'll have limited impact on this year's sales and profits. But as we go into next year, that's where we can start to really ratchet it up.

And you're right, you should think about what the numbers I've just said were more than double, potentially triple the store footprint for that banner within two to three years. And we will commensurately more than double the revenues of that banner in that same time, so.

Sam Poser

Analyst, Williams Trading LLC

Q

And then last – sorry, lastly, again, the sales – the margin structure once you – especially once you get the CRM all set up from a merchandise mix is theoretically better at Shoe Station than it is at Shoe Carnival because there's less mix of lower margin athletic business. Is that a fair way to think about it as well?

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

It's fair to think about it. We see the margin and profitability structure lining up with the Shoe Carnival banner numbers that we've just guided to. We see them very similar. There's absolutely potential. As we identify more synergies and get more into the buying and merchandising functions in the year ahead, there's actually more potential for that trend to drive higher operating margins and higher margins. But at minimum, we see it lining up with this new reset profit level for Shoe Carnival.

Sam Poser

Analyst, Williams Trading LLC

Q

Thank you very much, continued success.

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

Thank you, Sam.

Carl N. Scibetta

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

A

Thanks, Sam.

Operator: [Operator Instructions] . The next question is from Jim Chartier with Monness, Crespi and Hardt. Your line is open.

James Andrew Chartier

Analyst, Monness, Crespi, Hardt & Co., Inc.

Q

Good morning. Thanks for taking my questions. I just want to follow-up on some of the previous questions. Do you expect share gains related to Nike's exit from other retailers? And then the expectation for the penetration of your top five athletic brands being similar to last year, is that due to stronger growth in non-athletic business this year? Thanks.

Carl N. Scibetta

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

A

Hi, Jim. It's Carl. We do see we growth in both athletic and non-athletic for 2022. However, we do see growth at a higher rate in non-athletic than in athletic based on consumer trends, based on recent history and new fashion that has emerged in the non-athletic side of the business.

James Andrew Chartier

Analyst, Monness, Crespi, Hardt & Co., Inc.

Q

Okay. And then, just, Kerry, what's the timing of the new store openings this year? How should we plan for that? And do you expect to close any stores?

W. Kerry Jackson

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

A

No. As Mark said in his prepared Remarks that we're done with our store closing program to improve the store profitability with all stores on an ongoing business cash flow positive that we're very pleased and I think it was a quite success. And on looking out this year, we're not anticipating closing any stores and including 2023 right now, we don't have a visibility on closing of stores.

On the openings this year, we just opened one per Shoe Station, so we'll have one in Q1, and then the rest of them are going to be – and might have a store or two in Q3, that really is going to be the Q4 where the stores are going to open.

James Andrew Chartier

Analyst, Monness, Crespi, Hardt & Co., Inc.

Q

Okay. And then finally, it terms of, the vendor mix between Shoe Carnival and Shoe Station, you mentioned some differences there. What are the opportunities to add some of the stronger Shoe Carnival brands to Shoe Station and vice versa? And when would that opportunity play out?

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

Sure. Jim, we do see some synergies between the two businesses, and we plan to use the power of Shoe Carnival to help leverage and aid some of the purchasing for a Shoe Station where appropriate. But as we have seen – as we anticipated in this business and it certainly has come to fruition for the short time we've operated them, they have a slight – they have a different consumer. And their consumer is really more, I would say, targeted at what a department store consumer should be or department store consumer is based on the type of products they sell based on the categories that drive their business.

So, while we see some synergies between the two [ph] and us (00:43:14) being able to leverage the strength of Shoe Carnival purchasing power, there are some distinct differences between the two business not to say that that with vendor support, we might try a few things but the assortments have distinct differences targeted at a distinct customer would continue that.

James Andrew Chartier

Analyst, Monness, Crespi, Hardt & Co., Inc.

Great. Thank you.

Q

Operator: Our next question is from Mitch Kummetz with Seaport. Your line is open.

Mitch Kummetz

Analyst, Seaport Global Securities

Hi. Yeah. Thanks. I just have a couple of quick follow-ups. Mark, on the remodels, I know it's – you're early in the process, but could you maybe speak to the lift that you're seeing as you remodel the stores whether it's productivity or margin or whatever metrics you can speak of?

Q

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

We're seeing strong consumer feedback. Conversion is exceeding our expectations and comps are very strong. To be honest, it's hard to unpack within the strong growth we had 23% in the fourth quarter through different elements. But anecdotally, it's driving all of those core metrics the right way. And most importantly, the profitability and contribution per square foot are ahead of our expectations.

A

Mitch Kummetz

Analyst, Seaport Global Securities

Okay. Great. And then Carl, you've spoken of the strength of non-athletic, could you remind us kind of when that really started to kick in and how you think about the first half of this year particularly around sandals, I don't recall how strong the business was for you last year. I know that can revolve around a lot of occasions whether it's sort of Easter, Mother's Day, and graduation, things like that. I'm kind of curious if you feel like there's an opportunity there versus last year even?

Q

Carl N. Scibetta

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

Sure, Mitch. We saw a change to more special occasion dress up, go out kind of footwear starting mid-April last year. Fortunately, we were very well positioned with inventory, and we're able to take advantage of that for the majority of the second quarter. Now, that inventory got depleted, and we have been aggressively chasing that. So, I do see that opportunity first quarter of this year being very strong, second quarter as more social occasions, graduations, weddings, those things are happening, continuing through, and I see great opportunity in the second half of the year as we will be in a much better inventory position.

A

Mitch Kummetz

Analyst, Seaport Global Securities

Okay. Great. Thanks again.

Q

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

Sam Poser

Analyst, Williams Trading LLC

Q

Thank you for taking my follow-up. Two things, one, where do you expect the store – the Shoe Station stores – when you're looking at markets, are you looking at backfilling? Are you looking at new markets? Can you give us some color there?

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

A

Yes. We aim to grow rapidly in the southeast market. We're starting first with the strategic stronghold that Shoe Station has in the Alabama, Mississippi, Georgia, Florida, Louisiana region. And the lion's share of our near-term growth will be bringing the brand to the consumers who already know and love them but don't have access [ph] to it (00:46:52). From there, at once we fill that in we have [indiscernible] (00:46:57) expanding further. But the southeast market remains the focus of these growth numbers we've talked about in the near term.

Sam Poser

Analyst, Williams Trading LLC

Q

Thanks. And then, Carl, I just want to make sure that you define athletic a little differently than some other retailers do. So, can you provide a little color as to what does and does not work into your athletic businesses because there are certain brands and so on that I know other people categorize as athletic and you do not.

Carl N. Scibetta

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

A

I'll say this, [ph] no matter (00:47:41) where we categorize it, the numbers I quoted you were the total brand, not necessarily what category we put that particular brand in, and we define athletic footwear as a brand you could do a sport in, not a brand that is purely a fashion in and out.

Sam Poser

Analyst, Williams Trading LLC

Q

Right, so for instance, the Nike's, the Asics, the Brooks, the adidas, the Reebok, those are all athletics?

Carl N. Scibetta

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

A

Correct.

Sam Poser

Analyst, Williams Trading LLC

Q

And the Sketchers is not Vans and Converse are, is that the right way to think about it? I mean, Sketchers, in general, they do have some running shoes.

Carl N. Scibetta

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

A

In general, yes.

Sam Poser

Analyst, Williams Trading LLC

Q

Okay. I just want – because other people do categorize a lot of Sketchers shoes and they're athletic and you put it outside of it that as well as other...

Carl N. Scibetta

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

Sam, I would say...

A

Sam Poser

Analyst, Williams Trading LLC

...athlete is a influence brand.

Q

Carl N. Scibetta

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

...I would say with that brand, that brand covers every bit in every category we have as a company from accessories to sandals to athletic to men's, women's, that brand is scattered throughout the entire building. And when I look at that brand, I only look at the piece of athletic that fits into athletic.

A

Sam Poser

Analyst, Williams Trading LLC

Got you. Okay. Thanks very much. Again, continued success.

Q

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Thank you, Sam.

A

Operator: We have no further questions at this time. I'll turn the call back to the presenters for any closing remarks.

Mark J. Worden

President, Chief Executive Officer & Director, Shoe Carnival, Inc.

Thank you, all, for joining Shoe Carnival today. Growth momentum is incredibly strong and we are excited to put up another record year as we head forward throughout the year. Thank you, all.

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

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